State of the Bangladesh Economy in FY2006-07 and Outlook for FY2007-08

CENTRE FOR POLICY DIALOGUE (CPD)
BANGLADESH
a civil society think-tank

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Centre for Policy Dialogue (CPD)
House No. 40/C, Road No. 11 (new)
Dhaka 1209, Bangladesh
Telephone (8802) 8124770, 9141703, 9141734
Fax: (8802) 8130951
E-mail info@cpd.org.bd
Website www.cpd.org.bd

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). 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.org.bd

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The CPD IRBD 2007 Team

Dr. Debapriya Bhattacharya, immediate past Executive Director, Centre for Policy Dialogue (CPD) was the principal researcher and led the team that prepared this report. *Professor Mustafizur Rahman*, Executive Director, CPD was the co-team leader.

Lead contributions were made by *Dr. Uttam Kumar Deb*, Head, Research Division, *Dr. Fahmida Khatun*, Senior Research Fellow, *Dr. Khondaker Golam Moazzem*, Research Fellow, *Mr. Syeed Ahamed*, Senior Research Associate, *Mr. Wasel Bin Shadat*, Senior Research Associate, *Mr. Md. Ashiq Iqbal*, Research Associate and *Mr. Towfiqul Islam Khan*, Research Associate, CPD.

Able research assistance was received from *Mr. Asif Anwar*, Research Associate and *Ms. Tazeen Tahsina*, Research Associate, CPD. Database development was carried out by *Ms. Nafisa Khaled*, Research Associate, *Mr. Subir Kanti Bairagi*, Research Associate and *Ms. Debjani Sen Gupta*, Programme Associate.

Preface

The Centre for Policy Dialogue initiated its flagship program the Independent Review of Bangladesh's Development (IRBD) as an annual exercise back in 1995. This pioneering exercise, implemented under the leadership of CPD's founding Chairman Professor Rehman Sobhan, has continued to produce annual reviews of Bangladesh economic performance each year over the past years, the current one being the 14th volume in the series. In line with the previous publications, the IRBD 2007 examines and analyses key macroeconomic performance indicators of Bangladesh, in the fiscal year 2007. A major objective of the IRBD series has been to raise awareness about key developmental issues in Bangladesh and stimulate an informed debate around important issues. The IRBD 2007 has been prepared with this objective in view.

As followers of the CPD's IRBD exercise will know, the IRBDs are published in two volumes. The present volume, an analysis of macroeconomic performance is accompanied by a companion thematic volume on issues of long-term strategic concerns.

The FY2007 witnessed some major developments both at global and domestic levels. It has been a critically important time for Bangladesh from the perspective of political developments, having seen three consecutive governments - the immediate past political government, the first caretaker government and the second caretaker government. The present volume of the IRBD 2007 analyses the performance of the economy in FY2008 and also anticipates some of the likely outcomes in the following year, through an economic outlook for FY2008.

Chapter I of this volume presents an assessment of the state of the Bangladesh economy in FY2007. The chapter mainly concentrates on six major areas - growth-savings-investment, poverty situation, public finance and financial sector, monetary sector, real economy and external balance. It presents an assessment of progress in each of the aforesaid areas during the financial year. The discussion identifies major challenges that need to be addressed in those areas in the coming days and months. Evaluation of the performance of the economy indicates a number of positive developments in areas such as revenue collection, export growth, manufacturing production, remittance flows and flow of equity capital to the stock market. However, the economy had to address a number of challenges in this year which had serious adverse implications for the overall performance of the economy, alongside standard of living of the people and their welfare. A major issue of critical policy concern was the price hike of essential commodities, particularly of food items. Along with this, some of the other adverse developments were a fall in gross disbursement of agriculture credit, stagnant foodgrain production, acute shortage of electricity, poor implementation of the public investment programme, lower than expected disbursement of foreign aid, etc. As is known, some of these adverse factors are being passed on from one year to another and there is a need to address these issues on an urgent basis.

Chapter II is based on a set of proposals to the Ministry of Finance, Government of Bangladesh (GoB) that was prepared by the CPD for consideration, during the national budget for FY2007-08. The proposed measures cover areas such as revenue generation, investment promotion, export expansion, growth of local industries, balanced regional development, reform of the tax administration, producers and consumers price support and the needs of the marginalized group.

Chapter III of the present volume provides an analysis of the National Budget for the FY2008 and the Revised Budget of FY2007, which were placed before the country on 7 June 2007. The FY2007-08 budget was a departure from the traditional ones and distinct in nature since it was the first time that a full year budget was presented by a non-party caretaker government. The budget was expected to be free from political pressures and less attuned to pressure from vested interests. This section analyses the various proposals made in the budget, evaluates these against the expectations and highlights the outstanding areas that require further consideration.

Chapter IV includes an interim report presented by the CPD on recent trends in the economy during FY2007-8, their implications for performance during the rest of the fiscal year and identifies a set of structural and institutional issues, which need to be addressed by the government. The study recommends a number of suggestions for moving the economy forward and highlights a feasible set of policies in areas such as revenue earnings, revenue expenditure, Annual Development Program, budget deficit, monetary and real economic growth and external sector situation.

Chapter V provides a summary of recommendations from the CPD's study on "Price of Daily Essentials: A Diagnostic Study of Recent Trends", prepared for the Ministry of Commerce, Government of Bangladesh. As will be appreciated by the readership, creeping price of essential commodities has been one of the major challenges faced by the caretaker government. Higher inflation rates for prices of food (over the price of non-food ones) and higher consumer price index in rural areas (compared to urban areas) are two important distinctive features of the current inflationary trend. It is widely known that food price inflation hurts people with low income, fixed income earners, the vulnerable and marginalized groups. It has adverse implications for investment and competitiveness of Bangladeshi exports. This chapter presents a package of policy suggestions in view of this.

The present IRBD volume also includes a dialogue report on the "State of the Bangladesh Economy and Budget Responses FY2008" organized by the CPD on 14 June, 2007 (Annex I). The last section (Annex II) contains a chronology of the major economic events that occurred during FY2007 and also covers the period between July-November, 2007 of FY2008.

Acknowledgements

Following the traditional set of earlier IRBD volumes, the present IRBD 2007 is the result of a collaborative exercise that involved participation of leading policymakers, researchers, academicians, political leaders, government officials, businesspeople and members of various civil society groups. Contribution of these stakeholders came through their active participation in a series of dialogues and discussion sessions, organised by the CPD during the preparatory process of the volume. I would like to express my sincere gratitude to all of them for their insights and suggestions which enriched the IRBD 2007. My special words of gratitude go to all the members of the Experts Group constituted for IRBD 2007 for their important contribution. Their comments and critique have significantly enhanced the quality of the various papers in IRBD 2007 volume.

A special word of thanks to concerned officials in various organisations including the Bangladesh Bureau of Statistics (BBS), Bangladesh Bank, National Board of Revenue (NBR), Export Promotion Bureau (EPB), Planning Commission, Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE), for being generous in sharing the data with the IRBD team members.

The immediate past Executive Director of the CPD Dr Debapriya Bhattacharya has been the key player in the entire IRBD exercise of the CPD. He has provided intellectual guidance and leadership which ensured that the present IRBD volumes could be prepared in a way that upheld the tradition of excellence and high quality that have continued to the hallmark of the IRBD exercise. Under his able guidance, CPD Research Associates Mr Ashiq Iqbal and Mr Towfiqul Islam Khan have put in a lot of hard work to prepare this IRBD volume. Taking this opportunity I would also like to register my sincere thanks to the other IRBD 2007 research team members for their contribution in preparing the various chapters of the present volume. I would particularly like to mention the enormous effort Dr Debapriya Bhattacharya had to put in to give the IRBD 2007 a finishing look, before he had to leave to take up his responsibility as Ambassador and Permanent Representative of the WTO and UN Offices, in Geneva.

I would like to express my deep appreciation of the effort of Ms Anisatul Fatema Yousuf, Director, CPD in organising the dialogues, facilitating the IRBD discussion process and disseminating the IRBD outputs. Such a remarkable output would not have been possible without the sincere and hard work of our colleagues at the Dialogue and Communication Division in the CPD. I also appreciate the dedication and commitment of my CPD colleagues in the Administration Divisions for their support in preparing this volume.

I would also like to put on record my deep appreciation on behalf of the IRBD 2007 team members to Mr Avra Bhattacharjee for the pleasing cover design. Compliment goes to Mr. Shaiful Hassan for his contribution to the printing of this volume. I also appreciate the contribution of Mr Meftaur Rahman, Chief Publication Officer, BIDS who have proof-read the paper.

On behalf of all the members of the IRBD 2007 team I would like to express my deep gratitude to Professor Rehman Sobhan who was the first to think about this particular exercise as a pioneering initiative of Bangladesh civil society. This exercise is a central part of an ongoing quest to establish an accountable policymaking process in the country. Professor Sobhan's inspiring guidance has always encouraged us to strive for higher goods and excellence in preparation of the IRBDs, as in all our efforts at the CPD.

Finally, my deep appreciation goes to the print and electronic media, readers and well-wishers of the CPD whose contribution have been instrumental in enhancing the CPD's outreach, particularly with regard to the IRBD initiative. I hope students, academics, policymakers, development activists and business members will be benefited from this latest IRBD volume.

December 2007
Dhaka

Mustafizur Rahman
Executive Director
Centre for Policy Dialogue (CPD)

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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
BTTB	Bangladesh Telegraph and Telephone Board
CDBL	Central Depository Bangladesh Limited
CDS	Central Depository System
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
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
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
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
USD	United States Dollar
VAT	Value Added Tax
VGD	Vulnerable Group Development
VGF	Vulnerable Group Fee

Chapter I

State of the Bangladesh Economy in FY2006-07

1. INTRODUCTION

2006-07 has been an unusual year in the economic history of Bangladesh. Its duration spanned over three consecutive governments – the immediate past political government, the first caretaker government (CTG) and the second (and the ongoing) caretaker government. The three regimes were characterised by their own distinct pattern of governance, as well as vision and objectives. The outgoing political government was leaving with an impression of high debt - high expenditure, a regular practice in Bangladesh whenever a regime approached the end of its term. Tension was building within the political system as regards the nature of transition to the next elected government. The first caretaker government took oath in a situation fraught with widespread violence, trying desperately to avoid chaos and go along with the constricted objective of a CTG - creating an environment for a free and fair election, following a "go slow" policy in terms with the arena of economic management.

The takeover of the second caretaker government coincided with declaration of a State of Emergency in Bangladesh. Unlike other CTGs, the tenure of this government remained by and large undecided. The CTG subsequently confirmed this situation to be in place till the end of 2008. In terms of scope, the new CTG decided to go beyond the limited task of preparing for the election. Important reform initiatives were undertaken that were thought to be crucial for holding a free and fair election. The CTG also set itself the task of addressing short and medium term issues of economic development and good governance. Massive drive against corruption was taken risking short term negative impacts through disruption of supply chain and overall market, alongside investors' confidence with a view to benefits reaping in the long run.

Inspite of the environment of creeping political tension during the first half of the fiscal year, the economy persisted to work out its escape route and continued to register some progress. This economic progress was largely pushed by impressive performance of the large informal sector and the exporting sector, which during the first half of the fiscal year demonstrated a high degree of persistence and resilience in the face of uncertainties and formidable challenges. Both these sectors had limited relevance in the context of formal domestic policy making and had acquired autonomy of its own in respective spheres. Thus the negative impact of instability in the domestic political scene was somewhat neutralized by these positive forces, which in turn had left their footprints on macroeconomic performance during a period of extraordinary developments.

A fiscal year spanning over three successive governments governing under distinct circumstances obviously created a plan vacuum. It is in this critical context that the third reading of the Centre for Policy Dialogue's (CPD's) Independent Review of Bangladesh's Development (IRBD) was released in June 2007, just prior to the placement of National Budget for FY2008. The purpose of that CPD contribution was to invoke policy debate and discussion with regard to assessment of outcomes of FY2007 and the outlook for FY2008. The present chapter of this particular IRBD volume, the final reading of IRBD 2007, is an update of this earlier version which has been enriched through access to more recent data and information.

This chapter of the IRBD first highlights the unique features of FY2007 and then takes a closer look at public finance, monetary sector, real economy and external sector. Finally, the paper seeks to articulate the outlook for FY2008 and anticipate some of the challenges for the caretaker government in the coming months.

2. BENCHMARK SITUATION IN FY2007

2.1 Macroeconomic Benchmark at the Beginning of FY2007

Fiscal year 2005-06 (FY2006) concluded with a respectable growth rate of 6.71 per cent (this provisional figure was later revised to 6.62). However, the fiscal balance remained fragile, underpinned by perennial factors such as poor revenue mobilization, high growth of revenue expenditure, weak implementation of public investment programmes and low foreign aid disbursement. Macroeconomic correlates were further strained, owing to moderate credit expansion in manufacturing and agriculture sectors. The balance of payments situation came under some pressure, particularly balance of trade, as imports continued to surpass exports, nonetheless, buoyant remittance flow emerged as the savior which provided a much needed cushion and ensured an overall positive overall balance in the current account. While a shortfall in foodgrain production remained a concern, respectable growth in manufacturing sector was a welcome development. On the flip side, FY2006 experienced sustained inflationary trend with rural population being the worst victim. Frequent power outages were a reality, which affected not only trade and investment, but also disrupted normalcy in public life. Capital market failed to attract increased liquidity from the domestic sources, while policy decisions on some large scale FDI projects remained unresolved.

2.2 Major Developments in FY2007

FY2007 witnessed a number of developments which had positive implications for the performance of the economy in that period. These included improvements in income tax collection, sustained manufacturing growth, robust export growth, rejuvenated capital market and buoyant remittance flow. Reform efforts were also giving some positive results such as improvements in the port operation, movements of goods, strengthening of the Anti Corruption Commission etc.

However, the positive developments were accompanied by other factors that undermined the functions of the economy. These included weak aggregate revenue mobilisation, higher revenue expenditure, all time low implementation of ADP, crisis of fertiliser availability, fall in gross disbursement of agricultural credit, stagnant foodgrain production, acute shortage of electricity and delinquent enforcement of new pay scale in the RMG sector. There was also the increasing political turmoil culminating with the changeover to a reconstituted CTG in the middle of FY2007. This coincided with the declaration of a State of Emergency that has continued till the present time. The consequence of the adverse factors was aggravated by a serious price-hike of essentials throughout the year, fuelled by both domestic market inefficiencies and the increase in global commodity prices, pushing economic management to its limits.

3. ASSESSMENT OF THE MTMF

The macroeconomic policymaking during FY2006 to FY2008 is supposed to have been prepared within a Mid-Term Macroeconomic Framework, as contained in the national PRS document.[1] Table-1 depicts a comparison of the MTMF targets and actual performances achieved during the period under review. As may be observed from the table, the GDP growth rate compares favourably for FY2006 and was reasonably within target limits for FY2007 (it is expected to be scaled down however); on the

Table 1 : Measuring budget performance with PRSP targets (output)

Macroeconomic indicators	FY06 (PRSP)	FY06 (Actual)	FY07 (PRSP)	FY07 (Revised)	FY08 (PRSP)	FY08 (Budget)
Output						
Real GDP growth (%)	6.5	6.6	6.8	6.5	6.9	7.0
Consumer Price Index	6.5	7.2	6.0	7.0	5.5	6.5
Gross Domestic Investment (% GDP)	25.0	24.7	24.5	25.3	24.8	26.2
ICOR	3.8	3.7	3.6	3.9	3.6	3.7

Source: PRSP, MTBF and Budget Documents.

[1] The Ministry of Finance has recently updated the MTMF providing a new set of projections for FY08, FY09 & FY10.

contrary, the actual inflation rates were above the target rates, while the gross domestic investment rates were below their targets.

Table-2 continues with the comparison of PRSP's macroeconomic targets with corresponding achievements, particularly with respect to government accounts.

The revenue targets (as per cent of GDP as mentioned in the PRSP) were not met in FY2006 and FY2007 and have been slashed down in the budget for FY2008. Total public expenditures (as per cent of GDP) were lower than their targets in FY2006 and FY2007 primarily due to slack implementation of the ADP, whereas for FY2008 the target has been put at a higher level. However, the incremental government outlay is going to take place mainly in the form of revenue expenditures, rather than that of development expenditures. The overall deficit in FY2006 and FY2007 remained within the PRSP targets due to serious shortfall in development expenditure, although the fiscal deficit is set to increase by more than 1.5 times in FY2008[2]. Domestic financing overshot the target due to lack of adequate foreign financing and bank borrowing emerged as the major source of domestic financing, surpassing the targets in each year. Conversely, foreign financing steadily underperformed, putting pressure on the limited domestic sources.

Table 2 : Measuring budget performance with PRSP targets (Government accounts)

Macroeconomic indicators	FY06 (PRSP)	FY06 (Actual)	FY07 (PRSP)	FY07 (Revised)	FY08 (PRSP)	FY08 (Budget)
Government Accounts (% of GDP)						
Total Revenue	**11.0**	**10.8**	**11.3**	**10.6**	**11.6**	**10.8**
Tax	9.0	8.7	9.2	8.4	9.6	8.6
Non-Tax	2.0	2.1	2.1	2.2	2.0	2.2
Total Expenditure	**15.5**	**14.2**	**15.0**	**14.3**	**15.3**	**16.4**
Current Expenditure	8.6	8.4	8.7	9.2	8.6	9.4
Of which: Interest Payments	1.7	1.9	1.6	2.0	1.7	2.0
ADP	5.9	4.7	5.6	4.6	6.0	5.0
Overall Balance (excl.Grants)	**-4.5**	**-3**	**-3.7**	**-3.7**	**-3.7**	**-5.6**
Financing (net)	4.5	3.0	3.7	3.7	3.7	5.6
Domestic financing	2.0	2.2	1.9	2.1	1.7	3.6
Borrowing from the Banking System	0.9	1.6	1.2	1.4	1.1	1.2
Non-bank borrowing	1.1	0.6	0.7	1.0	0.6	0.8
Foreign financing	2.5	0.8	1.8	1.6	2.0	2.0

Source: PRSP, MTBF and Budget Documents.

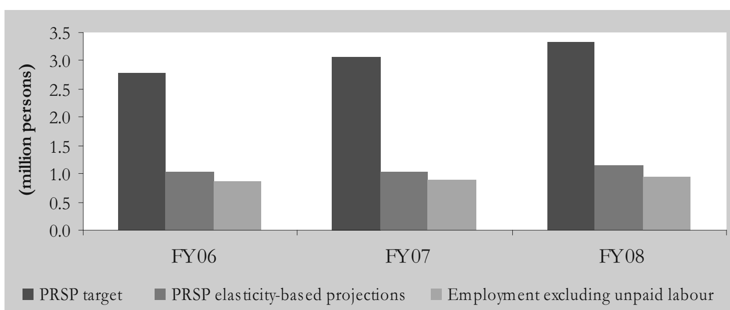
3.1 Employment

Labour market analysis carried out at the CPD indicates that there is a significant gap between the employment projections mentioned in the PRSP and projections based on PRSP-indicated employment-GDP elasticity.

If the PRS estimates of job creation are assessed in the context of the information provided by the new labour force survey (LFS) 2005, 30.6 lakh new employment opportunities were projected to be created in FY2007. Estimation from PRS-based elasticity approach suggests that only 10.4 lakh jobs may actually have been created in FY2007, resulting in a shortfall of 20.2 lakh. It may be recalled here that 12 lakh new job seekers enter the labour market annually in Bangladesh.

As was noted above, PRS targets imply that more than 30 lakh jobs have to be created in FY2008 if

Figure 1 : Total employment: FY2006-FY2008

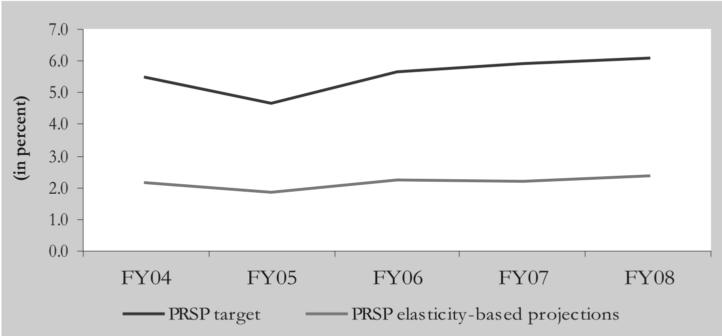


Source: CPD's calculation based on PRSP.

[2]This also includes the liabilities of Bangladesh Petroleum Corporation.

those targets are to be attained (given the new LFS information). However, the CPD analysis suggests that, given the macro-correlates, it will be highly challenging even to meet the 12 lakh mark. Thus, a wide gap is observed between the two projections on the growth rate of employment. As per the PRSP projection, the growth rate of employment will be around 5.7 per cent in FY2008, whereas it is only 2.4 per cent according to the elasticity approach. In both cases, PRSP employment projections and its growth rates appear to be over-estimated when one considers an employment-GDP elasticity of 0.34, as the "base case" as indicated in PRSP[3].

Figure 2 : Growth rate of total employment: FY2004-FY2008



Source: CPD's calculation based on PRSP.

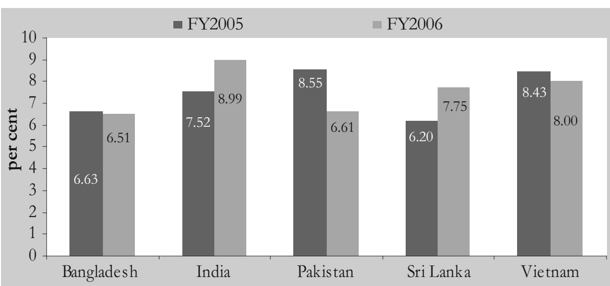
4. ASSESSMENT OF BANGLADESH ECONOMY IN FY2007

4.1 Growth, Savings and Investment

GDP Growth

According to preliminary estimates, Bangladesh economy is set to post 6.51 per cent GDP growth in FY2007. The preliminary estimate of GDP is generally made on the basis of six to seven months' data of the current fiscal year. However, the proxy indicators suggest that the economic growth had slowed down in the last half of FY2007 compared to FY2006. First, crop sector showed marginal growth while poultry sector was affected by the *avian flu syndrome*. Second, manufacturing growth (other than exports) had been modest due to political turmoil coupled with the energy crisis. Third, growth of construction, banking and housing & real estate sectors was somewhat adversely affected by the anti-graft drive of the CTG. Moreover, inflationary pressure accompanied by upward revision of the energy price (in April, 2007) also had negative impact on investment and growth. Hence, the CPD anticipates that the initial growth estimate may be revised downward, once data for the full fiscal year is available.

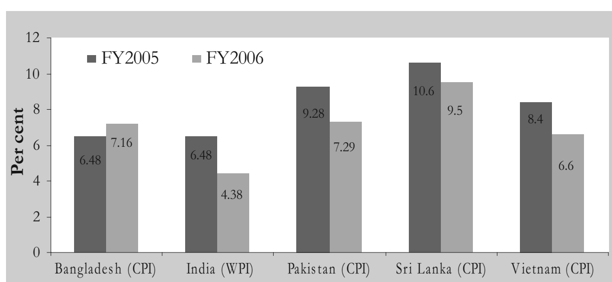
Figure 3 : GDP growth in Asian countries



Source: CPD-IRBD database

Compared to the major Asian counterparts, Bangladesh's GDP growth rates appear to be regular, not exceptional. South Asia as an entity is going through a moderately high growth trajectory. Inflation is also high regionally and maintaining macroeconomic stability remains the foremost challenge for the policymakers of this region.

Figure 4 : Inflation in Asian countries



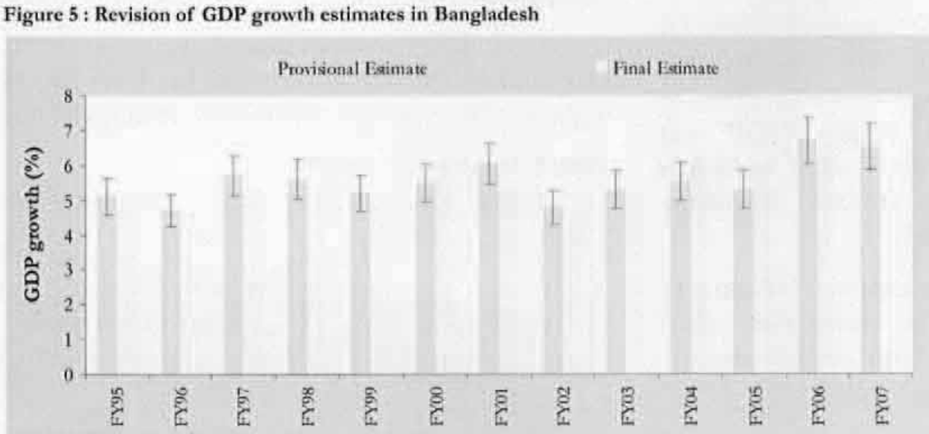
Source: CPD-IRBD database

[3] Bangladesh, Government of (2005). Unlocking the Potentials: National Strategy for Accelerated Poverty Reduction. Dhaka: General Economics

The Growth Rhetoric

Significant revision of the provisional GDP has become a tradition in Bangladesh's national income accounting. As expected, the BBS has revised the GDP growth rate for FY2006 downward from 6.71 per cent to 6.62 per cent. This is the ninth time that the GDP has been revised downward in the last twelve years. Over the years, such revisions have raised questions about the empirical basis, estimation methodology and process transparency of the national income accounts estimation of Bangladesh. Absence of dependable information for cross-checking the provisional GDP estimates (e.g. investment and employment) have also been an area of concern. It is also to be mentioned that the average gap between provisional and revised GDP has substantially increased after the centralisation of GDP accounting, with the abolition of district level GDP accounting in 2001.

Figure 5 : Revision of GDP growth estimates in Bangladesh



Source: CPD-IRBD database

Because of operational delay in finalising CMI, provisional figures of industrial contribution to GDP are estimated on the basis of Quantum Index of Production (QIP). This is to be replaced by CMI data whilst finalising the estimates. However, QIP is calculated with an 18 years old base (1988-89) and both of its sectoral weights and data collection methodology are out of sync with the present realities. The national income accounting methodology suggests that the extrapolated preliminary estimates will be replaced in the revised GDP, once the final CMI results become available. Given that the latest CMI provides data for only up to 2001, it is impossible for the BBS to be able to estimate GDP for the more recent years in accordance with the prescribed methodology.

Sources of Growth

Once again real economic sectors[4] posted a noteworthy 6.79 per cent growth and hence were able to make an increased contribution to the overall GDP growth. In the incremental GDP of FY2007, industry contributed 40.82 per cent and agriculture 10.27 per cent, whereas service sectors remained the front runner with 50.91 per cent. Within the agriculture sector, crop sector posted a minimal 1.92 per cent growth and failed to provide any support to ease the growing inflationary pressure on food items. The major contribution to the incremental GDP comes from the manufacturing sector, accounting 28.27 per cent of the total GDP. Highest sectoral growth was also observed in the manufacturing sub-sector (11.19 per cent), where large and medium industries recorded 11.56 per cent growth despite political turmoil and acute power crisis. Small industries and mining also registered notable growth of 10.27 per cent and 10.04 per cent respectively.

Given the fact that the GDP growth in Bangladesh is dominated by the service sector, even a moderate growth of 6.77 per cent in this sector contributed 50.91 per cent of the incremental GDP. Within services sectors, education and public administration & defence registered noteworthy growth of 9.01 per cent and 8.50 per cent respectively.

Per Capita Income

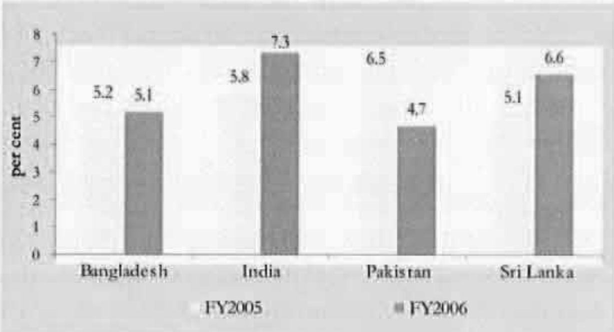
Per capita GDP stood at US$482 in FY2007, while per capita GNI stood at US$520, recording 7.8 per cent and 9.2 per cent annual growth rates respectively. Both sustained economic growth and

[4] Real sector includes Agricultural Sector (both Agriculture & Forestry and Fisheries); Mining & Quarrying and Manufacturing. The rest of the sub-sectors are noted as Others.

stable exchange rate largely explain this achievement. However, one should also remember that these averages conceal a high degree of worsening income distribution.

During the past one and half decade, the gap between per capita GDP of Bangladesh with other South and Southeast Asian countries has widened.

Figure 6 : Per-capita GDP growth in South Asia



Source: CPD-IRBD database

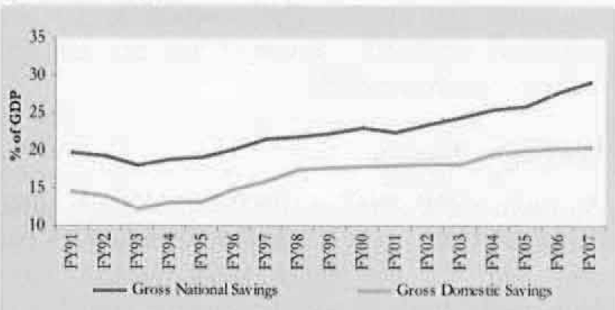
The income gap with China increased from 1.4 times in 1990 to 3.2 times in 2004. With Malaysia the income gap has increased from 9.3 times to 10.7 times. Vietnam's per capita GDP was following Bangladesh (0.83 times when compared to Bangladesh) in 1990, eventually overtaking Bangladesh in 2004 (1.25 times).

Moreover, Bangladesh's per capita GNP growth also remained slower in the recent past when compared with her South Asian neighbours (e.g. India, Pakistan and Sri Lanka).

Savings

Breaking through the stagnation in domestic savings rate remains a major challenge for the

Figure 7 : Savings rate as % of GDP



Source: CPD-IRBD database

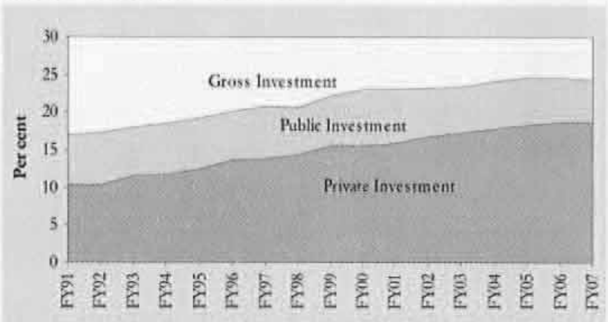
transitional economy of Bangladesh. Domestic savings as a percentage of GDP in Bangladesh has increased only marginally from 20.25 per cent in FY2006 to 20.46 per cent in FY2007, registering a miniscule 0.21 per cent increase as a share of GDP. This has in fact been the lowest growth performance in recent years. It implies that consumers had to allocate incremental share of their income for consumption, possibly due to price hike.

Inspired by robust remittance inflow, national savings rate demonstrated encouraging movements since FY2005. The share of national savings to GDP increased significantly further in FY2007 to 29.15 per cent of GDP, as against 27.67 per cent in FY2006, registering an impressive enhancement to the tune of 1.48 per cent of GDP. The gap between national and domestic savings is increasing in a consistent manner in recent years. The present trend in savings behaviour is suggestive of further deterioration in income distribution.

Investment

Gross capital formation slowed down in recent years and in FY2007 growth rate has been lowest in the last five years (7.22 per cent). During the last

Figure 8 : Investment as % of GDP



Source: CPD-IRBD database

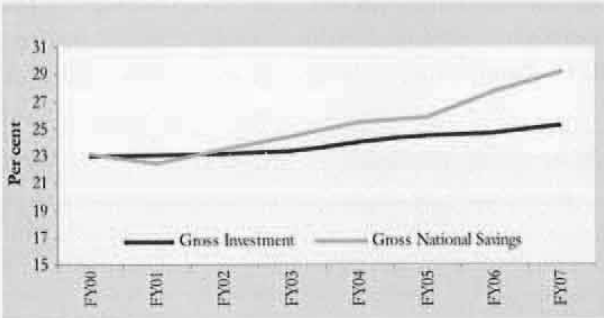
five years (FY2003-FY2007), the gross investment rate has increased annually by only 0.18 per cent of the GDP. Gross investment was 23.40 per cent of GDP in FY2003, whilst it crawled up to 24.33 per cent in FY2007. This is considerably lower than the MTMF target of PRSP which was set at 25.50 per cent. As a matter of fact, gross investment as percentage of the GDP is lower in FY2007 compared to 24.65 per cent in FY2006.

Public investment scored a historic low rate of 5.60 per cent of GDP in FY2007, compared to the earlier lowest rate of 6.00 per cent in FY2006. The slack of public expenditure explains stagnating gross investment in recent times.

Private investment as a share of GDP marginally increased from 18.65 per cent in FY2006 to 18.73 per cent in FY2007.

Bangladesh continues to remain an under-invested country; her national savings rate (29.15 per cent) remains higher than the gross investment rate (24.33 per cent), indicating greater availability of idle investible surplus. This amount is approximately Tk. 22,530 crore (almost 4 per cent of GDP).

Figure 9 : Widening gap between savings and investment



Source: CPD-IRBD database

Data from the budget documents (2007-08) suggest that the incremental capital-output ratio (ICOR) improved during FY2006 by 0.37 per cent with the ICOR decreasing from 4.09 in FY2005 to 3.72 in FY2006. Conversely in FY2007, the ICOR registered a marginal increase implying a minor fall in capital productivity from 3.72 in FY06 to 3.74 in FY2007.

Table 3 : Recent ICOR trends in Bangladesh

Indicators	FY05	FY06	FY07	FY08
Growth rate of GDP at constant price (%)	6.00	6.62	6.51	**7.00**
Investment as % of GDP	24.53	24.65	24.33	**26.20**
ICOR	4.09	3.72	3.74	**3.70**

Source: CPD-IRBD database

The targeted growth rate of 7.0 per cent in FY2008 would require either a considerable increase in investment rate or a much improved ICOR, or a combination of both (targeted investment equivalent to 26.20 per cent of GDP and an ICOR of 3.70). Implied investment target for FY2008 would require an additional investment of more than Tk 25,000 crore (worth almost an extra 2 per cent of GDP) over last year's benchmark. This would mean investment growth has to score a record high rate compared to the last two decades, coupled with regaining the lost capital productivity. Recent slowdown in the growth of gross capital formation and stagnant public investment, however, do not invoke much optimism in this regard.

One of the major issues in this connection would be resource mobilisation for underwriting the required investment. Greater revenue earnings, improved flow of foreign aid (particularly grants) as well as increased foreign and domestic investment may address the need for incremental investment demand. Higher government borrowings may partly substitute these sources. However, in the final analysis one would need to strengthen the national (domestic) savings rate through enhanced household savings, accelerated corporate savings and improved government savings, to sustain this additional flow of resources. Bangladesh has remained an underinvested country for a long period and recalling the large gap between national savings rate and gross investment rate (more than 3 per cent of GDP), it is not the availability of resources, rather its effective utilisation which appear to be the major challenge.

4.2 Poverty Situation

Absolute Poverty

According to the *Household Income and Expenditure Survey 2005,* between 2000 and 2005, Bangladesh achieved remarkable progress in poverty alleviation at the national, urban and rural levels, when estimates are carried out on the basis of *Cost of Basic Needs* (CBN). Incidence of national poverty by head count ratio, on the basis of CBN, reduced from 48.9 per cent in 2000 to 40.0 per cent in 2005. On average, the annual poverty declining ratio was about 1.8 per cent, posing a notable acceleration over the rate of poverty alleviation during the 1990s (on average 0.8 per cent per annum).

Table 4 : Head Count Rate (CBN) of incidence of poverty

Residence	2005	2000	Change
National	40.0	48.9	-8.9
Rural	43.8	52.3	-8.5
Urban	28.4	35.2	-6.8

Source: CPD-IRBD database

What is encouraging to note from the nature of poverty reduction during the first half of this decade is that, progress in the rural areas has been faster than that of the urban areas. During this period rural poverty declined by about 1.7 per cent each year, while the pace of urban poverty reduction was somewhat slower (1.4 per cent). However, rural-urban gap still continues to remain high.

Household Income and Expenditure Survey 2005 suggests the progress in poverty reduction has not been equal across all the standard measure of poverty incidence. According to the Daily Calorie Intake (DCI), on average the absolute poverty[5] declined by about 0.8 per cent each year at national level, with a minor increase in the number of people living below the poverty line. Contrary to the poverty reduction texture as suggested by CBN, the DCI method implies that poverty reduction in the urban areas (on average 1.9 per cent per annum) has been much faster than that in the rural areas (on average 0.6 per cent per annum). Interestingly during this period, faster poverty reduction in urban areas could not prevent the number of people under the poverty line from rising. Number of poor urban inhabitants increased by 1.5 million, whilst number of rural poor decreased by 1.4 million even with a lower poverty reduction rate. Increasing urbanisation and large scale migration explains this dilemma.

Recent decline in poverty had only limited success in reducing the hardcore poverty[6]. During 2000 to 2005 only 0.5 per cent of people could break out of poverty traps; however, this continues to leave 2.1 million people below the lower poverty line. This has been mainly caused by the fact that the number of urban hardcore poor increased substantially during the period, although the number in the rural areas remained somewhat stagnant.

Relative Poverty

Absolute poverty level offers only a partial poverty scenario, as it disregards the relative position of the poor. Experience of most of the successful East Asian countries, in the 1970s and 1980s, bears out that low initial inequality combined with rapid growth and pro-poor distributional change could be very effective in reducing poverty. *Household Income and Expenditure Survey 2005* revealed that gini-coefficient has deteriorated from 0.45 in 2000 to 0.47 in 2005, indicating a further worsening of income inequality at the national level. This is particularly due to significant deterioration of income distribution in the rural area; gini-coefficient increased from 0.39 in 2000 to 0.43 in 2005. Interestingly, urban income gini-coefficient remained the same at 0.50, during the reported period.

Box1: Sources of Inequality in Bangladesh

Bhattacharya and Khan has recently attempted to explain the underlying sources of inequality in rural and urban Bangladesh, based on Household Income and Expenditure Survey 2005. Both in rural and urban areas, income from non-farm enterprises and remittances from abroad were identified as the two major sources of income inequality. "Property income from land" and "Rental value of housing" are the other sources of rising inequality. As a matter of fact, their contribution to inequality was found to be much higher in urban areas compared to the rural areas. Unlike urban areas, salaried wage is another important source of rural income inequality. The study suggested that policies to raise the share of wage income, income from farm, inland remittance and formal transfers could help mitigate the rising inequality in Bangladesh.

Source: Bhattacharya, Debapriya and Towfiqul Islam Khan (2008): Growth and Inequality Linkages to Poverty in Bangladesh, IRBD 2005-06 (Vol. II) , CPD, Dhaka(forthcoming)

In IRBD 2005, it was mentioned that the present structure of the Bangladesh economy is not conducive to achieving pro-poor distribution, since the relatively more growth centric economic activities, such as livestock and fisheries (in agriculture), export oriented industries (in industries), remittances etc. do not offer an easy access to the hardcore poor. The increasing income inequality may emerge as a threat not only to the future of poverty alleviation prospect, but also to social cohesion, and could even inhibit democratic progression. In view of this, the issue of income distribution must receive highest priority from the policy makers.

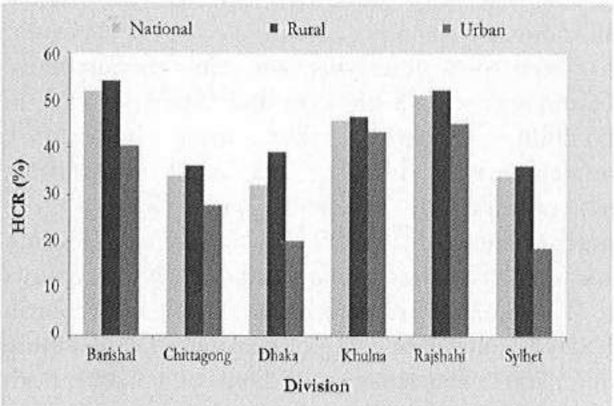
[5]Poverty line is estimated based on 2122 K.cal per capita per day.

[6]Hardcore Poverty line is estimated based on 1805 K.cal per capita per day.

Spatial Poverty

Despite an inspiring show in national poverty reduction and hint of reducing rural-urban gap, regional disparity is becoming increasingly visible in Bangladesh. The regional difference of poverty incidence is also a major concern for macroeconomic policies. *Household Income and Expenditure Survey 2005* further shows that incidence of poverty is most extreme in Barishal and Rajshahi divisions, followed by Khulna division. Among these, Rajshahi division recorded limited progress in poverty alleviation, reducing poverty rate from 56.7 per cent in 2000 to 51.2 per cent in 2005 according to CBN method. However, poverty rates in Barishal and Khulna divisions remained stagnant over this period. In Barishal division, poverty rate reduced to 52.0 per cent in 2005 from 53.1 per cent in 2000 while in Khulna division poverty rate increased to 45.7 per cent in 2005 from 45.1 per cent in 2000.

Figure 10 : Head Count Rate of incidence of poverty (CBN) 2005



Source: Based of HIES 2005

Poverty is less concentrated in the eastern divisions of Bangladesh i.e. Dhaka, Chittagong and Sylhet. Where all the geographic regions achieved accelerated rural poverty reduction compared to urban areas between 2000 and 2005, Sylhet turned out to be the only exception. Sylhet posted remarkable poverty reduction over this period, reducing poverty incidence from 49.6 per cent in 2000 to only 18.6 per cent in 2005.

The latest poverty statistics indicate the emergence of an increasing east-west divide in the development process of Bangladesh. This added dimension of poverty structure in Bangladesh creates demands for targeted programmes and more energetic effort to address the attendant tasks.

4.3 Public Finance

Revenue Receipts

Revenue-GDP ratio of Bangladesh has registered a declining trend in the recent past. In FY2007, revenue-GDP ratio of the country further declined by 0.20 per cent of GDP, reaching 10.01 per cent. NBR revenue collection during FY2007 registered 11.5 per cent growth, within which direct tax (income tax) collection increased significantly, by about 34.7 per cent. This high growth in income tax collection appears to be the result of the NBR drive to legalise untaxed income. During this period, collection of import duty posted a marginal growth of 0.9 per cent, recovering from a negative (-) 0.6 per cent growth posted in the preceding year. However, share of import duty declined from 23.2 per cent in FY2006 to 21.0 per cent in FY2007. Total import related duties (import duties, import VAT and import portion of the supplementary duties together) posted a marginal growth of 3.2 per cent in FY2007. Collection of value added tax (VAT) increased by 12.2 per cent. Achievement with respect to the annual target shows a positive sign as 94.7 per cent of the NBR target (revised) has been realised in FY2007, against 94.1 per cent in FY2006.

On the other hand, non-NBR tax components posted an inspiring growth rate of 21.6 per cent during FY2007, against a slower growth of 7.4 per cent in FY2006. Non-tax component of the revenue collection, however, shows a much slower growth of 2.7 per cent in FY2007, compared to the high benchmark growth of 14.3 per cent achieved during FY2006.

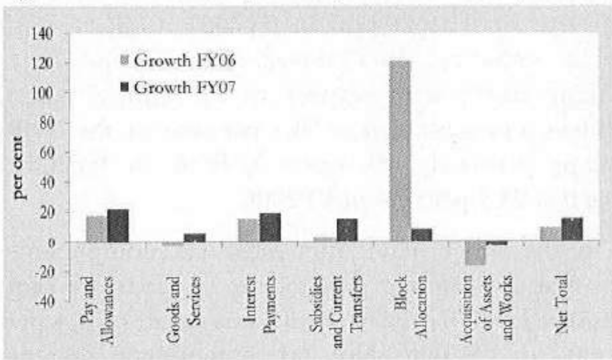
In the face of a higher growth in non-NBR tax revenue mobilisation, an identical NBR tax revenue growth and a slower non-tax revenue growth in FY2007 compared to the growth rates of FY2006, total revenue collection during FY2007 stood at Tk 46,807 crore. This indicates a 10.1 per cent growth over the figures of FY2006. A closer look at the growth composition reveals that 87.0 per cent of the total increase has been contributed by the growth in NBR tax revenue collection, while for the rest, 7.7 per cent and 5.3 per cent increase are attributed to the growth in non-NBR tax component and non-tax component respectively.

Given a 7.2 per cent inflation rate and 6.51 per cent real GDP growth, domestic resource mobilisation during FY2007 remained moderate and could not surpass the performance of the preceding year. A target of 11.3 per cent revenue-GDP ratio was set for FY2007 (as per the original target figures mentioned in the Budget Summary). At the end of the fiscal year, the realised figure (10.01 per cent) fell short of the target by quite a significant margin of 1.28 per cent of the GDP. The revenue-GDP ratio of Bangladesh was lower compared to neighbouring countries such as India (10.3 per cent), Pakistan (13.9 per cent) and Sri Lanka (16.3 per cent).

Revenue Expenditure

Targeted revenue expenditure for FY2007 was 14.8 per cent higher than the actual expenditure figure of FY2006.[7] Figures at the end of the fiscal year, however, shows that actual revenue expenditure of FY2007 was 15.6 per cent higher than the

Figure 11 : Growth of revenue expenditure by economic classification, FY2006-07



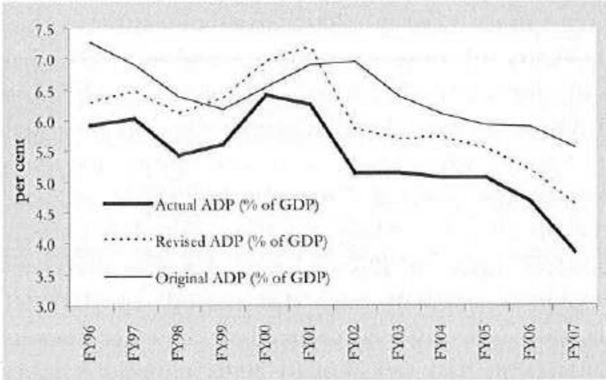
Source: CPD-IRBD database

expenditure of FY2006. Total revenue expenditure stood at Tk 42,253.6 crore in FY2007, which is Tk 297.4 crore more than the targeted expenditure. Actual expenditure on account of the major three heads, "salary and allowances", "subsidies and transfers" and "interest payments", which accounted for 80 per cent of the total actual revenue expenditure, registered high growth rates during FY2007. These were 21.8 per cent, 15.6 per cent and 19.1 per cent growth respectively. In the backdrop of a higher benchmark growth of 121.3 per cent in FY2006, expenditure in block allocation increased by 7.8 per cent in FY2007.

Annual Development Programme (ADP)

In the context of an already visible abating trend of ADP implementation during the recent past, FY2007 marks the poorest performance ever. The original ADP for FY2007 was fixed at Tk 26,000

Figure 12 : Annual Development Programme (FY1996-FY2007) as % of GDP



Source: CPD-IRBD database

crore which was revised downwards by 20.9 per cent to Tk 21,600 crore in the end. Expenditure record shows that only 69.32 per cent of the original allocation of 83.45 per cent of the revised allocation has been spent during the year, while the respective figures were 79.48 per cent and 90.57 per cent in FY2006. Despite the low benchmark implementation level of the ADP in FY2006, expenditure of FY2007 falls behind the performance of FY2006 in terms of absolute spending also. Total expenditure in FY2007 amounts to Tk 18,024 crore, which was Tk 19,472 crore in FY2006, indicating 7.44 per cent fall in expenditure in FY2007. The actual expenditure of FY2007, both in terms of percentage of allocation and percentage of GDP for the year, is the lowest ever.

When calculated as a percentage of GDP, ADP implementation status has been gradually deteriorating since FY2001. FY2006 figure of 4.68 per cent of the GDP was the lowest since FY1991. But in FY2007, the actual ADP as percentage of GDP stood at an all time low, 3.86 per cent.

Among the five Ministries/Divisions which received the highest allocation in the revised ADP, the Ministry of Health and Family Welfare and

[7]Target figures reported by the finance division; includes requisition of assets and works. According to budget documents, excluding requisition of assets and works and adjusting for recoveries, revenue expenditure targets for FY2006 and FY2007 were Tk 35,523 crore and Tk 39,536 crore. Deduction of recoveries was not accounted for in the available information on actual revenue expenditure of FY2007 that was accessed from the Finance Division.

Ministry of Communication were the least spending, with expenditure of only 74 per cent and 80 per cent of their respective allocations during FY2007. It is pertinent to mention here that the CPD IRBDs have repeatedly expressed the concern over low implementation record of Ministry of Health and Family Welfare, considering its relevance in terms of poverty alleviation. Ministry of Primary & Mass Education was the best performer in terms of expenditure, managing to spend 96 per cent of its revised allocation. Power Division and the Local Govt. Division spent 89 per cent and 88 per cent of their respective allocations.

Implementation status of the 14 ministries, mandated to develop their own budget under the Medium Term Budgetary Framework (MTBF), has shown much better performance compared to the average for the others. While all the ministries/divisions spent on an average 75 per cent of their revised allocation, the average spending of these 14 ministries stood at 86.2 per cent in FY2007. Apart from the Ministry of Social Welfare, Ministry of Water Resources and Ministry of Health & Family Welfare, which have spent only 74 per cent of their respective allocations, all the other ministries/divisions managed to perform above the national average.

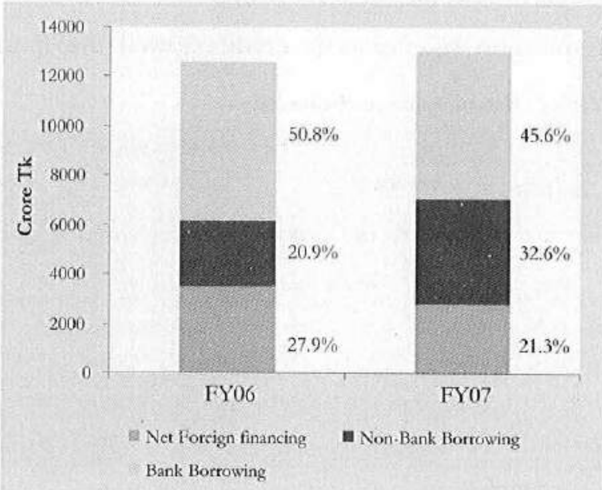
The new ADP for FY2008 has been set at Tk 26,500 crore, which is 22.7 per cent higher than the RADP and 1.9 per cent higher than the original ADP of FY2007. With 38 new projects, ADP of FY2008 includes 927 projects in total. The ratio of domestic-foreign sources of financing is targeted to be the same as RADP of FY2007 (63:47). Targeted ADP for FY2008 will stand at 5.0 per cent of GDP. Sectoral allocation pattern of the new ADP reveals that Education and Religion received the highest allocation (16.3 per cent of the total ADP). Power sector has been prioritised in the ADP of FY2008 and is set to receive 30.7 per cent more allocation than that of the RADP (FY2007), which is also 14.9 per cent higher than the original ADP of FY2007.

Free, this time, from political pressure at the formulation stage, quality of the ADP of FY2008 should be seen as the critically important feature rather than its size. The chief of the CTG has already announced that ADP allocation for FY2008 would not be revised. How far the non-political government can keep that promise of a fuller ADP implementation remains to be closely monitored. If it is successful, it will be an important and welcome departure.

Budget Deficit and Financing

At the end of the FY2007, overall deficit was 3.7 per cent higher than that of FY2006. Regarding financing of deficit, net foreign financing during the year declined by (-) 21.0 per cent. On the other hand, total domestic financing rose by 13.2 per cent. Share of domestic financing rose to 78.7 per cent in FY2007 from 72.1 per cent in FY2006. As net foreign financing did not arrive as expected, the government had to heavily rely on domestic sources for financing of the deficit. Initially the government borrowed from the banking sector and eventually started to draw on the non-banking sector during the last quarter. Borrowing from the non-banking sector experienced a high growth of 61.8 per cent over the figures of FY2006. During the fiscal year, total non-bank borrowing stood at Tk. 4,282.6 crore, whereas in the pervious year it was Tk 2,646.7 crore. However, borrowing from the banking sector declined by (-) 7.0 per cent in FY2007. Total deficit at the end of the year amounted to 2.8 per cent of the GDP of FY2007, which was 3.0 per cent in FY2006.

Figure 13 : Sources of financing in FY2006 and FY2007



Source: CPD-IRBD database

The budget deficit (excluding grants) for FY2008 has been estimated at Tk 29,836 crore, which is 5.6 per cent of the targeted GDP. This high deficit will mark a substantial growth of 127.32 per cent over the actual deficit of FY2007. Such high borrowing usually creates a vicious circle of borrowing and revenue expenditure which needs to be monitored carefully as this may turn out to be a major concern for the CTG. Hence, for FY2008, one needs to concentrate not so much on the level, but the modes of financing the deficit.

4.4 Monetary Sector

Money Supply, Reserve Money and Liquidity

Money supply (in terms of M3) has posted a rise of 15.8 per cent in FY2007. Reserve money posted a rise of 17.7 per cent at the end of June 2007 over June 2006. Excess liquidity of the scheduled banks stood significantly higher at Tk.14,279.61 crore as of end of June, 2007, against Tk.9,591.05 crore in the end of June, 2006. This higher liquidity in the banks could have originated from lack of the investment demand. The lending rate of Bangladesh, often criticised by entrepreneurs to be high, also needs to be revisited. The (seasonal) volatility of call money rates also needs to be studied.

Government Sector Borrowing

Expansion of domestic credit slowed down in

Table 5 : Government sector borrowing (in crore Tk)

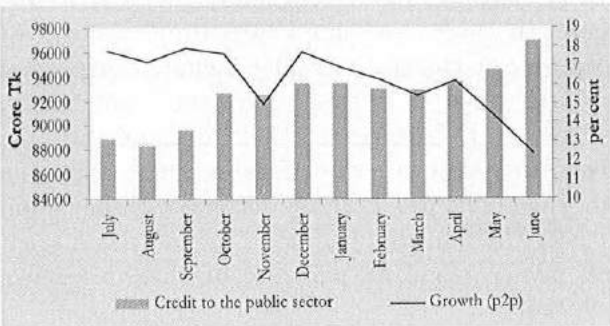
End of Period	Domestic Credit M3										
	Government (Net)				Other Public Sector			Private Sector			Total Domestic Credit
	Banking Sector	NBDC	NSD	Total	Banking Sector	NBDC	Total	Banking Sector	NBDC	Total	
2003-04	21851.3	16.0	34001.6	55868.9	8956.7	0.0	8956.7	92458.9	5400.0	97858.9	162684.3
2004-05	25552.8	35.7	36497.7	62086.2	11174.9	6.1	11181.9	108235.7	7430.1	115665.8	188933.0
2005-06	31595.9	35.9	39464.3	71096.1	15081.2	13.4	15094.6	127773.8	9626.5	137400.3	223591.0
2006-07	36011.3	29.3	43639.2	79679.8	17130.8	41.4	17172.2	146350.2	12529.0	158879.2	255731.2
Growth (FY07)	14.0	-18.4	10.6	12.1	13.6	209.0	13.8	14.5	30.2	15.6	14.4

Source: CPD-IRBD database

FY2007 with a point to point growth of 14.4 per cent and total domestic credit amounting to Tk 255,731.2 crore. To compare, FY2006 was characterised by a high and unsustainable domestic credit growth of 18.3 per cent. On a point to point basis, at the end of June 2007, total outstanding domestic credit to the public sector increased by 12.4 per cent, within which government borrowing, accounting for 82.3 per cent of the total public sector credit, posted a rise of 12.1 per cent.

Credit to other public sector, on the other hand, rose by 13.8 per cent during the period under consideration. Sale of NSD certificates during this period registered a 9.5 per cent growth. As the repayment of the principal amount increased only

Figure 14 : Government sector borrowing



Source: CPD-IRBD database

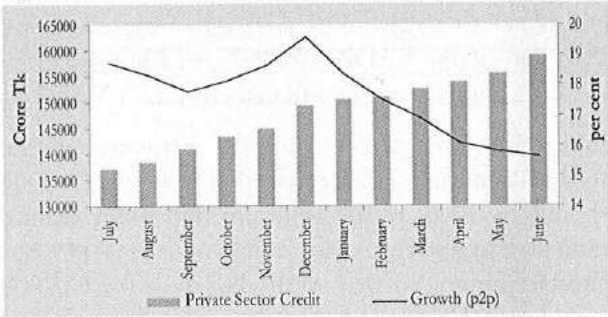
by 1.06 per cent, the growth of net sale of NSD stood at 40.73 per cent. Data for credit to government from the non-bank depository corporations (NBDCs) at the end of FY2007 showed a negative growth of (-) 18.4 per cent on a point to point basis.

Private Sector Borrowing

At the end of FY2007, total outstanding credit to the private sector stood at Tk 158,879.2 crore, posting a moderate 15.6 per cent growth on a point to point basis. Within the total credit to the private sector, 92.1 per cent came from the banking sector, while the rest 7.9 per cent came from the NBDCs.

Point to point growth rates during FY2007 indicate towards a restrained credit flow, both for the public and private sectors. However, it is logical to suggest that domestic credit growth should be put on leash by controlling public borrowing, and not by

Figure 15 : Private sector borrowing



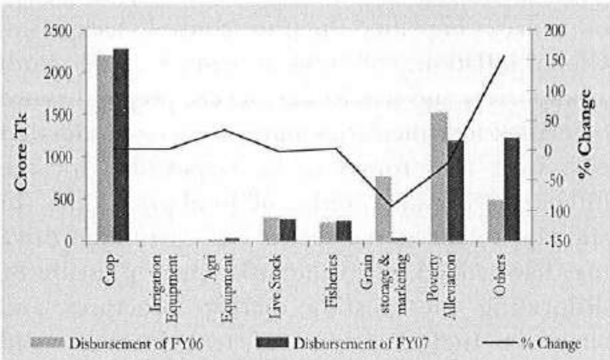
Source: CPD-IRBD database

curtailing credit flow to the private sector.

Agricultural Credit

In the backdrop of the prevailing high inflation, especially for food items, total credit disbursement to the agricultural sector posted a worrying negative growth of (-) 3.7 per cent in FY2007. While total disbursement amounted to Tk 5,292.5 crore in FY2007, total recovery amounted to Tk 4,676.0 crore which is 12.3 per cent higher than the recovery in FY2006. Hence, in net terms, total credit flow to the rural economy only amounted to Tk 616.5 crore, registering substantial negative growth of (-) 53.7 per cent.

Figure 16 : Agricultural credit position (FY2006 & FY2007)



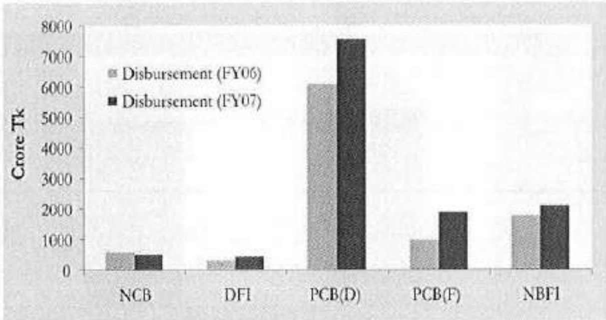
Source: CPD-IRBD database

Crop loan followed by "Poverty Alleviation" received the highest amount of credit with respective disbursements of Tk 2,285.59 crore and Tk 1,189.48 crore. "Poverty Alleviation" however recorded the highest fall in FY2007 with (-) 59.4 per cent negative growth in disbursement over that of FY2006.

Industrial Credit

Term loan disbursement stood at Tk 12,394.8 crore in FY2007, registering a high growth of 28.4 per cent, mainly owing to the low benchmark growth of FY2006 (5.9 per cent). However, net disbursement during this fiscal year is about 15.1 per cent more than the equivalent figure of FY2006, because of high growth of recovery (34.2 per cent on a point to point basis). Term loan disbursed by the NCBs decreased significantly by (-) 18.1 per cent and their share in total disbursement also declined by quite a significant margin, from 6.1 per cent in FY2006 to 3.9 per cent in FY2007. On the other hand, disbursements by all other banks have increased significantly. Disbursement by the private commercial banks (PCBs) (foreign) recorded the highest increase of 98.7 per cent, taking its share from 9.8 per cent in FY2006 to 15.1 per cent in FY2007. Term loan disbursement

Figure 17 : Disbursement of Term Loan (FY2006-FY2007)



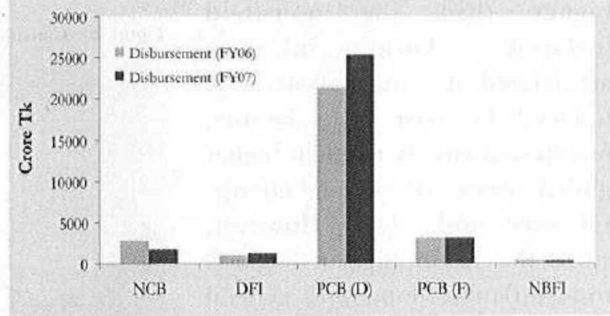
Source: CPD-IRBD database

by private commercial banks (PCBs) (domestic), specialised banks (DFIs) and NBFIs increased by 24.3 per cent, 34.9 per cent and 19.4 per cent respectively. With 60.8 per cent share in the total disbursement, private commercial banks (PCBs) (domestic) remain the major source of term loan.

Disbursement of working capital in FY2007 recorded a relatively low growth of 11.3 per cent. In FY2007 an amount of Tk. 31,651.32 crore was disbursed against the sanctioned amount of Tk. 26,221.42 crore.

PCBs (Domestic) accounted for more than 80 per cent of the total disbursement of working capital, while the highest growth (26.7 per cent) was registered by the specialised banks (DFIs). On the other hand, disbursement of working capital by the

Figure 18 : Disbursement of Working Capital (FY2006-FY2007)



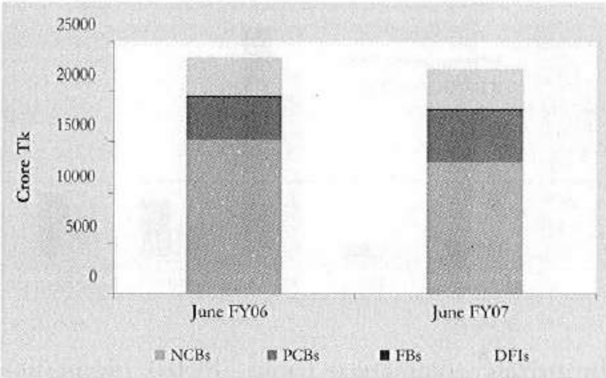
Source: CPD-IRBD database

NCBs recorded significant negative growth of (-) 40.5 per cent.

Loan Default Scenario

Total classified loan for FY2007 stood at Tk 22,302.05 crore, registering a decrease of (-) 4.96 per cent over the corresponding figure of FY2006. NCBs made impressive progress in reducing the total classified loan, recording a decline of Tk 2,168.52 crore (negative growth rate of (-) 14.24

Figure 19 : Loan default scenario (FY2006 and FY2007)



Source: CPD-IRBD database

per cent) from the corresponding figure for FY2006. However, total classified loan of the Foreign Banks (FBs) increased significantly by 154.30 per cent during FY2007, while classified loan of PCBs and DFIs increased by 20.18 per cent and 1.12 per cent respectively.

Consumer Price Inflation

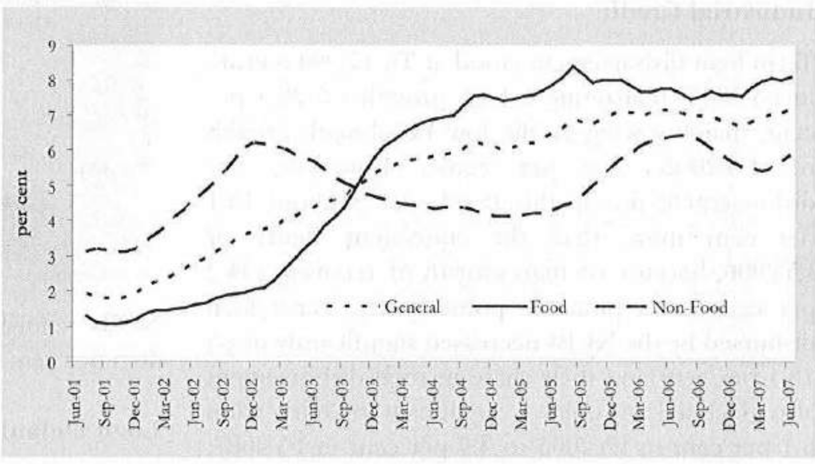
On the basis of moving average, consumer price inflation increased from 7.16 per cent in June 2006 to 7.20 per cent in June 2007. Consumer price inflation, on a point-to-point basis, stood at 9.20 per cent in June 2007 which was 7.54 per cent in June 2006.

In the recent past, food inflation had tended to be higher than the non-food inflation. Food inflation accelerated at a much faster rate induced by cost push factors, manifested largely through higher global price of food, energy, fertiliser and steel. However, since the beginning of FY2007 food inflation along with general inflation began to decline, reaching 7.57 per cent and 6.71 per cent respectively at the end of January, 2007. But this trend did not persist for long as food and general inflation (MA) began to move up again from February, 2007 and settled much higher at 8.11 per cent and 7.20 per cent in June 2007.

While the usual trend of food and non-food inflation had been to move in opposite directions, i.e., non-food inflation tended to reduce with the increase in food price, the last quarter of FY2007 had shown a contrasting trend with both the food and non-food indices moving in the same upward direction. Non-food inflation rose from 5.42 per cent in March 2007 to 5.89 per cent in June 2007, when 12 months moving average is considered.

The CPD's study on *Price of Daily Essentials* attempted to capture some of the reasons contributing to the increase in food inflation. Lack of institutional monitoring mechanism and information gap between the relevant stakeholders were identified as two of the major domestic bottlenecks impeding the price control mechanism. Global inflation, collusion of market agents, both at importers and wholesalers levels, preponderance of market intermediaries and increasing production cost were also found to be responsible for the inflationary trend, in terms of food price index. In addition to these, the recent anti-corruption drive may have added on to the inflationary pressure by dislocating the existing market structures and channels. Increased cost of transportation and relatively high rate of interests and bank charges have further boosted the price level. As mentioned earlier, apart from the domestic forces, the rising inflationary expectations because of the current inflationary trend in the international market, global supply shocks due to adverse climate conditions in major exporting regions and global price hike of petroleum products, have significant

Figure 20 : Consumer Price Inflation (CPI) at the national level (moving average)



Source: CPD-IRBD database

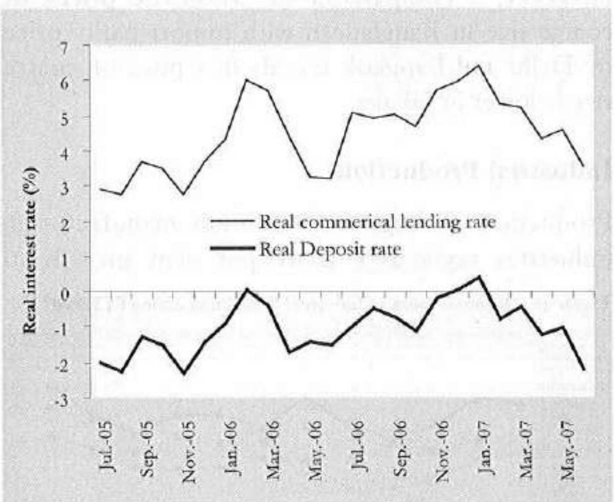
influence over the upward moving price scenario in Bangladesh. With such adverse global and domestic situations, the study predicts that national inflation level is unlikely to be reduced to a level that is below 7 percent in near future, at least not before the Aman harvesting season.

The study identified that relative price changes are more of a supply side issue and evidence indicates towards cost-push inflation. To a large extent, the inflationary phenomenon was rather of a product specific nature than a macroeconomic one. In order to cope with the situation, the study suggested that supply of essential commodities be increased through duty-free access and steps to reduce the influence of market intermediaries.

Interest Rate

Commercial lending rate gradually increased from 10.75 per cent in June 2006 to 12.75 per cent in June 2007. Real interest rate on commercial lending was also rising during the first few months of FY2007, with July being an exception, and reached 6.39 per cent in January 2007 from 3.21 per cent in June 2006. However, since then, with high inflation, it had been gradually falling and declined to 3.55 per cent at the end of FY2007. Deposit rate (3 to 6 months), although increased from 6.03 per cent from June 2006 to 7.01 per cent in June 2007, could not protect its real value and remained negative in real terms. Real deposit rate showed a minor correction from (-) 2.03 per cent to (-) 1.51

Figure 21 : Lending and deposit rates



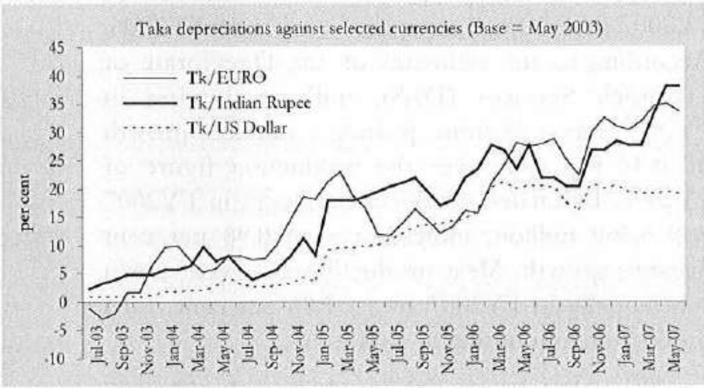
Source: CPD-IRBD database

per cent during FY2006, but in FY2007 it further declined to (-) 2.19 per cent. While both real lending and deposit rates have recently demonstrated declining trends, real deposit rate fell at a greater pace, widening the gap between the two.

Exchange Rate Situation

Between July 2006 and June 2007 Taka appreciated against the US dollar by 1.02 per cent, while against the Euro and the Indian Rupee, Taka depreciated by 4.58 per cent and 13.33 per cent respectively. In

Figure 22 : Exchange Rates



nominal terms, weighted average exchange rate of US dollar declined from Taka 69.65/$ in July, 2006 to Taka 68.94/$ in June, 2007. On the other hand, during the same period, weighted average exchange rate of the Euro and the Indian Rupee increased from Taka 88.48/Euro and Taka 1.50/Rs. to Taka 92.53/Euro and Taka 1.70/Rs respectively.

Depreciation trend of Taka against US dollar, Euro and Indian Rupee since May 2003, when Bangladesh entered into the floating exchange rate regime, suggests that Taka depreciated more against the Indian Rupee and Euro, in that order, compared to the US dollar.

4.5 Real Economy

Agricultural Production

According to the estimates of Bangladesh Bureau of Statistics (BBS), total foodgrain production (rice and wheat) in FY2007 was 28.05 million metric tonnes (mmt) which is 2.88 per cent higher than that of the previous year (FY2006). Total rice production in FY2007 was 27.31 mmt (Aus: 1.51 mmt; Aman: 10.86 mmt; Boro: 14.94 mmt). Production of Aus rice declined significantly by 13.35 per cent in FY2007 compared to that of FY2006. On the other hand, production estimates of the two major crops, Aman and Boro, surpassed the production figures of FY2006. Total production of Aman rice in FY2007 was 0.46 per cent higher than the production of FY2006. Boro production in FY2007 increased significantly by 6.91 per cent over the previous year. In the face of a gradually declining trend of wheat production, FY2007 recorded marginally higher production of wheat by 0.27 per cent over the estimates of FY2006, total production amounting to 0.74 mmt.

However, livestock production situation of FY2007 deteriorated compared to that of FY2006. According to the estimates of the Directorate of Livestock Services (DLS), milk production in FY2007 was 2.28 mmt, posting a nominal growth of 0.44 per cent over the production figure of FY2006. Estimated production of eggs in FY2007 was 5,369 million, indicating a (-) 0.98 per cent negative growth. Meat production also went down substantially in FY2007 by (-) 7.96 per cent, total production amounting to 1.04 mmt.

On the other hand, fish production in FY2007 registered a significant progress. According to the provisional estimates of the Directorate of Fisheries (DoF), total fish production in FY2007 was 2.59 mmt, indicating 11.31 per cent higher production than the preceding year (FY2006). Inland fish production in FY2007 (2.00 mmt) was 8.45 per cent higher than in FY2006. Contribution of cultured fisheries to the inland fish production is increasing over time and reached 57 per cent in FY2007, from 48 per cent in the preceding year, the production figure (1.0 mmt) recording 29.66 per cent growth over the estimates of FY2006. Marine fish production in FY2007 also marked significant rise by 22.36 per cent, total production amounting to 0.59 mmt.

Food Import

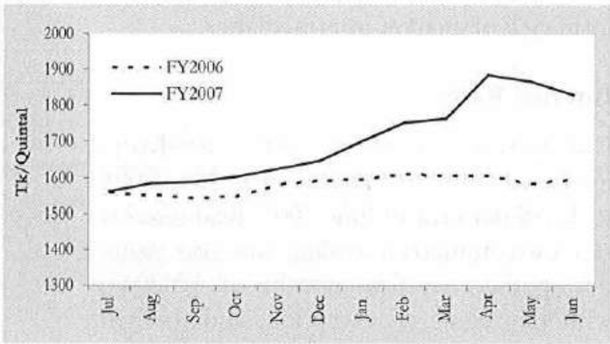
In FY2007, total rice import (private and public) was 0.72 mmt, indicating 35.44 per cent more import than the previous year. Private import of rice rose significantly by 39.58 per cent, while import by public sector declined by (-) 25.43 per cent. Against a public rice import of 0.03 mmt, private import amounted to 0.70 mmt, taking the share of private import to 96.49 per cent in FY2007 whereas the share was 93.63 per cent in FY2006.

On the other hand, wheat import by private and public sector in FY2007 declined considerably. Total wheat import declined by 16.25 per cent compared to the import of FY2006 as private and public imports decreased by (-) 14.33 per cent and (-) 29.19 per cent respectively. Altogether, total import of foodgrains in FY2007 declined by (-) 5.52 per cent compared to the import in FY2006.

Rice Price

At the beginning of FY2007 the wholesale price of coarse rice was around Tk 15,610 per mt.

Figure 23 : Trends in wholesale rice price (coarse) during FY2006 and FY2007



Source: CPD-IRBD database

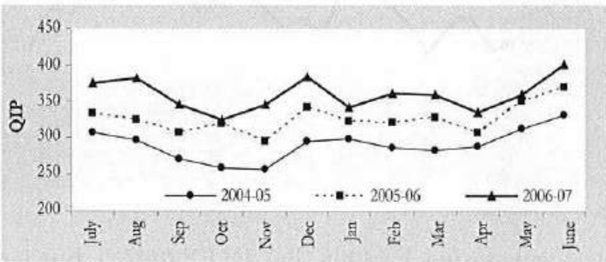
Throughout the year the price of rice was on the rise, but during January 2007 the price level took a serious upward turn and reached Tk 18,860 per mt in April 2007. However, the last two months of the fiscal year, after the harvest of Boro rice, recorded a declining trend and by the end of FY2007, price per mt stood at Tk 18,310, taking the annual growth in price to 17.30 per cent.

However, a comparison of wholesale prices of coarse rice in Bangladesh with import parity price of Delhi and Bangkok reveals that price of coarse rice is lower in Dhaka.

Industrial Production

Production in large and medium manufacturing industries registered 10.01 per cent growth in

Figure 24 : Quantum Index of Industrial Production during FY2005-07

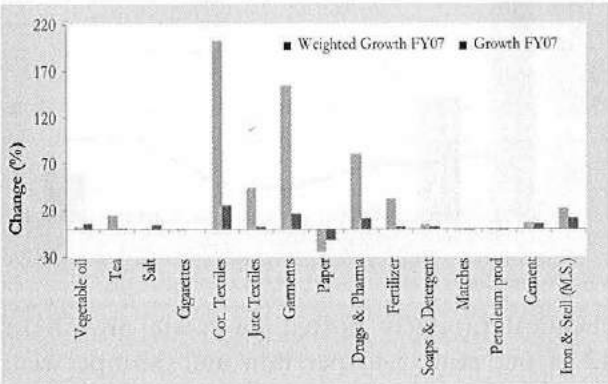


Source: CPD-IRBD database

FY2007 according to the QIP, against a more respectable growth of 12.49 per cent achieved in FY2006.

During FY2007, most of the major industries achieved positive growth with cotton textiles (25.84 per cent), RMG (16.88 per cent), drugs & pharma (11.54 per cent), M.S. products (11.86 per cent) and

Figure 25 : Growth in industrial production



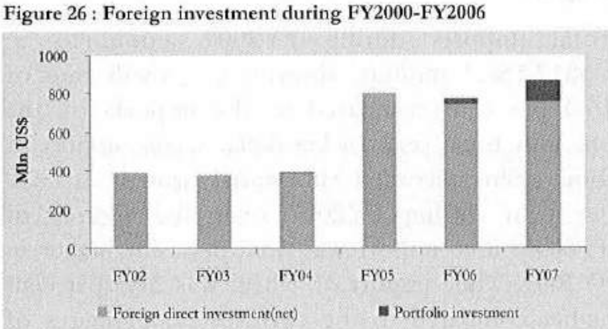
Source: CPD-IRBD database

cement (5.82 per cent). On the other hand, production of paper recorded substantial fall by (-) 10.92 per cent and marginal decrease in production was recorded for matches (-0.83 per cent), petroleum products (-0.54 per cent) and cigarettes (-0.16 per cent).

Foreign Investment

During FY2007 Bangladesh received a net amount of US$866 million as foreign investment, of which US$760 million came as foreign direct investment (FDI) and the rest came as portfolio investment. The target of US$ 1 billion of FDI inflow for FY2007 could not be realised; nevertheless, the

Figure 26 : Foreign investment during FY2000-FY2006



Source: CPD-IRBD database

actual inflow was 2.3 per cent higher than the FDI of FY2006.

On the other hand, portfolio investment increased significantly by 231.3 per cent, from 32 million in FY2006 to 106 million in FY2007. This could be one underpinning factor behind the buoyant performance portrayed by the two bourses of the country.

Financial account stood at US$ 721 million in FY2007, recovering well from the negative account

Table 6 : Financial account of foreign investment (FY06 & FY07)

(In million US$)

	FY2005-06	FY2006-07
Financial account	-141	721
i) Foreign direct investment (net)	743	760
ii) Portfolio investment	32	106
iii) Other investment	-916	-145
MLT loans 2/	1023	1037
MLT amortization payments	-488	-525
Other long-term loans (net)	-37	-29
Other short-term loans (net)	-256	493
Other capital	-495	-524
Trade credit (net)	-898	-470
Commercial Bank	235	-127
Assets	31	-98
Liabilities	204	-29

Source: CPD-IRBD database

of US$ (-) 141 million experienced in FY2006. A net amount of US$145 million was repatriated from the country during FY2007. Against an inflow of US$1,037 million MLT loan, US$525 million was repatriated in FY2007 as amortization payments. Net trade credit (US$ -470 million) and accounts of Other capital (US$ -524 million) are the two major sources of the total repatriation in FY2007.

Capital Market

During the political uncertainty, the Dhaka Stock Exchange (DSE) observed a decrease in all of its share price indices in the first half of FY2007. However, take over of the current CTG appears to have restored confidence and brought momentum to the market. The DSE All Share Price Index (DSI) started to rise immediately and stood at 1427.74 on 22 January, 2007. At the end of FY2007, DSI increased to 1764.2 from 1040.5 in June 2006, registering a rise by 723.7 points. The General Index (DGEN) also increased by 809.8 points from 1339.5 to 2,149.3 during the same period. Performance of the top ranked companies (the DSE20 index) indicates a slower pace of increase, by 571.23 points, increasing from 1310.9 to 1882.1 during the period under consideration. Apart from two direct listings, a total of 12 IPOs came into the market during FY2007, whereas 14

IPOs came during FY2006. Significant oversubscription of IPOs remained a reality in FY2007. During FY2007, an amount of Tk 20.1 billion was oversubscribed (13.5 times of the offered amount).

Various initiatives of the Securities and Exchange Commission (SEC), undertaken in the recent past, have without doubt contributed significantly to an increase in investors' confidence. However, it is also true that the current anti-graft movement of the government has, to some extent, diverted small investments towards the stock market, contributing to the recent buoyancy in the market.

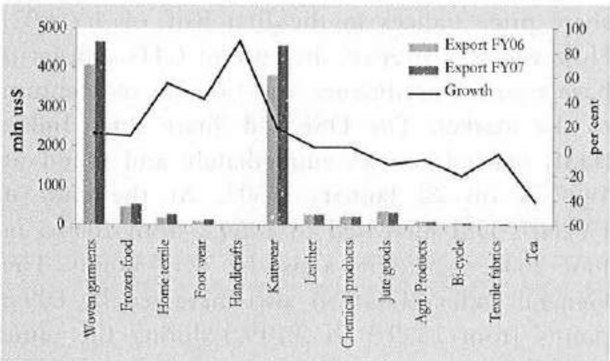
To sustain the recent performance of the market, cautious monitoring is required without jeopardizing the current stimulus. With the visible thirst for investment from the small capital holders, a growing need for expansion of investment opportunities in the share market is being felt. Bringing more and quality companies to the stock market remains an urgent task. Efforts are needed to have mobile companies listed in the market.

4.6 External Sector

Export

Despite the political turmoil and labour movements, export earnings stood at US$12,177.86 million at the end of FY2007, registering a respectable growth of 15.69 per cent over the corresponding period of FY2006. Most of the major export items posted positive growth rates. It is to be noted in this context that despite the

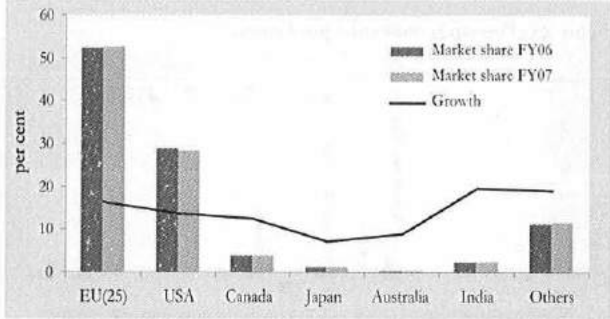
Figure 27 : Export of major commodities (FY2006 and FY2007)



Source: CPD-IRBD database

uncertainties experienced in the RMG sector during FY2007, export earnings from woven-RMG sector increased significantly by 14.05 per cent whilst export of knitwear-RMG posted a 19.30 per cent growth. Export of home textile grew by 55.50 per cent. Handicrafts export grew phenomenally by 89.77 per cent and foot-wear recorded an impressive growth of 42.44 per cent over the exports of FY2006. Frozen food, leather and

Figure 28 : Market share of export and growth



Source: CPD-IRBD database

chemical products posted moderate growth of 12.24 per cent, 3.42 per cent and 3.31 per cent respectively.

Major decline in exports were recorded by tea (-41.63 per cent), electronics (-35.90 per cent), by-cycle (-19.64 per cent), jute goods (-11.15 per cent), and agri products (-7.04 per cent).

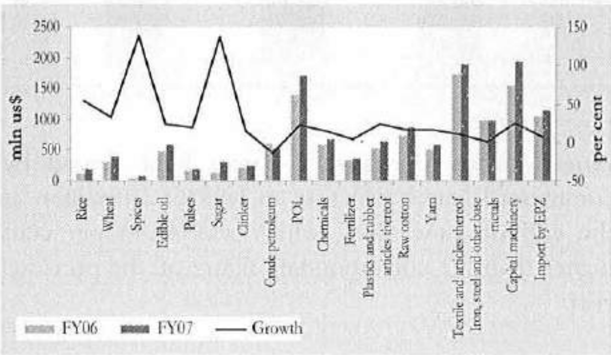
In terms of market diversification, Bangladesh experienced the highest growth in India (19.6 per cent) during FY2007. The EU and the USA continues to remain the largest markets for Bangladesh's export, with 52.5 per cent and 28.3 per cent of respective shares in export in FY2007. The growth had been 13.6 per cent, 12.6 per cent and 16.4 per cent in the USA, Canada and the EU respectively.

Import

Total imports during FY2007 amounted to US$17,156.7 million, showing a growth rate of 16.3 per cent compared to the imports of the previous fiscal year. In US dollar terms, import of food grains recorded substantial growth of 39.0 per cent during FY2007 over the figures of FY2006. Rice import was 53.8 per cent higher in FY2007, while import of wheat was 33.3 per cent higher compared to the corresponding figures of FY2006. Sugar import also posted a phenomenal growth of 136.9 per cent.

Among the other major import items, capital machineries (25.4 per cent), POL (22.1 per cent), raw cotton (15.8 per cent), chemicals (15.2 per cent) and textile articles (9.5 per cent) recorded high to moderate growth rates. On the other hand, import of crude petroleum and pharmaceutical products declined by (-) 13.3 per cent and (-) 2.6 per cent respectively. During FY2007, imports by EPZ registered a growth of 11.6 per cent.

Figure 29 : Import growth in FY2006-FY2007



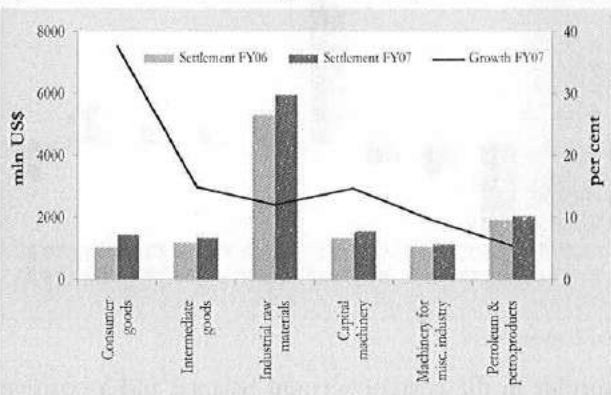
Source: CPD-IRBD database

While it is unlikely that an increased investment demand had its role behind the moderately high import growth of FY2007, considering the impact of ongoing anti-graft movement, the obvious possibility is that the growth, especially for the food items, is underpinned by the rise in global prices. The rise in import payments is likely to continue for some time to come, which could put the BOP situation under pressure in the upcoming days.

Opening and Settlement of Import LCs

Letter of credits (LCs) worth US$15,971.4 million was settled during July-June period of FY2007, registering a growth of 14.5 per cent over the corresponding period of the last year. Fresh

Figure 30 : Settlement of LC during FY2006-FY2007



Source: CPD-IRBD database

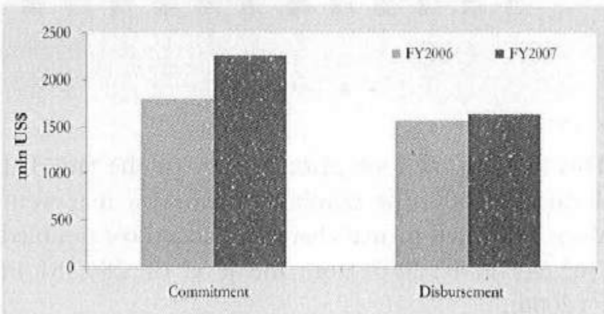
openings of import LCs during the FY2007 registered identical growth (14.5 per cent) with total figure amounting to US$17,451.0 million. Major increase in opening and settlement of LCs took place for consumer goods and intermediate goods. While opening and settlement of LCs for consumer goods grew by 47.9 per cent and 37.6 per cent, the respective growth figures for intermediate goods were 21.8 per cent and 15.0 per cent. In a more disaggregated terms, within consumer goods, opening and settlement of rice and wheat together grew by 62.9 per cent and 35.8 per cent respectively. For pulses the growth figures were 19.3 per cent and 14.7 per cent. During this period, LC settlement of capital máchineries posted moderate growth of 14.6 per cent, but fresh opening of LCs registered marginal growth of 1.3 per cent. For industrial raw materials, machinery for miscellaneous industries and petroleum and petroleum products, the growth rates were 12.0 per cent, 9.7 per cent and 5.5 per cent respectively.

In case of fresh opening of LCs, industrial raw materials, machinery for miscellaneous industries, and petroleum and petroleum products registered 10.2 per cent, 7.1 per cent and 17.1 per cent growth respectively in FY2007.

Foreign Aid

Total foreign aid disbursed during FY2007 was higher than the disbursement of FY2006. An amount of US$1,624.6 million was disbursed as foreign aid which indicates an increase of 3.6 per cent in gross terms compared to FY2006. After accounting for the payment of principal (US$525.1 million), net foreign aid during FY2007 stood at US$1,099.5 million, which is 1.9 per cent higher than the corresponding figure of the preceding year. According to the programmed expenditure in the revised budget of FY2007, demands for an aid inflow (in gross terms) amounted to around US$1,620 million (including grants).

Figure 31 : Flow of foreign aid during FY2006-FY2007



Source: CPD-IRBD database

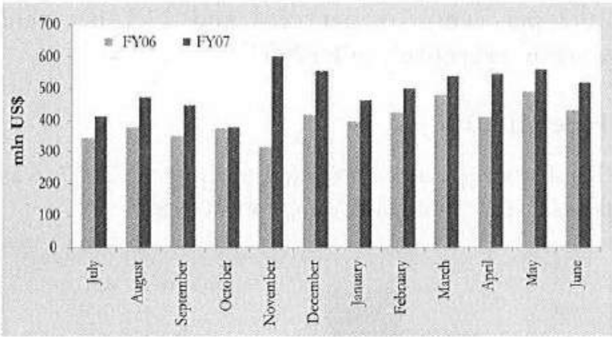
On the other hand, commitment of aid in FY2007 stood at US$2,256.2 million, gaining substantial growth of 26.2 per cent over the commitment of FY2006.

Remittances

Remittance flow continued to demonstrate buoyant performance during FY2007, easing the pressure on balance of payments. In the backdrop of a high benchmark growth of 24.78 per cent during FY2006, flow of remittance posted 24.52 per cent increase in FY2007 taking the total inflow to US$5,979.32 million. Remittance inflow in a single month (US$598.73 million) was highest in November 2006.

Saudi Arabia remains to be the single largest (US$1735 million) source of remittance in FY2007 with 29.01 per cent share in the total inflow, while the largest increase has been registered from the U.K. (58.80 per cent).

Figure 32 : Monthly trend in the flow of remittance during FY2006-FY2007



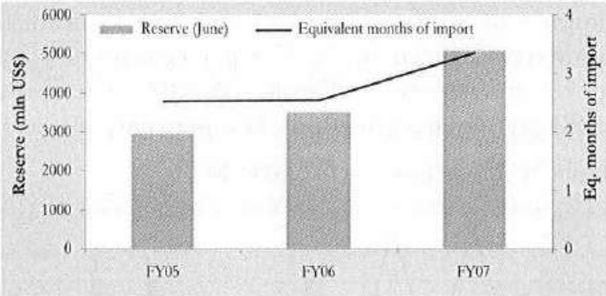
Source: CPD-IRBD database

This high inflow took place in view of the fact that during FY2007, the number of workers that went abroad through formal channels had almost doubled (563,644 in FY2007 from the level of 286,381 in FY2006).

Foreign Exchange Reserves

In the face of a controlled import and buoyant export-remittance earnings, foreign exchange reserves have been on the rise since the second half of FY2006. But since the beginning of FY2007, thanks to higher growth in the remittance inflow, the reserve situation improved quite substantially. At the end of June 2007, foreign exchange reserves stood at US$5,077.24 million which was about 45.74 per cent higher than that of the corresponding month of the previous year. This amount is equivalent to 3.3 months import of the country while the reserve at the end of FY2006 equalled to 2.5 months import.

Figure 33 : Foreign exchange reserves and equivalent months of import



Source: CPD-IRBD database

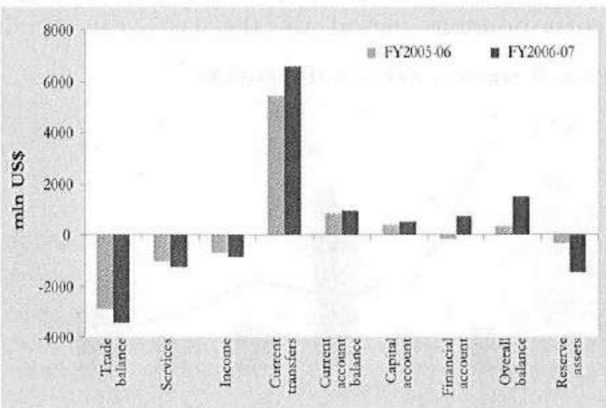
Gross foreign exchange balances held abroad by commercial banks also rose to US$368.10 million at the end of June 2007, which was 41.45 per cent higher than the corresponding figure of the previous year.

Balance of Payments

Trade balance deteriorated in FY2007 as trade deficit climbed up to US$3,458 million from US$2,889 million of FY2006. Despite the larger service (-US$1,261 million) and income (-US$883 million) deficit, the current account balance recorded a surplus of US$952 million during FY2007 against the surplus of US$824 million of FY2006, owing to larger current transfers. It is basically the higher remittance flow that has resulted in a larger surplus of US$6,554 million in the current transfers, providing a breathing space to the BoP situation.

Despite a weakened trade balance, BoP with a larger surplus in the current account balance and a positive financial account experienced a surplus in the overall balance to the tune of US$1,493 million during FY2007 as against a surplus of US$338 million in FY2006.

Figure 34 : Balance of Payment scenario during FY2006-07



Source: CPD-IRBD database

5. OUTLOOK AND CHALLENGES FOR FY2008

Growth Outlook

The CTG has set a growth target of 7.0 per cent for the coming FY2007-08. Taking note of the performance in FY2007, it is maintained that all the three major components of GDP, *viz.* Agriculture, Industry and Service will have to register quite a robust performance, if such optimistic growth targets were to be attained. The agricultural sector has to post significantly higher growth since crop and livestock sectors have slowed down considerably in FY2007. The crop sub-sector has to significantly increase its growth rate (4 plus per cent) while livestock sub-sector must regain the momentum it lost after the Avian Flu. Manufacturing sub-sectors will need to sustain its impressive growth which was recorded in FY2007 notwithstanding the prevailing situation. Manufacturing, both large and small scale, has to score a moderate increase in its growth rate; the construction sub-sector also ought to reclaim the lost momentum. The other components of the Industry sector i.e. Electricity, Water and Gas Supply along with Mining and Quarrying, must retain their pace of growth. Since service sector alone accounts for half of the national income, it has to moderately accelerate its growth on the FY2007 benchmark. Real Estate, Renting and Business Activities have to revert back to higher growth path, whereas sectors such as Education and Health and Social Works must significantly improve their performance. It is anticipated that Public Administration and Defence would experience accelerated growth in FY2008. Import Duty has to break free from negative growth rate, as was recorded in FY2007, and has to increase its incremental contribution in realising the targeted growth rate. In short, attainment of the projected 7.0 per cent economic growth would demand an energetic performance by all the major sectors of the economy. However, for this to happen, the investment in the economy, both domestic and foreign, will continue to remain the singlemost important factor. As it appears for now, the targets set for FY2008 will be hard to achieve in view of the performance of macroeconomic indicators in the first few months of FY08. The economy's growth rate will need to be accelerated to significantly higher trajectory in the remaining months of FY2008, if the growth targets are to be attained. This will not be an easy task.

Medium Term Outlook

The new MTMF (FY2008-2010) outlook for FY2009 and FY2010 makes the projection (by the CTG) that the economy will grow at 7.0 per cent and 7.2 per cent in FY2009 and FY2010 respectively. The projections also depict optimism about harnessing the inflationary trend, setting the target at 5.5 per cent for FY2009 and 5.0 per cent for FY2010.

Table 7 : Medium term outlook of Bangladesh economy

Indicators	Budget	Projected	
	2007-08	2008-09	2009-10
Output (%)			
Real GDP growth (%)	7.0	7.0	7.2
CPI inflation	6.5	5.5	5.0
GDP deflator (% change)	6.0	5.2	4.9
Gross Domestic Investment (% GDP)	26.2	27.4	28.1
Government Accounts (% of GDP)			
Total Revenue	10.8	11.1	11.2
Tax	8.6	9.1	9.2
Non-Tax	2.2	2.0	2.0
Total Expenditure	16.4	14.9	15.0
Current Expenditure	9.4	9.0	9.1
Of which: Interest Payments	2.0	1.9	1.9
Overall Balance (excl.Grants)	-5.6	-3.8	-3.8
Financing (net)	5.6	3.8	3.8
Domestic Borrowing	3.6	2.0	2.1
External Borrowing	2.0	1.8	1.7
Money and Credit (% change)			
Net Domestic Assets	13.6	14.7	14.1
Private Sector	14.5	15.5	15.0
Broad Money	15.0	14.0	13.0
Balance of Payments			
Exports, f.o.b (% change)	18.5	18.0	18.0
Imports, c.i.f (% change)	19.0	18.5	17.0
Remittances (US$ million)	6600.0	7400.0	8200.0
Current Account Balance (% of GDP)	0.7	0.1	-0.4
Gross Official Reserve (US$ million)	5300.0	6112.0	7151.0

Source: PRSP, MTBF and Budget Documents.

In the revised medium term outlook, revenue collection is programmed to grow at a slow pace, whereas total expenditures are to fall drastically in FY2009. Consequently, fiscal deficit is expected to improve leading to an improvement in the overall balance. This sudden shift may be explained by the disclosure of BPC debts and its adjustment amounting to about 1.42 per cent of GDP in FY2008.

In the monetary sector, Broad Money Growth was projected to slowdown over the years from 15 per cent in FY2008 to 13 per cent in FY2010. It is expected that private credit flow will sustain high expansion despite reduction in aggregate growth.

The BOP components are expected to experience robust growth in the coming years. These include steady export growth and import performance as well as improvement in foreign exchange reserves situation. Remittance flow is also expected to continue the current momentum.

The overall new medium-term macroeconomic outlook suggests that the CTG is quite optimistic about accelerating economic growth, strengthening fiscal framework, maintaining monetary discipline and enhancing external balance. The performance of the economy in the first few months of FY2008, with the inflationary pressure and scaling down of the GDP growth rates (from the projected 7% to about 6.0 - 6.2%), are indicative of the challenges that lie ahead for the CTG in FY2008 and for Bangladesh beyond that time frame, in FY2009 and FY2010.

Challenges for FY2008

A number of emerging challenges that the Bangladesh economy could face in the upcoming year may be identified in view of the emerging trends currently being experienced. These include addressing some critical structural challenges and maintenance of macroeconomic stability, since these are crucial to attaining the targets set in the MTMF.

Stabilising Market Price, Particularly Food Prices

Arresting the existing high inflationary trends, particularly high prices of essential commodities including food items, ought to be seen as the most urgent task of the government. Both domestic underperformance and international shocks contributed to the creeping inflation which has been observed for the last one year, and has accelerated in recent times. It is unlikely that the national inflation will decline below 7.0 per cent in the near future, particularly in view of the low harvest, in the aftermath of two successive floods and cyclone Sidr. Various market and non-market interventions, coupled with strong institutional reforms, will be required to curb the present inflation, keeping in view both short and medium term perspectives.

Achieving Pro-Poor Growth and Addressing Inequality

Translating the gains of economic growth performance into incremental gains for the poor and disadvantageous groups of the society will be a major challenge facing the CTG. As is known, the pace of poverty alleviation accelerated during 2000 to 2005 (on average reducing 1.8 per cent poverty rate per annum). At the same time, regional disparity and intra-household income inequality have continued to worsen and threaten to undermine future prospect of poverty alleviation. Income generation through gainful employment for the rural and urban poor, addressing the problems of seasonal unemployment and of people who have lost homes due to Sidr, floods and river erosion remain critical areas of intervention, which requires urgent financial support and policy interventions.

Investment Augmentation and Improved Domestic Savings

A major challenge will be to address those areas which inhibit investment and constrain entrepreneurial initiative. Practical measures will have to be devised to transform savings into investment for the purpose of accelerating the growth prospect of the economy.

Expanding Domestic Tax Base

Historically, Bangladesh has the lowest revenue-GDP ratio among all her counterparts in the South Asian region. Intensifying domestic resource mobilisation through an active revenue collection drive, extending the coverage of revenue collection and improving auditing system for augmenting more transparent corporate governance persist to be a challenge in terms of ensuring higher domestic resource mobilization and comfortable fiscal situation in coming years.

Better Management of Aid Flow

Low disbursement of foreign aid has been a major concern in recent years. Although the importance of foreign aid in the overall economy has been on the decline in recent years, the importance of increased foreign aid flow for development, particularly for sectors including health, education, human resources and infrastructure, cannot be overemphasised. Even though the situation has somewhat improved with the installation of the present CTG, meeting the targets for foreign aid utilisation will remain a major challenge for Bangladesh.

Improving the Quality of ADP Implementation

Appropriate resource allocation and implementation of the ADP has been a major challenge for successive governments in Bangladesh. Declining trend in ADP-GDP ratio is acting as a limiting factor in terms of the future economic growth of the country. Selection of demand driven projects and their effective implementation are basic requirements for better management of public expenditure programmes in Bangladesh. Enhancing utilisation performance of ADP through better governance and enhanced capacity of the implementing ministries and agencies, ought to receive top priority from the government.

Improving Investment in Agriculture

Gross disbursement of agricultural credit recorded a fall during FY2007. With an improved recovery, net disbursement performance has been even worse. In view of the rising production cost and stagnant production, the negative growth of agricultural credit is likely to have adverse impact on future agricultural production. In FY2008, improving investment in agriculture will be a major challenge for ensuring and maintaining the four plus percent growth rate of agricultural GDP.

Improved Allocation in Power, Education and Health

The challenge for the government will be to go for immediate measures to address the existing acute power shortages. An absence of urgent and decisive decision as regards power projects is having an adverse impact on short term energy availability and medium-to-long term energy security.

Providing quality education and proper basic health services continue to remain a major task for Bangladesh. The slow down in the utilisation of allocation in education and health in recent times, will adversely affect development of human capital in the long term. In view of this, selection of appropriate projects and increased attention to raising the quality of health and education services ought to be given due attention.

Sustaining Export Growth

The narrow export basket of Bangladesh is likely to face heightened competition once the EU and US restrictions on RMG export from China is withdrawn (in January 2008 and January 2009 respectively). Already, early signs in FY2008 have indicated the challenges on this front: export growth in early months were negative with very slow recovery in subsequent months. The encouraging sign is that buyers (of apparels) have once again started to place orders in Bangladesh, in view of the improving business situation. Export and market diversification are the twin challenges that are to be addressed in FY2008.

Improving the FDI Flow

FDI inflow to Bangladesh has been on the decline in the past year and the country is lagging behind, compared to other developing countries in terms of attracting FDI. It is to be noted here that Vietnam, an economy with similar size, was able to attract about US$15 billion in FDI in the first nine months of 2008. Apart from taking decisions with regard to large scale FDI propositions, energetic steps should be taken to remove bottlenecks and provide attractive incentive packages to stimulate FDI flow to the country. Development of clusters, putting in place incentives for technology upgradation and R&D and other initiatives will need to be pursued to ensure higher inflows of FDI.

Greater Mobilisation of Equity Capital

The capital market in Bangladesh has improved remarkably during the recent times. Investors' confidence is on the rise; as a consequence of which market capitalization and all share price indices are on the rise in recent years. With improved monitoring mechanism against market manipulation in place, this is perhaps the most opportune time for further consolidation and strengthening of the equity market. This will have to be done both by providing more investment opportunities as well as by catering to new investors, more particularly from among the NRBs and foreign investors. To this end, bringing more SoEs into the capital market with a view to mobilising larger capital will be the major task in hand for the CTG.

Keeping up Remittance Flow

Remittance inflow has provided a cushion to the BoP situation of Bangladesh economy in FY2007. Improving the quality of manpower, enhancing their earnings power and effective negotiation for greater market access for Bangladeshi workers going abroad will stand out as the major challenges to sustain this remittance flow in the next fiscal year.

Pushing Forward Reforms

A number of important reforms have been initiated by the CTG in the past year. These have to be continued effectively and energetically and will require bringing about major legal and institutional changes in several key areas. The formation of the Better Business Forum (BBF) and the Regulatory Reforms Commission (RRC) are expected to contribute to this process in 2008. Concrete initiatives and proactive stance in pursuing those initiatives could make a lot of difference in improving not only business environment, but also ensuring better governance in Bangladesh in FY2008.

6. CONCLUDING REMARKS

FY2007 has been an exception year for Bangladesh. With crucial changes in political governance and consequent economic governance, the year will stand out in Bangladesh's history as a defining time. FY2007 and the early months of FY2008 experienced rapid rise in price levels, fuelled by both domestic factors and global developments, natural calamities in the form of consecutive floods and cyclone Sidr, slow down in investment and growing concerns about food security as well as energy security. Low ADP utilisation, fiscal pressure as a consequence of revenue expenditure outpacing revenue income, deteriorating terms of trade with respect to slower pace of export and the consequent adverse impact on balance of trade, indicate difficult times in the coming months. The continuing high flow of remittance and high reserves are expected to provide some cushion. However, policy makers will need to keep in mind that continuing rise in prices could undermine the positive developments by creating pressure on both budget and the available resources.

Some of the challenges faced during FY2007 are likely to continue in FY2008. The spiraling inflation trends, particularly food price inflation that persisted all through FY2007, will continue to remain a major concern. With little sign of improvement at the closure of the year, curtailing inflation will be the major task that the CTG will need to address. It is to be reckoned that it is the weaker sections in the society and the marginalised that suffer most as a result of high food inflation. In a country with growth and spatial inequalities, the adverse consequences of high inflation cannot be overemphasised. Combating inflation should receive the highest priority in FY2008.

Inflation can only be curtailed in the medium term through higher production and higher productivity, particularly because projections indicate that global prices of food, oil and Bangladesh's imports in general are expected to remain high. In view of this, stimulating savings and creating a conducive environment for both domestic and foreign investment will be crucial. The CTG has taken a number of important reforms that will have far reaching positive impact for the economy and the country as a whole. The immediate task is to create the sufficient conditions, through stimulating production and investment, to reap the benefits of institutional reforms.

ANNEX 1: BALANCE SHEET OF BANGLADESH ECONOMY IN FY2007

Indicator	FY2006	FY2007
Growth	GDP growth is revised downward for FY06 from 5.71 per cent to 5.62 per cent Domestic savings as percentage of GDP was 20.25	Another impressive growth performance of 6.51 per cent
Savings	National savings as percentage of GDP improved to 27.67 per cent.	Stagnation in domestic savings continues (20.46 per cent of the GDP) National savings growth also slowed down in this fiscal (13 per cent) Consistent increase in gap between national and domestic savings
Investment	Investment as percentage of GDP improves to 24.65 per cent. Public investment comes down to 6 per cent of GDP.	Growth in gross capital formation slowed down- the growth rate is the lowest in last five years (7.22 per cent) Investment as percentage of GDP declined to 24.33 per cent. Public investment stands at all time low (5.60 per cent of GDP) Widening savings investment gap.
Revenue Receipts	94.1 per cent of NBR target was achieved in FY2006. Non-NBR tax components showed slower growth of 7.4 per cent while non-tax component of the revenue collection has grown by 14.3 per cent.	Revenue-GDP ratio of Bangladesh reached 10.01 per cent demonstrating a decline by 0.20 per cent of GDP; NBR revenue collection during FY2007 registered 11.5 per cent growth while non-NBR tax components grew by 21.6 per cent. Direct tax (income tax) collection increased significantly by 34.7 per cent while total revenue collection achieved a growth of 10.1 percent. 94.7 per cent of the NBR target (revised) was achieved in FY2007.
Public Expenditure **a. Revenue Expenditure** **b. ADP**	Revenue expenditure registered a benchmark growth of 15.6 per cent. ADP figure was 4.68 per cent of the GDP. Actual ADP expenditure stood at 79.48 per cent and 90.57 per cent of the original and revised allocations respectively.	Revenue expenditure for FY2007 recorded a growth of 15.6 percent. Total revenue expenditure stood at Tk 42253.6 crore which was Tk 297.4 crore more than the targeted expenditure. ADP expenditure declined by 7.44 per cent.
Fiscal Deficit	Total deficit was 3.0 per cent in FY2006. Share of domestic financing was 72.1 per cent.	Overall deficit has grown by 3.7 percent while net foreign financing declined by 21.0 percent. Total domestic financing rose by 13.2 per cent. Borrowing from the non-banking sector has grown by 61.8 per cent while borrowing from the banking sector declined by 7.0 per cent. Total deficit stood at 2.8 per cent of the GDP at the end of the fiscal year.
Domestic Credit Expansion	Total domestic credit growth was 18.3 per cent.	Total domestic credit amounted to Tk 255731.2 crore. Expansion of domestic credit slowed down with a point to point growth of 14.4 per cent. Total outstanding domestic credit to the public sector increased by 12.4 per cent. Government borrowing accounting for 82.3 per cent of the total public sector credit, recorded a growth of 12.1 per cent.
Industrial Credit	Contribution of NCBs in total disbursement of term loan was 6.1 percent.	Term loan disbursement registered significant growth of 28.4 per cent. Share of NCBs decreased significantly to 3.9 percent. With 60.8 per cent share in the total disbursement, private commercial banks (PCBs) (domestic) remained the major source of term loan. Disbursement of working capital recorded a slower growth of 11.3 per cent.

Indicator	FY2006	FY2007
Agriculture Credit	Total agricultural credit disbursement stood at Tk5496.21 crore at the end of FY2006.	Total credit disbursement to the agricultural sector declined 3.7 per cent in net terms. Total credit flow to the rural economy amounted to Tk 616.5 crore, registering substantial negative growth of (-) 53.7 per cent.
Loan Classification	Total classified loan was recorded at Tk 23465.17 crore.	Total classified loan recorded a decline of 4.96 per cent amounting Tk 22,302.05 crore. Loan by Foreign Banks (FBs) increased significantly by 154.30 per cent, while that of PCBs and DFIs increased by 20.18 per cent and 1.12 per cent respectively.
Price Inflation	The consumer price inflation was 7.16 in June 2006. On a point-to-point basis, consumer price inflation stood at 7.54 percent in June 2006.	The consumer price inflation was 7.20 in June 2007. On a point-to-point basis, consumer price inflation stood at 9.20 percent in June 2007.
Agriculture output	Total food grain production was 27.27 million metric ton during FY2006.	Total food grain production (rice and wheat) in FY2007 was 28.05 million metric tonnes (mmt) recording a growth rate of 2.88 per cent. Total rice production in FY2007 was 27.31 mmt. Livestock production deteriorated while production of fisheries has shown some decline.
Industrial Production	A 12.49 per cent growth has been indicated by the QIP.	A 10.01 percent growth was recorded in production by large and medium manufacturing industries.
Foreign Investment	Bangladesh received US$743 million as FDI in FY2006.	Bangladesh received a net amount of US$866 million as foreign investment during FY2007. Leaving aside the unrealised inflow of $1 million, the FDI growth rate was recorded at 2.3 percent.
Capital Market	All Share Price Index (DSI) was at 1040.5 in June 2006. The General Index (DGEN) stood at 1339.5. Total number of IPOs coming to the market was 14.	All Share Price Index (DSI) increased to 1764.2 during FY2007 registering a rise by 723.7 points from FY2006. The General Index (DGEN) also increased by 809.8 points to 2,149.3 during the same period. Apart from two direct listings, a total of 12 IPOs came to the market during the period.
Export	Export earnings reached. US$10526.164 during FY2006.	Export earnings reached US$12,177.86 million at the end of FY2007, recording a growth rate of 15.69 per cent over the corresponding period of FY2006.
Import	Total imports amounted to US$14746 in FY 2006.	Total imports during FY2007 amounted to US$17,156.7 million, showing a growth rate of 16.3 per cent compared to the imports of the previous fiscal.
Remittances	Remittance earnings have registered a significant growth of 24.78 per cent during FY2006.	Flow of remittance posted 24.52 per cent increase in FY2007 with a total inflow of US$5,979.32 million.
Foreign Aid	Total foreign aid worth US$1567.6 million was disbursed during FY2006.	Total foreign aid of US$1624.6 million was disbursed indicating an increase of 3.6 per cent in gross terms compared to FY2006.
Foreign Exchange Reserve	The reserve at the end of FY2006 equalled 2.5 months' import.	Foreign exchange reserves stood at US$5,077.24 million registering a growth of 45.74 per cent compared to that of the corresponding month of the previous year. This amount is equivalent to 3.3 months' import of the country.
Balance of Payments	Current account balance surplus stood at US$824 million during FY2006. Overall balance recorded a surplus of US$338 million.	Current account balance recorded a surplus of US$952 million during FY2007. Balance of Payment experienced a surplus in the overall balance to the tune of US$1,493 million during this period, significantly higher than that of the previous year.

Acknowledgement to the Expert Reference Group

In continuation of the CPD-IRBD tradition, CPD organised an Expert Group Consultation Meeting to discuss the working documents of the Third Reading of the *State of the Bangladesh Economy FY2007*. The meeting was held on 29 May 2007 at the CPD dialogue room. This in-house meeting was attended by a distinguished group of high level policymakers and professionals. CPD-IRBD Research Team acknowledges the contribution of the participants by way of sharing their views and comments on the documents. However, CPD remains solely responsible for the observations and analyses presented in this volume.

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

Professor Syed M Ahsan	Resident Economic Advisor Policy Analysis Unit Bangladesh Bank
Mr Siddiqur Rahman Choudhury	Chairman, Agrani Bank and Former Secretary, Finance Division
Mr Zobdul Hoque	Former Deputy Director General Bangladesh Bureau of Statistics (BBS)
Dr Saadat Husain	Chairman Public Service Commission and Former Cabinet Secretary
Dr Akbar Ali Khan	Former Advisor to the Caretaker Government and Visiting Professor BRAC University
Dr S R Osmani	Visiting Professor Department of Development Studies BRAC University
Dr Masihur Rahman	Former Secretary, ERD
Dr Kaniz Siddique	International Consultant Ministry of Finance
Dr Sajjad Zohir	Executive Director, ERG

Chapter II

An Analysis of the National Budget for FY2007-08

1. INTRODUCTION

The national budget for the fiscal year 2007-08 (FY2008) and the revised budget of FY2007 were placed before the country on 7 June 2007. The Centre for Policy Dialogue (CPD), in continuation of its tradition of presenting its analysis of budgets prepared by successive governments, has prepared the following analysis of the budget for FY2008. The CPD analysis draws upon data and information from various ministries, departments and agencies of the government as well as other sources. The CPD also undertakes a thorough examination of the various aspects of the budget for FY2008 which was prepared by the Caretaker Government (CTG).

1.1 Distinguishing Features of Budget 2007-08

This is the first time a non-party caretaker government has presented a full year budget. This distinctive feature could be interpreted as an opportunity to prepare a budget that would be free from political bias and pressures which generally tends to be characteristic of budgets prepared during normal times. Some quarters have, however, raised the issue of legality of the present budget that was proposed by a caretaker government. In this context one would be well advised to read **Article 83** *along* with the **Article 93** of the Constitution which stipulates that there is no bar in presenting a full fledged budget under the current circumstances.

Overall, the budget clearly reflects efforts to sustain reforms and the general direction of the transition taking place in the economy. There are also signs of recognition about the growing structural inequalities in the economy. An attempt has also been made to improve transparency in budgetary accounting. With reaffirmed commitment to the poverty reduction strategy (PRS), a new medium term macroeconomic framework (MTMF) has also been estimated for the next three fiscal years (FY2008-10). This, to some extent, is expected to provide some relief from apprehensions about *plan holiday*, at least for the short term. In line with the PRSP target, a 7 per cent growth of GDP has been projected for FY2008. Required performance in the macroeconomic arena to attain this rate of growth will, however, critically hinge on performance in the arena of investment. On the other hand, while it was expected that the proposed resource envelop will define expenditure targets for the upcoming fiscal, there are signs that indicate otherwise.

Built on a fragile fiscal framework stemming from high expenditure targets in the backdrop of lower revenue expectations, the budget proposes a number of thoughtful fiscal measures. It appears that while overall ~~the~~ budget for FY2008 does attempt a break off with the past, it falls short of making a real breakthrough.

2. PUBLIC FINANCE FRAMEWORK

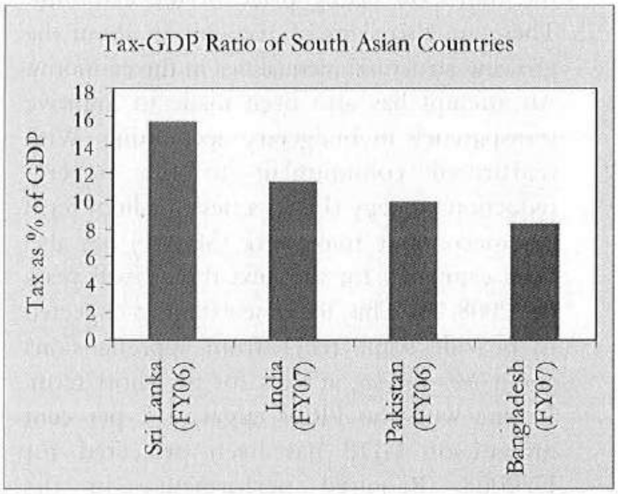
Proposed fiscal structure for FY2008 demonstrates a certain degree of fragility on different counts. In the backdrop of a comparatively low revenue growth target, a much higher growth in expenditure has been targeted. At the same time, within public expenditure, marginalisation of development expenditure is taking place with lowest ever targeted annual development programme (in terms of share of GDP). Mobilising resources to finance the formidable deficit of 5.6 per cent of GDP might turn into a major challenge for the government during the upcoming fiscal year. With obvious pressure building on the domestic sources, higher borrowing from the banking and non-banking sources will be required. Over ambitious target of foreign financing (both grants and loans) may also make the ADP financing tricky. About 49 per cent of the ADP outlay is to be foreign sourced.

2.1 Revenue Earnings

A target of Tk 57,301 crore in revenue collection has been set for FY2008, which is Tk

7,829 crore or 15.8 per cent higher than the revised figure for FY2007. On the other hand, revenue-GDP ratio and tax-GDP ratio are targeted at 10.8 per cent and 8.6 per cent respectively, up from 10.5 per cent and 8.4 per cent in FY2007. The PRSP target for FY2008, however, sets higher revenue-GDP ratio at 11.6 per cent and tax-GDP ratio at 9.6 per cent. These targets remain modest compared to neighbouring economies, owing to the successive failure in scaling up revenue mobilisation over last couple of years.

Figure 1 : Tax-GDP Ratio Of South Asian Countries



Source: CPD-IRBD Database.

NBR Tax Component

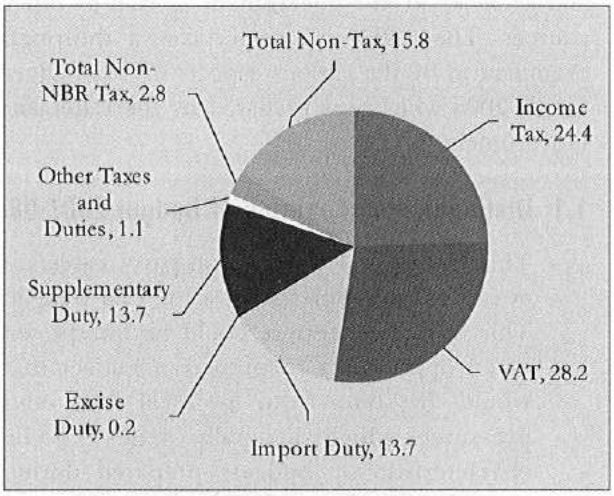
According to the targets set for FY2008, NBR tax earnings will have to achieve a 17.0 per cent growth, compared to 15.5 per cent growth in FY2007. This target leaves NBR to contribute 76.5 per cent of the total revenue earnings for the next fiscal year. In view of the previous trends of achievement, this will be a challenging task and may not be eventually met.

Out of the required additional amount of Tk 7,829 crore as total revenue in FY2008, VAT will have to contribute 28.2 per cent, followed by income tax (24.4 per cent). Import duty will contribute 13.7 per cent of the total additional revenue. In total, the NBR component is expected to contribute 81.4 per cent of the total revenue.

Non-NBR Tax Component

Non-NBR tax component (NL, Vehicles, Land and Stamps) faces a growth target of 12.4 per cent in FY2008. With the benchmark growth of 15.9 per cent in FY2007, the growth target of earnings from the non-NBR tax components looks rather conservative. Contribution of non-NBR tax component in the total revenue earnings of FY2008 will be 3.5 per cent, which was 3.6 per cent in FY2007 (revised). As per the total revenue target for FY2008, non-NBR tax component is programmed to contribute 2.8 per cent of the total increment.

Figure 2 : Incremental Contribution in Revenue Growth of FY2008



Source: CPD-IRBD Database.

Non-Tax Component

Non-tax revenue component (DP, PO&R, T&T and IFT) is targeted to grow at 12.1 per cent in FY2008 and contribute about 20.0 per cent of the total revenue. The targeted growth of collection in this component is found to be on the low side compared to the achieved 19.5 per cent growth in FY2007 over the actual figures of FY2006. Incremental contribution of non-tax revenue to the total revenue growth will be 15.8 per cent.

The composition of revenue growth targets set for FY2008 under different heads indicates that the economy has finally shifted its dependence on international trade taxes to domestic taxes. Concurrently, in FY2008, indirect taxes are going to provide a greater share of the enhanced collection in comparison to direct taxes.

2.2 Public Expenditure

Fragility in the fiscal structure of FY2008 stems from the high expenditure target that has been set by the budget. Total public expenditure budget of FY2008 amounts to Tk 87,137 crore which is Tk 20,301 crore or 30.4 per cent higher than the revised budget of FY2007, whereas revenue earning is set to grow by 15.8 per cent. Public expenditure as a percentage of GDP, against the PRSP target of 15.3 per cent, will amount to 16.4 per cent in FY2008, which is substantially higher than that of FY2007 (14.3 per cent). As mentioned earlier, share of ADP in the total expenditure is getting marginalised.

Table 1 : Sector-Wise Distribution of Total Expenditure (Non-Development and Development)

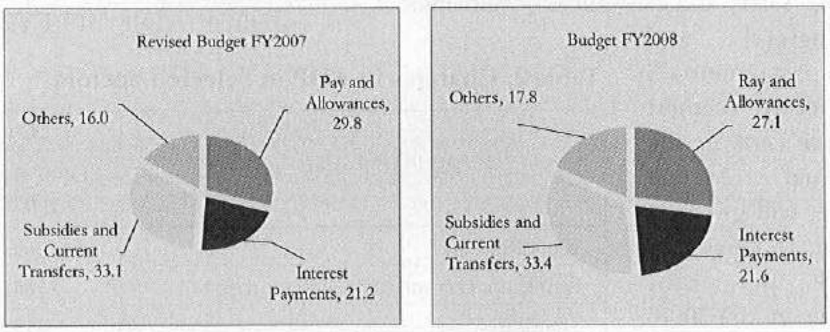
Sector	FY2007 (Revised)	FY2008 (Budget)	Change in Budget FY2008 over Revised Budget FY2007	
			Crore Tk	%
Public Service	6201	9782	3581	57.7
Fuel and Energy	3034	4586	1552	51.2
Industrial and Economic Services	503	694	191	38.0
Social Security and Welfare	2918	3893	975	33.4
Agriculture	5316	6891	1575	29.6
Housing	581	731	150	25.8
Recreation, Culture and Religious Affairs	757	938	181	23.9
Interest	9154	10785	1631	17.8
Transport and Communication	5953	7000	1047	17.6
Education and Technology	10899	12369	1470	13.5
Health	4957	5470	513	10.3
Public Order and Safety	4373	4754	381	8.7
LGRD	7342	7472	130	1.8
Defense Services	5397	5469	72	1.3
Total Expenditure	**67385**	**80834**	**13449**	**20.0**

Source: CPD-IRBD Database.

Within the total expenditure, share of ADP and non-development revenue expenditure accounts for 30.4 per cent and 55.5 per cent respectively, while their respective shares in FY2007 were 32.2 per cent and 63.1 per cent.

A sector-wise distribution analysis of total expenditure reveals that public service is set to receive Tk 3,581 crore more in FY2008 than FY2007, registering a growth of 57.7 per cent. Fuel and energy follow

Figure 3. Contribution of Major Heads of Revenue Expenditure



Source: CPD-IRBD Database.

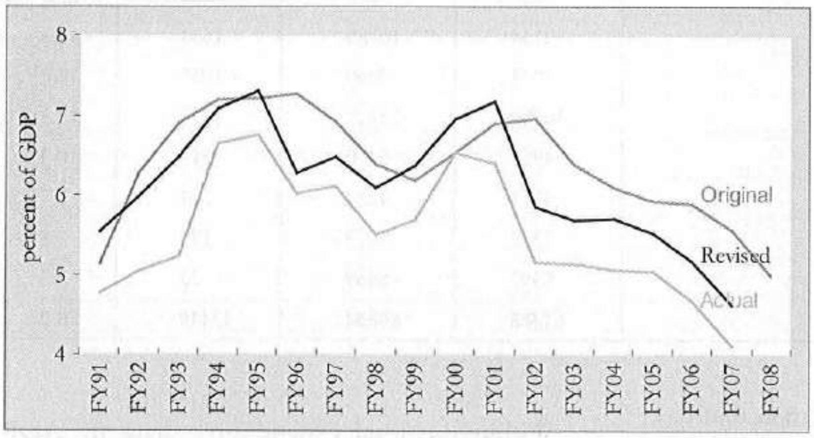
[1]Acquisition of assets and works is not included and recoveries are not deducted here. Total augmented non-development revenue expenditure (after adjustment) becomes Tk 50,259 crore in FY2008 which was Tk 43,832 crore in FY2007 (revised).

closely with an additional allocation of Tk 1,552 crore (51.2 per cent growth) and industrial and economic services will receive an additional Tk 191 crore (38 per cent growth). Excluding ADP, total expenditure of FY2008 will increase by Tk 15,401 crore. Liabilities of BPC and additional allocation in public service together will contribute Tk 11,104 crore or 72.1 per cent of this extra expenditure.

Revenue Expenditure

Revenue expenditure target for FY2008 is Tk 49,838 crore[1], which is Tk 6,622 crore or 15.3 per cent higher than the revised figures for FY2007. As percentage of GDP, revenue expenditure stands at 9.4 per cent in FY2008, which was higher than the PRSP target of 8.6 per cent.

Figure 4 : ADP as % of GDP



Source: CPD-IRBD Database.

Economic analysis of revenue expenditure reveals that expenditure on account of major three heads, "salary and allowances", "subsidies and transfers" and "interest payments", which is set to account for 82.2 per cent in the total actual revenue expenditure, will grow by 4.9 per cent, 16.7 per cent and 17.8 per cent respectively in FY2008. Block allocation will increase significantly, i.e. by 132.5 per cent. It may be noted that the domestic debt servicing liabilities are on the rise. Share of DSL (domestic) in revenue expenditure was 18.2 per cent in FY2007 (revised), which is projected to be 19.0 per cent in FY2008.

Development Expenditure (ADP)

The new ADP for FY2008 has been set at Tk 26,500 crore, which is 22.7 per cent higher than the revised ADP and 1.9 per cent higher than the original ADP of FY2007. With 38 new projects, ADP of FY2008 includes 927 projects in total. The ratio of domestic-foreign sources of financing is targeted to be the same as revised ADP of FY2007 (63:47). Targeted ADP for FY2008 will stand at 5.0 per cent of GDP – again the lowest since 1991.

Free from political pressure, quality of the ADP of FY2008 should be seen as the crucial factor rather than its size. Sectoral allocation pattern of the new ADP reveals that education and religion received highest allocation (16.3 per cent of the total ADP), although the allocation is 2.9 per cent lower than the original ADP of FY2007. Power sector has been prioritised in the ADP of FY2008 and is set to receive 30.7 per cent more allocation than that of in the revised ADP (FY2007), which is also 14.9 per cent higher than the original ADP of FY2007. Agricultural sector got 22.6 per cent more allocation over revised ADP FY2007; however, this is 14.6 per cent lower than the original ADP of FY2007. Social welfare,

Table 2. Changes in ADP in Selected Sectors

ADP Allocation	Changes (in crore Tk.)	
	ADP08-Revised ADP07	Revised ADP07-ADP07
Water Resources	269.21	-269.97
Petroleum, Gas and Mineral Resources	585.21	-580.2
Transport	313.59	-318.61
Road Transport	2428.15	-2411.98
Air, Rail and Water Transport	875.59	-896.78
Education and Religion	824.48	-935.18

Source: CPD-IRBD Database.

women and youth development received 7.7 per cent more allocation in FY2008 than the revised ADP of FY2007, which is, however, less than half of the original allocation of FY2007 (55 per cent lower).

An analysis of the pattern of revised ADP FY2007 and ADP FY2008, however, raises the question as to whether there has been an attempt to transfer the fiscal burden from the previous year to the budget for FY2008.

Sectoral allocation structure, particularly for water resources, petroleum, gas and mineral resources, transport and education and religion, shows that the revised amount between revised ADP and ADP of FY2007 is close to the increased amount allocated in FY2008 over revised ADP FY2007.

Block Allocation

The ADP of FY2008 does not include any sectoral block allocation. Total block allocation decreased by 65.8 per cent over the original ADP of FY2007. However, ADP of FY2008 has kept allocation against unapproved projects. Special block allocation and allocation for unapproved projects have been targeted at Tk 1,413.98 crore and Tk 992.5 crore respectively. The combined allocation comprises 9.1 per cent of the total ADP for FY2008.

Table 3 : Fiscal Framework in Budget FY2008

ADP Allocation	Revised Budget 2007		Budget 2008	
	Crore Tk	% of GDP	Crore Tk	% of GDP
Revenue Earnings	49472	10.6	57301	10.8
Total Expenditure	66836	14.3	87137	16.4
Non-ADP Expenditure	45236	9.7	60637	11.4
Liabilities of Government (from BPC)			7523	1.4
Annual Development Programme	21600	4.6	26500	5.0
Overall Deficit (excluding grants)	17364	3.7	29836	5.6
Financing				
Domestic	10031	2.1	19276	3.6
Bank	6531	1.4	7253	1.4
Non-Bank	3500	0.7	4500	0.8
Non-Cash Bond (Liabilities of BPC)	0.0	0.0	7523	1.4
Foreign	7333	1.6	10560	2.0
Foreign Grants	2150	0.5	4255	0.8

Source: CPD-IRBD Database.

Education and Religion

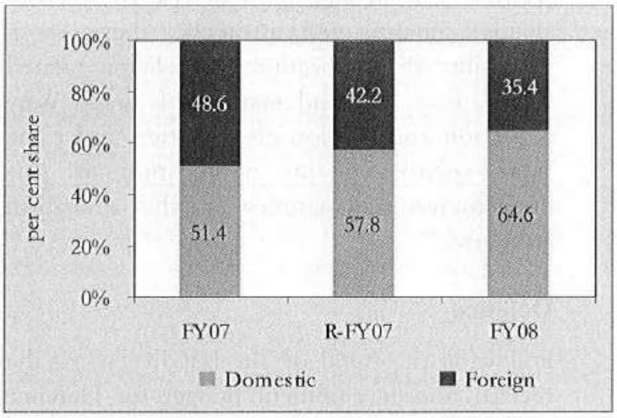
Allocation in education and religion sector was revised downwards by 24.2 per cent in the revised ADP of FY2007 from its original allocation. However, religion related projects received 28.2 per cent more than the original ADP. Similarly, while ADP of FY2008 got 2.9 per cent less allocation in education and religion sector as a whole than the original ADP of FY2007, religion related projects actually received 47.9 per cent more allocation. Keeping in mind that education and religion sectors have an allocation of Tk 187.1 crore against unapproved projects, there is a possibility that allocation for religion related sector may be underestimated here. Why education and religion are reported under the same sector remains a question as this undermines transparency in the allocation structure.

Defence

Following the trend of the last five years, the revised non-development budget for Defence in FY2007 exceeded the original budgeted figure. This difference stood at Tk 536 crore in FY2007—a five year high. In FY2008, total non-development and development expenditure in defence services will stand at Tk 5,397 crore, which amounts to 6.3 per cent of the total budget (compared to 7.0 per cent in FY2007). Defence services received 9.8 per cent of the total non-development budget which is 11.3 per cent more than the revised allocation in FY2007 and 0.02 per cent more than the original budget of FY2007. Alongside, the development budget for defence is set to grow by 61.3 per cent in FY2008.

Defence expenditure for Bangladesh in FY2007 stood at 1.15 per cent of GDP. It will be pertinent to mention here that this which is lower than the comparable spending in Pakistan (2.84 per cent) and India (1.81 per cent) for the corresponding year.

Figure 5 : Sources of Deficit Financing



Source: CPD-IRBD Database.

Election Commission

Total development and non-development budget for the Election Commission increased to Tk 536 crore in FY2008 compared to Tk 120 crore allocation in FY2007. This additional allocation will allow the Commission to finance preparatory work for the upcoming elections, including preparation of the voter list.

2.3 Budget Deficit and Financing

A large deficit has been the most prominent feature of the budget for FY2008. The budget deficit (excluding grants) for FY2008 has been estimated at Tk 29,836 crore, which is 5.6 per cent of the GDP. PRSP target of budget deficit for FY2008 has been set much lower at 3.7 per cent of GDP. Given the deficit figure of Tk 17,634 crore in the revised budget of FY2007 (3.7 per cent of GDP), budget deficit in FY2008 increased significantly by 71.8 per cent.

However, Liabilities of BPC have added Tk 7,523 crore to the deficit. But even after excluding BPC liabilities, the deficit is set to increase to 4.2 per cent of the GDP.

As regards financing of the deficit, domestic sources will bear 64.6 per cent (Tk 19,276 crore) of the total deficit. Within this, Tk 7,253 crore (37.6 per cent of domestic financing) is expected to come from the banking system, while the non-bank component is estimated to contribute Tk 4,500 crore (23.3 per cent of domestic financing) in financing the deficit. The rest 39.0 per cent (Tk 7,523 crore) of the domestic financing will come from non-cash bond (liabilities of BPC).

The share of foreign financing for this large deficit will stand at 35.4 per cent (Tk 10,560 crore) in FY2008 compared to 42.2 per cent (Tk 7,333 crore) for the revised budget of FY2007. A much higher amount of foreign grants has been projected for FY2008 to the tune of Tk 4,255 crore against Tk 2,150 core in the revised budget of FY2007 (97.9 per cent growth). An estimated US$1,552 million (net) in foreign aid will be needed to finance the deficit.

Gross foreign aid requirement (after repayment) for FY2008 will exceed US$2.0 billion, far above the inflow in a single year for the last one and a half decades. Thus, mobilising foreign resources will be one of the major challenges for successful implementation of the new budget.

3. OVERVIEW OF FISCAL MEASURES

3.1 Tax and Duty Measures

Direct Tax

The budget proposals have addressed the structure of the personal income tax and selective corporate tax rates. An attempt has been made to reduce general aversion of the taxpayers to pay taxes and avoid procedural complexities.

Income Tax: The budget for FY2008 has brought significant changes regarding income tax. The tax-exempted income limit for individual tax payers has been raised from Tk 120,000 to Tk 150,000. *This will increase the minimum monthly taxable income to Tk 12,500.*

- Proposal to introduce legislative provision on universal self-assessment procedures will encourage taxpayers to pay tax voluntarily.

• Abolition of deduction of tax at source on credit card bill is likely to increase consumer spending by enhancing use of credit cards by consumers.

• Mobile phone operator companies' will be charged tax rate of 45 per cent unless these companies converted to publicly traded companies. *This is likely to persuade the firms to enter the stock exchange and have positive impact on the equity market.*

• Imposition of tax deductible at source at 0.25 per cent on all export earnings to be considered as tax finally paid will simplify tax payment for exporters; *however, this may come at the cost of potential revenue loss from the larger exporters.*

• Extension of tax rebate facility to non-resident Bangladeshi investors may help to induce investment from abroad, given the current state of the economy.

• Imposition of tax on private universities and research institutions registered under Trust Law is a measure which aims at taxing knowledge and is most likely to have an adverse impact on the financial viability and overall functioning of the relevant institutions. The government would do best if it reviews this decision.

Special Tax Benefit

• A proposal for voluntary disclosure of untaxed legal income within 60 days upon payment of regulatory tax plus 5 per cent penalty has been placed. With the ongoing anti-corruption drive, this is likely to raise significant revenues through the National Board of Revenue (NBR).

• Discontinuation of special tax treatment specified for land, apartment and motor vehicles purchase with undisclosed and untaxed money has been proposed.

Outstanding Proposals

• A database of taxpayers needs to be established to help the NBR to have first hand knowledge about the state of tax collection from individuals and companies. The ambit of the large taxpayer units (LTU) should be expanded to enhance opportunities for tax mobilisation.

Indirect tax

• Restructuring of duty slabs at 10 per cent instead of 5 per cent, 15 per cent instead of 12 per cent and 25 per cent (unchanged) and an abolition of the 4 per cent Infrastructure Development Surcharge (IDSC) have been proposed. While the cost of import items may increase for the first two slabs, removal of 4 per cent IDSC is expected to outweigh this cost.

• Assimilation of two different slabs of supplementary duty from 15 per cent and 25 per cent to 20 per cent is expected to simplify the duty structure. Additionally, reduction of existing supplementary duty of 25 per cent and 65 per cent to 20 per cent and 60 per cent respectively is expected to reduce cost of import.

• Withdrawal of zero duty on textile machinery, computer and computer accessories will raise the import costs of these items and may not prove to be favourable to the IT industry.

• Removal of customs duty from crude edible oil and lentils and continuation of zero duty import of essential food commodities and fertilisers for the farmers will allow the government to stabilise the existing price situation.

• Proposal to raise the specific duty rate on raw sugar from Tk 2,250 to Tk 4,000 has been placed to protect local sugar cane growers and prevent misdeclaration. However, this may adversely effect the price of sugar in the local markets.

• Trade liberalisation has been addressed by putting in measures such as the withdrawal of 4 per cent IDSC, reduction of existing supplementary duty and removing customs duty on electronic cash registers.

VAT

• Reduction of the minimum and maximum penalty for tax evasion to 25 per cent and 75 per cent respectively is likely to encourage self assessment by taxpayers.

• Withdrawal of annual renewal of VAT registration by commercial importers will simplify the procurement of commodities from abroad.

Table 4 : Simulation with Proposed Change in Tariff Structure

	CD	SD	VAT	AIT	IDSC	RD	Tariff Incidence
CD increased from 5% to 10%							
Old	5	0	15	3	4	0	27.75%
New	10	0	15	3	0	0	29.50%
CD increased from 12% to 15%							
Old	12	0	15	3	4	0	35.80%
New	15	0	15	3	0	0	35.25%
CD remains 25%							
Old	25	0	15	3	4	0	50.75%
New	25	0	15	3	0	0	46.75%
CD remains 25%; SD increases from 15% to 20%							
Old	25	15	15	3	4	0	72.31%
New	25	20	15	3	0	0	75.50%
CD remains 25%; SD decreases from 25% to 20%							
Old	25	25	15	3	4	0	86.69%
New	25	20	15	3	0	0	75.50%
CD remains 25%; SD decreases from 65% to 60%							
Old	25	65	15	3	4	0	144.19%
New	25	60	15	3	0	0	133.00%

Source: CPD-IRBD Database.

• Withdrawal of VAT on insulin, first aid box, hearing aid, shadow-less operation lamps at import will help to reduce medical costs, especially for the poor.

• Imposition of VAT at the rate of 4.5 per cent on coaching centers, English medium schools, private medical and engineering colleges and private universities and health clubs is likely to raise substantial revenue.

• Withdrawal of VAT exemption facility to specialised doctors, lawyers and dental clinics will extend the VAT coverage.

• Further extension of the VAT net through withdrawal of the existing turnover facilities to enterprises including building construction companies, SIM card and internet distributors, cinema halls, health and fitness centres and sports organisers is likely to lead to higher VAT income.

Outstanding Proposals

• VAT registration through commercial banks may be explored by the government to ensure greater certainty of incidence.

• A system of VAT inclusive maximum retail price (MRP) for all products needs to be examined by the NBR.

3.2 Restructuring the Tax Administration

The budget has attempted to address the need for reducing dependence on import based revenue collection and augmenting revenues from domestic sources. While some progress has been made in this direction, reforms in the tax administration need to be continued to ensure adequate revenue mobilisation. In this connection, it is to be noted that the budget proposes reduction of discretionary powers of tax officials and elimination of discriminatory tax collection policies has been proposed.

3.3 Changes in Tariff Structure: Implications for Domestic Industry

With a view to simplify the tariff structure and generate more revenue through import duty, the government has restructured the overall import duty structure by replacing the existing three tier slabs of 5 per cent, 12 per cent and 25 per cent by 10 per cent, 15 per cent and 25 per cent respectively, with the total withdrawal of IDSC of 4 per cent from the current tariff structure. The government has also decided to merge the two slabs of the supplementary duty (SD) of 15 per cent and 25 per cent into a single slab of 20 per cent, and reducing the existing SD from 65 per cent to 60 per cent.

The CPD estimate draws attention to the fact that the proposed slab of import duty may create an *anti-domestic industry bias.* Table 4 reveals that the tariff incidence will be increased by 1.75 per cent when customs duty changes to 10 per cent from 5 per cent (SD, VAT, AIT and RD remain at 0 per cent, 15 per cent, 3 per cent and 0 per cent respectively in all the cases), i.e. the tariff incidence would be 29.5 per cent for the new tariff structure in lieu of 27.75 per cent for the old structure. It is to be mentioned here that basic raw materials and capital goods items would fall under this group. On the other hand, the change in tariff from 12 per cent to 15 per cent has not seen significant differences in terms of tariff incidence for the importers of intermediate goods, a decrease in tariff incidence of only 0.55 per cent. The new tariff structure would surely be beneficial for the finished goods importers, who will now face lower tariff incidence (due to removal of the 4 per cent IDSC and same 25 per cent CD). *It is worthwhile to note that the difference between tariff incidence for raw materials and finished goods decreased from 23 per cent to 17.25 per cent with the proposed changes in tariff structure (assuming zero per cent SD).*

Another point needs to be made here which is that SD has been imposed on finished products only (in other words, there is no incidence of SD in the case of earlier 5 per cent and 12 per cent CD slab). When SD is fixed at 0 per cent, tariff incidence for finished products comes down by almost 4 per cent which comes down significantly by 11.19 per cent when SD comes down from 25 per cent to 20 per cent (proposed in the budget). Again, when SD decreases from 65 per cent to 60 per cent, tariff incidence for finished products comes down by 11.19 per cent. On the other hand, when SD increases from 15 per cent to 20 per cent (proposed in the budget), tariff incidence of finished products would increase by 3.19 per cent.

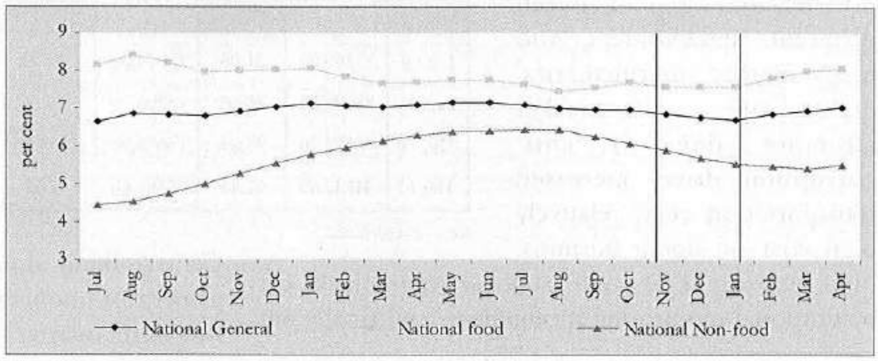
The upshot of this analysis is that there is a high possibility that the proposed restructuring of tariff, notwithstanding being progressive in nature, may create an anti-domestic industry bias!!!

Government has revised the tariff structure to make it simple and more transparent in the proposed budget of FY2007-08. We are confused with the recent initiative taken by NBR to impose safeguard tax on import of products posing threat to export items. Imposition of such a tax apparently contradicts with the objective of a more transparent and simple tariff structure.

4. PRICE STABILISATION MEASURES

Price hike has been one of the major challenges for the CTG. Two distinctive features have been observed of the recent inflationary trend: food inflation is higher than non-food inflation and rural food inflation is higher than urban food inflation. On the basis of moving average, consumer price inflation decreased from 7.09 per cent in April 2006 to 7.02 per cent in April 2007. The inflation rate on a point-to-point basis was 8.28 per cent during the same period. Food inflation had been higher than the non-food inflation during the first three quarters of FY2007 and the trend continued till April.

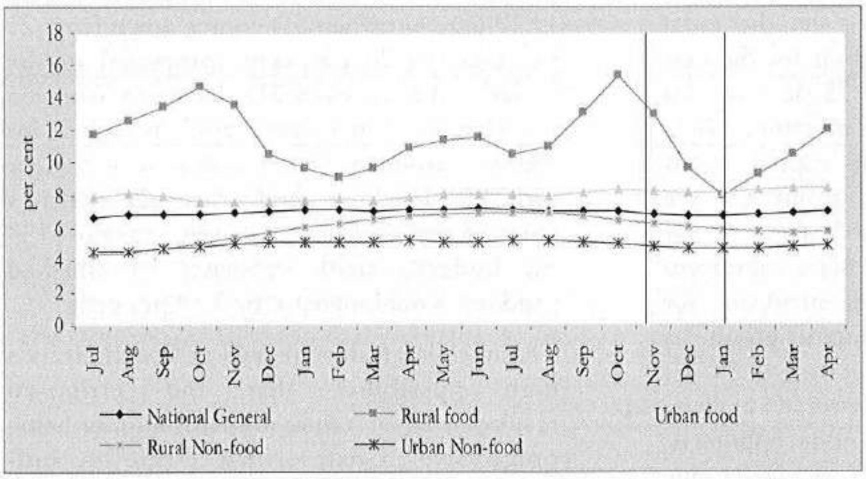
Figure 6 : Trend in National Inflation



Source: CPD-IRBD Database.

Rural food inflation is notably higher and volatile than all other classifications of inflation, most of the times, if not always. Similar trends were observed during the first three quarters of FY2007 and in April. Only in January 2007, the urban food

Figure 7 : Trend in Food and Non-Food Inflation



Source: CPD-IRBD Database.

inflation (8.1 per cent, moving average) was higher than the rural food inflation (8.0 per cent, moving average). Rural non-food inflation declined at a steady rate throughout the first three quarters of FY2007 and into April whereas both urban food and non-food inflations were stable except for few insignificant deviations.

A recent CPD study has made an attempt to diagnose the reasons behind the current creeping inflation, particularly food inflation.[2] The reasons identified are both domestic and international by nature. Domestic reasons include increased production cost of domestic commodities, market concentration/collusion of market agents (both at importers and bepari levels), information gap between different stakeholders, too many market intermediaries, dislocation in market structure due to anti-corruption drive, increased transportation cost, relatively high cost of doing business, high interest rate and bank charges, lack of institutional monitoring mechanism and finally an inflationary expectation originating from the current inflation trend. International reasons include global supply shocks due to adverse climatic conditions in major exporting areas and global price hike of petroleum products.

By investigating the nature and reasons of the recent inflationary trend, the following observations can be made. The inflation has mainly originated from a change in relative prices, indicating a cost-push inflation which is more of a supply-side issue. It is not a macroeconomic problem; rather, it is a product specific issue. Finally, based on current domestic market trends and taking note of the global and regional inflation projection for the next few months, the national inflation is unlikely to come down below 7 per cent in the near future (till Aman), while the food inflation is expected to be hovering around 9 per cent during the first half of FY2007-08.

Considering the reasons and nature of the inflation, persuasion of price stabilisation approach to decrease price volatility in the short term, and increase production and productivity growth in medium term appears to be the best strategy to address the issue of inflation. The Central Bank should also cautiously monitor the growth of monetary sector. Table 5 shows that in the third quarter of FY2007 the growth of total

Table 5 : Trends in Growth of Domestic Credits

(Outstanding stock) (Tk in crore)

	Credit to Government	Growth (point to point)	Other Public	Other Public (point to point)	Private Sector	Private (point to point)	Total Domestic Credit	Total point to point
Jun 06	31260.00	21.95	15074.20	34.72	130971.80	18.27	177306.00	20.16
Sep 06	33698.00	28.36	15296.10	18.86	134811.30	17.70	183805.40	19.62
Dec 06	36777.20	35.89	15675.90	3.61	142393.40	19.44	194846.50	20.72
Mar 07	34839.60	31.94	15589.60	3.02	145405.60	16.59	195834.80	17.79

Source: CPD-IRBD Database.

[2]CPD (2007). Price of Daily Essentials: A Diagnostic Study of Recent Trends. A report prepared for the MoC, GoB.

domestic credit is lower than the previous two quarters. Broad money and private sector growth have been projected at 15.0 per cent and 14.5 per cent respectively. Considering the target, the growth of monetary sector should be monitored carefully.

Both short-term and medium-term policy recommendations have been articulated in the aforesaid CPD report to mitigate the inflationary pressure. These can be divided into three broad groups based on the intervention level: market based intervention, non-market measures and institutional reforms. The expected outcomes from these interventions could be any of the following four:

a. To increase supply of essential commodities with increased import and higher production.

b. To reduce production and import cost.

c. To raise efficacy of marketing system by reducing the number of market intermediaries and to continue temporary measures like OMS by BDR, TCB, Food Directorate and establishment of open market (Unmukta bazaar).

d. To provide price support measures to the poorer segments, dearness allowance for the public servants and widen the social safety net programmes (e.g. FFW, VGD, TR, GR)

Among the 22 measures, 6 could be categorised as market based (four for increasing the supply, one for escalating the effectiveness of market and one for minimise production risk and facilitate supply), 13 non-market based (four for reducing the import cost, four for decreasing the production cost, two for increasing the production, one for increasing production with reduced cost and one for escalating both supply and price support) and 3 as institutional measures for reducing market volatility. It was found that majority of CPD's recommendations to mitigate the price hike of essential commodities have been reflected in the budget.

However, before anything else government should come up with a concrete and uniform estimate of national balance-sheet of food availability and demand of essential commodities on a priority basis. Based on this estimate, relevant government agencies should draw an annual plan to maintain food security of the country and take necessary measures to stabilise the price of essential commodities. Other short-term measures include taking necessary measures to reduce the production cost with increased availability of electricity to the agricultural sector through load management, increased agricultural credit facilities to the farmers and availability of subsidised agricultural inputs (such as fertilisers, distributing quality seeds, etc.), enactment of "Supply and Regulation of Essential Commodities Ordinance (2007)" with powerful implementing agency, widening of OMS initiatives by BDR, TCB, Food Directorate and private entrepreneurs, restoration of business confidence in the market, mandatory display of MRP, reduction of financial charges and reduction of the buying-selling difference of the USD and BDT, and reduction of transportation cost. Careful preparations will need to be made in view of any likely flood in July-August months, and also the upcoming Ramadan. Medium-term recommendations include promoting producers' marketing association, strengthening of the TCB as a modern corporate organisation, establishment of terminal markets with "hub and spoke" format, especially for perishable goods and establishment of an Advanced Agri-Portal.

Table 6 : CPD's Recommendations and CTG's Response to Mitigate Inflationary Trend

	Measures	Intervention Type	Expected Outcome
	Short Term Measures		
1.	Four wholesale markets in Dhaka city	Market based measure	More competition
2.	Strengthen BDR's Dal-Bhat programme	"	Increased supply
3.	Eight lakh tons of food grains imports by public sector	"	Increased supply
4.	Intensify internal procurement of foodgrains	"	Increased supply
5.	Six lakh MT tonnes of foodgrains will be distributed through TR, GR, FWP and VGD	"	Increased supply
6.	Special project to control bird flu and encourage hygienic poultry production and marketing	"	Minimise production risk and facilitate supply
7.	Withdrawal of customs duty on crude edible oil and lentils and continuation of duty free treatment of rice, wheat, onion, matar dal and chola dal	Non-market measure	Import cost reduction
8.	Existing supplementary duty has been reduced from 25 per cent and 65 per cent to 20 per cent and 60 per cent respectively.	"	Import cost reduction
9.	Commercial banks to provide credit facilities on softer terms to new importers	"	Reduction of import cost reduction
10.	Withdrawal of the provision of annual renewal of VAT registration by commercial importers	"	Import cost reduction
11.	Continuance of duty-free facility to import of fertilisers for farmers	"	Increased production
	Short and Medium Term Measures		
12.	Subsidy for diesel used in irrigation directly to card holding farmers amounting to Tk 750 crore	"	Production cost reduction
13.	To continue 20 per cent subsidy for electricity used in irrigation	"	Production cost reduction
14.	Tk 1,500 crore as fertiliser subsidy	"	Production cost reduction
15.	Distribution of agricultural credit (Target Tk 6,351 crore)	"	Increased production
16.	Increased coverage and the amount of individual grants under the social safety nets programme	"	Increased supply and price support
	Medium-Term Measures		
17.	Tk 350 crore endowment fund for agricultural research	"	Medium-Term Measures
18.	Increased allocations for road maintenance and railway maintenance	"	Increased production and cost reduction
19.	Allocated Tk 68 crore (19 per cent of total allocation) for repairing of two fertiliser units (Zia and Jamuna Fertiliser Company)	"	Import cost reduction Production cost reduction
20.	Establishment of task force at national and district level to review prices of essential commodities regularly	Institutional measure	Reduction of market volatility
21.	Inter-ministerial monitoring committee to analyse price situation of essential commodities and making recommendations	"	Reduction of market volatility
22.	A legal framework to protect consumers' rights	"	Reduction of market volatility

Source: CPD Price Study and Budget Documents.

5. SECTORAL AND REGIONAL MEASURES

5.1 Agriculture

Crop Sector- Increased investment, Subsidy for fertiliser, Diesel Card for Farmers

• **Subsidy for Diesel and Electricity Used in Irrigation:** Tk 750 crore has been proposed as subsidy on diesel used in irrigation for the Card Holding farmers. The Finance Adviser has also proposed to continue the 20 per cent subsidy for electricity used in irrigation. It is pertinent to mention here that the government has increased price of diesel by 21 per cent (from Tk 33 to Tk 40 per litre) on 2 April 2007. About 11 lakh metric tonnes of diesel are used for irrigation and 83 per cent of the total irrigated area is irrigated through diesel operated engines, and the rest is irrigated through electricity operated engines. Therefore, *this is a good initiative. CPD suggested for such an initiative through its budget recommendations to the Finance Adviser.*

• **Fertiliser Subsidy:** The budget for FY2007 has allocated Tk 1,500 crore as fertiliser subsidy against Tk 1,100 crore in FY2007 budget and Tk 1,541 crore in the revised budget of FY2007. CPD considers this to be a good initiative.

• **Fund for Agricultural Research:** An allocation of Tk 350 crore has been proposed in FY2008 as endowment fund for agricultural research compared to Tk 244 crore allocated for this purpose in FY2007. Agricultural research generates technology and most important determinant of agricultural growth in Bangladesh was technology and better management techniques generated through research. Growth in agricultural production through increased productivity and thereby reduction in per unit cost of production mainly depend on success in technology generation and dissemination. Therefore, *CPD welcomes this proposition, and hopes that it will be effectively and efficiently utilised to achieve desired goals.*

• **Fund for Small Farmers Affected by Natural Disasters:** Compared to Tk 50 crore in FY2007 allocation has been increased to Tk 100 crore in FY2008 on this account. Recent studies have shown that agriculture sector has experienced a significant change and has been shifting toward high value and high risk production system. *So, this is a welcome measure.*

However, implementation would be the major challenge here. It is learnt that only about 52.8 per cent of the allocation made for FY2007 was actually spent until February 2007; 77 per cent of ADP allocation was released and 56 per cent of ADP allocation was spent up to April 2007.

Crop Sector-Tariff Reduction on Import of Agro-commodities Would Not Affect Domestic Production

• **Duty-free Import of Fertilisers:** The budget has proposed continuation of duty-free facility for importation of fertilisers for farmers. Considering high price of fertiliser in the international market and lack of domestic production to meet the demand, this is a realistic measure.

• **Duty-free Import of Agro-commodities:** The Finance Adviser has proposed withdrawal of customs duty on crude edible oil and lentils. He added that the import duty of a number of essential commodities, including rice and wheat, has been already withdrawn. For these commodities, zero duty import will continue. Withdrawal of import duties on agro-commodities is a very crucial issue. Here, balance of interests between farmers and consumers needs to be maintained. In the international market, currently the price of rice and wheat is very high. On the other hand, domestic production is less than the requirement. In the case of lentil, only one-third of total requirement is produced domestically. Most of the edible oil is imported as crude oil which is then refined and marketed in Bangladesh. Therefore, it is unlikely that reduction of import duty will negatively affect farmers.

• **10 Per cent Duty on Irrigation Pumps:** Withdrawal of duty-free import provision and introduction of 10 per cent duty on import of power pumps have been proposed by the Finance Adviser. It is likely to have negative impact on irrigation and agriculture. *We suggest* *for continuation of duty-free import of irrigation pumps.*

• **Agricultural Credit:** Agricultural credit has been proposed to increase. The target for FY2008 is Tk 6,351 crore compared to Tk 6,316 crore in FY2007 and actual disbursement of Tk 4,294.93 crore (up to April 2007). The budget has proposed to distribute agricultural credit through Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB), four nationalised commercial banks (NCBs), Bangladesh Rural Development Board (BRDB) and Bangladesh Cooperative Bank (BCB).

Poultry– Special Project to Tackle Bird Flu and Zero Tariff on Import of Inputs and Machineries

• Two projects for poultry sector have been initiated in the ADP. These are: (i) Prevention and Control of Avian Influenza: Tk 19.81 crore for FY2008 (total budget: Tk 154 crore for 4 years), and (ii) Poultry Technology Development and Testing Project: Tk 18.21 crore for FY2008 (total budget: Tk 33.51 crore for 5 years). In his budget speech, the Finance Adviser has stated, "Immediate and emergency measures have been taken to tackle the situation arising from the attack of avian influenza virus. A special project costing Tk 20 crore has been approved in addition to the allocation made from revenue budget to ensure constant monitoring, payment of compensation and hygienic production and marketing of poultry products."

• The Finance Adviser has also mentioned that the Government remains focused on the prevention of *jhatka* fishing and on quality control of fish and fishery products.

These are welcome measures but real challenge will be implementation, particularly in view of the fact that only 34.1 per cent of allocation in FY2007 was spent till February 2007. CPD recommended for duty-free import of equipments for poultry industry and special projects to tackle bird flu (Avian Influenza).

5.2 Industry

The government has allocated Tk 341.8 crore for the "industry" sector in the ADP of FY2008, which is 25.3 per cent lower than the original ADP and 18.2 per cent higher than the revised ADP of FY2007. Domestic resources will finance 42.4 per cent of the planned expenditure while project aid will finance 57.6 per cent of the proposed allocation. The number of projects has been decreased to 29 (15 Investment and 14 TA projects) from 39 during the previous fiscal and no new project has been included. Highest allocation has been provided to the project "Refurbishing Assets of Chittagong Still Mills and Adamji Jute Mills for Converting into EPZ." Besides, Tk 68 crore, which is nearly 19 per cent of total allocation, has been allocated for repairing of the two fertiliser companies, namely Zia and Jamuna Fertiliser Company. Surprisingly, no projects of agro-based and agro-processing industry have been included in the ADP despite these being identified as thrust sector in the Industrial Policy 2005.

5.3 Textile and Readymade Garment

The FY2008 budget proposed an allocation of Tk 10.18 crore for 4 projects for the development of textile and readymade garment industries. The majority of this funding has been provided by the GoB (about 51 per cent) and the rest 49 per cent of the allocation has been financed from foreign aid. Highest allocation was made for the development of our textile industries, with a view to proper integration with our RMG sector. Around Tk 8.48 crore has been allocated for three different projects to strengthen the capability and capacity, and enhance the quality of the country's textile industry. An amount of Tk 4.68 crore has been proposed for the development of 10 textile vocational institutes; another Tk 3.5 crore has been allocated for "Strengthening of NITTRAD's & TSMU's Capability for Development of Textile Sector". A grant of Tk 1.7 crore in the form of technical assistance has been made to the Ministry of Commerce (MoC) as a support to the RMG sector in view of post-MFA challenges. Apart from this, the government has also allocated Tk 25 crore for welfare benefits of the RMG workers and Tk 20 crore for training and enhancing efficiency of the garment workers.

The withdrawal of zero duty on textile machineries and imposition of a customs duty of 10 per cent have been made at a time when the garment sector of Bangladesh is addressing the post-MFA challenges. It is to be mentioned that the RMG sector's performance has been stellar. The sector has posted a positive growth rate of over 21 per cent during the first 9 months of FY2007; the knitwear sector is doing particularly well. However, in view of the emerging market scenario, particularly the competitive pressure from China, Bangladesh's export-oriented RMG sector needs to remain alert to the challenges of maintaining the current momentum. Consequently, providing support to the backward linkage textile industry and the zero-duty on capital machineries should be continued.

5.4 Handloom

Interestingly, there has been no mention of the handloom industry in the FY2008 budget. No development initiative has been taken by the current CTG for the development of this sector which is considered to have large potential. It is pertinent here to recall that our neighbouring country, India, has allocated Rs 321 crore for the development and strengthening of this sector in its budget for FY2008.

5.5 Jute

While jute has been identified as the third most import thrust sector in the industrial policy, we see no reflection of it in the budget. Obviously, just acknowledging the sector as a thrust sector is not enough. Concrete initiatives to develop the jute sector should be taken.

5.6 Newsprint

In view of the problems of newspaper industry and at the same time to keep the raw materials for newsprint duty-free to develop the local newsprint industry, the budget has proposed a reduction of customs duty rate from 25 per cent to 15 per cent on the import of newsprint and also withdrew duty-free import facility if 50 per cent newsprints are local. Ten per cent CD has been imposed on basic raw materials of paper industries (pulp i.e. HS47.01-47.03) and on capital machinery (HS 84.39, 8439.91, 8439.99 and 59.11) which was 0 per cent and 5 per cent in FY2007. Considering huge investment and growth of this sector, reintroducing "zero" tariff facility for raw materials (pulp i.e. HS 47.01-47.03) for this industry may be considered.

As a result of this measure, the facility enjoyed by the importers to import 50 per cent of their demand duty free on condition that the rest 50 per cent will be met from local sources is gone. Hence, the government may consider further reduction of the customs duty rate than the proposed rate. The government has to be vigilant as regards misuse of the facility by dishonest importers.

5.7 SME: Loser against Large Scale

While the small and medium enterprise (SME) has been identified as one of the priority sectors and the driving force for industrialization in the Industrial Policy 2005, not much has been done for the development of this sector in the FY2008 budget. Only an amount of Tk 40.06 crore (11.8 per cent of total industrial allocation) has been allocated for the development of this sector. In the proposed ADP, Tk 20.66 crore has been proposed for the Small Enterprises Development Credit Project (SECP) and a further Tk 16 crore has been allocated for the development of tannery industry. A decision has been taken to establish an SME Foundation under the Ministry of Industry as a new initiative. An endowment allocation of Tk 100 crore has been proposed in the budget, while Bangladesh Small and Cottage Industries Corporation (BSCIC) has allocated Tk 23 crore to create a Thrust Fund to provide SME loans. Another initiative of the present government is to re-fix the ceiling of invested capital in plant, machineries and equipment from Tk 5 lakh to Tk 7 lakh for cottage industry, which will hopefully benefit the SME industry.

Taking cue from the earlier paragraph, we see that rather than to help developing our industries to go global, the CTG has imposed a customs duty of 10 per cent (earlier it was zero duty) on textile machineries, computers and computer accessories; whereas India has raised the exemption duty for small scale industries from Rs 1 crore to Rs 1.5 crore in FY2008 to promote the SME. On the other hand, Pakistan has identified CNG dispenser, leather and shoe industry as their thrust sectors and exempted them from customs duty.

CPD has put forward some suggestions for the development of SMEs to cope up with the rising global competition:

• Budgetary declaration of re-fixation of the ceiling of invested capital in plant, machineries and equipment from Tk 5 lakh to 7 lakh for cottage industry could be increased up to Tk 10 lakh.

• SMEs based on imported raw materials suffer from double VAT collection and hence loses competitive edge—this issue needs to be addressed as soon as to enhance the price competitiveness.

• Turnover tax should be collected from larger SMEs.

• For better access to credit facilities by the SMEs, loan procedure should be made easy.

5.8 Agro-based Industry

Agro-based Industry– EEF and Credit Support to Sustain Growth

The budget has allocated Tk 100 crore as agriculture Equity Entrepreneurship Fund (EEF). In FY2007, Tk 100 crore was allocated under EEF for agriculture and ICT sectors.

An allocation has been made for Tk 150 crore as credit support for agro-based industries to be channeled through Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB), BASIC Bank and Karma Sangsthan Bank (KSB).

Specific duty on raw sugar from Tk 2,250 per metric tonne has been increased to Tk 4,000 to avoid mis-declaration and to protect the interest of sugarcane growers and local sugar industries.

The withdrawal of SD on glucose and glucose syrup (1702.30.10, 1702.30.20, 1702.30.90 & 1702.40.00) will lock down the local industries, as they will not be able to compete with the imported items. SD of 20 per cent on these items may be retained to protect domestic industries.

5.9 ICT

The budget has proposed withdrawal of zero duty on computer and computer accessories to protect the domestic industries. However, it may have negative impact on education and overall economy. Therefore, we suggest maintaining zero duty on computer while keeping the proposed duty on computer accessories.

5.10 Milk and Milk Powders

Tariff incidence on milk and cream in powder forms has increased from 72.31 per cent to 75.5 per cent whereas, tariff incidence on other milk products has decreased from 50.75 per cent to 46.75 per cent and from 32.0 per cent to 28.0 per cent. In view of rising trend in international price, introduction of specific duty may be considered.

5.11 Export Promotion and Diversification: Less Priority!!

The government has allocated Tk 1,100 crore for subsidising our exports and Tk 800 crore has already been released during FY2007. While the current Export Policy 2006-2009 identifies six thrust sectors, only agro-products and agro-processing products, and software and ICT got Tk 100 crore each through the EEF. The rest was not mentioned at all in the budget. The way the budget has been prepared it looks as if the export sector has been punished for its robust performance!!!

5.12 Environment

Environment – Special Focus to Monitor and Curb Pollution Without Any Measures

No concrete financial measures have been proposed in the budget of FY2008 for environmental protection apart from reiterating the problem of pollution and the proposal of the creation of a website and database on climate change by the Department of Environment (DoE). Mandatory establishment of effluent treatment plant to prevent industrial pollution in highly polluting industrial plants was a provision of the previous year (FY2007) where a proposal was made to withdraw import duty from effluent treatment plants. In order to make the policy more effective, CPD recommended penalty on those who will not install treatment plant within stipulated period.

5.13 Transport

Transport sector received the second highest allocation (Tk 3303.74 crore, 12.47 per cent of the total ADP) in the ADP of FY2008. Sub-sectoral distribution is: Tk 2,428.15 crore for roads and Tk 875.59 crore for railways, shipping and civil aviation. The allocations for road and railway maintenance have been increased by 76.5 per cent and 40 per cent respectively in the proposed budget of FY2008. At present financial and management restructuring is underway to improve Biman's efficiency, and a decision has been taken to convert Bangladesh Biman into a public limited company. The transition of Biman to public limited company should lead to an increase in its efficiency and profitability. However, no specific deadline has been mentioned for completing the corporatisation. Customs duty on CNG driven trucks has been reduced from 25 per cent to 10 per cent, whereas customs duty on CNG driven bus has been enhanced from 5 per cent to 15 per cent to develop assembling industry for CNG-driven bus. One major negative aspect of the proposed budget is the lack of coherence in the definition of sectors in the ADP and the proposed budget of FY2008. Projects related to road, railways, shipping and civil aviation have been included under the "Transport" sector in the ADP, whereas those were mentioned under the sector "Communication" in the budget of FY2008. This incoherence leaves scope for confusion and misinterpretation. Besides, no allocation has been made for some of the most critical projects in this sector including Padma Bridge, Mongla Port, Chittagong Port, Deep Sea Port, Second Bridge on Jamuna, Dhaka Elevated Highway and Dhaka-Chittagong Express Highway.

5.14 Communication

Communication sector is the only sector that has received lower allocation (3.3 per cent) compared to the revised ADP of FY2007. An amount of Tk 550.69 crore has been allocated in FY2008, whereas Tk 569.71 crore was allocated in revised ADP of FY2007. The notable positive aspects of this sector are:

- Mobile phone operator companies' corporate tax rate would be 35 per cent if these companies are converted into publicly traded companies and are enlisted with the stock exchanges.

- Supplementary duty at the rate of 60 per cent on the SIM card has been imposed. The government should be able to earn more revenue considering the high growth of mobile phone users.

- The policies for bringing VOIP business under legal framework are going to be finalised soon. Though consumers have to pay more money as call charges, this initiative will ensure higher revenue earnings for the government.

However, similar definitional problem exists in the budget for this sector.

5.15 Energy

Power

The government announced a plan to increase power generation over the next three years by 345 MW in the first year, 900MW in the second year and 1050MW in the third year. The proposal is to allocate Tk 1,155.06 crore for electricity generation. Inclusion of 14 new unapproved projects has been proposed, of which 9 will add 2295 MW new electricity in the national grid. However, project-specific allocations and timeframe regarding the completion of these projects have not been clearly mentioned. Initiatives have been taken to add 600 MW electricity to the national grid by completing the maintenance of neglected power generation plants by the end of this year. A loan of Tk 350 crore has been provided to Power Development Board (PDB) to settle the outstanding bills of the independent power producers (IPP). The government has also proposed to offer tax holiday facility to solar energy plants to encourage the use of alternative source of energy to mitigate the power crisis. This is a good initiative considering the acute shortage of power at present.

Oil, Gas and Natural Resources

The government has allocated Tk 729.47 crore for oil, gas and natural resources sector in the ADP of FY2008. Allocation for this sector registered a growth of 406 per cent which is much higher than previous year's allocation. This has been mainly due to the inclusion of the project "Monohordi-Dhonua, Elenga-Jamuna bridge (eastern side) gas pipe line establishment and establishment of compressor in Ashuganj and Elenga." The allocation amounts to Tk 278.34 crore which accounts for 38.2 per cent of the total sectoral allocation. In order to maintain the flow of import of petroleum products, Tk 600 crore has been provided to BPC. Besides, the government has decided to assume the accumulated default loan of BPC (Tk 7,523 crore) as its own liability by issuing treasury bonds of equivalent amount. However, details of the bond issuance process have not been provided.

5.16 Physical Planning, Water Supply & Housing

An amount of Tk 1,596.28 crore has been allocated for the physical planning, water supply and housing sector which is 15.7 per cent higher than the revised budget of FY2007. Government has set a target of raising supply coverage of safe drinking water to 90 per cent and sanitation coverage to 100 per cent in the next three years. Besides, the programme for construction of 15,000 flats on khas land in Dhaka, intended to rehabilitate the uprooted people, slum dwellers and the low-income families, will soon be implemented.

5.17 Foreign Investment

Not much has been said about foreign investment in the proposed budget. However, the government has proposed to offer tax rebate facility to the non-resident Bangladeshi investors. This might have a positive impact on FDI as the tax rebates could attract more investment.

5.18 Capital Market

The proposed budget did not have any fiscal incentive for the development of stock market other than the indirect pressure on the mobile phone companies, though the capital market in Bangladesh is gradually being widened and deepened. The government has decided to off-load the shares of a number of SoEs (under power, telecommunication and energy) in the capital market during FY2008. The listing of SoEs will surely energise the capital market and make it more vibrant. However, the names of the specific SoEs were not mentioned in the budget.

5.19 NCBs and SOEs

Restructuring of NCBs: Restructuring of several NCBs is under progress. The sale process of the Rupali Bank is expected to be completed by mid-June of 2007. Besides, corporatisation of the other three NCBs has also made some progress. Though Janata and Agrani Bank have already received the licenses, no progress has been made with regard to the Sonali Bank.

State-owned Enterprises (SOEs): Several state-owned enterprises (SOE) are going through restructuring with a view to enhancing their efficacy. Efficiency of both Chittagong and Mongla Ports has increased in recent times. Technical and financial feasibility studies in relation to building a deep-sea port have now been completed.[3] The government has already concluded agreements to transfer six land ports to the private sector, two of which have been made fully operational on a Build, Own and Transfer (BOT) basis. Besides, decision has been taken to convert Bangladesh Biman into a public limited company. Legal reforms have been initiated to reduce the complications related to land registration process. Measures taken in the budget for the reform of the SOE sector are appreciable, however, but proper implementation of these initiatives poses formidable challenge for the CTG.

[3] Pacific Consultants International from Japan has started working on establishing the deep-sea port.

5.20 Local Government, Regional Development & Chittagong Hill Tracts

Concerted Efforts for Balanced Regional Development: The ggovernment has allocated Tk 2,953.47 crore under various ADP projects in the northern region (Rajshahi Division), which is 34 per cent higher than the revised ADP allocation in FY2007. Southern region (Khulna and Barisal) received an allocation of Tk 2,652.56 crore under different ADP projects, which is 42 per cent higher than the revised ADP of FY2007. This is a good initiative for fostering and promoting development in some of the relatively underdeveloped regions of the country. However, the number of new projects or the specific breakdown of these allocations has not been mentioned. A division-wise allocation would have been better than the regional allocation, especially for southern region. In the ADP of FY2008, six projects solely focused on Chittagong Hill Tracts (CHT) have been included with an allocation of Tk 133 crore. Besides, Tk 105 crore has been allocated as special development assistance (previous block allocation) for CHT.

LGRD—Efforts for Strengthening Local Government: Priority has been given for rural road communication to establish connectivity of the growth centres with national highway network. Implementation of the poverty reduction programmes in *char, haor* and in coastal belts is being strengthened. Development assistance for local government institutions including Chittagong Hill Tracts will be increased to Tk 987 crore (increase by Tk 150 crore). Special food and development assistance for Chittagong Hill Tracts districts will continue

These are welcome measures. Real challenge will be timely release and effective implementation of the programme, particularly in view of the past record when only 35.6 per cent of allocation in FY2007 was spent up to February 2007.

6. SOCIAL SECTORS AND SAFETY NET PROGRAMMES

The budget has given explicit importance to areas related to human development. The Finance Adviser has proposed an allocation of Tk 19,701 crore for human resources development which is 25 per cent of the total budget. Of this 15.2 per cent is allocated for education and 6.9 per cent for health sectors.

6.1 Education

- The budget focuses on capacity building and increase in the quality of education.

- The budget proposed Tk 10 crore as education research grant. This grant is expected to allow the Government to provide financial assistance to the faculties of physical science, life science and mathematical science of any public or private university in the country if they can publish at least three research papers in recognised and well-reputed journals and also can organise an international seminar in a year. It was also mentioned that the proposed assistance will be provided following a purely competitive process based on specific research proposals. This is a very positive and innovative measure which will hopefully encourage research in educational institutes.

- The Finance Adviser has also proposed a monthly stipend of Tk 100 for 55 lakh primary students. It has also targeted 6.5 lakh persons who have attained literacy through mass education programme for income generating training through continuous education within the fiscal year 2008. Recruitment of 15,000 primary teachers has been proposed (60 per cent of whom will be female) and 10,000 teachers will be trained to improve the quality of education. As many as 18,186 classrooms will be built.

- The proposal to establish one computer lab in one school in each district is a right decision but inadequate to cater to the growing needs of the time.

6.2 Health – *No Concrete measures towards a successful HNPSP programme*

• The budget has proposed for continuation of the duty-free import of various lifesaving drugs, including insulin.

• The budget has stated that steps will be taken to increase the number of nurses rapidly by setting up more nursing institutions in public sector, and through support from private hospitals, universities and other institutions. However, no targets have been fixed.

• Increased advance tax deduction from hospitals, diagnostic centres and doctor's fees from existing rate of 5 per cent to 10 per cent. Major concern here is whether NBR will be able to take advantage of this.

During July-Feb 2007, only 39 per cent of allocation in FY2007 was spent; consequently, major challenge will be in the area of implementation. In this regard, one observation of the Independent Review Team (IRT) which has assessed the performance of the HNPSP and released Annual Programme Review (APR) 2007 in April 2007 is of high importance to note. According to the IRT, HNPSP has failed to address three most critical areas: programme management and leadership, financial management, and procurement. IRT opined, "at the moment the HNPSP looks like a very ill patient in need of intensive care without which it is likely to become a terminally ill patient". Therefore, special attention for implementation would be needed.

Table 7 : Allocation Of Funds For Social Safety Net Programmes *(CroreTaka)*

Existing Programmes	FY2007 (budget)	FY2007 (Revised budget)	FY2008 (budget)	Growth (per cent) over FY2007 Revised budget
Old-age allowance	384.00	384.00	448.80	16.90
Allowances programme to the widowed, deserted and destitute women	156.00	156.00	198.00	26.90
Honorarium programme for insolvent freedom fighters	60.00	78.20	99.50	27.20
Programme for the assistance to the fully retarded	40.00	40.00	52.80	32.00
Fund for mitigating risk due to natural disaster	130.00	130.00	135.00	3.80
Fund for rehabilitation of the acid burnt women and the physically handicapped	10.00	5.00	10.00	100.00
Fund for the housing of the homeless	50.00	0.00	0.00	--
Seasonal unemployment reduction fund	55.00	00.00	50.00	--
Retraining and employment of voluntarily retired/retrenched employees/ labourers	30.00	10.00	0.00	-100.00
Development fund for the readymade garment workers	20.00	0.00	20.00	--
VGD, VGF, Test Relief and Gratuitous Relief (GR)	10.57 lakh Mt	1232.00	1649.00	33. 80
Total		**1669.20**	**2273.90**	**36.23**

Source: Budget Documents.

6.3 Analysis of Gender Sensitivity of the Budget—Demand for More Clarification

The share of direct and indirect gender equality expenditure has been claimed to be 24 per cent in the proposed budget as compared to 22 per cent of the previous budget. An allocation of Tk 309.8 crore to ensure gender equity has been explicitly mentioned in the budget. The highest allocation, amounting to Tk 217.8 crore or 70.3 per cent of the explicitly mentioned allocation, has been provided to for widowed and destitute women. Government has allocated Tk 17 crore for the new programme "Maternity Allowance for the Poor Lactating Mothers" for safe motherhood and safe birth. This is an appreciable measure as the disadvantaged and marginalised women will be directly benefited from this project. Besides, Tk 10 crore has been allocated for acid burn and disabled women respectively. These are positive measures which will help the low income people in the society. It is pertinent to mention here that 50 ministries/ departments have set up Gender Budgeting Cells in India. The outlay for the 100 per cent women specific programmes is Rs 8,795 crore in FY2008. It may be recalled here that Pakistan has allocated Rs 415 million in self-employment programme under its national gender action plan to provide preferential assistance to women. Women are also being given special concessions in terms of income tax.

Given the disadvantageous situation of women in Bangladesh, additional support and enhanced clarity in terms of the details about expenditures related to gender equity are needed. Here also the challenge of proper implementation of these allocations continues to be a defining factor.

6.4 Social Safety Net – *More Per Capita Allocation*

Towards targeted social empowerment, social safety net, poverty reduction, and employment generation (including microcredit support scheme) programmes, the budget for FY2008 proposed an allocation of Tk 3,893 crore which is 33.4 per cent higher than revised budget of FY2007. An amount of Tk 2,273.90 crore will be spent for expansion of existing safety net programmes which is 36.23 per cent higher than the allocation in the revised budget in FY2007. Along with this, the number of beneficiaries of the allowance has increased from 25.14 lakh to 27.5 lakhs (9.3 per cent increase). However, no allocation for housing of the homeless in rural areas has been made in this year's budget.

Fund for Monga: A "Seasonal Unemployment Reduction Fund" of Tk 55 crore was created under the proposed budget for FY2007 to mitigate the seasonal unemployment. The proposal in FY2008 is to make a further allocation of Tk 50 crore to this Fund. *However, the concern would be utilisation of these fund as those allocated for FY2007 was not spent at all.* In this regard, Bangladesh could take lesson from India's National Rural Employment Guarantee Scheme (NREGS) with an allocation of Rs 14,300 crore (Tk 22,022 crore). NREGS seeks to provide guaranteed employment to one member of every needy rural household for at least 100 days a year, especially in the lean season for a minimum wage of Rs 60 per day (Tk 92). The scheme involves programmes of irrigation, development of rural infrastructure and afforestation, among others. All the projects are clearly defined in the NREG Act. Technical experts draw plans for individual villages in consultation with local leaders and elected representatives, and local people are involved in the implementation of the projects through *Gram Panchayats* and *Gram Sabhas*.

Fund for Welfare of RMG Workers: Government proposed to allocate Tk 25 crore for the welfare of RMG workers and Tk 20 crore for training for enhancement of the efficiency of workers. Regrettably, the allocated money for Skill Development Fund for the RMG workers in the budget 2006-07 remained unutilised. Under the circumstances, it will be better if the government introduces a contributory provident fund for garment workers where the government will make matching contribution equivalent to the company's contribution.

Several New and Desired Schemes: In addition to the existing schemes, the Finance Adviser has proposed for several new and desired schemes. These are:

- Maternity Allowance for the Poor Lactating Mothers: To ensure safe motherhood, and better health and nutrition of hardcore poor mothers as well as safe birth and sound upbringing of infants. An allocation of Taka 17 crore has been proposed for the expecting poor mothers who will get an allowance of Tk 300 per month. About 45, 000 mothers of 3,000 unions will be brought under this programme.
- Rural Employment Opportunities for Protection of Public Property: Proposed targeted employment creation for 24,000 destitute women in 387 unions.
- The budget has proposed construction of flats for freedom fighters and the Freedom Fighter Park. However, no targets are mentioned.
- Rehabilitation of the uprooted people, and slum dwellers, by constructing 15,000 flats on khas land in Dhaka has been proposed.
- Allocate Tk 5 crore for the education of mentally and physically challenged children.

6.5 Special Credit Programmes for Employment Generation

The budget has proposed an allocation of Tk 550 crore for the existing microcredit programmes to help the marginalised poor (monga and river erosion) in FY2008. It has also proposed Tk 20 crore as allocation for microcredit to generate employment opportunities for women.

7. CHALLENGES OF IMPLEMENTATION

Our aforesaid analysis of the various aspects of the budget for FY2008 has pointed out to the strengths of the prepared budget for FY2008 and also some of the anomalies and conflicting aspects in the proposed budget. The CTG has proposed a large number of measures in the budget for FY2008 which should have positive impact on the economy. Through resource allocation, income redistribution and overall macroeconomic impact on growth, the proposed measures in the budget could potentially bring about positive results in terms of poverty alleviation, higher GDP growth rate and reduced income disparity. However, much will hinge on the ability of the CTG to implement those measures, both in the area of revenue mobilisation and also expenditures on account of revenue budget and development budget.

Some of the major challenges in various areas and initiatives that need to be taken, in the context of above discussion, are perceived to be the following:

Revenue Generation

- Maintain the current momentum of revenue mobilisation
- Emphasis on assessee-friendly institutional issues
- Introduction of universal self-assessment as early as possible
- Simplification of VAT registration

Foreign Aid Flow

- Form a Task Force for accelerated disbursement of held-up project aid
- Negotiate new budgetary support for development finance
- Given the comfortable BOP situation, a new loan agreement with IMF is not advisable in the current context

Government Bank Borrowing

- Avoid volatility in bank borrowing to avoid pressure on private borrowing

Annual Development Plan

- Energetic kick-off from the very first quarter
- Develop a strategic approach focusing on e.g. power sector
- Quality must be ensured while including new projects
- Strengthen linkage with local government for project implementation
- Enhanced public-private and government-NGO partnership
- Gear up foreign aided projects
- Focus on power sector

Strengthened Monitoring of Implementation and Greater Transparency

- Periodic review of implementation status
- Mid-course speedy correction if and when deviations are detected
- Public-private partnership to monitor progress in key areas

Need for Quality and Real Time Economic Data and Improved Access

- Computerisation of tax mobilisation activities
- Generation of regular and periodic updates on key budget related indicators
- Putting in place a system whereby budget related data and information is easily accessible to stakeholders.

Chapter III

A Set of Proposals for the National Budget FY2007-08

This document contains a set of proposals from the *Centre for Policy Dialogue* (CPD) to the *Ministry of Finance, Government of Bangladesh* (GoB) for consideration in the upcoming national budget FY2007-08. The overarching objectives of the proposals relate to strengthening of macroeconomic stability, sustaining economic growth and improving income distribution. The proposed measures are geared to service the interests of revenue generation, investment promotion, export expansion, growth of local industries, balanced regional development, producers' and consumers' price support, needs of the marginalised and reforms of the tax administration.

1. GENERAL FISCAL MEASURES

1.1 Personal Income Tax

• Tax exemption limit may be revised upward to Tk 150,000 from the existing Tk 120,000 considering the rise in living expenses since it was re-fixed two years back in FY2006 from Tk 100,000 to Tk 120,000.

• A mandatory provision may be made for presentation of the TIN at the time of issuance of credit cards, membership of clubs, admission of children in expensive private educational institutions and for similar transactions.

• Deduction of tax at source for the salaried people may be treated as final settlement, similar to other cases mentioned under Section 82C of the Income Tax Ordinance (ITO).

• Campaign may be continued to identify potential tax assesses and broaden the tax net.

• Scope and coverage of the Large Taxpayers' Unit (LTU) may be further enhanced.

1.2 Credit Card

• Government may remove the three per cent advance income tax (AIT) on credit card transactions. Since the introduction of AIT on credit cards transactions, per card spending has fallen and rate of issuance of card has decreased. Greater use of credit card will decrease cash transaction and create transparent records of monetary transactions. Increased usage is likely to raise the level of overall consumer spending in the economy and prop up growth. Furthermore, it will facilitate wealth assessment of the card-users by providing a proxy for actual incomes of individuals.

• Corporate credit cards may be introduced in order to distinguish between personal and corporate expenditures. To reduce the possibility of misuse/abuse of these cards, use of the corporate credit card may be allowed only against appropriate supporting documents/ evidence.

1.3 Discontinue All Direct and Indirect Provisions for "Whitening Black Money"

• Special tax treatment in respect of investment in house property, land and motor vehicles should be discontinued (Section 19B, 19BB and 19BBB of ITO Part 1).

1.4 Voluntary Disclosure of Untaxed Income

• Taking note of the current drive against corruption and with a view to raising revenue intake on a sustained basis, a scheme involving *Voluntary Disclosure of Untaxed Income* may be introduced under certain conditions for a limited period. Untaxed income may be declared at the highest applicable rate for the corresponding category of assessee plus 5 per cent penal charge. The declared income must be embodied in investments in properties, productive capacity or liquid/semi liquid forms. This proposed scheme for disclosure may be available for a period not exceeding 90 days. These provisions will not absolve anybody from legal actions if the source of income is later revealed to be illegal and dealt with under appropriate laws.

1.5 Corporate Income Tax

• Tax holiday facilities have to be replaced with accelerated depreciation allowance. With a view to encourage setting up of industries in less developed regions including Chittagong Hill Tracts, additional concessional rates may be considered for these areas.

• The corporate tax slab applicable may be extended in the cases of banks and insurance companies (45 per cent) to other high profit making service industries, such as the mobile telephone companies. Alternatively, the mobile telephone companies will have to enlist themselves in the stock market to avail lower tax rate.

• Turnover tax may be collected from larger SMEs.

1.6 Customs Duty

• To bring transparency in the tariff rates, para-tariffs and quasi-tariffs (e.g. Infrastructure Development Surcharge of 4 per cent) should be integrated in the tariff schedule. Towards the end, the tariff rates should be revised upward to take into account the current effective tax incidence to be reflected in operative tariff schedules.

• Zero rate of duty should be abolished, other than in cases where international treaty or obligations exist or strong humanitarian reasons prevail, or where it is necessary to reduce tariff to stabilise market price.

• Dispersions of duty rates must be reduced within 4-digit tariff heads.

• Supplementary duty may be enhanced on high-value vehicles and other items generally used by the richer segment of the society.

1.7 VAT

• VAT registration system needs to be streamlined at Division level office.

• Measures must be undertaken to introduce VAT inclusive maximum retail price (MRP) for all products.

• VAT stamps of different denominations can be used for "hard-to-tax" areas.

1.8 Land Price and Registration Charge

• Review the current very low land values used by the GoB and impose location-specific higher and differential tax rates for land used for residential and commercial purposes in large cities (e.g. Dhaka, Chittagong and other city corporations) and apply the same principle in other cities and upazila headquarters. Simultaneously, decrease high transfer registration cost to reduce the propensity to evade tax and to protect the current revenue intake under this head.

• Large agricultural landowners must be brought under the tax net.

2. EXPORT PROMOTION AND IMPORT SUBSTITUTION

2.1 Export Promotion

• The production unit of a company may happen to be located in a place different from the main export centre. In that case when the manufactured items are sent to the main export centre belonging to the same company, such transactions may be treated as "deemed export." Therefore, VAT may not be imposed on these commodities at the factory level.

• For clearing the backlog and stocklot in the RMG sector, the bond period may be extended to 24 months from the current limit of 15 months.

• Concessional import duty on raw materials for major export industries and also for industries having export potential may continue.

• All dyes, chemicals and other raw materials used in textile sector may not have more than 5 per cent import duty.

• For providing incentives to the backward linkage domestic textile sector and to enhance competitiveness of the apparels sector in the international market, the existing 5 per cent cash incentive may continue.

• To develop and strengthen backward linkage textile industry and the country's traditional jute industry, a Technology Upgradation Fund may be introduced (perhaps with an allocation of Tk 100 crore). Credit provided under this scheme on concessional rates of interest will assist the industries to undertake technological restructuring initiatives, modernise their plants through installation of new machines and state-of-the-art technologies.

• The coverage of the *Equity Entrepreneurship Fund* (EEF) may be expanded beyond agriculture and IT-related projects. It may cover other potential areas, such as light engineering, plastic, melamine, and electronics. The allocation may be enhanced from Tk 200 crore to Tk 300 crore.

2.2 Domestic Protection and Import Substitution

• Rationalisation of tariff rates needs to be continued so that raw materials are not taxed at a higher rate than finished goods.

• Concessional customs duty may be extended to import substituting industries (e.g. electronic industries, not manufactured locally) for import of parts and components.

• Customs duty on newsprint may be reduced to 10 per cent from 25 per cent. The effective tax rate on newsprint is currently 48.75 per cent.

• For maintaining quality of products of agro-processing industries, import of vitamin and micro-nutrients may be exempted from any duty.

• Import of maintenance-free lead acid batteries used for assembly of import substituting rechargeable lamps and UPSs having good demand in the domestic market may be exempted from the VAT net.

• Presently hand tubewell/irrigation pumps are VAT exempted at the production level. On the other hand, major parts of installing tubewell and irrigation pump i.e. PVC pipes, filters, hose pipe, coil pipes are subject to VAT. These items may be exempted from VAT.

• Import duty on particle board /melamine board may be reduced to develop furniture industry of the country.

• Twenty-five per cent additional duty can be charged on imported stainless steel used to make hospital beds, medical surgical or veterinary furniture. S.S. pipe's duty may be reduced from 25 per cent to 10 per cent in order to support the domestic medical equipment industry.

• Voltage stabilisers imported in finished form may have a duty of 25 per cent.

• To ensure SME sectors' access to credit facilities and considering high cost of financing and also with a view to provide encouragement to the banks and financial institutions, a *Refinancing Scheme* was introduced in the national budget for the FY2007 with an allocation of Tk 100 crore. The upcoming budget may continue this support with enhanced allocation for providing credit at concessional interest rate. The *modus operandi* of the *SME Foundation* may be reviewed.

3. SOCIAL SECTOR AND SOCIAL PROTECTION SCHEMES

• Government has allocated money for *Skill Development Fund for the Readymade Garment Workers* but this has remained unutilised. It will be better if the government introduces a *Contributory Provident Fund* (CPF) for garment workers with equal amount of contribution from the Government and the company. The amount paid by the company as CPF maybe declared as tax-free.

• *Allocated funds in the budget 2006-2007 for a number of projects including Agro-Based Industries*

Assistance Programmes, Fund for Assistance to Small Farmers Affected by Natural Disasters, Seasonal Unemployment Reduction Fund were not utilised and were often viewed as a cost-cutting options. There is a need to be more selective in this context and the projects may be more appropriately identified.

• *Fund for Housing the Homeless* to address the housing problems of the homeless, the poor and the low income group, particularly the rural families and people affected by slum eviction, may continue and be enhanced this year (from Tk 50 crore to Tk 200 crore).

• Government could consider creating a development fund under the Ministry of Overseas Employment and Expatriate Welfare for the development of skill through language course and other training facilities for workers going overseas.

• The Government allocated Tk 50 crore in FY2005-06 and an additional amount of Tk 55 crore in FY2006-07 for seasonal employment creation. Unfortunately, the allocated fund remained unused. This fund may be utilised through services of organisations such as the Grameen Bank, BRAC, RDRS, PKSF which are working for *Monga* mitigation.

• The government may consider introducing a *Rural Employment Guarantee Scheme* for the unemployed. For a beginning in view of regional disparity, in three Divisions of Rajshahi, Khulna and Barisal. This scheme may seek to provide guaranteed employment for one member of each household below a threshold income level for at least 100 days a year, especially in the lean (*Monga*) season. The minimum wage could be Tk 100 per day. Technical experts can draw plans for individual villages in consultation with local leaders, elected representatives and community leaders. Local government along with NGOs/CBOs may be involved in implementation of this programme. This scheme will be particularly suitable for Monga affected areas, and could be implemented in a phased manner.

• *Allowance for Destitute and Widow Women* may be raised from the current level of Tk 200/person to Tk 300/person and the number of recipients may be increased to 10 lakh.

4. PRODUCER'S AND CONSUMER PRICE SUPPORT

• Government needs to introduce zero tariff for selected essential commodities (currently zero import tariff has been provided for rice and wheat), considering domestic price situation and international market price; this is more pertinent particularly for commodities whose import price is high (e.g. lentil).

• Government needs to replace the existing ad-valorem tariff structure by "specific duties" for selected essential commodities. National Board of Revenue (NBR) may analyse the import data of essential commodities for the last few years and recommend a product-specific flat rate per tonnage replacing the existing tariff rates for the selected commodities.

• Government may reduce or withdraw the high supplementary duty on certain commodities (e.g. currently 15 per cent for whole cream milk powder, crude soybean oil, and crude palm oil). However, the government may negotiate with the packaging agents and distributors of these commodities before implementing such measures to make sure that the benefits originating from such moves are received by the consumers. For this to happen, a maximum retail price ought to be negotiated and fixed.

• The government may review the cash incentive programme for vegetable export which is currently 20 per cent of the CIF value. Due to the supply shortage of vegetables in domestic market, this cash incentive programme may be reviewed and current rate of 20 per cent may not be increased.

• Government needs to provide subsidy directly to the farmers who are using diesel for irrigation. Modalities for this subsidy may be developed with strict monitoring mechanism (so that only the genuine farmers get benefited). Tight border security to prevent smuggling has to be put in place. To this end, issuance of *Entitlement Card* may be considered, till the *proposed national (voter) ID* card is available.

- As the government and private entrepreneurs are supplying only 12.5 per cent of the total demand for seeds, initiatives may be taken to import hybrid seeds and distribute those among farmers at a subsidised rate. This will reduce production cost and raise productivity.

- Social safety net programmes such as FFW, VGD, TR have to be expanded to support disadvantaged sections of the populace, particularly in view of the ongoing price hike.

- Due to the recent inflationary trend, government employees have experienced a 15.8 per cent reduction in their income in real terms since the last salary readjustment in 2005. Government may consider *an Ad hoc (Dearness) Allowance* for government employees and employees of statuary bodies. The allowances can be fashioned in three tiers with 15 per cent for the lower, 10 per cent for the middle and 5 per cent for the higher scale employees.

5. REGIONAL DEVELOPMENT AND SECTORAL MEASURES

5.1 Regional Development

- Recent evidence on poverty dynamics shows that Bangladesh, notwithstanding the fact that it is a small country, is showing high degree of regional imbalances in development. Analysis reveals that Barisal, Rajshahi and Khulna are the most poverty stricken and employment-starved divisions. Chittagong Hill Tracts and other areas inhabitated by indigenous communities are also pockets of underemployment. A preferential tax holiday scheme has been inadequate to alleviate the situation. Accordingly, GoB has to devise a special and substantial public expenditure package targeted to these regions, particularly focusing on development of infrastructure (e.g. interconnecting roads, electricity and gas supply).

5.2 Agriculture

- Extend income tax exemption period on income from fish farming, poultry and dairy farms and poultry feed production up to 30 June 2010 (instead of 30 June 2008).

- Continue the existing policy of exemption from all duties and taxes on raw materials for dairy and poultry feed, medicine, other medical inputs and capital machinery required by the livestock sector.

- Continue zero tariff/ low tariff for import of different kinds of seeds, breeding animals, broodstock (mother fish).

- Continue existing customs duty (25 per cent) on poultry products (meat, eggs).

- Continue 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.

- Extend coverage of rural electrification and ensure regular supply of electricity to reduce cost of irrigation and sustain economic activities in rural areas.

- Distribution of seeds for chickpea, lentil, onion, and true potato seed at a subsidised rate in higher potential areas would be helpful for increase in the production of these crops.

- The government has to ensure supply of good quality seeds, fertiliser and irrigation. A mechanism for regular market monitoring has to be put in place towards this. In this context, public and private enterprises and interested NGOs need to be provided with appropriate incentives through fiscal measures, and related support (provision of Breeders' Seed at a subsidised rate).

• Special support may be given for production of Breeders' seed of jute, recently released varieties of rice and other crops. This support may be provided as an additional allocation to the agricultural research institutes to be used for production of Breeders' seed which will be distributed at a nominal price to the Bangladesh Agricultural Development Corporation (BADC) and private seed companies and NGOs for subsequent production of truthful level (TFL) seed to be used for cultivation by farmers.

• Farmers of the Chita (unfilled grain) affected area may face problem with accessing quality seeds for Boro season next year. Therefore, special efforts for supplying quality Boro seed by the Department of Agricultural Extension (DAE) may be undertaken on an urgent basis.

• Special project for development and management of broodstock of fishes may be undertaken for such types of fish as Rohu, Catla, Tilapia for facilitating quality supply of fingerlings. The current focus is rather limited in this regard.

• Government needs to undertake special programmes for vaccination of poultry birds to reduce the possibility of epidemics. Actions for cure and prevention of bird flu may be enhanced and strengthened further.

• Allocate more fisheries officers and veterinarians in intensive fish cultivation and poultry production zones such as Gazipur, Narsingdi, Bhaluka and Daudkandi.

• Strengthening extension and marketing services for horticultural products is necessary through more allocation in these areas.

5.3 Capital Market

• Simplify tax filing procedures, including measures such as treating the 10 per cent tax on dividend income at source as final settlement (similar to tax at source on interest income on bank deposits).

• Introduce a minimum threshold limit (e.g. 25 per cent excluding pre-IPOs, institutional placements, and the quota for mutual funds) for offloading of shares to the public for consideration as a listed company.

• Design a time-frame for the currently listed companies to offload at least 25 per cent (or more) of their shares to the public for being treated as a listed company for tax purposes.

• Introduce a limit on the maximum number of shares of a company that can be held by its sponsors in order to be considered as a listed company.

• A limit could be placed on the extent to which a company could charge a premium on its IPO as well as on the issue of right shares in the public interest.

• Divest the shares of profitable state-owned enterprises (SOEs) to increase availability of good shares in the stock markets.

5.4 Real Estate

• Three-tier tax or VAT may be introduced: Lower tax or VAT for low-cost housing in the suburban area; moderate tax or VAT for apartments less than 1600 square-feet; and higher tax or VAT rate for luxurious apartments of 1600 square-feet and above.

• For developing the secondary housing market, a reduced registration fee may be charged on transfer of second-hand homes (e.g. 50 per cent of the tax charged for registration of a new apartment).

5.5 Telecommunications

• In view of the robust growth of the telecom industry and level of profit accrued to the competing firms in the market, the government may ask all licensed mobile telephone companies to float IPOs in the stock exchanges at a specified percentage of the equity (say 25 per cent) and by the end of 2007. These firms may enter the domestic capital market to broaden the source of finance, and more importantly, to allow for public ownership. It has been recommended earlier in this text that the companies should be charged corporate tax rate equal to that for banks and insurances, unless they enlist in the stock market.

5.6 Energy

• Adequate fund may be earmarked for new plants for power generation.

5.7 RMG Sector

• To promote and support the process of upgradation in apparels and to access high-end markets, a *Technology Development Fund* needs to be put in place. This can be managed in collaboration with private sector associations in the industry.

• A *Cluster Development Fund* may be set up for entrepreneurs to obtain financial support and develop specialised service facilities in various RMG-factory zones.

• The *Skill Development Fund* for RMG workers, for which funds worth Tk 20 crore were allocated in the budget FY2007, may be strengthened, with public-private sector partnership, to ensure higher labour productivity, particularly for female workers.

• A *Workers' Livelihood Improvement Fund* may be set up to support NGOs for providing various kinds of health, nutrition, medical and child care support to garment workers.

• A *Fund for Relocation of Factories* may be created to provide concessional loans to RMG enterprises for encouraging them to relocate RMG plants from Dhaka and Chittagong zones to designated garment villages.

• A credit support scheme may be developed to encourage acquisition of advanced technology by RMG enterprises.

• The policy of zero-tariff access for RMG machineries and spare parts may be continued to allow enterprises to acquire new technology and scale up their production levels.

• As in the national budget for FY2007, the government may continue to provide concessional import duty on raw materials for the textile sector.

• A reduction in customs duty on effluent (waste water) treatment plant from 25 per cent to zero per cent may enable the entrepreneurs to set up industrial units with effluent treatment facilities. The proposed *Technology Upgradation Fund* could also provide support for modernisation and technology acquisition initiatives in the textile and RMG enterprises.

• A penalty should be imposed on those RMG units which will not implement the minimum wage structure by the stipulated deadline of June 30, 2007.

5.8 New Ports and Bridges

• Allocations have to be made for modernisation of Chittagong and Mongla Ports as well as towards preparatory works for the proposed new deep sea port.

• Allocations have to be made for the Padma Bridge as well as for preparatory works for a second bridge on Jamuna.

5.9 Environment

• *Polluters Pay Principle* may be applied on polluting and non-compliant industries. A pollution tax or *Green Tax* of 5 per cent may be levied on all inorganic waste generated by different industries, particularly if effluent treatment plants (ETPs) are not installed within the stipulated period.

• Government may allocate funds for SMEs to encourage and promote clean production technology for those units which lack adequate resources to do so.

• Soft loans may be provided for investment in pollution prevention and pollution control equipments.

• Soft loans for SMEs for consultancy fees for designing pollution prevention and pollution control system and construction fees may be arranged.

• Excise rebate on recycled products, such as recyclable paper, may be provided.

• Funds raised through pollution tax could be used to pay for grants towards installation of low pollution technology in the polluting industries.

6. NEEDS OF THE MARGINALISED

6.1 Access for Persons with Disabilities

• An income tax exemption of Tk 10,000 per child per family with physically or mentally challenged children may be introduced for the purpose of supporting education and training of children with disabilities.

• Tax exemption for equipments for disabled people (e.g. hearing aid, wheel chair) is still limited. The government may reduce the duty on import of these items.

• VAT on physiotherapy services for disabled people may be exempted to reduce cost of medical support for this particular group of people.

• Tax on raw materials used for locally made educational and mobility equipment for the disabled may be reduced.

• Government has reduced the allocation for *Fund for Rehabilitation of the Acid Burnt Women and the Physically Handicapped* in the budget for FY2007. Government may consider increasing the fund under the social safety net programme.

• Government may allocate fund for setting up separate wards for acid burnt women in all public hospitals.

• Allocation may be made for helping poor women who face domestic violence to help them seek medical and legal support.

6.2 Slum Dwellers

• The government may prepare a master plan for rehabilitation of the 1.0-1.2 million slum dwellers (and those evicted) living in Dhaka city and its suburbs. Suitable locations (e.g. in Savar, Narshingdi, Tongi and Gazipur) may be provided to these people so that they could commute easily to the city for work and return after work.

7. RESTRUCTURING THE TAX ADMINISTRATION

• A database should be maintained at the NBR, containing the TIN of each assessee which will allow verification of the amount of tax collected from the respective TIN holder on a random basis to learn about tax payments and detect tax evasion.

• Tax collection service should be taken to small businesses and entrepreneurs. On the spot tax assessment, based on the rough and ready estimates of turnover carried out with the help of the respective market committee, could prove to be an effective way to bring a large number of new people and enterprises under the tax net and generate revenue without harassment.

• Aggregation of the HS codes would reduce the scope for tax evasion and abuse of discretionary power.

• Evasion of customs duty could be reduced substantially if a proper monitoring system is developed within the NBR. For this purpose, data on revenue collection could be passed on to the NBR monitoring cell on a speedy and regular basis if online network is developed between the customs points and the NBR.

• For ensuring that honest and regular tax payers receive justice at taxes appellate tribunal, the tribunal may be reconstituted in line with the past provisions of having a member from the judiciary.

• A revised committee, or a member of the NBR may be entrusted to examine appellate orders as well as tribunal orders. Proper remedy should be made available to tax payers if the orders are found to be injudicious and defective.

• In the event an assessee defaults in paying taxes, the DCT has the authority to impose a penalty up to the amount of the defaulted tax. In this context a specific rate of penalty would reduce the scope for abuse of the discretionary power of the tax official.

• VAT registration through commercial banks will simplify the registration process and reduce the scope of harassment of importers.

• An exhaustive and clear definition for charitable purposes may be given in the Act to avoid confusion as to the identification of charitable institutions for the purpose of income tax exemption. The ambiguity in the current definition often allows opportunities for discretion and assessing officers are often found to exclude charitable institutions that ought to be allowed exemption.

Chapter IV

Price of Daily Essentials: A Diagnostic Study of Recent Trends (Policy Suggestions)

Background of the Study

The economy has been experiencing a creeping inflation over the recent past. Two most distinctive features of this inflationary trend had been the following: (i) increase in food prices had been more than that of non-food prices, and (ii) consumer price index was higher in the rural areas than in the urban counterparts. These trends had adverse implications particularly for the poorest segments of the society, given that there has not been any tangible increase in their real income.[1]

In response, the present care-taker government (CTG) has taken a number of market-based and non-market measures to stabilise the rising prices. These measures ranged from fiscal measures (e.g. reduction of import tariff on certain commodities) to direct market interventions (e.g. opening sales outlets of daily essentials). It is being apprehended that these proactive steps might get partly neutralised by the recent upward adjustment of fuel prices, and also market dislocation arising from removal of traders from unauthorised market places. Nevertheless, prices of daily essentials have continued to rise revealing an alarming gap between the farmgate price (which is close to farmers' marginal costs) and the consumer price for the same products.

Taking note of the complex supply-chain nature of the markets for essential commodities, the Ministry of Commerce (MOC), Government of Bangladesh (GOB) requested the Centre for Policy Dialogue (CPD) to undertake a diagnostic study as regards the price situation. The study, inter alia, seeks to trace the supply chains of a group of essential commodities and, in view of their future supply (domestic production and import) prospect, attempts to articulate a set of public policies and institutional measures towards stabilising the price of selected essential commodities. It may be mentioned here that the CPD had carried out the study with its internal resources.

The following section presents the policy implications deriving from this study. The policy recommendations are presented in two broad groups. The *first* group of recommendations is of overarching nature and puts forward a number of legislative, regulatory, institutional and macroeconomic policies to improve the government's capacity to manage market for essential commodities. The *second* group of recommendations relate to specific products which were covered by the study. It should be noted here that the recommendations are formulated in the context of overall outlook for inflation in 2007.

Policy Recommendations

In view of the domestic and global production and price scenarios, regional inflationary trend and national macroeconomic correlates, it is reckoned that there is little prospect for the consumer price index (CPI) to decrease perceptibly in the coming months (till end of 2007). As the rate of inflation is the outcome of a complex interplay of economic factors, hardly any unique solution exists to deal with the situation. However, the government may be well advised to focus in the *short term* on a set of price stabilization policies, targeting a basket of essential products. In the *medium term*, the government may focus on increasing domestic production of daily essentials, mitigating their enhanced production costs and improving their productivity.

These policies are to be underpinned by strengthened macroeconomic framework, expressed with regards to improved revenue generation, prudent monetary growth and quality public expenditure. Improved domestic resources will be necessary to underwrite incremental budgetary allocations targeted to mitigate the pressure of rising prices on low and fixed income groups, including producers and/or consumers. While managing monetary growth, one needs to ensure that investment and production in the private sector does not get affected as a result of credit constraint. The quality of public expenditure will obtain enhanced importance as the efficacy of the flanking measures will greatly depend on the government's capacity to appropriately target and deliver subsidy and other redistributive programmes.

Overarching Issues

(i) Define "Essential Commodities" and Enact "Supply and Regulation of Essential Commodities Ordinance"

It was observed that the government, in its arsenal,

[1] CPD (2007). State of the Bangladesh Economy in FY07: An "Election Plus" Agenda for the Second Caretaker Government.

does not possess any legislative instrument or any implementation mechanism to intervene in the market in order to stabilise prices. In view of the liberal market-oriented policies pursued and continued by this government, it also becomes conceptually difficult to single out products for interventions. However, it is widely recognised (and also expected) that the government has a responsibility to provide its citizens basic food stuff at an affordable price. "Essential Commodities Control Order (1981)" provides some guidelines for trading in items mentioned in the schedule of the order. However, on review, it appears that this order is not only inadequate to deal with the present situation, but also lacks an enforcement mechanism. It may be pointed out in this connection that the Department of Prices and Market Intelligence (DPMI) under the Ministry of Commerce (MOC), which was entrusted with the task of enforcement of the regulatory order, has long since been abolished (in 1989).

Recommendations

- The government may officially identify certain food products as "Essential Commodities" and declare its intention to maintain stability of prices of such commodities through policy and institutional interventions to serve greater public interest.

- The government needs to re-examine the effectiveness of the "Essential Commodities Control Order" (1981) and explore the need to enact a law styled as "Supply and Regulation of Essential Commodities Ordinance (2007)" to provide a statutory basis to the government's targeted emergency measures for keeping prices of certain "essential commodities" within the means of common citizens.

(ii) Strengthen Market Intelligence

There is a serious shortage of information regarding demand, supply and prices of essential commodities (both domestically produced and imported). Relevant data and information are not collected, analysed and made available to the market agents in an accessible manner. The government has recently taken some initiatives to strengthen its market monitoring activities by establishing a temporary Price Monitoring Cell (PMC) under the MOC. The PMC monitors the value of L/Cs opened for imports of a set of essential commodities, as well as compiles information on retail prices of essential commodities as observed in selected markets, in Dhaka city. The current capacity of the PMC is inadequate to serve the purpose of formulating informed policy decisions. On the other hand, the Department of Agricultural Marketing (DAM), under the MOA, has a comprehensive market intelligence service which covers up to district level data on agricultural products. However, the information collected and analysed by DAM does not have wide dissemination including among the policymakers.

Recommendations

- Government may create a new agency styled as the Department of Market Surveillance (DMS) under the existing legal framework of the now extinct Department of Prices and Marketing Intelligence (DPMI) for prudential supervision of the daily essential commodities markets. The proposed DMS will work in close collaboration with the DAM, Department of Agricultural Extension (DAE), Directorate of Food (DAF) including Food Planning and Monitoring unit (FPMU), and TCB. The price monitoring unit of the TCB may be merged with the proposed DMS. It will be the DMS responsibility to collect data on global production and price situations, as well as the projection of different essential commodities. The DMS will provide suggestions to the TCB regarding import and export policies based on its assessment of the domestic and global market.

- The DAM should be provided with adequate manpower and financial resources to make it a more effective organisation. The DAM should be given the responsibility to estimate the region-wise demand and supply capacity with the assistance of other agencies and this information may be disseminated through the proposed DMS.

(iii) Rationalise Import Duties of Essential Commodities

Bangladesh is a net food importing country. Essential commodities that are imported include rice, wheat, onion, edible oil, whole cream milk powder and lentil. Apart from the rising price of essential commodities in international market, there are a number of other reasons (e.g. high *ad valorem* tarrif, high L/C margin and high interest rates on trade finance, volatile exchange rate and high godown charge) which contribute to increasing per unit import cost on the consumers. It should be mentioned that the revenue generated from the import of essential commodities is a major source of income for the government. For example, according to the Operative Tariff Schedule FY2007, total tax incidence for Milk and Cream in Powder Forms (>1.5 per cent Fat) has been set at 72.31 per cent, for Onions (Fresh or Chilled) and Dried Lentils, 5.00 per cent and for Crude Soybean Oil and Palm Oil, 20.75 per cent. The government earned a total of Taka 2030.08 crore as revenue in FY06 from eight selected food items (i.e. rice, wheat, onion, crude palm oil, crude soy bean oil, lentil and raw and refined sugar). A CPD exercise estimates that if the current tariff rates (all types including VAT) are replaced by Taka 1000/ton for rice, wheat and onion, the government will generate additional revenue amounting to Taka 11.93 crore, than the revenue generated by *ad-valorem* tariff rate which was Taka 351.42 million. On the other hand, with this same rate of specific tariff (i.e. Taka 1000/ton) in place of current tariff rates for crude palm oil, crude soybean oil, lentil and sugar (both raw and refined), the government will lose revenue worth Taka 17348.34 million compared to revenue generated by the ad-valorem tariff rate, which was Taka 19949.36 million.

Recommendations

- If possible, government should introduce zero tariffs for selected essential commodities (currently zero import tariff has been provided for rice and wheat) especially for the ones where import price is high (e.g. Lentil).

- The ad-valorem tariff depends on the import prices. For specific tariffs to be in place, the government will need to replace the existing ad-valorem tariff structure by specific tariffs for essential commodities. The CPD analysis of the National Board of Revenue (NBR) data reveals that the latter should analyse the import data for essential commodities for the last few years and recommend a product-specific flat-rate per tonnage, replacing the existing tariff structure. It will offer importers protection against the highly fluctuating international price of essential commodities on the one hand, and eliminate incentives for mis-invoicing on the part of the importers as regards import tax evasion thereby ensuring revenue generation interest of the government.

- Rationalisation of high Supplementary Duty is essential for certain products (taking in cognisance local production prospect), particularly for whole cream milk powder. However, the government should negotiate with packaging and distributors of WCMP (e.g. Nestle, Sanwara group) before implementing this removal/reduction to ensure that the benefit originating from such action is accrued to the consumers, in the form of decreasing market price.

- The importers have urged the government to provide a declaration in the budget speech regarding the possibility of revision of the duty structure of essential commodities, subject to overall national demand and supply situations of the country and in view of any fluctuations in international prices. This kind of declaration will provide the importers a higher degree of business predictability.

(iv) Increase Market Agents at Import Level

Investigation revealed that an overwhelming share of the total imports of essential commodities is attributable to a handful of big importers. These big players have the ability to control retail prices of these particular products. It is suspected that these importers have a "gentleman's agreement" which has led to anti-competitive behaviour through setting prices at an irrational level. As essential commodities have relatively inelastic demand, such gentlemen are able to get away with restrictive business practice and make supernormal profit. CPD has carried out a detailed analysis of the NBR data to identify and measure the extent of the power of particular importers play in the import markets for selected commodities. The analysis has revealed some interesting results. The exercise reveals that top five importers have significant control over the market and accounted for a very high share of trade in essential commodities (in FY07). The shares for some selected items were: Raw Sugar 96%, Sugar Refined 46%, Crude Soybean Oil 67% and Crude Palm Oil 60%, Wheat 49%, Rice 37%, Lentil 31% and Onion 31%. These figures suggest that there exists a higher degree of concentration in importing essential commodities which boosts the possibility of syndication at importers level.

Recommendations

- The government should encourage the commercial banks to facilitate formation of groups of small scale importers (in terms of capital) to import essential commodities, so that they may take the benefit of economies of scale (bulk import). This will help new players to enter the market and with the growing number of importers/traders, the popular perception and speculation about syndication may be removed. However, existence of such groups will give rise to some technical queries such as – what would be the legal identity of such groups? Will they place purchase orders using one of the member's business name/trade licenses or will they need to register themselves as different entities and use the information pertaining to that entity for banking and tax purposes? Will they be equally liable for the bank loans or only for their proportion of the loan? Government has to judge these issues and amend rules and regulations, if necessary.

- The government should monitor international prices of imported essential products on a regular basis through its institutional mechanisms and disseminate the information among concerned authorities and in the market to prevent price fixing and supply manipulation through syndication.

(v) Reduce the Production Cost of Agricultural Commodities

One of the major reasons for the recent price hike of essential commodities relates to increasing cost of agricultural inputs such as seed, irrigation, fertiliser and pesticides. Bangladesh's irrigation system is highly dependent on diesel. The study found that the production cost of the essential commodities was to increase further in the next season due to the recent (on 2 April 2007) price increase of diesel and kerosene. The prices of diesel and kerosene have been increased by 21 per cent to reach Tk 40 per litre from the earlier price of Tk 33. The use of electricity in irrigation is very low (17 per cent only) and regrettably, a declining trend has been observed in the usage of power in irrigation. In FY07 (July-February), almost 40.00 MKWh has been used in agricultural pumping, which was 78.80 MKWh in FY04. Electricity available for irrigation for FY07 (July-February) was only 50 per cent of the total electricity used for irrigation in FY04.

Recommendations

- Power distribution to the agricultural sector should be increased with a view to reduce the dependency on diesel for irrigation through load management. In this regard, government must increase local electricity generation capacity and consider a wider application of solar power to generate electricity in rural areas, with the help of NGOs. The government should also explore the opportunity to import from the neighbouring countries and to establish a SAARC regional gridline in the medium term.

- Government should consider providing more subsidies on the rate of power usage in agricultural sector, which is currently Tk 1.89 per KWh. Electricity supply for irrigation purposes has to be increased on a priority basis.

- The government needs to provide subsidy directly to the farmers on petroleum usage for irrigation. Modalities for this subsidy should be developed with strict monitoring mechanism (so that only genuine farmers benefit) and tight border security to prevent smuggling. To this end, either issuance of Entitlement Card or use of the proposed voter/National ID card may be considered.

- As the government and private entrepreneurs are currently meeting only 12.50 per cent of the total demand for seeds, initiatives should be taken to increase supply of quality seeds by private sector and NGOs. Towards this, special support for production of breeders' seeds and supplying those at subsidized rate to NGOs and private sector companies is necessary. This will reduce their production cost and increase seed supply and thereby production.

(vi) Reduce Financial Charges and Exchange Rate for Trade in Essential Commodities

The current relatively high financial charges (i.e. interest rates and LC margins) and fluctuations in exchange rate for export and import prices, has also contributed to the rise in import cost of essential commodities.

Recommendations

- In case of letter of credit (L/C), banks usually determine the margin on the basis of bank-client relationship – a higher margin could raise the price of foodgrains and necessary items. In case of daily necessary items, L/C margins should be fixed as low as possible.

- Bangladesh Bank may take the initiative to encourage all commercial banks to lower the interest rate against loan for importing/ domestically procuring essential commodities (e.g. LTR, LIM, CC Pledge, CC hypo). This may be fixed for a certain period of time and then reviewed again.
- In Bangladesh, the USD-BDT exchange rate buy-sell difference for importers and exporters is currently 2.23 per cent, which is 1.30 per cent in India, 0.61 per cent in Pakistan and 1.47 per cent in Sri Lanka. This difference should be close to 1.00 per cent.

(vii) Reduce Transportation Cost

Agents in the supply-chain informed the CPD survey teams that due to recent price hike of the petroleum products and strict compliance with law (e.g. tonnage restriction in Jamuna Bridge), the transportation cost has gone up by a considerable amount. To be specific, at present only 10-12 MT per truck may be transported, which was 20 MT per truck earlier. However, they confirmed that the cost of extortion (previously known as "road cost") no longer exists or at least has declined to a negligible level, due to improvement in law and order situation. Although the net impact of all these factors on transportation could not be estimated, the ultimate effect of that on per unit transportation cost turns out to be insignificant. The agents also complained regarding the existence of the unavoidable middlemen/brokers in transport sector, particularly at the loading points of Benapole, Chittagong, Hili, etc.).

Recommendations

- Transport sector should be under strict vigilance; tonnage restrictions should be reviewed and middlemen/brokers from the loading point, as mentioned earlier, should be eliminated. Distance wise transportation cost could be decided through a tripartite meeting between traders, transport owners and government. The river and railway networks should also be explored to examine the viability of transporting essential items to various parts of the country.

(viii) Rejuvenate the Moribund TCB

Trading Corporation of Bangladesh (TCB) is an autonomous state trading organisation, under the Ministry of Commerce, established in 1972. TCB's main functions include acting as a watchdog to monitor supply and price situation of the essential goods and engaging in trade and related activities, as directed by the government. However, TCB is unable to perform its responsibilities at a satisfactory level, at present. In the FY1972-73 import by TCB accounted for 25 per cent of the total import. In contrast, TCB's imports decreased significantly after the introduction of open market regime and currently (as of 2007) TCB accounts for merely 0.3 per cent of the country's total import. As a consequence of sequential downsizing of TCB, no new recruitment has been made since 1993-94; rather, the workforce has been downsized considerably. With no distributor of their own, TCB has to depend on the registered dealers under the Food Directorate, creating serious problem in terms of coordination.

Recommendation

- The GoB should take necessary steps to rejuvenate the moribund TCB and transform it into a modern corporation, in line with the public procurement regulations. Experts and professionals from related disciplines must be recruited with the mandate of taking decisions on importing essential commodities, as recommended by DMS, and acting as a watchdog to monitor the overall market situation. The relationship between TCB's operational procedures and the public procurement regulations needs to be carefully examined. TCB has already taken an initiative to import edible oil and whole milk powder which is a welcome decision to stabilise the price of these commodities in the coming days, particularly in view of the sharp rise of global price of these items.

(ix) Restore Business Confidence in the Market

The traders (especially in Khatunganj, Chittagong) expressed their deep concern to the CPD survey team to the effect that a *panic syndrome* was prevailing among the business community due to the government's anti-corruption drive. As a result, several importers have cancelled their L/Cs and import orders in early 2007, fearing enquiries about their assets and income from concerned agencies. There were also a number of incidents of godowns being sealed because of alleged hoarding and storing poor quality goods. All these have contributed negatively to a reduction in the supply of goods in the market, which consequently led to an increase in the price of essentials. On the other hand, reported moves by the government to monitor banking transactions beyond certain amount have also created fear among the businessmen. However, the situation has improved in recent times thanks to the repeated declaration from the government that honest businessmen will not be harassed. The government has also decided to reopen some of the sealed godowns. However, during the survey, the CPD team observed an environment of anxiety and uncertainty. This had tangible impact on market expectation and behaviour of both suppliers and customers, starting from importers rippling down to the retail market.

Recommendations

- The government may repeatedly transmit the message that honest business people and entrepreneurs have nothing to be apprehensive about. The difference between people who have breached public trust by abusing state power to amass personal wealth and those who indulge in corrupt practices while conducting their business will need to be made. In case of the latter, the thrust will have to be on playing henceforth, by the newly instituted rules of the game. Members of the law enforcement will need to play a pivotal role in restoring business confidence in the country.

(x) Broad-base and Streamline OMS Initiatives

The government has taken initiatives to control the recent price hike by organising sale of daily essentials through the BDR, TCB, Food Directorate (FD), Ansar and VDP. Among these initiatives, the BDR's *Operation Dal Bhat* and establishment of Open Markets (Toll-Free Markets) are the two most successful initiatives that have received attention and appreciation of the masses.

The CPD study found that the BDR was buying the products directly from producers and selling those directly to consumers, eliminating most of the middle-agents. This had a positive impact on the retail price. However, the market impact of the BDR *Dal Bhat Operation* was not very clear as the CPD survey teams received diverse opinions from retailers and consumers. One retailer group stated that following the launch of the programme, price has stabilised in retail markets, while another group firmly maintained that this initiative failed to create an impact on the overall shape of the markets. There were other retailers who pointed out that though BDR operation has not impacted on the price situation, their daily turnover has fallen significantly. It was observed during the field visits that most of the customers in these markets came from low income or lower-middle income groups; buyers belonging to top level income groups was almost absent in these markets. It may be pointed out here that the BDR markets were able to meet around 25 per cent of the demands of daily essentials of the Dhaka city through its 21 outlets. Long queues to purchase products from these sale centres advocate both lower prices at these outlets and also a supply-demand gap.

The government has also initiated Open Market Sale (OMS) of sugar and lentil through the TCB and that of rice, through the Food Directorate in order to stabilise prices of these commodities. Interestingly, some private sector entities have also come forward to sell their products to the consumer directly at factory level price (e.g. the PARTEX Group, City Group, TK Group). However, because of their very small scale operation, these initiatives, despite being welcome, did not create any significant market impact.

Recommendations

- The government should continue OMS of essential commodities through TCB, Food Directorate, BDR and Ansar and VDP till the food price inflation is at a desirable level. Efforts may be made to extend OMS up to the district level. However, the government needs to have an estimate of the direct/indirect subsidy provided through these operations.

• The government may also encourage corporate actors to come forward with direct and scaled-up sale to consumers, to help generate a sobering impact on the market.

(xi) Make Mandatory Display of Maximum Retail Price (MRP) on Product

The CPD survey came across highly volatile price behaviour at the retail level. In most of the cases for packaged products (e.g. wheat flour, edible oil, rice, whole full cream, powder, salt), the retailers take advantage of the absence of specification of Maximum Retail Price (MRP) on the packet. These products are usually distributed by listed dealers who enjoy specific commission per packet and sell them directly to the retailers. Hence, the price at which retailers purchase these products should be the same for all agents, at least for the retailers of a particular region. In many cases, it was observed that there is no valid explanation for price variations for these products at the retail level. Yet, it has been observed that there is a significant price variation for some products sold in the same geographical areas; what was also of interest to note was that even same distributor charged different prices to different retailers. Moreover, even in rare cases when the MRP was mentioned on the packet, it was not properly adhered to at the retail level.

Recommendations

• In this context, the CPD strongly recommend that producers/importers/processors are asked to display the MRP on a mandatory basis, along with the manufacturing and expiry dates on the packet/container. A massive campaign should be conducted among the retailers and consumers to avoid selling and buying these products above the specified MRP. However, the MRP may be modified to match the production/import cost which must be subject to public notification. The government may introduce an executive order towards strict implementation of its directive in this regard, which will ensure effective usage of MRP at the retail level.

(xii) Promote 'Producers' Marketing Association

The CPD survey found that farmers often sell their produces to the *farias* or *beparis* at low prices being entirely unaware of the price that the *farias/beparis* receive from the next agent. It has also been noted that the number of market intermediaries in the supply chains were more than the requirement for smooth functioning of the market. This was mainly due to information gap, often leading to collusive market behaviour. These middlemen, or the so-called facilitators, earned abnormal profit margins by creating a large difference between the firm gate price and the retail price. While syndicates may exist in different phases of a value chain, one particular phase that connects producers to the wholesale markets of Dhaka city (or other big markets for that matter) was found vulnerable to syndication, particularly in case of domestically produced products (more prevalent in case of seasonal vegetables). Though *Beparis* usually make business individually, often the capital of all *Beparis* in a local hat/bazaar was pooled together to form a monopsony fund, leaving farmers with no choice other than accepting the price offered by this 'single' monopsonic buyer in the market. While this was found to exist at one end, local respondents believed that this was also happening when the Beparis were dealing with the retailer at the other end, compelling the retailers to buy from them at a higher price, than would have been the case had there been a competitive behaviour in the market. However, *aratdars* and *beparis* did not agree to the allegations about syndication and maintained that they formed syndicates only when they were unable to make a reasonable profit, as a result of lower sales price offered at the whole sale levels.

Recommendations

• For domestically produced products, the best option is to remove the existing market imperfections in the value chain. By establishing producers' cooperative and marketing organisations and by creating a more direct link between producer and consumer, it would be possible to have a positive impact at the retail price of essential commodities. This would also be a mechanism to provide "fair price" to producers. The government may encourage the existing NGO networks/private sectors to take a more proactive interest in this segment of the supply chain i.e. in the area of marketing of agricultural commodities.

• The government must urgently identify some suitable locations within and around Dhaka and other big cities to establish new *arots* so that more options will be available for both producers and retailers. This is expected to reduce the monopoly power of the vested interest groups in existing *arots* by infusing more competition at this level of the market structure.

(xiii) A National Storage Policy

A national storage policy is required for two principal reasons. Firstly, non-existence of such policy allows the private entrepreneurs to set the usage fees at their discretion. As no specific guidance or regulation exists, they have the freedom to charge whatever prices they desire. A national storage policy would provide specific and appropriate guidelines and also could be used as a regulatory framework to monitor the storage sector. Secondly, storage owners need not and hence, do not consider health related issues associated with their storage facilities. The proposed national storage policy would specifically mention the standards that the store owners are expected to maintain, and will enforce compliance with such standards. License will be cancelled in case of failure.

Recommendations

• Government needs to formulate a comprehensive National Storage Policy for both public and private sectors. One important consideration in this regard should be public health concerns. Food items and non-food items, such as chemical products, should be separately stored. Besides, government should allow the private entrepreneurs to use public storage facility and provide adequate subsidy for storing daily essential commodities. Government of India is providing a subsidy of 25 per cent for such services that was applicable for all agricultural commodities. This will reduce the storage cost and thereby reduce retail prices of these commodities. In the proposed national policy, storage time should also be fixed for essential commodities considering both health and supply issues in line with the recently proposed Anti-hoarding Act of GOB.

(xiv) Establishment of an Advanced Agri-Portal

In National Agricultural Policy (NAP) 1999, an arrangement to develop reliable database for the crop sector at the district level had been proposed. As of now, Bangladesh does not have any national agricultural database, nor are there any reliable estimates of regional demand and supply of agro-commodities. On the other hand, lack of interdepartmental coordination among the different organisations involved (e.g. DAE, BBS, DAM, TCB, Food Directorates), and also due to application of different methodologies by different organisations, the figures provided create confusion among policymakers and researchers.

Recommendations

• In this context, the CPD recommends that initiatives be taken to establish an integrated national Agri-Portal titled "Bangladesh Agricultural Information Network Centre (BDAGINC)" under the Department of Agriculture Information Service (AIS), Ministry of Agriculture. All relevant agencies will provide information to AIS to create and update this portal. The information will be publicly available and will provide, at the preliminary stage, region wise national demand, supply and price information for major essential commodities. The global production and price information collected by the proposed DMS will also be integrated into this database. The BDAGINC can follow the initiatives taken by the Indian Agricultural Portal-AGMARKNET, which covers market, price, infrastructure and promotion related information for efficient marketing. Information can also include grades, labelling, sanitary and phyto-sanitary requirement, physical infrastructure of storage and warehousing, marketing laws, fees payable, etc. At later stage, this portal will consider other agro-commodities.

(xv) Prepare Markets for Upcoming Ramadan

The upward trend in prices of essential goods and some other commodities which are in high demand (e.g. Brinjal, lentil, onion, chik peas, chick pea flour, oil, sugar, potato, meat, green chilly, parched rice [*chira*] dates and puffed rice, [*muri*]) during the month of Ramadan is a common phenomenon in Bangladesh's context. For example, in 2006 during the month of Ramadan, the price of green chilly, brinjal, onion and garlic increased by 211 per cent, 186 per cent, 25 per cent and 75 per cent respectively. Taking note of the previous trends and the emerging market situation, there is a strong possibility of a price hike of essentials during the upcoming month of Ramadan (September-October 2007). The CTG needs to take appropriate steps in recognition of this possibility.

Recommendation

- The government needs to assess the demand, domestic supply and import as well as price situation of essentials for which there is a substantial increment in demand during Ramadan. This is necessary to avoid any possible supply shortage and the resultant increase in prices. Preparation should be there to launch OMS at an expanded scale during this particular period. Outlets run by the BDR and Ansar/VDP need to be kept operational during that period.

(xvi) Strengthen Flanking Measures

The present inflation scenario tends to suggest that inflation, particularly food inflation, was not going to decline in the near future. This can seriously affect the poorer section of the population, especially those in rural areas. People with fixed income are also adversely affected. Government employees, for example, faced a 15.8 per cent reduction in their real income since the last salary readjustment in 2005.

Recommendations

- Social safety net programmes such as "Food for Work" should be expanded to support the worst affected sections of the populace due to the ongoing price hike. It is to be noted that in the budget of FY2006-07, a total of 1057 thousand MT foodgrains (including 849 thousand MT rice and 208 thousand MT wheat) was proposed to be distributed under the non-monetized food distribution programs (Food for Work, VGD, TR, GR etc). The allocation for foodgrains under these safety net programmes should be increased significantly in the upcoming budget for FY08.
- Government may also consider providing dearness allowance to government employees and employees of statuary bodies. The allowances could be fashioned in three tiers with 15 per cent for the lower, 10 per cent for the middle and 5 per cent for the higher scale employees (the three tiers could be worked out taking cognisance of relative justice, proportion of income allocated for food and the fiscal burden of the proposed measure).

Product-specific Issues

(i) Rice

The survey team found at least eight different marketing chains for rice, with the longest chain consisting of seven nodal points. Major portions of the consumer expenditure for rice are attributed to either production (42.05 per cent) or import (85.20 per cent) costs. Apart from producers or importers, millers, wholesalers and retailers were found to be receiving significant portion of consumer expenditure. Millers and trustees were identified as the most powerful players in the entire supply-chain for rice. High and increasing price of rice in Bangladesh in FY07 was mainly due to decrease in production of Aus and Aman rice (combined), lower import of rice, and the high price prevailing in the international market. Total production of Aus and Aman rice in FY2007 has been estimated at 12.41 million metric tons against 12.55 million metric tons in FY2006. Boro rice is currently being harvested by farmers and no estimates were available as regards the feasible level of Boro rice production. Production of Boro rice in FY06 was 1.39 million metric tons. Total import of rice (public and private) during July-February of FY07 was 256 thousand metric tons compared to 375 thousand metric tons in comparable months of FY06, and 941 thousand metric tons in FY05 (comparable months). Main reason for lower level of rice import in FY07 has been the high price in the international market. FAO has forecasted that the global production would be less in 2006-07 period (420.9 million tones) than the 2005-06 period. FAO projected that global prices were likely to increase, considering high price of rice in international market where private sector may not be interested to import rice unless the price levels decline.

Recommendations

- Concerned government agencies (BBS, DAE and SPARSO) should jointly come up with an approximately correct estimate about Boro production in FY07.

- Based on the estimated production level, government has to decide how much to secure through the on-going rice procurement program and whether it should make any commercial import, and if so, to what extent.

- If the estimates show that Boro production in FY07 was higher than last year then the government has to procure more rice to minimize negative affects on farmers. On the other hand, if Boro production was less then last year, coupled with no significant reduction in price at the farm level, then government should put emphasis on public commercial import.

- To make sure that lower income people are less affected by high price, the government need to continue Open Market Sales (OMS) by BDR, Directorate of Food, and the TCB. Government should also make sure that targeted distribution of foodgrains under VGD, VGF and food for works programme are implemented properly.

(ii) Wheat flour

The CPD field survey revealed at least four different marketing chains for wheat flour, consisting of eight nodal points. Major portions of the consumer expenditure are contributed towards production (48.67 per cent) or import (47.41 per cent) costs. Wholesalers (10.8 per cent), Traders (6.52 per cent) and retailers (4.45 per cent) are receiving large shares of the consumer expenditure for both domestically produced and imported wheat flour. Wheat production has gradually been declining since 2000/01. Wheat production in FY06 was 0.74 million metric tons and DAE has set a target of 0.83 million metric tonnes for FY07, which was 12.7 per cent higher than actual production in FY06. Considering the production trends, it is unlikely that the target will be achieved. Total import of wheat (public and private) during July-February of FY07 was 1.31 million metric tons against 1.37 million metric tons in comparable months of FY06. FAO forecasted that the global production was likely to increase in FY2006-07 and hence, global prices may decrease.

Recommendations

- Considering the production possibilities and import situation, the government may go for commercial import of wheat and also explore the possibility of increased food aid (wheat) by the donor countries. If the government is able to get more food aid, it can ensure food security of marginalized people through food for works programme, VGD, VGF and other safety net programmes.

- Government needs to encourage importers to import more wheat by reducing the tariff rate (which has already been done) and reduction of L/C margin for wheat import. Considering high reserve of foreign currency, lowering L/C margin may not have any negative impact on foreign exchange availability.

(iii) Lentil

The survey team identified four major marketing chains and seven market intermediaries in these chains for domestically produced and imported lentil. Major portions of the consumer expenditure are contributed towards production (22.20 per cent) costs and producers margin (34.58 per cent). Retailers (11.13 per cent) and paikers (10.79 per cent) are also capturing large shares of the consumer expenditure. FAO predicted that the prices of lentil will increase in response to rising demand and decreasing supplies during 2006/07 period. It was found that the share of top 5 importers consisted almost 31 per cent of the total import in 2006-07.

Recommendations

- Due to global production loss and increase in international price, an acute supply shortage of lentil has been predicted in the first quarter of FY2007-08. Government should consider providing zero tariff facilities for import of lentil and TCB should also import lentil, alongside initiating OMS to stabilize the market during the forecasted supply shortage. BDR should continue its operations through its Fair Price Shops.

- From medium-term perspective, the government should promote pulse production in the country (chick pea in the Barind region, lentils through out the country) by delivering high quality seed at a subsidized rate.

(iv) Potato

The survey team identified six major marketing chains and six market intermediaries. Production cost accounted for major portion of the consumer expenditure for both dominant and the longest chains. Producer, retailer and bepari are the top three agents for the dominant chain in terms of shares in total consumer expenditure, whereas in the longest chain, the top three positions went to producers, cold storage owners and retailers.

Recommendations

- The government may take initiatives to increase potato production by encouraging the availability and use of potato seeds which will reduce the demand for potato as seed (which is substantial).
- The government needs to encourage establishment of more clod storages in the major production zones (e.g. Bikrampur, Munsiganj, Bogra, Comilla), via the private sector, by providing incentives such as tax-holiday, tax exemption for investments in large scale cold storage facilities that are suitable for potato and vegetable storage.

(v) Edible Oil

There are at least 3 major marketing chains and 5 types of market agents. Major part of the consumer expenditure is contributed towards production/import (59.93 per cent-63.36 per cent) costs. Wholesalers (6.77 per cent) and retailers (4.0 per cent) are receiving considerable shares of the consumer expenditure. The global production of soybean oil is expected to increase in FY2006-07. The share of top 5 importers of crude soybean oil was 67.3 per cent of the total imports in FY2006-07, which was 58.2 per cent in FY2005-06. The corresponding figures for Crude palm oil were 60.1 per cent in 2006-07 and 61.7 per cent in 2005-06. Given this market structure, anti-competitive behaviour and some type of syndication could not be ruled out (although it was not possible to verify reliable information on this).

Recommendations

- The government needs to encourage production of oilseeds and reduce import duty (tariffs and para-tariffs) for oilseeds and crude oil.

(vi) Onion

There are at least four marketing chains and eight types of market intermediaries for onion. Major part of the consumer expenditure is attributed to production (36.02 per cent) costs. Producers receive 20.63 per cent of the consumer expenditure (20.63 per cent) at retail level, however, the shares of bepari (16.78 per cent) and retailers (21.05 per cent) were found to be relatively high. Government of India (GoI) has restricted exporting onion by increasing the Minimum Exporting Price (MEP), in order to stabilize the soaring domestic price of onion in its country. As India is one of the chief onion exporters in the world, the global supply has decreased significantly due to the aforesaid export control by GoI. As a result, global price for onion revealed an upward trend.

Recommendations

- Appropriate measures should be taken to preserve the excess supply for future, particularly for the month of Ramadan, after ensuring sufficient supply to meet the existing demand.
- Import of onion needs to be encouraged.

(vii) Full cream milk powder

Full Cream Milk Powder is a predominantly imported item. The survey team identified 3 different value chains for this product. Milk production in Australia is expected to decline 4 per cent in 2007 while milk production in New Zealand is forecasted to increase 1 per cent. An upward trend in the international price of the full cream milk powder was observed during the first quarter of 2007. However, no comprehensive analysis could be produced since the major powder milk companies/importers (such as Nestle, New Zealand Dairy, Fresh) did not cooperate with the study team, regardless of the fact that the purpose and importance of the study was explained to them.

Recommendations

- In the absence of concrete information, "no action" would possibly be the best action. It is because availability may not be a serious problem here; domestic producers of milk may be protected through continuation of current import policy which was likely to have positive impact in the coming years.

(viii) Vegetables

As brinjal and green chilli are both perishable items and have similar supply chains, they have been put together under the heading 'vegetables'. The survey team identified 6 different marketing chains for both brinjal and green chilli. Major part of consumer expenditure for these vegetables are attributed to the production costs. Nevertheless, retailers are acquiring the highest share of consumer expenditure, followed by arotdars and beparies.

Recommendations

- Open Markets managed by BDR has reduced retail price of vegetables in these markets without any negative impact on farmers, BDR should continue operating these open markets.

- Both public and private sector entrepreneurs need to increase processing and storage facilities, especially during the harvesting season.

- More *arats* or distribution centres, may be established in the urban areas, both through public and private initiatives. For example, for the Dhaka city, new arats for vegetables could be established in Tongi or Mirpur areas to reduce the current dependency on current arats. Entrance of new players will enhance competition among existing agents, which is likely to have positive impact on prices.

- Following the Indian example, terminal markets for perishable products e.g. vegetables and fruits should be established. This will operate on a 'hub-and-spoke' framework with a view to maintain a link with the primary collection centres (the spokes), conveniently located at the production zone with the terminal markets (the hub).

- The GoB should review cash incentive program for vegetable exporters which is currently 20 per cent of the CIF value. Due to the supply shortage of vegetables in domestic market, this cash incentive programme should be reviewed and current rate of 20 per cent should not be increased.

- The government needs to encourage vegetable production by providing subsidy for breeder's seed production and reducing import duty for vegetable seeds.

(ix) Egg

There are at least four different marketing chains for egg, and four nodal points in these chains. Once again, major part of the consumer expenditure is attributed to production cost. However, the recent outbreak of Avian Influenza (bird flu) has adversely affected the shares in consumer expenditure for all the agents. They used to get reasonable share of the consumer expenditure before the outbreak of bird flu. Though retailers, arotdars and local arotdars are still getting a minimal portion of consumer expenditure, farmers are incurring huge losses at present. The coincidental increase of poultry feed price has made the situation even worse for the farmers. Another interesting aspect of the poultry market is that the arotdars at Tejgaon bazaar, instead of the farmers, determine the prices of egg. No one could explain the criteria based on which the prices are set and the field survey team attempted to explore the mechanism behind price setting.

Recommendations

- Encourage poultry feed production by supporting better use of shrimp heads, increase of maize production.

- The government needs to provide better technical assistance to prevent contamination of bird flu. Though the GoB has already taken several measures, the problem, unfortunately continues to persist. Therefore, the GoB needs to further strengthen these measures. The concerned agencies could also consult foreign experts in this regard, which they have started to do.

Chapter V

State of the Bangladesh Economy in FY07: An "Election Plus" Agenda for the Second Caretaker Government

1. INTRODUCTION

The caretaker government (CTG) of 2006-2007 has been constituted for the second time, coinciding with declaration of a State of Emergency and its tenure till date remains somewhat undetermined. Article 58D of Bangladesh Constitution allows the CTG to take policy decisions in case of necessity for the discharge of its functions, along with providing support for holding of a free and fair election. In his first address to the nation, the Chief Adviser highlighted a number of issues which are crucial for holding a free and fair election, but also dealt with short and medium term issues of economic development and good governance. The present interim reports on the state of the Bangladesh economy in 2006-07 and the "Election Plus" economic agenda has been prepared in this context. The report has two components: (i) recent trends in the economy and their implications for the remaining part of FY2007, and (ii) identification of a set of structural and institutional economic issues which need to be addressed for creating an electoral environment that promotes participation of clean and competent candidates.

2. STATE OF THE BANGLADESH ECONOMY IN FY2007

2.1 Public Finance

Revenue Earnings

Data covering the first half of FY2007 reveals modest achievement in overall revenue earnings. Revenue mobilisation in this period was 41.6 per cent of the total annual target, compared to 42.2 per cent collection during the corresponding period of FY2006. During the July-December period of FY2007, National Board of Revenue (NBR) collected 39.2 per cent of its annual target, while non-NBR and non-tax components demonstrated encouraging results achieving 46.9 per cent and 50.6 per cent of total annual targets respectively. Disaggregated data available till November 2006 indicates an encouraging growth of 20.8 per cent in the case of income tax collection. Earning from customs duties, on the other hand, reveals a disturbing scenario registering an insignificant growth of 3.7 per cent during July-November of FY2007 over the corresponding period of FY2006.

The major challenge before the new CTG will be to raise the international trade taxes. Concurrently, it will also have to sustain the robust growth of VAT and income tax and will have to identify new sources of revenue earnings for strengthening the fiscal balance. Now it is possibly the most opportune moment to revamp the tax administration, revisit tax code, strengthen the large taxpayers unit (LTU), and expand collection from non-VAT domestic sources. The CTG may seriously review the current tax policy and administration to enhance mobilisation as such initiatives are also called for to achieve the performance indicators in the revenue sector under the Poverty Reduction Growth Facility (PRGF). This will be commensurate with the policy stance of fighting corruption and discouraging the use of black money in the election.

Revenue Expenditure

There is apprehension that revenue expenditure will overshoot the target, particularly on account of debt servicing, and in the case of salaries and allowances (carryover of the Pay Commission award, 100 per cent pay out to MPO teachers and payment to community teachers). Latest available figure shows that non-development expenditure stood at Tk 218.2 billion, i.e. 50 per cent of the total annual target.

Restraining government borrowings and constant monitoring of the revenue and project expenditures decisions (e.g. in the case of Block Allocations) should be the path to be followed by the CTG.

Annual Development Programme (ADP)

Latest aggregate level data available for the

July-December of FY2007 shows an ADP expenditure of TK 5,398 crore, which was 20.8 per cent of total annual ADP target for the fiscal year. This matches the trend of the previous fiscal years, and was to a large extent accounted for by restrained expenditure by the CTGs during the November-December period. During the first four months (Jul-Oct) of FY2007, 32 per cent of the local currency component was released, which showed a pre-election rushed disbursement of the outgoing government. The former CTG has, however, responded rationally to the situation and suspended fund disbursement to the new projects, and scrapped the administrative power of different ministries in releasing funds for implementing locally funded new and ongoing development projects. Recent data on ADP implementation confirms the improvement in the overall implementation situation, with no new fund release in the month of November, the first month under the former CTG.

The new CTG needs to take a closer look at the ADP projects with a view to cancelling or suspending projects without approval, and projects with no or insignificant fund release. Instead, emphasis should be given on foreign aided projects.

Budget Deficit

According to the latest official data, budget deficit experienced a substantial growth of 36.7 per cent during the first four months of FY2007 over the corresponding period of the previous fiscal year. The budget deficit was 5.5 per cent as a share of GDP vis-à-vis 4.5 per cent for the same period of FY2006. A more worrying picture is that during July-October period net borrowing by the government from the banking system experienced a whopping 69.8 per cent growth, while the non-banking source posted a 155.1 per cent growth over the same period of the previous year. Latest available figure shows that government exceeded the annual target for borrowing for the first six months of FY2007 by 14.1 per cent. On the other hand, net foreign financing experienced a negative growth of 87.5 per cent during July-October of FY2007.

There will be substantial increase in the government expenditure in the coming months owing to the forthcoming election. The new CTG will thus need to pursue the objective of fiscal prudence by increasing revenue (particularly customs duty) as well as curbing expenditure from less important heads. More energetic efforts will be needed to increase foreign financing with a view to reducing domestic borrowing. There appears to be a dilemma as regards financing domestic debt in view of low foreign aid disbursement, i.e. low cost and high inflation vs. high cost and high inflation. Since not much can be done with revenue expenditure, CTG needs to cutback the ADP, freeze funds for approved but unimportant projects, freeze funds for approved but undisbursed projects and give priority to foreign aided projects.

2.2 Monetary Sector

Money Supply, Reserve Money and Liquidity

Money supply (in terms of M3) posted a growth of 19.5 per cent at the end of October 2006. Reserve money posted a rise of 26.2 per cent, while excess liquidity of the scheduled banks stood lower at Tk 8,207.82 crore at the end of October 2006.

The fall of liquidity in the banks may have originated from the over-financing of the investment demand and/or mopped up by the government to fill in foreign aid shortfall. This issue also needs to be looked at from the perspective of (seasonal) volatility of call money rates.

Domestic Credit

FY2007 is continuing with the high and unsustainable rate of domestic credit growth which registered an 18.8 per cent growth on a point-to-point basis over the corresponding figure of FY2006.

Government Sector Borrowing: At the end of October of FY2007, total outstanding domestic credit to the public sector increased by 19.7 per cent, within which the government borrowing, accounting for 83.7 per cent of the total public sector credit, posted a rise of 20.6 per cent. Credit to other public sector, on the other hand, rose by 15.5 per cent during the period under consideration. Sale of NSD certificates during this period registered a 23.2 per cent growth, while the repayment of the principal amount increased by 1.8 per cent only. As mentioned earlier, latest available statistics shows that the Government borrowing has exceeded Tk 60 billion during the first half of FY2007, which is 14.1 per cent higher than the budgetary target for the full fiscal year.

Private Sector Borrowing: At the end of October 2006, total outstanding domestic credit to the private sector posted a moderate 18.2 per cent growth on a point-to-point basis. Within the total credit to the private sector, 93 per cent came from the banking sector, while the rest 7 per cent came from the non-bank depository corporations (NBDCs).

Industrial Loan: Data on industrial term loan for the first quarter of FY2007 recorded a 30.4 per cent growth in total disbursement. With a 23.0 per cent increase, private commercial banks (PCBs) (domestic) remain the single largest contributor in term loan disbursement with a 58.0 per cent share in the total disbursement. On the other hand, disbursement of working capital increased marginally by 3.1 per cent during this period. PCBs (domestic), with the largest contribution, recorded a 15.9 per cent growth during this period.

The improving political scenario of the country may stimulate the economy and increase investment demand, which is already corroborated by the upward movement in the capital market. Besides, in a pre-election period, the CTG will need to follow a cautious approach in industrial loan disbursement, without penalising good projects.

Loan Default Scenario

Total classified loan for July-September registered a 10.9 per cent growth over the corresponding period of FY2006. While foreign banks (FBs) made significant progress in reducing the total classified loan, with a negative growth rate of 41.3 per cent, nationalised commercial banks (NCBs), PCBs and development finance institutions (DFIs) recorded worsening of the default loan by 13.4, 10.4 and 5.9 per cent respectively over the corresponding period of FY2006. The loan default scenario may get better in the second quarter as rescheduling of default loan increased at the time of the election schedule declared previously.

Agricultural Credit

During July-November period, total disbursement stood at Tk 1,754.2 crore, which is 8.5 per cent lower than the disbursement during the comparable period of FY2006. Conversely, recovery is 208.4 per cent higher than the corresponding figure of the previous fiscal year. Thus, in net terms, credit flow to the agriculture sector dropped significantly by 208.4 per cent.

Consumer Price Inflation and Price Hike

While the first two months of FY2007 showed some positive signs with declining trends in the inflation rate, inflation rates were on the upward move again. At the end of October, general, food and non-food inflation rates on a point-to-point basis were 7.30 per cent, 9.00 per cent and 4.76 per cent respectively. While general inflation at the national level went down to 6.37 per cent in November 2006, a marginal increase of inflation rates for non-food items was observed both in urban and rural levels.

The new CTG should strongly monitor and supervise the markets for essential products to locate the "syndicates" controlling the markets and take necessary measures against them. Since the Finance Adviser is also holding the portfolio of Ministry of Commerce, there should not be any problem regarding coordination among these two ministries. Regular monitoring of major distribution channels, such as importing and wholesaling points, would give positive results.

Interest Rate

The commercial lending rate stood at 5.7 per cent as on November 2006, compared to 3.21 per cent at the end of FY2006. Deposit rate (3 to 6 months), however, could not protect its real value yet and remained negative in real terms since February 2006. But real deposit rate continued to show corrections, recovering from (-) 2.03 per cent in July 2005 to (-) 0.21 per cent in November 2006.

Increasing interest rate to tame inflation has become a routine monetary tool in government's monetary policy arsenal. Centre for Policy Dialogue (CPD) finds it to be an inadequate policy proposition since it facilitates rise of lending interest rate but not the deposit interest rate. Hence, the CTG needs to monitor the widening gap between commercial lending and deposit rates.

Exchange Rate Situation

Taka continued to remain marginally overvalued against most of the currencies following the adoption of floating exchange rate. For example, Taka was overvalued by 12.23 per cent against the EURO, 5.19 per cent against the US dollar, and 6.57 per cent against the Indian Rupee in November 2006. Taka has depreciated more against the EURO compared to the US dollar.

It is desirable to have an orderly depreciation of Taka instead of a sharp decline. Bangladesh Bank thus needs to carefully monitor the exchange rate movement.

2.3 Real Sector

Agricultural Production and Food Security

Production of *Aus* stood at 1.75 million metric tonne in FY2007 which fall short of target by 21.2 per cent.[1] Though the harvest of *Aman* rice has been completed, Bangladesh Bureau of Statistics (BBS) is yet to provide any production estimates. There is an apprehension that production of *Aman* rice would be lower than that of the last year.

It is also pertinent here to mention that, total import of foodgrains and rice during July-December of FY2007 was respectively 2.6 and 24.7 per cent less than that of comparable months in FY2006.

To ensure food availability and food security, the CTG thus needs to ensure availability of fertiliser, diesel and power for irrigation of *Boro*, which provides more than half of the total rice production in the country.

Industry

Quantum index of production (QIP) of medium and large-scale manufacturing industries indicated a significant 14.0 per cent average growth in industrial production during the July-September period of FY2007. Weighted average growth in terms of physical volume in major industries also shows an impressive growth of 15.5 per cent during the July-September period of FY2007. Most of the sub-sectors achieved high to moderate growths garment 37.7 per cent, fertiliser 26.2 per cent, cotton textiles 21.5 per cent, jute textiles 17.5 per cent, and drugs and pharmaceuticals 14.9 per cent.

Taking note of recent investment trend, expressed through term loan disbursement, export demand and capital machines imports, one may safely envisage moderate to high manufacturing growth in the coming months.

Foreign Investment

During July-October of FY2007, Bangladesh experienced a 15.6 per cent decline in foreign investment. An amount of $204 million came as foreign investment, of which $200 million came as foreign direct investment and the rest $4 million came as portfolio investment. Net financial account showed a net outflow of (-) $67 million during this period, which is significantly less than the $289 million outflow experienced during the corresponding period of the last year. Major sources of outflow in FY2007 included $149 million as MLT amortisation payment, $83 million as other capital and $212 million as trade credit.

The outgoing government's apathy to finalise several FDI proposals in a pre-election period and the recent political unrest sent a wrong signal to the foreign investors. To reinforce their confidence, the CTG needs to start fresh negotiations with prospective foreign investors (see next section of the paper for the CPD proposal on FDI).

[1] Production data from BBS and target data from Department of Agricultural Extension (DAE).

Capital Market

During the political uncertainty, the Dhaka Stock Exchange (DSE) observed a decrease in all of its share price indices during the first half of FY2007. However, the new CTG has restored the confidence and brought momentum to the market. The DSE all price index started to rise immediately after political restoration and stood at 1427.74 on 22 January 2007. Both the DSE turnover and market capitalisation hit all time high at Tk 119.06 crore and Tk 34,547 crore respectively on the same day. The Chittagong Stock Exchange (CSE) is also following the same trend. The Securities and Exchange Commission (SEC) officials have termed this market behaviour as normal.

However, a cautious monitoring is needed to avoid any surprises, as the market is also showing some irregularities. For instance, share prices of the "Z" category companies are rising at an alarming rate; daily turnover is higher compared to share index which suggests multiple transactions of the same share in a given period; among top 10 turnover leaders of calendar year 2006, six are yet to declare dividend in the fiscal year 2007; and DSE20, the index of top shares, is performing below the all share price index. Government may put a ceiling on the transaction and/or value of "Z" category share, to avoid any "1996 type incident." On the other hand, at the present market is demonstrating maturity in its behaviour compared to the 1996 period. Accordingly, a cautious approach is required so that due vigilance is maintained without jeopardising the current momentum.

2.4 External Sector

Export

During July-November of FY2007 export earnings registered a growth of 25.8 per cent. The export value of Knitwear registered an impressive 31.2 per cent growth, frozen foods and woven garment also posted significant growth of 29.3 per cent and 24.5 per cent respectively. While both primary and manufacturing products experienced moderate to low price increase by 6.8 per cent and 2.3 per cent, impressive 16.7 per cent and 23.7 per cent respective growth in the volume index helped to retain the growth. With apparel orders losing some momentum in July-October 2006, export earning growth may suffer some setback in the coming months.

Import

Total imports during the July-October period of FY2007 posted a growth rate of 17.6 per cent. Significant growth was registered by *POL* (37.0 per cent) and *Crude petroleum* (28.3 per cent). On the other hand, settlement of letter of credits (LCs) registered a growth of 20.6 per cent during July-November of FY2007, while fresh openings of import LCs also suggest higher imports (20.8 per cent) in the coming months.

Foreign Aid

Flow of foreign aid decreased drastically (by 48.6 per cent) in terms of disbursement during July-October of FY2007. Low off-take foreign aid has created severe pressure on domestic sources of borrowing during the early part of FY2007. While the disbursement of $49.7 million by the IMF (took place in November 2006) under the sixth instalment of Bangladesh's PRGF arrangement helped, the World Bank has recently made it known that it will disburse only fifty per cent of the Development Support Credit IV ($100 million). According to the budgetary targets, about $1.8 billion (i.e. 2.6 per cent of GDP) of foreign assistance will be necessary to underwrite the programmed fiscal deficit. Of this amount, $0.4 billion will come as grant and $1.4 billion as loan. Even if the IMF disbursement of $49.7 million is included, total foreign aid disbursed during the first four months meet only 12.3 per cent of the targeted assistance. Thus, it is obvious that there will be a shortfall of foreign aid inflow during the current fiscal year.

Foreign aid flow is emerging as the Achille's heel of the macroeconomic framework. Under the current circumstances, the new CTG can no longer wait for the new elected government for the fuller disbursement of the DSC IV. The CTG needs to initiate fresh negotiation with the World Bank/IMF as regard the disbursement of loan and targets set by the WB and IMF.

Remittances

FY2007 began with a high note on remittance flow. During July-December period of FY2007, total workers' remittance stood at $2,862.2 million, registering a growth of 31.4 per cent. November inflow ($598.3 million) is the highest remittance earnings in a single month ever.

Foreign Exchange Reserves

FY2007 showed positive growth of the reserves from the very beginning and maintained this momentum over the subsequent months, thanks to higher remittance earnings. The latest available figures for FY2007 show that foreign exchange reserves stood at $3,543.4 million at the end of November, registering a growth of 46.6 per cent over the corresponding period of FY2006.

Balance of Payment (BoP)

Trade balance situation improved during the July-October period of FY2007 compared to the matching period of FY2006 thanks to high export growth (23.4 per cent) and a relatively restrained import growth (17.6 per cent). On the financial account, BoP experienced a net outflow of US$67 million during the first four months of FY2007 against a larger outflow of US$289 million during the same period of FY2006. Surplus in the current account balance, together with improved trade deficit and lower outflow in the financial account, has led to a surplus in the overall balance to the tune of US$82 million at the end of the first four months of FY2007 compared to the matching period of FY2006.

While continued high flow of workers' remittances during the second half of FY2007 is expected to provide farther support, anticipated higher imports and slowing down of export momentum due to the recent political crisis accompanied by the low inflow of foreign assistance may have negative impact on the BoP position in the coming months. Consequently, addressing the BoP situation remains one of the major macroeconomic concerns for the remaining part of FY2007.

3. STRUCTURAL AND INSTITUTIONAL MEASURES

The CTG will perhaps be required to take a number of structural and institutional measures to create a conducive environment for promoting participation of clean and competent candidates. A number of them will fit in the domain of economic management and will have implications for resource utilisations:

3.1 Anti-Money Laundering Act

The Anti-Money Laundering Act needs to be effectively made use of in order to pre-empt financing of elections through unaccounted money generated within the economy and/or coming from outside. Bangladesh Bank has identified a number of cases involving financial frauds, but failed to prosecute those as yet due to inadequacy of the criminal procedure (CrPC). In fact, the Anti Corruption Commission (ACC) has also not been vested with specific powers relating to prosecution of money laundering activities. This issue needs to be urgently addressed by the CTG.

3.2 Beneficiaries of Tax Amnesty

It may be recalled that a special tax amnesty scheme was implemented during FY2006, which allowed people to declare their unaccounted wealth and have it legalised by paying tax at the rate of 7.5 per cent (instead of the highest rate of 25 per cent). It has been reported that more than 7,000 tax payees took advantage of this scheme and declared unaccounted wealth amounting to more than Tk 4,000 crore. The NBR has, till date, understandably declined to divulge the identity of these privileged people. However, in the interest of fair play in election financing, it is logical to demand that the NBR publishes, from the full list of people who took advantages of tax amnesty in FY2006, names of those who will be participating in the upcoming national election. This measure will definitely allow flow of important information to the voters as they choose their representatives who also deal with public money.

3.3 Redefining Loan Defaulters

Recent experience reveals that the current mechanism is not adequate to restrict loan defaulters from participating in the election. Redefinition of loan defaulters' is required to prevent them from getting away with minimum rescheduling and later defaulting again. It is pertinent here to note that a number of big and known loan defaulters got green signal from the Returning Officers/EC at the time of now annulled election schedule. A few banks also acted in a malafide way in this regard. Bangladesh Bank should be given the authority to appeal against such decisions made by the Returning Officers and an extended requisite time period must be set to finalise these legal issues. Bangladesh Bank should provide due oversight and vigilance in this regard.

3.4 CIB Reports for Election Candidates

As per current provisions of the Representation of People Order (RPO) 1972, candidates are obliged to get a "clean" report from the Credit Information Bureau (CIB) of the central bank to prove their eligibility to participate in the election. The recent experience regarding the postponed election suggests that most of the candidates receiving adverse CIB report were able to get a stay order from the High Court. Indeed, a stay order (keeping the case in abeyance) makes the prospective candidate "eligible" to participate in the election. Under the circumstances, the CTG may pursue the Chief Justice to add a couple of benches (over and above the current one) for speedy hearing of these cases for their final disposal, instead of issuing stay orders. The bench may also like to notify and hear the banks before issuing such stay order, as the banks usually have the latest status on loan refragment.

3.5 Support to Disclosure Provisions under RPO (1972)

The new CTG will need to provide necessary institutional support to the Election Commission as it proceeds to implement various disclosure provisions stipulated in the RPO (1972) and in its subsequent amendments. These provisions include, on the one hand, electoral financing and expenditure related issues and, on the other hand, background information on the candidates. The NBR, Bangladesh Bank, utility service providing agencies (e.g. electricity, telephone, water and gas) and the Auditor and Comptroller General's office should help the Election Commission to verify the information submitted by the candidates. In this connection to it, the new CTG must proceed to help EC for vacating the stayed order of the Supreme Court on the "eight information" required from election candidates. RPO (1972) needs to be suitably amended to strengthen the provisions of full directive and access to information i.e. restricting participation of immediately retired government official (civil and military) as election candidates, enforcement of guidelines for election expenses, etc.

3.6 Enactment of the "Right to Information Act"

The proposed "Right to Information Act" needs to be reviewed and finalised at the earliest to allow the CTG fighting against corruption, creating environment for free and fair election and installing accountability in public life. In view of enactment of "Right to Information Act" relevant provisions of the Official Secrets Act also need to be updated.

3.7 Operationalisation of Public Procurement Act

The new CTG should take immediate steps to improve the legal framework and operational provisions related to the Public Procurement Act, 2006. Wide use of information and communication technology (ICT) to establish an e-procurement culture, role of the watchdog institutions and civil society and the media should be encouraged and promoted so that they can play an active role in ensuring transparency and accountability in public procurement.

3.8 Headline Enactment of Promotion of Political Participation Act

To improve transparency in financing of political and electoral activities, a law may be enacted, styled as *Promotion of Political Participation*, which would provide legal mandate to the Election Commission for registering political parties and seeking information on their sources of financing and nature of expenditure. Such legal framework is also required for the benefit of the political parties, as it will secure their party logo, election marks and other legal rights.

3.9 Fiscal Responsibility Act

The new CTG should immediately initiate measures for enacting a Fiscal Responsibility *Act* for ensuring sustainable macroeconomic and fiscal balance, and to raise the level of public savings for development.

3.10 Restructuring of NCBs

The draft Corporatisation Act sent for vetting (via Finance Ministry) needs to be cleared by the Law Ministry at the earliest. Towards implementation of the long term management plan, the bank managements need to be given clearance regarding necessary recruitments. It may be recalled that Sonali Bank is currently not slated for corporatisation as it performs an important role in the financial market, including treasury functions for the government. The new CTG should settle the rest of the Rupali Bank privatisation process including the auditing disparity. However, the decision on the proposal of Saudi counterpart to buy the rest of the government share may be left for the next elected government to decide.

3.11 Revitalising the Power Sector

The new CTG has decided to carefully scrutinise all the hastily-approved projects passed by the previous government, and ascertain whether there are gross flaws or violation of rules and regulations before giving any positive nod in support of the approved companies. One may now expect that the CTG will take a medium term action plan to recoup the lost opportunities and to build capacity considering future demands. Special importance should be given in electricity production and CTG may even initiate new projects to ease the current power crisis in addition to load management and curbing system loss. As the previous CTG declined to ratify the decision of the outgoing elected government to raise the energy price, the new CTG may like to re-examine it to reduce the fiscal burden.

3.12 Revisiting the FDI Proposals

Flow of foreign direct investment, accelerated in 2006, has been stagnant in recent, but may improve following attainment of political stability. TATA had already stopped pursuing its project and willing to resume its negotiating for the next elected government. Regarding investment proposal of the TATA group, the new CTG may constitute a high-powered competent committee which, building on outcomes of earlier rounds of negotiations, should recommend best possible economic price for natural gas to be supplied, and to settle other issues and then leave it to the elected government to take a final decision. To ascertain the future of the proposed Fulbari Coal Project, CTG could think of setting up an independent committee of experts and local stakeholders which will assess the economic viability and social and environmental impact of the project. Again, the elected government can take a final decision of the matter.

4. CONCLUSION

The task of creating an environment for free and fair election will have to go beyond traditional electoral measures and has to involve institutional and structural reforms, a number of these falling in the domain of economic policies. These measures will focus on three major areas: (i) improving the environment for free and fair elections; (ii) strengthening the efficacy of anti-corruption measures; and (iii) supporting reform of political institutions.

The Finance Ministry will soon embark upon preparation of the budget for FY2007-8. It is imperative that the Finance Ministry gives due consideration to these proposals which will have implications for both resource mobilisation and resource allocation. It is in this sense that we have called our proposed

Annexes

Dialogue Report on
State of the
Bangladesh Economy and
Budget Responses
FY2008

The Dialogue

The dialogue on *State of the Bangladesh Economy and Budget Responses FY2008*, organised by the Centre for Policy Dialogue (CPD), was held on June 14, 2007 at the ballroom of Pan Pacific Sonargaon Hotel, Dhaka. The main objective of this dialogue was to share with the broad public CPD's observations and analysis as regards budget FY2008 presented on June 7, 2007.

Mr M Syeduzzaman, Member of CPD Board of Trustees and Chairman of Bank Asia, presided over the dialogue. The Honorable Finance Adviser *Dr A B Mirza Azizul Islam* was present at the dialogue as the Chief Guest. Dr Salehuddin Ahmed, Governor of Bangladesh Bank was present as the Special Guest and *Dr Debapriya Bhattacharya*, Executive Director, CPD, presented the keynote paper.

The dialogue saw a broad representation of the civil society with participation of senior government officials and policymakers, economists, academicians, representatives of development agencies, and political leaders. The list of participants is attached in Annex 1.

Introductory Remarks by the Chair

Mr M Syeduzzaman welcomed the guests and made the remark that it has been CPD's tradition to prepare the budget analysis with a high degree of professionalism and that this year it has been no exception. He noted that in the recent past several comments by distinguished experts, economists, professionals and also political personalities have been reported in the media where they have given their reactions as regards the budget proposals for 2007-2008. Some have praised the budget proposals unequivocally while others have termed it as traditional or stated that it is not based on sound legal footing. In any case, the circumstances under which the budget proposals for 2007-2008 have been placed by the Finance Adviser were indeed extraordinary. He observed that the manner of presentation of the budget proposals to the nation was truly unique. This was a budget which was not presented by a Parliament or by a chief martial law administrator, and this was also not a budget that was prepared by a finance adviser for a caretaker government of ninety days. For reasons known to everybody, the present government did not have any concrete philosophy about macroeconomic management. As a consequence, the Finance Adviser and the government had to base the budget proposals on the existing framework, more particularly the Poverty Reduction Strategy Paper (PRSP), the medium term macroeconomic framework (MTMF) and the three-year rolling investment programme.

Mr Syeduzzaman thought the budget proposals appear to be pragmatic and in some cases bold and transparent. He noted that the main objective of the budget was attaining 7.0 per cent growth rate. He remarked that those who were looking for a path-breaking budget that would usher in a new era need not be altogether disappointed. Emphasis on infrastructure development, particularly in the power sector, and high allocation for the social sector were entirely unavoidable. The bold initiative that has been taken for closing the so-called "black hole of deficit" by the state-owned enterprises, particularly the BPC, has not been proposed in any of the earlier budgets. However, it was clear that the Finance Adviser had to face many challenging problems while preparing this budget.

Mr Syeduzzaman hoped that the audience would discuss some concrete measures that the government should take such as the exact mechanism of financing the BPC's deficit through issuance of bonds (for example, what will be the maturity framework of the bonds). He felt that there should also be discussions as to whether the budget will be contractionary or expansionary; how will the government address and accommodate the growing demand for higher wages and how the issue of rise in price shall be addressed. Finally, the audience would like to know how the budget proposals and the investment proposals could be related to growth of employment.

Following the abovementioned remarks, *Mr Syeduzzaman* invited *Dr Debapriya Bhattacharya*, Executive Director, CPD, to make his presentation.

Keynote Presentation by Dr Debapriya Bhattacharya, Executive Director, CPD

At the beginning of his presentation *Dr Bhattacharya* expressed his sincere thanks to the Finance Adviser, leaders of the business community, development practitioners, political leaders, former law-makers and others in the audience for their presence at the dialogue and mentioned that it was a privilege for him to present the budget analysis, on behalf of the CPD, before such an august gathering. He recalled that the CPD had been producing various policy inputs for the government over the preceding months. He recalled in this connection that on 27th September CPD prepared an Immediate Action Plan and a Hundred Days' Programme for the then newly elected government. CPD also handed over a set of recommendations for the Caretaker Government to the President. When the current caretaker government assumed power on 25th January 2007, CPD prepared a paper titled *State of the Bangladesh Economy in FY07: An "Election Plus" Agenda for the Second Caretaker Government.* In the recent past, CPD has done a Price Study at the request of the government. CPD had submitted a report of this study to the Chief Adviser and the Finance Adviser. He also mentioned that CPD had prepared a set of proposals for 2007-2008 budget which had been submitted to the Finance Adviser. *Dr Debapriya* expressed his satisfaction that many of the CPD proposals have been absorbed in the 2007-2008 budget. CPD had also prepared a "State of the Economy" report just before the budget. Finally, CPD has prepared the present budget analysis.

Benchmarks

Dr Bhattacharya initiated his substantive discussion with the benchmarks against which the 2007-2008 budget was prepared. He highlighted 10 positive features of the preceding FY2006-07:

- A modest growth rate of 6.5 per cent has been achieved although *Dr Bhattacharya* cautioned that according to CPD estimates, the growth rate would perhaps be downsized to around 6 per cent with subsequent revision by the Bangladesh Bureau of Statistics (BBS).
- Income tax collection was good.
- The country has experienced a sustained manufacturing growth.
- There has been a good disbursement of term loan.
- Export growth has been robust.
- Capital market has become stronger.
- There has been a buoyant flow of remittance.
- Port situation has been improving.
- There has been increased competition in the telecommunication sector.
- Most importantly, structural reforms have gained momentum in the fiscal year 2006-2007.

Dr Bhattacharya also mentioned some negative features of FY2006-2007:

- Prices of essential commodities, especially food, have gone up.
- Although the income tax collection was good, government's aggregate revenue collection was weak.
- Government's revenue expenditure was on the high side.
- Due to poor inflow of foreign aid, government borrowing was high.
- ADP implementation rate has been historically the lowest.
- Crisis of fertiliser, electricity and diesel, particularly for irrigation, has been detrimental to the agriculture sector performance.
- There has been a fall in the gross disbursement of agriculture credit for the first time. This was presumably the reason behind stagnant foodgrain production.
- Shortage of electricity has become more acute.
- The new pay scale in the RMG sector has not been implemented dutifully by all the entrepreneurs.

With his comments on the benchmarks, *Dr Bhattacharya* recalled the main challenges that the government had to consider while preparing the budget for the FY2008. These were:

- Stabilisation of the prices of essential commodities, particularly the food price.
- Attainment of the objective of a pro-poor growth.
- Reduction of inequality.
- Enhancement of investment.
- Enhancement of domestic savings.
- Expansion of the tax revenue base.
- Increase in the flow of foreign aid.

- Improvement in the quality of ADP and its implementation.
- Increase in investment in agriculture.
- Proper utilisation of funds allocated for power, education and health sectors.
- Sustainability of the export growth.
- Improvement of FDI flow.
- Availability of resources in the capital market.
- Sustainability of remittance flow.
- Implementation of the proposed structural reform projects.

While highlighting some major features of the budget for 2007-2008, *Dr Bhattacharya* noted that it was the first time that a caretaker government has prepared a full year budget. In this connection, he maintained that it is better to prepare the budget from a medium term perspective than to prepare a part-time budget. Otherwise, it is difficult to ensure proper utilisation of resources. Regarding the question on the legality of such a budget, *Dr Bhattacharya* recommended a reading of the Article 83, along with the Article 93 of the Constitution, which he felt provides an unequivocal answer to such doubts.

Dr Bhattacharya said that the budget reflects the transition that is taking place within the country. For the first time in a budget a direct acknowledgment is made of the various types of inequalities that exist in the society including income inequality, gender inequality and regional inequality. An attempt has been made in the budget to bring greater transparency. In view of doubts as regards the PRSP, *Dr Bhattacharya* thought that the Finance Adviser has clarified this and has explained in his speech that the government remains committed to the main principles of the poverty reduction strategy. He felt that the development partners will be reassured by the budget speech of the Finance Adviser where Finance Adviser has reaffirmed his commitment to the PRSP principles by referring to the new three-year long medium-term macroeconomic framework (MTMF) for FY2008-2010.

Dr Bhattacharya expressed his doubt as to whether the Finance Adviser has been able to stick to the principle of determining government expenditure by taking cognisance of resource mobilisation. He stated that in the final analysis having determined the size of expenditure, the Finance Adviser had to look for additional revenues. *Dr Bhattacharya* felt that although the various economic proposals which have been put forward are logical as separate proposals, he thought these are all standing on a budget framework that is weak. He remarked that an attempt has been made to build another storey on the roof of a dilapidated building and it is vital to observe how strong is the staircase that leads to upstairs. He termed this staircase as the staircase of financing. For this reason, the summary assessment about this budget could be that it *seeks to make a break from the past, but does not make a breakthrough.* This would imply that there have been attempts to make a break from the past, but a full breakthrough is yet to be seen.

Growth, Savings and Investment

Dr Bhattacharya mentioned that there had been some debate as regards the 7 per cent growth that has been targeted for 2007-2008. He maintained that the 7 per cent growth is a challenging target; however, if the agriculture sector, the industrial sector and the service sector performances are improved (particularly the agriculture sector), then the 7 per cent growth is attainable. But the important thing is how much investment is required to reach this target. According to estimates, in order to achieve the GDP growth target of 7 per cent, an extra investment of 1 per cent of the GDP is required, i.e. almost Tk 21,000 crore extra on the benchmark of 2006-2007. Furthermore, an improvement of the ICOR (Incremental Capital-Output Ratio or what is known as the capital productivity) is also essential to achieve this target. A combination of both will be necessary. *Dr Bhattacharya* in this connection felt that Bangladesh does not suffer from inadequate resources. This is reflected by the fact that national savings rate is increasingly diverging from the gross investment rate, indicating that at least 3 per cent of the GDP remains unutilised. The investment rate in Bangladesh is the lowest in this region. In view of this, the main challenge is not just mobilising resources, but to remove barriers which prevent institutional resources from being translated into investment. MTMF projections indicate that over the next three consecutive years the GDP growth is expected to be around 7 per cent. Of all the targets, it is the investment target which has been reduced. Investment is thus underperforming and the target that has been set for FY2008 seems unrealistic.

Dr Bhattacharya noted that revenue growth target was not attained in the fiscal year 2006-2007 and it was consequently reduced in the FY2008. As for expenditures, they have never remained within limit in the past two years. As a result, it is suspected that the revenue shortfall will be particularly high in the upcoming year. Even if BPC's liability is not accounted for, the revenue shortfall may increase up to 1.5 per cent. Since the flow of foreign aid is low, there has been a tendency to borrow money from the domestic sources. Bank borrowing is seen as the main source, since the interest rate is lower in this case. The interest rates in the case of other sources are relatively higher and borrowing from such sources does not augur well from the perspective of fiscal discipline.

Dr Bhattacharya made the point that the macroeconomic framework, as it stands, is built on a fragile ground because it presupposes that the inflation rate will be moderated in near future. Expenditure growth will still remain higher than the revenue growth and within that expenditure, it is not the development expenditure, but the revenue expenditure which is showing higher trends. Foreign financing may be reduced and the pressure on domestic borrowing will continue. *Dr Bhattacharya* remarked that the caretaker government has taken a high-growth approach not only for 2008, but also for 2009 and 2010.

Employment

Dr Bhattacharya mentioned that there was an absence of discussion on the employment scenario in the budget presentation. He considered this to be a major omission given its importance. Bringing PRSP into the discussion, *Dr Bhattacharya* maintained that on the basis of PRSP's elasticity accounts for the FY2006-2007, CPD estimates about 30 lakh employment opportunities were supposed to be created in that year. He cited another estimate based on GDP growth which mentioned that possibly only about 10.5 lakh job opportunities could have been created. This left a gap of about 20 lakh jobs. Keeping in mind that 12 to 15 lakh workers enter the labour market every year, and accepting PRSP's target for the fiscal year 2007-2008, 30 lakh employment opportunities will have to be created just to provide jobs for the current wave of entrants into the labour market. This, however, does not include the unemployed or the semi-employed ones who are already in the market. Regrettably, the data on employment opportunities and unemployment in this country is scant, and not reliable. The Labour Force Survey (LFS) of Bangladesh is published with a lag of two-three years; and contains no up-to-date or real-time data. As a result, in order to analyse and make projections policymakers and researchers have to depend on indirect evaluations. *Dr Bhattacharya* emphasised the need to put the issue of employment at the focal point of development discourse in the current context.

Revenue Earnings

Referring to the average growth rate of 12.5 per cent for 2002-2005, actual growth of 15.5 per cent for the year 2006, and the revised growth target of 2007 for the National Board of Revenue (NBR) revenue earnings, *Dr Bhattacharya* noted that NBR growth target was 17 per cent for the upcoming fiscal year. He felt that this was a challenging target, but not unreasonable or unattainable. For the income tax target figure, he noted that the last revised budget's target figure for growth rate is 39.5 per cent, while the budget for 2007-2008 puts a target of 21.4 per cent growth. *Dr Bhattacharya* observed that it is not clear why NBR has become less ambitious with regard to income tax collection. However, comparing with the previous year's figures, he noted that the VAT collection growth target of 16.1 per cent was quite reasonable. Referring to the fluctuating performance of supplementary duty and customs duty, he mentioned that this it is not very clear that import had risen by 18-20 per cent. He disagreed with non-NBR tax and non-tax revenue growth targets of 12.4 per cent and 12.1 per cent for the budget 2007-2008. Referring to the historical data and the revised budget targets of 16 per cent and 19.5 per cent for 2006-2007, he remarked that the targets for 2007-2008 are conservative. But even with these numbers, the total revenue target is 15.8 per cent, which is lower than 16.4 per cent of the revised budget. *Dr Bhattacharya* noted that one cannot really convincingly say that the total revenue target is overambitious. He felt the target is attainable since such growth rates have been achieved in the earlier years. In so saying, *Dr Bhattacharya* also noted that even after the collection of the targeted revenue, the nation will have a tax-GDP ratio that will be less than 11 per cent, which is less than countries such as India, Pakistan, Sri Lanka and even Nepal. So, even if the targets are overshot, the relative performance will still be very weak.

The government is going to mobilise Tk 7,829 crore as extra revenue in 2007-2008. *Dr Bhattacharya* referred to the CPD analysis which said that NBR part will add 81.4 per cent of the total addition. But he emphasised on the fact that the non-tax component will add 15.8 per cent. He made two major points based on this figure. First, the revenue structure of Bangladesh is now moving away from trade taxes to domestic taxes. The tax collection situation at present is by no means critically dependent on international trade. It is gradually becoming dependent on domestic sources, mainly on VAT and income tax. Second, though it is dependent on VAT and income tax, internally the pressure lies more on indirect taxes, rather than direct taxes: within the incremental Tk 7,829 crore, VAT will contribute 28.2 per cent, income tax will contribute 24.4 per cent. This means those who do not have high income will pay relatively more VAT, whereas those who have direct income will pay relatively less amount.

Expenditure

Dr Bhattacharya dwelt briefly on the expenditure issue. He noted that the target for revenue expenditure growth has been set at 15.3 per cent for 2007-2008. But as revenue expenditure has been systematically overshooting the target in the previous years, he expressed his doubts as to whether at the end it could be contained within 15.3 per cent. He acknowledged that within the revenue expenditure growth will be more visible with regard to subsidies and current transfers. The growth will be 15.7 per cent according to the budget figures. In this context, *Dr Bhattacharya* pointed out that maximum growth is going to take place in interest payment. Twenty-two per cent of the revenue budget is going for debt-servicing liability, especially to repay loans that have been taken from domestic sources. He also noted that total expenditure will increase by 30 per cent and there is an increase of 434 per cent in other expenditures. He mentioned BPC's liability as the reason behind this high growth. He expressed his concern that although the targeted ADP is 23 per cent higher than the revised ADP of FY2007, it will be very difficult to achieve such growth rate in actuality.

Deficit

Dr Bhattacharya noted that for the 2007-2008 fiscal year deficit has been targeted at 5.6 per cent of the GDP. A major part of it is due to BPC's debt liabilities. Even when this is excluded, the deficit stands to be 4.2 per cent of the GDP. This means that this year the financial deficit will increase. However, *Dr Bhattacharya* noted that this extra deficit is not originating so much in development financing, as in revenue expenditure and other expenditures, even after making the adjustment for BPC, which, to him, is the number one concern about the deficit. To him, the number two concern is that, increasingly, it is the domestic financing which is putting up the bill for the deficit financing. In the 1990's, foreign financing had been underwriting the deficit in a big way, whereas currently it is the domestic financing. He also added that bank borrowing is accounting for 24 per cent, a quarter of the deficit financing. Obviously, it has implications for financing the private sector in many ways. On foreign financing, he said that not only the grants, the component of loan is also substantial. *Dr Bhattacharya* felt that around \$1.5 billion foreign resources would be required to service the expenditure projections. He expressed his concern over the gross \$2 billion foreign resource requirement in order to have a net of \$1.5 billion. He said the country never had \$2 billion foreign resource flow in the last 25 years. Therefore, to him, the target for foreign financing was rather ambitious. The main challenge, therefore, will be not only generating the required revenue surplus, but also accessing the foreign aid.

Some Selected Issues on Public Expenditure

Dr Bhattacharya briefly commented on some selected public expenditure issues. He mentioned that the ADP was getting marginalised. ADP in the budget for 2007-2008 is 30 per cent of the total expenditure, while last year it was 32.3 per cent. He noted that the new ADP will be 5 per cent of the

GDP. But for India and Pakistan, development expenditure of the government stands at 8-9 per cent of the GDP. *Dr Bhattacharya* stated that a targeted ADP of 5 per cent of the GDP will be one of the lowest since 1991. Consequently, lack of capital formation within the public sector is going to constrain not only the private sector's growth because of electricity, communication and others, but it is also going to adversely affect the lives of the poor people because of low utilisation in health, education and other sectors.

Dr Bhattacharya pointed out some aspects of the budget that demand clarity. With regard to the issue of the budget being pro-poor, he stated that the budget has given a figure of 57 per cent of the total expenditure or 73 per cent of the ADP expenditure as pro-poor. Terming such figures as signs of good progress, he emphasised on the clarification of such figures as it is important to know what exactly has gone into it. He also commented on the lack of clarity in the figures of the education and religion sectors. He said it was never understandable why the government has put religion and education together and what is the relationship between these two. Demanding more transparency on the issue, he noted that in the case of direct education the allocation is almost 3 per cent less, whereas religion based projects got almost 48 per cent more.

Dr Bhattacharya mentioned about the defence budget. He said the total development and non-development expenditure for the defence services accounts for 6.3 per cent of the total budget while last year it was 7 per cent. As a percentage of the GDP it will be about 1.15 per cent. Referring to India and Pakistan, he said their expenditures are much higher, around 1.85 and over 2 per cent respectively.

Dr Bhattacharya highlighted the issue of resource allocation for the election commission. The election commission has received Tk 536 crore in 2007-2008 while last year it was Tk 120 crore. *Dr Bhattacharya* argued that the commission should get as much money as was needed. He was of the opinion that election is a matter of national interest and its entire financing should come from the domestic resources so that foreign influence cannot affect the national election process. This is even more so because the people should be ensured as much as possible that the caretaker government is holding the elections independent of any pressure from donors.

General Fiscal Measures

Regarding fiscal measures *Dr Bhattacharya* mentioned about tariff and quasi-tariff masures, the infrastructure development surcharge, re-fixation of the tariff slabs, harmonisation of the supplementary duty, re-orientation of the taxable income, higher tax rate of the non-listed mobile companies, significant reduction of zero tariffs (except for essential food items), increased amount of VAT and some institutional simplifications and correctional measures that have been proposed in the budget.

Dr Bhattacharya emphasised on issues relating to the restructuring of the tariff rates. He mentioned that the earlier rates of 12, 15 and 25 per cent have been reorganised as 10, 15 and 25 per cent and withdrawal of the infrastructure development surcharge of 4 per cent has now been integrated into the budget. He referred to a CPD estimation based on NBR data. As is known, previously the raw materials were in the 5 to 10 per cent category. The effective tariff rate of these raw materials has increased from 27.7 per cent to 29.5 per cent. This means there has been an increase of 1.75 per cent in the tariff rate on the raw materials. On the intermediate products, which have become 15 per cent from 12 per cent, the tariff rate has marginally decreased from 35.8 per cent to 35.2 per cent. While this is not much of a concern, the problem is with the tariff on the finished product that has decreased from 50.7 per cent to 26.7 per cent. *Dr Bhattacharya* implied that because of the change in the tariff incidence, the relative tariff or the difference between the raw material and finished goods, which was 23 per cent (without the supplementary duties), has now decreased to 17.2 per cent. This means that the protection which was enjoyed by the domestic producers has been reduced by a margin of about 5 or 6 per cent. *Dr Bhattacharya* said he was not sure whether this was intended or not, but he remarked that a large part of it can also be covered by applying supplementary duty. Regarding supplementary duty, he noted that those who were within the 25 per cent slab are facing an increased tariff incidence.

Dr Bhattacharya said the government is suggesting safeguard taxes. He expressed his concerns about the necessity of such taxes when there are anti-dumping duties and countervailing duties. He pointed out that introduction of a safeguard tax, which is a quasi-tariff, will again take away the effort to bring transparency in the tariff structure. He said, though he supports the process of integration of the tariff, there is a need for more transparency in the tariff structure. He called for a look into the structure of tariff, item-by-item, at the six-digit level and stressed the need for identification and review of the categories on which supplementary duties have been imposed. He also suggested that in some cases there may be a need for reverting back to zero duties.

Dr Bhattacharya expressed his discomfort on the provision of 0.25 per cent tax deductible at source on all export earnings, as this may come at the cost of potential loss for large exporters.

Dr Bhattacharya mentioned about tax imposed on universities and research institutions. He said bringing universities and research institutions under the trust law will result in 10 per cent effective tax (taking account of the15 per cent rebate). By opposing the move, he maintained that these institutions are non-profit and they are reinvesting resources into their own activities. While the government is not being able to finance all the higher education and knowledge practices, if there is no private profit-making, such institutions should not be taxed and their incomes should be allowed to be reinvested. Otherwise, this could be termed as taxing of the knowledge.

Price Stabilising Measures

Dr Bhattacharya pointed out that the budget has put in three categories of price measures: market measures, non-market measures and institutional measures. These can also be categorised under short term, short to medium term and medium to long term. *Dr Bhattacharya* noted that many of these recommendations were present in the CPD study and acknowledged that most of these have been integrated in the budget. These measures have three strong approaches that relate to improving supply, increasing efficiency of the market and enhancing production. He added that there should also be short-term measures such as strengthening of market intelligence, which, to him, is very weak at present. He demanded mandatory display of market retail prices (VAT inclusive) and emphasised on the need for close monitoring of the supply situation during the upcoming Ramadan by making necessary preparations in view of any possible exigencies, including a possible flood in the coming months.

Dr Bhattacharya noted two schools of thoughts regarding the solution to the price situation. One considers the current problem of increase in food prices from the perspective of supply dislocation and supply problems including the rise in the global prices and focuses on the supply-side issues. But there is a second perspective, focusing on monetary solutions. He noted that monetary growth has been high and discussed the extent of monetary growth during the last quarters. Growth recorded during July-December of 2006-2007 was almost 21 per cent, while it has sobered down to the level of 18 per cent by the end of March 2007. But even then the monetary growth is higher than the programmemed growth which was given in the medium term framework projections at 14.5 per cent and 15 per cent. *Dr Bhattacharya* felt that there is a need for caution and an effective solution to the price hike can be obtained by close monitoring of the credit growth in the coming months and taking supply-side measures.

Reforms in Tax Administration

Dr Bhattacharya felt that the VAT initiatives should include VAT inclusive MRP (maximum retail price). He also suggested that extension of the large taxpayers' unit (LTU) should be there including creation of a data-base at the NBR.

He urged for speedy implementation of the "Universal self-assessment." He felt that a conducive environment in favour of tax-paying citizens needs to be created. In the same way VAT registration should be simplified.

Sectoral Measures

Agriculture

Dr Bhattacharya disagreed with the decision of withdrawing duty-free import of all kinds of power-pumps and imposing 10 per cent duty on them. He, however, suggested zero duty import of power-pumps to be allowed for irrigation.

Industry

RMG : For the garment workers, a welfare fund of

Tk 25 crore had been created and Tk 20 crore had been allocated for training. However, this fund has never been spent previously. *Dr Bhattacharya* suggested a contributory provident fund instead of traditional fund allocations for training. Such fund for workers has to be created so that when they leave their jobs, they are able to receive some cash. To create this provident fund, *Dr Bhattacharya* proposed that if the owner group contributes one taka per worker, then the government will make a matching contribution of one taka. This will create a safety net for the workers.

Dr Bhattacharya also emphasised on the realisation of the minimum wage structure for the RMG workers. He suggested that fines should be imposed by the government on RMG units that do not implement the minimum wage for workers within the stipulated time. Otherwise, government's sincerity to implement the decision will be questioned. He expressed satisfaction at the stand of the BGMEA in this regard.

Textiles: *Dr Bhattacharya* demanded restoration of the zero duty which was removed from the textile industries in the current budget. At this moment, textile industry is going through a process of restructuring, he noted. New value-added products are being produced in Bangladesh. He remarked that when modern machineries are needed to be procured by the textile industries, the withdrawal of zero duties will be a highly inconsiderate act.

Other Issues: *Dr Bhattacharya* noted that no fund was allotted for handloom sector. He also mentioned about no project being put in place or no funds being created for the jute sector in the budget for 2007-2008. He noted that the expenditure for providing fertiliser to the tea gardens has increased. He proposed that the zero duty for computers should be kept unchanged, while duty can be imposed on the accessories. He also recommended allocation of Tk 10 lakh for small industries and reducing the double-taxation burden from which they are suffering. Acknowledging the reduced duties on newsprint, he differed on the withdrawal of zero tariffs on pulp and suggested that the zero tariff be continued. *Dr Bhattacharya* noted that as a result of harmonisation of the tariff on milk and milk products, final duties have increased from 72.5 per cent to 75.5 per cent. He suggested a reduction of these duties. For the glucose industry, a supplementary duty of 20 per cent was not imposed, which, he thought, could create problems for the domestic industry. He called upon the government to focus on pharmaceuticals, home textiles, light engineering and leather goods, which have been identified as thrust sectors in the export-policy 2007-09.

Infrastructure and Foreign Investment

Dr Bhattacharya expressed his disappointment at the fact that no allocation has been made in the budget for the mega national projects such as the Padma Bridge, modernisation of Mongla port, modernisation of Chittagong port, a new deep-sea port, another bridge on the Jamuna river, elevated highway in Dhaka, the planned Dhaka-Chittagong express highway. He also regretted the absence of any special proposals for foreign investment, apart from the non-resident Bangladeshi (NRB) investors.

Capital Market

Regarding measures to develop the capital market, *Dr Bhattacharya* noted that apart from the government's decision to upload shares of a number of state-owned enterprises (SoEs) in the capital market and forcing the mobile companies to list themselves (through imposition of higher tax rate if they did not), there was not much of an effort in the budget in this regard.

Safety Net

The government has increased the monthly allowance for the retarded from Tk 200 to Tk 220. Acknowledging the measure, *Dr Bhattacharya* added that it would have made more sense, according to the current market prices, if it was raised to Tk 300. If it could not be done, it should be addressed via under the vulnerable group development (VGD)/vulnerable group feeding (VGF) programmes.

Environment

Regarding environment, *Dr Bhattacharya* said the organisations that do not establish effluent treatment plant should be charged a fine. Otherwise, environment-friendly industries will not develop in the country.

Foreign Aid

Dr Bhattacharya proposed formation of a task force on foreign aid, which will be empowered to negotiate, on behalf of the government, with the development partners to ensure an accelerated release of the $6-7 billion worth of aid in the pipeline. He disagreed with regard to new loan agreement with the IMF on the ground that IMF provides balance of payment support and did not provide the development support per se. Given the comfortable balance of payment (BoP) situation, he remarked that there is no need for such agreement at the moment.

Concluding Observations

Dr Bhattacharya highlighted the urgent need to have a public-private partnership, without which the government will find it difficult to spend the formidable expenditure budget of the current fiscal year, particularly in the area of developing the physical infrastructure. For social infrastructure, he suggested strengthening of the government and NGO partnership. He also suggested focusing on power sector and giving priority to foreign aided projects.

Dr Bhattacharya concluded his speech by emphasising on two issues. First, strengthening of the monitoring and implementation from the very first quarter. Without this the current ambitious budget cannot be implemented with the required standard. He strongly suggested having a high-powered monitoring committee to oversee the entire process from the very first day of July. Second, he raised the issue of information availability. For a long time, the economic information situation in Bangladesh has been very weak. He observed that currently estimates and projections are being made on the basis of assumptions, and so-called expert opinions. He observed that at present no one was able to tell what the up-to-date, real-time investment is, at private sector level or at the level of industries. There is no reliable figure on private sector investment in the manufacturing sector. Nobody knows what the employment situation is, what is the consumer spending rate, etc. Without enforcing improvement in the information situation, transparency and accountability in the implementation process cannot be ensured. *Dr Bhattacharya* strongly urged the Finance Adviser to restructure the BBS, to endow it with sufficient funds and human resources and also to make it independent. Without good quality data and reliable information, no one will be able to know how much money is really reaching the poor, he concluded.

Floor Discussion

Public Expenditure

Dr Syed Mainul Ahsan said revenue expenditure tends to be inflationary and expressed words of caution regarding the large increase in the revenue budget.

Dr Mohammad Abdur Razzaque said it is unfortunate that most of the revenue earned by the government are spent on revenue expenditures, not for development. He suggested looking into the reasons why the revenue expenditure in Bangladesh is so high. He also urged for appropriate institutional reforms in this regard, which, he thought, the current government could possibly undertake and implement – a task which democratic governments will find it difficult to accomplish. He added that there are institutions of the government, involving large number of employees that were actually not needed. He mentioned Bangladesh Rural Development Board (BRDB) as an example. He said while there is agriculture ministry, health ministry and other line ministries in place, it is confusing what the BRDB was doing. By identifying this type of unnecessary institutions, it is possible to lower the revenue expenditure.

Dr Syed Mainul Ahsan viewed the ADP increase of about 23 per cent in the 2007-08 as not being too high; he thought this had been the usual trend in ADP growth.

Deficit and Financing

Dr Osman Farruk observed that there were attempts during the past years to keep the budget deficit within 4 per cent. In this context, he viewed the 5.6 per cent of GDP deficit in the proposed budget as a matter of concern. He expressed his worries that financing this large deficit would ultimately lead to increased domestic borrowing, which was likely to end up with higher rates of bank borrowing.

Terming the financing issues very critical, *Dr Syed Mainul Ahsan* observed that the net foreign component is about $900 million for 2007-2008, which, to him, is not exceptional given the past pattern. He thought that the gross foreign financing requirement was equivalent to about $1.5 billion. He felt that the net amount is not outlandish and roughly in line with the normal progression that one would expect based on the exprience of last few years.

Dr Masihur Rahman noted that the budget for 2007-2008 aims at high spending. But if the overspending is financed by borrowing, there will be pressure on interest rate. This could crowed out the private sector, which is supposed to be the main engine of growth.

BPC

Regarding BPC bonds, *Dr Masihur Rahman* said that the important issue was how the bond would be managed. He said the government issued bonds in the past but there were no immediate cash transaction. But over a period, the government paid an interest to the organisation which held the bond. Also, if it were given to the banks, it could qualify for SLR (Statutory Liquidity Ratio), although the SLR would have a slightly expansionary impact provided all the other related proposals in the budget remained in place.

General Fiscal Measures

Mr Mir Nasir, Chairman of FBCCI, emphasised on the need for shifting the dependence from import duty to direct tax and VAT. Regarding the duty structure, he considered two proposals to be important: one was that the lowest slab of 5 per cent was increased to 10 per cent and the other was the withdrawal of IDSC. According to him, it will have impact on the prices of capital machineries because the rate will increase from 5 per cent to 10 per cent for all items for textile and jute industries, this will be raised to 10 per cent from zero per cent. He thought that this will negatively affect the private sector.

About the increased tariff on powder milk, *Ms Taleya Rahman* was of the opinion that this was mainly a baby food and therefore should not be made more expensive.

Inflation

Dr Osman Farruk stressed that food price inflation was the major problem of the day and it had to be contained. While this would require various measures to address the anomalies in the marketing chain, confidence of the private traders and merchants had to be restored since marketing was essentially a private sector driven activity.

Welcoming the various provisions that have been made in the budget, *Dr Farruk* particularly appreciated the endowment fund for agriculture and hoped that this could be materialised in an appropriate manner. As regards subsidies given on soybean oil, he expressed his apprehension that government may lose Tk 300 crore as revenue due to subsidies on soybean but most of the benefit may not reach the consumers if the price level of soybean and other edibles are at a lower level than what it was across the border in India. *Dr Farruk* called for caution whenever subsidies are provided, whether it is on fertilisers or any other item particularly when there was a possibility of cross-border smuggling because of differential price structure between Bangladesh and India.

Regarding inflation *Mr M K Anwar* noted that despite withdrawal of duties on pulse and edible oil, prices of pulse in the markets have increased by Tk 4-6 and oil by Tk 2. Even in the case of the price of sugar, this was not supposed to increase before July 1, was raised by Tk 4 in advance. He suggested an analysis of the fundamental reasons why prices, of commodities are increasing while duties are being reduced; he also suggested to find out if there is any problem in the supply chain. He noted that for the upcoming year, inflation has been targeted at 6.5 per cent, but unless a strong monitoring system is in place at the earliest, inflation may cross even 7 per cent.

Mr Rashed Khan Menon noted that the process of market correction has been left entirely to the market itself. In this regard, he pointed to the recommendations made by the CPD to put in some legal and institutional measures to control the market. He felt that what have been proposed in the budget are some fiscal measures and attempts to reduce tariffs, but none of these was likely to have a positive impact on the market. He mentioned that the BDR, and not the economists, is investigating some of the developments in the market and making recommendations, as to whether any alternative distribution systems could be setup. He emphasised on bringing this alternative distribution channels within the legal and institutional folds. The issue needed urgent attention because the real income of consumers has fallen drastically due to the current high inflation. He supported the CPD suggestion to introduce a 15 per cent dearness allowance for low paid government employees.

Dr Razzaque opposed the pressure created by some of the developed countries and development partners to withdraw subsidy on agriculture. He felt that Bangladesh should rather ask them to provide assistance so that Bangladesh could give subsidy to enable low cost import from the developed countries. This was required particularly because Bangladesh has turned into a persistently deficit country. He also thought that providing allocations to projects is not enough. The Agriculture Extension Department and other line ministries should be given strict targets which they must fulfil. He believed that with good governance, price stabilisation is possible even with the technology that this country already has.

Mr Suhel Ahmed Chowdhury emphasised on the need to deal with supply side issues concerning Dhaka city. This was important considering the huge size of the population living in the city. He thought that the option of establishing 6-8 more *Arots* in Dhaka city should be considered seriously. He also stressed on looking at this issue as a long term rather than a short-term measure. According to him, this could have positive effect in terms of bringing the price of essentials down by a considerable extent.

Mr Chowdhury also stressed on the issue of planning in advance so that any external shocks such as production shortage in food exporting countries do not adversely affect the price in Bangladesh.

Regarding farmers' cooperatives, *Mr Chowdhury* felt that this could be a good solution to deal with price hike only if large scale contractual farming is practised.

Regarding import through Trading Corporation of Bangladesh (TCB), *Mr Chowdhury* said TCB cannot be as effective as it was in the 1970s due to the open market economy that is prevailing now. Rather than strengthening TCB, a private trading company could do better as the time required to import would be much lower for them.

Given the current inflationary pressure, *Mr Jonathan Donne* from the IMF said there is an urgent need to coordinate monetary and fiscal policies and this certainly required interest rate to increase, although it may increase the borrowing cost for the budget.

Agriculture

Terming the subsidy structure in agricultural erroneous, *Mr M K Anwar said* the cost of operating pumps by diesel is at least 25 per cent more than that of electricity. Therefore, the allocation of Tk 750 crore as diesel subsidy may not be adequate to create a similar price structure for the diesel and electricity in operating pumps. He felt that additional fund was needed in view of this, and the structure also needed to be reviewed.

Regarding the duty imposed on import of irrigation pumps, *Mr M K Anwar* thought that this should be withdrawn. Referring to news reports, he apprehended duty hike on seeds. He felt that if it was true, the move will be suicidal.

Mr M K Anwar considered the creation of the endowment fund of Tk 350 crore for agricultural research as a positive move. However, he was of the opinion that the responsibility of administering this fund should be given to Bangladesh Agricultural Research Council (BARC) and not to the ministry.

Mr Anwar noted that ADP allocation for the agriculture ministry has gone down from Tk 1,221 crore to Tk 838 crore. He felt that it was not clear why this has been done, and asked for an explanation for this.

About the import duty on power pumps in the agriculture sector, *Mr G M Quader* maintained that the 10 per cent duty should be brought down to zero per cent. He recalled that the agriculture sector is making substantial contribution to the GDP, although farmers do not get due recognition.

Mr Quader welcomed the move to give subsidy in diesel directly to the farmers. However, he was not clear as to the mechanism of distribution of this subsidy to the farmers. He cautioned that if there is no strong mechanism for distribution of the subsidy, the allocated funds will be wasted as has happened with many other subsidies.

Ms Laila Rahman Kabir stated that putting emphasis on agriculture in the budget was long overdue. She thanked the government for its budget initiatives in support of agriculture, particularly in view of the fact that a large part of the population in the rural areas was dependent on agro-based employment. She remarked that the effort to increase agricultural productivity makes economic sense.

Ms Kabir also highlighted the issue of fertiliser distribution in the tea industry. She strongly felt that in order to make agriculture productive fertiliser must be made available to the producers in the right time and in sufficient quantity. She said the current fertilizer requirement for the tea sector was 12,000 metric tonne and this had to be supplied in its entirety during the months of June and July. Till now, supply of only 2,500 metric tonne has been made available. She added that after much persuasion it has been assured that a further 2,500 metric tonne will be made available but the price of fertilizer has risen 6 times, from Tk 4,800 to above Tk 28,000 per ton. Usually, the supply was procured from Fenchuganj but this time it was advised that fertilizer be procured from North Bengal. *Ms Kabir* expressed her concern that in the process of all these, the time for applying fertilizers this year was nearing its end. She argued that increasing agriculture production will require the government to ensure that fertilizer is made available in the right amount and at an appropriate time to the growers.

Mr Suhel Ahmed Chowdhury, however, disagreed with the concept of providing subsidy on fertiliser for tea industry. He said the industry is making good profits and should not be provided with new subsidies.

Dr Razzaque stated that there was significant development in the agriculture sector during the late 1990s. At the time Bangladesh agriculture crop sector posted a 4-5 per cent growth on average. He believed that there was a need to build on the past; the nation was observing a fall in growth of agriculture and its gradual decline into a deficit country. *Dr Razzaque* felt that there is every opportunity for Bangladesh to become self-sufficient in agriculture. He appreciated the decision to give subsidy to diesel. He stressed on the need to develop the livestock sector along with the crop sector. In this connection he remarked that the livestock sector was a sector with great potentiality; however, as in the past the budget has neglected this sector.

Domestic Protection

Mr Nasir mentioned that 15 per cent duty has been withdrawn from glucose and this is likely to have impact on domestic industries. He also emphasised on the need to build backward linkages for the textile industry. He mentioned that while there has been some progress in this regard in the case of knit, achievements in woven sector were not satisfactory.

Mr Nasir recalled the allocation for the sick industries made in previous budgets. He said the budget for 2007-2008 does not have any such allocations, and requested a reconsideration of this.

Mr M K Anwar remarked that an import-friendly tax policy will create renewed pressure on the domestic industries. He thought it would be beneficial for the national economy if this pressure could be averted. Referring to *Dr Bhattacharya's* presentation where he argued that level of protection would be reduced by 5 per cent, he continued that the government must be careful to ensure that there is no reduction in protection. He added that without the protection, industrial production may fall and eventually the GDP may be adversely affected.

Mr Latifur Rahman thought that the budget appears to favour imports of finished goods rather than the import of raw materials and intermediate goods which was required for most industries in Bangladesh. He argued that while the import of finished goods may increase the customs duty for the time being, to sustain continued growth in VAT the country needs to have a thriving local industry. This requires policies that favour imports of raw materials. He said that it is important that the budget favours such imports.

Mr Abdulla Al Mahmud noted that import duty on newsprint has been brought down to 15 per cent from 25 per cent. He noted that this sector has almost Tk 20,000 crore domestic investment and new investments are still coming. The reduced import duty was likely to severely affect domestic investments. In this connection, he argued in favour of restoration of the previous duty structure.

RMG

Ms Parveen Mahmud noted the allocation of Tk 25 crore made in support of the retrenched workers and capacity building in the RMG sector. She supported the CPD recommendation for a Contributory Provident Fund. She supported establishment of mini-garments, especially in the *Monga* areas, which could have a spill over effect on the *Monga* areas to generate employment in the villages.

Regarding the RMG sector, *Mr Anwarul Alam Chowdhury* considered that interest rate was too high in this country. He said it will be very difficult for this sector to compete unless the interest rate is brought down to a tolerable level. He also mentioned about the shortage or load shedding of electricity hindering production in the RMG sector by adversely affecting both timely delivery and production cost. He added that efforts should be there to have a target to make the country self-sufficient in electricity within 6-7 years; however, the budget does not reflect any such intentions. He stated that there was a 25-30 per cent employee shortage in the sector. He acknowledged the Tk 20 crore allocation that has been made in the budget for skill development in the RMG sector and noted that this would help employment generation and export promotion in this sector. Acknowledging the budgetary effort to simplify customs procedures, *Mr Chowdhury* added that the sector badly needs tax holiday facility as well as soft loan facility at a lower interest rate of 7 per cent. He also stressed on developing the textile sector as this is the backward linkage industry for the RMG sector. He suggested providing subsidy to textile machineries to help textile sector grow.

Ms Tasmima Hossain pointed out that some type of benefit should be given to the sector similar to the cash incentives given earlier. This could also be provided in the form of reduced interest rates or subsidy in energy supply for exporters who are performing well, she opined. She also noted the withdrawal of zero duty in textiles sector.

Mr Suhel Ahmed Chowdhury thought that the government could do something about skill development but provident fund for the RMG workers with contribution from the government was not a good option. He said skill development and labour welfare should be kept separate.

Jute

Mr G M Quader observed that traditionally the people of North Bengal have been economically dependent on jute which was still the case. He thought it was difficult to understand why the sector was not getting due importance in the budget at a time when jute industries are coming up strongly in neighbouring countries such as India. He recommended to the Finance Adviser that the jute sector should be given due importance.

Taking cue from *Mr Quader, Mr Rashed Khan Menon* regretfully noted that while the jute sector could be one of the major thrust sectors of the country, there has not been any allocation to the jute sector in the entire budget. He noted that the jute sector was going through an uncertain period at a time when jute production was on the rise and there are renewed opportunities for profit making by the jute processing plants.

Liberalisation

Mr Jonathan Dunn felt that Bangladesh may end up having a more protective trade regime than it had prior to this year's budget because of the 15 per cent supplementary duty has now gone up to 20 per cent, and this covered a very large number of items. He added that if it is aggravated by an aggressive attempt to add a safeguard tax, protection may even turn out to be higher. He observed that Bangladesh needs to remain competitive internationally, and protection will not help achieve that.

Employment

Ms Parveen Mahmud acknowledged that the budget is set to stimulate self-employment and wage employment as can be seen from the allocations for SME foundation, BCIC Trust, expansion of existing micro-credit programmes and Agriculture Equity Entrepreneurship Fund. She also acknowledged that there is focus for reforms in the insurance policies. In this regard,she requested to put emphasis on micro-insurance, SME insurance and insurance for agriculture.

Safety Net

Terming street children rehabilitation as a major problem for Dhaka city, *Mr Shah Hannan* suggested allocating Tk 5 crore for this purpose, and placing the responsibility to the Dhaka Municipal Corporation. He also suggested taking the programmeme to other major cities.

Mr Hannan also mentioned about the problems of river erosion. He said the government does not have an agency to handle this long term problem. He suggested allocating Tk 5-10 crore for 2007-2008 and continuing the measure for some years until an agency is created to deal with this problem. *Mr Hannan* suggested handing over this responsibility to Bangladesh Red Crescent Society (BRCS).

Gender Discrimination

Ms Mahmuda Islam maintained that Bangladesh has a clear cut approach about women's development. But the budget for 2007-2008 does not reflect this approach. She said sectoral allocations do not address gender justice or gender inequality and urged for their inclusion.

Education and Religion

Based on her experience in the field, *Dr Shaheda Obaid* shared her thoughts as regards utilisation of funds in the education sector and observed that although allocations are available for education projects, the problem was with appropriate utilisation of the funds. Terming teachers' training as a big problem for the education sector of Bangladesh, she maintained that extensive training programmes are required for teachers, especially for those outside Dhaka at all levels, from the primary to higher education.

Referring to the CPD analysis, *Mr Hannan* noted that it was mentioned that religion and education were lumped together and CPD termed this as not understandable. *Mr Hannan* remarked that these ministries are separate and their accounts are kept separate. For convenience, some of the 60 ministries are lumped together in clusters for estimation purpose. He noted that within the education and religion sectors, education holds 97 per cent share and religion accounts for only 3 per cent. He stressed on the need for highlighting this fact, he was afraid that otherwise there will be propaganda in the international press that Bangladesh was becoming a fundamentalist state.

Power

Mr M K Anwar termed the additional allocation of Tk 244 crore in the power sector as inadequate, and recommended upward revision of the decision.

ICT

Ms Taleya Rahman strongly opposed the withdrawal of zero import duty on computers. She said this may negatively affect the growing ICT sector and training centres which were making important contributions towards human resource development of the country.

Mr GM Quader maintained that keeping in mind the modernisation effort needed for the country and the high potentials for employment opportunities in the sector, ICT sector should be ensured continued support. He came up strongly in support of continuing with the zero duty on computers.

Dr Shaheda Obaid believed that it would be ideal to have one computer for each student in the country. But since this is not possible, she recommended not to tax computers so that computers were available at relatively lower price.

Debt Sustainability

Dr Syed Mainul Ahsan remarked that not much has been said in the budget for 2007-2008 as regards the issue of debt sustainability. Overall, Bangladesh's debt was equivalent to over half of GDP about 51 per cent. If the net deficit of 4.5 per cent is added, it rises to about 55 to 56 per cent, which is the lowest in the region. He said all the major countries in South Asia have a higher debt and analysis of Bangladesh Bank shows that debt sustainability over the long run is not an issue for Bangladesh. It is not a big problem as long as the budget could be implemented to the fullest. However, *Dr Ahsan* noted that financing cost of this small debt is exceptionally high in Bangladesh compared to the other countries of South Asia.

Legitimacy of the Budget

Dr Masihur Rahman disagreed with CPD when it said that there is no constitutional issue regarding the legitimacy of the budget. He said the *budget by ordinance* is given in the powers of the President and this has to comply with Articles 87 and 90. Under these articles the annual estimates have to be submitted to the Parliament. *Dr Rahman* said it does not make sense if the government has spent most of the money and then goes to the Parliament as the Parliament's control over expenditure and taxation is very important. He added that one can argue, in the unusual situation that the country is going through, that this is something the government has to do. However, this should be done by recognising that the government is doing something extra-constitutional (and not something unquestionably consistent with the constitution).

Transparency

Dr Masihur Rahman said the budget shows allocation for the agencies in the defence establishment, but it does not specifically show how much is allocated for the Navy, Army and for the Air Force. He said there should be more transparency on the issue.

Dr Rahman also added that the economic classification should be shown in each organisation's budget allocation. As an example he said there is a substantial allocation for agricultural subsidy, however, the budget for the Ministry of Agriculture or sector does not mention about the expenditure for the subsidy.

He also noted that the Chief Adviser and the Prime Minister have the same budget head for expenditure. As the constitutional right is completely different for them, these should be separated and should be treated separately in the budget.

Recovered Illegal Money

Dr Syed Mainul Ahsan suggested that structural revenue be separated from non-structural revenue. All the extra money coming in, either bad taxes or black money being deposited in the bank, which has reached Tk 600 crore already and may reach higher numbers, should not be lumped with the revenue budget because these are not structural. He said it would be improper if it is used up and a low deficit is shown. For the sake of transparency, it should be shown separately; he further requested that this irregular income or external revenue be earmarked for external expense like SOE restructuring, particularly the BPC bond issue. He also mentioned the absence of discussion as regards possible expenses related to the restructuring of other SOEs, such as nationalised commercial banks (NCBs) in the budget.

Dr Masihur Rahman said the recovered illegal money does not become revenue until confiscated through a legal process. He also agreed with *Dr Syed Mainul Ahsan* that this is a one time receipt and if the government uses it as a normal resource, there will be a corrupt touch to it. He added that this should be kept separate from structural revenue and used for certain sectors where more expenditure is necessary including electricity, expansion of employment, provision of relief to the poor people. He suggested that this fund should not be spent in the year it was collected but over a period of time in order to sustain expenditure level.

Implementation

Terming the budget a very big one, *Dr Osman Farruk* maintained that implementation of such a budget will need a major effort on the part of the government. He also conveyed his concern with regard to the heavy duty that has to be performed by the ten advisers each of whom was responsible for multiple ministries. This is a major challenge, he felt.

Dr Ahsan felt that implementation of such a big budget will require a more decentralised framework of governance which the country does not have at the moment.

Mr Niels Veenis from the Royal Netherlands Embassy mentioned about serious shortage of personnel and staff in the partner organisations which made implmentation of expenditures commitments on the part of the donors an almost impossible task. He said there are simply not enough people to implement the development projects. He particularly highlighted the situation in the water sector in this regard.

Mr Niels Veenis also mentioned about the structural rigidities in the implementation of the projects. He referred to the *Development Project Proforma (DPP)* which is an instrument that has to be drafted at the beginning of a project. If a project is to run for a seven year period, this DPP can be changed only twice. At the outset of the projects, it takes about two years to approve a project. This leaves only one chance to adjust any financial allocation in the course of a project. This, in a very practical way, hinders the implementation of a project. For instance, if there is an increase in the fuel price or increase in the cost of concrete or metal for any infrastructure work, or wage, the project cannot be started since tenders cannot be floated because the total costs are not in accordance with the DPPs. He sought attention of the Hon'ble Adviser in this regard.

Mr Jonathan Dunn said that the budget is ambitious but not unattainable. However, he added that if the budget does not materialise, it will be important not to substitute that financing with domestic financing, keeping in mind the current inflationary pressures. He said reducing subsidies that are not targeted to the poor would be one way to achieve this.

Dr Shaheda Obaid said transfer of concerned persons hinders project implementation of Bangladesh. In particular, when the people in charge or the consultants get transferred in the middle of a project life cycle, the project tends to falter. She requested to have a look into the matter.

Mr M K Anwar said the budget is somewhat ambitious but perhaps it was a necessity under the circumstances. He noted that the size of the budget is nearly 30 per cent larger than the revised budget of the last year. Even excluding BPC, the budget has increased by 19 per cent. Interest payment related expenses have increased by 43 per cent. He remarked that to achieve these targets, there needs to be strong efforts by the government.

Response from Dr Salehuddin Ahmed, Governor, Bangladesh Bank

Dr Salehuddin Ahmed expressed his views regarding concerns over internal borrowing. He said there are worries that borrowing from the banking sectors may crowd out the private borrowing. He said the central bank is monitoring the issue and mentioned that despite the government borrowing in the last fiscal year, the private sector borrowing has not actually gone down; rather it has grown by more than 16 per cent.

About the growth in broad money, which is thought by many to induce inflationary pressure, *Dr Ahmed* informed the audience that the growth was 20-25 per cent couple of years back. So the current growth was not expected to add much to the inflationary pressure. But gradually the central bank is tightening up and targeting to bring it down to around 15 per cent.

Dr Salehuddin Ahmed remarked that the current inflationary pressure is not due to demand-side constraints, rather it was the supply-side issues which are driving inflation. What is important is to find appropriate response to the supply-side factors. However, *Dr Salehuddin Ahmed* said that the central bank is also trying to address some of the demand management issues such as excess reserve, excess liquidity, etc. This was not an easy task. He said that doing this will require the interest rate on bonds and bills to increase, which will again increase the cost of lending to the private borrower. He mentioned this as a challenge that the central bank has to face.

The Bangladesh Bank Governor noted that the current state of most of the macro variables was alright. National net reserve is good and he thanked exporters and particularly migrant workers for this commendable achievement.

The Governor also dewelt on the current LC situation. He observed that both opening and settlement of LCs for various essentials have increased. However, at the same time he noted that although LC situation has improved in value terms, the volume or quantity may not have increased because of higher international prices.

Dr Ahmed agreed that the cost of borrowing is very high for the private sector, but at the same time he noted the high rates of profit that the sector is making. He said if the interest rate for the garments is lowered then others will be deprived since supply of loanable fund is limited. He acknowledged the contribution of exporters, but at the same time he noted that the country's export sector has to be more competitive and entrepreneurs will need to look for new and innovative measures to increase efficiency.

Regarding *Dr Debapriya Bhattacharya's* comment that the government is attempting to build another storey on the roof of a fragile building without a strong staircase, *Dr Salehuddin Ahmed* conceded that the building is indeed fragile. However, several reform measures have already been put in place which will act as reinforced concrete pillars for the weak house and that will definitely create some kind of good base for the growth. He said 7 per cent GDP growth target is indeed an achievable target. He added that there was a consensus among independent observers to the effect that Bangladesh's macro economic management is fairly good, perhaps the best in South Asia. There is also a widespread belief that Bangladesh is the next destination for foreign investment.

Response from the Finance Adviser

Honourable Finance Adviser appreciated the richness and the wide variety of comments that were presented at the CPD dialogue. He informed the audience that he would like to extend the time for comments on the budget by three more days. He requested dialogue participants who shared their views on various aspects of the budget to send their comments to the Ministry in written form.

The Finance Adviser said no matter what has been done, the budget will hurt interests of some people and groups and consequently budget proposals will be subject to criticisms. In this sense the budget FY2007 is no exception. The budget has tried to balance various conflicting interests, however, his paramount consideration was the government's honest perception of the larger interest as regards the country. It is this consideration which dictated him to take certain decisions. But there are judgments that require people's opinion and that is the reason why the government has opened up the option of seeking comments from various stakeholders.

The Finance Adviser said there are two key macroeconomic assumptions underlying the budget: growth rate and the inflation. He said the government is convinced that 7 per cent growth is not something very easy, but it is not something which is unattainable. The same thing applies to inflation. In the case of inflation, he added that inflation is always calculated on the immediate past base. Already the economy had a rather high base and faced considerable pressure on consumer goods that was generated externally. As a result, according to him, 6.5 per cent inflation for a whole year is not a very unrealistic target, or an unrealistic assumption.

Responding to the deficit issue, the Finance Adviser said the total deficit would be about 5.6 per cent of GDP, of which 1.4 per cent is contributed by assumptions about BPC liabilities. As regards the net foreign loan issue, he said it is a fairly realistic estimate considering the huge pipe line. It will depend essentially on the capacity to implement projects and may require introducing certain desired reforms. With regard to current year's disbursements the Finance Adviser observed that in January the disbursement was less than 400 million; by June it has reached about 1.2 billion US Dollar. Therefore, the assumptions that have been made in the budget are by no means unrealistic.

Responding to the issue of whether the domestic financing will create inflationary pressure, the Finance Adviser noted that there are long-term bonds as far as the BPC part is concerned. He said it will obviously impose some burden on the budget in later years due to repayment on the principals and interest payments. But for the interest of transparency and restoring health to the state owned enterprises and also the banks which lend to BPC, it was an absolutely necessary step. He felt that there was no serious problem on the financing side.

Responding to the revenue generation issue, the Adviser mentioned that increasing the revenue-GDP ratio from 10.4 to 10.8 per cent was a moderate attempt. If this modest target is not realised, then the dependence on either domestic financing or on external financing would increase, but this was not actually desirable.

Regarding ADP implementation, the Finance Adviser said he intends to undertake more systematic reviews of the implementation process and bottlenecks with the concerned ministries as soon as the government is through with the budget. He said he is not willing to wait until the revised ADP is prepared to review the attendant problems.

The Finance Adviser responded to queries regarding distribution of subsidies to targeted groups. He informed the dialogue audience that he has already told the Finance Secretary that as soon as the budget was over he would sit down with concerned ministries that are responsible for administering subsidies. He assured the audience that he would try to address any procedural flaws in this context so as to make certain that subsidies really go to the targeted recipients.

As regards the growth in revenue expenditure, the Finance Adviser reminded the house that to a large extent revenue expenditures were mandated. There is an automatic increase in the salary payments. There is also the interest payment that will be due in the current year largely because of debt that was incurred by previous governments. Also, the government has paid electricity bills for all government departments and for the ministerial bodies. He mentioned that these are some of the reasons why the revenue expenditure has gone up. As far as other avoidable and non-productive revenue expenditures were concerned, the Adviser assured the audience that the government will certainly try to keep it tight.

The Finance Adviser responded to the issue of protection of domestic industry and the revised duty structure. He said that true economic protection, what is popularly known as effective protection, cannot be discerned simply from the nominal rates of duties. The issue is how much value addition one is making in domestic prices, compared to the value addition at the world prices. Keeping this in mind, even where the nominal protection is 50 per cent or 55 per cent, in many instances the effective rate of protection would probably go up to 60 per cent or 70 per cent. He added that although there is an apparent duty rate, in many of these cases a lower operative duty rate was enforced through SROs. Also, the government has removed the infrastructure development surcharge. In addition to the published customs duty, there is also the supplementary duty which is another source of protection to the domestic industries, the Adviser explained.

Regarding the allocation in the agricultural sector, the Finance Adviser said that as far as the agriculture ministry's allocation was concerned, development and non-development budget taken together has been increased by 38 per cent this year over the revised budget for the preceding year.

Responding to the issue of jute industries, the Adviser stated that the jute industry is supposed to be an export-oriented industry. It gets export incentives including cash incentives. Even then the public sector jute industries are not in a position to survive. He was convinced that as long as it is managed by the public sector, the sector will not be viable. He said he has received a request from the jute ministry only a couple of days ago for Tk300 crore per year. He remarked that there was no free lunch in economics. If one sector was receiving a subsidy, one sector was getting a tax benefit, somebody else have to pay for those. Accordingly, he requested those who were supporting the jute industries, to take a pause and to seriously think as to whether these industries could really be protected if those were in the public sectors. He thought that although this may not be a very popular choice, there was no other option.

The Finance Adviser responded to the issue of lack of employment focus in the budget. He said that although the budget does not talk about the number of new employment opportunities that was added to the labour force, structure of investment expenditure, which is basically the annual development programme and its allocation, reflects that it was mostly the labour intensive sectors such as agriculture, rural development, water resources, etc. which have received the maximum allotment. He stated that the government has deliberately chosen these sectors with two considerations. First, these are more directly connected with poverty alleviation, and being more labour intensive in nature these sectors generate more employment. Second, one sector which has received emphasis is the infrastructure, particularly the power and road communications. Here the employment focus comes partly from the direct employment generating nature of this investment and, more importantly, this sector helps generate employment in the private sector particularly in view of the fact the private sector is handicapped in a major way by the lack of appropriate infrastructure. Therefore, the Adviser remarked, the criticism that the budget does not have an employment focus is not perhaps entirely an objective observation.

The Finance Adviser briefly discussed the inflation situation prevailing in the country. He stated that the government attached a great deal of importance to the issue, particularly the increase in the prices of foodgrains. It was because of this that an independent study has been commissioned by the government and CPD was entrusted to carry this out. He informed the audience that the government had held very detailed discussions with the CPD researchers where the chief advisor was also present. He said that even the CPD will admit that there is very little that can be done in the short run. And whatever could be done in the short run, the government has already done those. He said that he was unable to explain why, in spite of the 5 per cent reduction, the price of soybean should increase the following day. He thought that there was something wrong with the marketing infrastructure. What was important is that the government has taken a number of short-term measures to address the attendant issues. First, it has taken action on the customs duty front. Second, the government was trying to build an alternative marketing channel through the Bangladesh Rifles (BDR). The Adviser informed the audience that the government was also considering to what extent the TCB could be brought into play in this context. The Adviser remarked that any immediate attempt to break the existing marketing structure was not likely to succeed since such channels have developed over many years. He said that the gap between the farm-gate price and the consumer price has evolved over time because of the presence of a large number of intermediaries. He also advised the audience to bear in mind that these intermediaries are also providing certain employment. He remarked that the medium term and long term solution to the price situation lie in enhancing production capacity and probably in also organising farmers' cooperatives.

The Adviser said that in order to increase production, the government has taken a number of measures that have got reflected in the budget. However, as regards farmers' cooperatives, this was an initiative that should not be taken by the government. Rather, the government may provide inducements to encourage this. He added that the performance of TCB has not been praiseworthy. The Adviser remarked that market related activities in the public sector historically have turned out to be inefficient and there is no reason to believe that it is possible to make them efficient in the near future. So, basically the government has to encourage, may be the NGOs or the private sectors, to form alternative marketing channels.

Responding to the issue of recovered money as to how they should be treated, the Finance Adviser said for the time being they are going into a consolidated fund. It is a sort of a miscellaneous type of revenue of the government. He assured that the government is conscious that this is not a regular source of revenue. He said that the amount that the government receives on this account will help finance the budget deficit for the current year.

Honourable Finance Adviser thanked CPD for organising the discussion. He also appreciated the contribution of other discussants who voiced their comments. He concluded his speech by requesting all the participants to send their comments in written forms so that the government has an opportunity to analyse them at a greater depth and take appropriate steps.

Closing Remarks by the Chair

Mr Syeduzzaman thanked the honourable Adviser for his careful consideration of all the comments and for responding to all the issues that were raised in the dialogue. He said the additional three days available for giving comments on the budget will be welcomed by many groups and organisations as well as individuals.

Mr Syeduzzaman flagged some concerns which were voiced at the dialogue and in the CPD analysis. He mentioned about the all time low ADP implementation as pointed out by CPD in FY2006-07 and said that it remains to be seen how the ratio is going to improve in FY2007-08. Even then, public investment will be only about 25 per cent of the GDP. He said Bangladesh remains an underinvested country and talked about investment and ICOR that required for attaining 7 per cent growth. He noted that the contribution of foreign aid and foreign direct investment will be extremely important in achieving the largely. Consequently, to him the major concern for the government was how to make best use of the available foreign investments in the pipeline.

Mr Syeduzzaman felt that it is important to remain of the fact conscious that Bangladesh has a private sector-led free-market economy, and the private sector has delivered quite well. Acknowledging the importance of the private sector, he added that to have a strong private sector, the country needs a strong public sector as well, so that thorough regulatory intervention is possible to prevent distortions. He hoped that the Finance Adviser and his government will have the opportunity to strengthen the public sector. *Mr Syeduzzaman* remarked that 18 months is not a short period for strengthening the public sector of an economy.

Mr Syeduzzaman thanked the chief guest, the special guests and all other guests for being present in the dialogue and for sharing their insights. He hoped that CPD will continue giving its budget response in future years.

List of Participants (In alphabetical order)

Dr Rita Afsar
Senior Research Fellow
Bangladesh Institute of Development Studies

Mr Ali Ahmad
Former Member (Customs)
National Board of Revenue

Professor Abu Ahmed
Professor
Department of Economics,
University of Dhaka and Former Chairman, Bangladesh Shilpa Bank

Dr Chowdhury Saleh Ahmed
Director General
(Monitoring Cell), Finance Division,
Ministry of Finance

Major General Shakil Ahmed, ndc, psc
Director General, Bangladesh Rifles

Mr Jalaluddin Ahmed
Programme Head, BRAC

Mr Manzur Ahmed
Advisor, FBCCI
Former Director, DCCI and Proprietor
M/s. Fare Trade Centre

Dr Nazneen Ahmed
Research Fellow
Bangladesh Institute of Development Studies

Dr Quazi Mesbahuddin Ahmed
Former Member
Planning Commission

Mr Syed Ershad Ahmed
President
AmCham Bangladesh and Managing Director, Expeditors Bd Ltd

Dr Salehuddin Ahmed
Governor
Bangladesh Bank

Professor Syed M Ahsan
Resident Economic Advisor
Policy Analysis Unit, Bangladesh Bank

Mr Jahangir Bin Alam
Former Secretary, FICCI

Mr Mohammad Shah Alam
Member (Agriculture)
Planning Commission

Dr Sheikh Maqsood Ali
Former Member
Planning Commission

Mr M Aminuzzaman
Managing Director
National Bank Ltd. and President
Bankers' Association of Bangladesh

Lt. Col (Retd) M Anisuzzaman
Managing Director
Global Fabrics (Pvt.) Ltd and Former Chairman, BTTLMEA

Ms Arifa Akter Anu
Coordinator
Karmojibi Nari

Mr M K Anwar
Former Agriculture Minister

Mr A F M Asaduzzaman
Deputy General Manager
Bangladesh Bank

Engineer Mohammad Abdul Awal
President, REHAB

Mr Abul Bashar
President
Jatiya Sramik Federation Bangladesh

Dr Anwara Begum
Research Fellow
Bangladesh Institute of Development Studies

Ms Mahmuda Begum
Director
Economic Relations Division (ERD),
Ministry of Finance

Ms Salma Begum
Secretary
Jatiya Sramik Federation Bangladesh

Dr Irina Bhattacharya

Mr Md Aminul Islam Bhuiyan
Secretary
Economic Relations Division (ERD),
Ministry of Finance

Mr Mahmudul Huq Bhuiyan
Joint Secretary
(Budget-2)
Ministry of Finance

Mr M A Sattar Bhuyan Economic
Advisor & Director
BKB, Finance Division

Mr Siddiqur Rahman Choudhury
Chairman
Agrani Bank and
Former Secretary, Finance Division

Mr Suhel Ahmed Choudhury
Former Secretary
Ministry of Commerce

Mr Abdul Muyeed Chowdhury
Chairman
BRAC BD mail Network Limited and Former Advisor to the Caretaker Government

Mr Amin Chowdhury
PS to the Hon'ble Advisor, Ministries of Finance, Planning and Commerce

Mr Anwar-Ul-Alam Chowdhury (Parvez)
President
BGMEA and Managing Director, Evince Group

Mr Helal Ahmed Chowdhury
Managing Director
Pubali Bank

Mr Jafar Ahmed Chowdhury
Secretary
Planning Division, Ministry of Planning and Member, Programming Division, Planning Commission

Maj Gen (Rtd) Moinul Hossain Chowdhury
BB Former Advisor to the Caretaker Government

Mr M A Rouf Chowdhury
Director
FBCCI and Chairman, Rahima Food Corporation Limited

Dr Tawfiq-e-Elahi Chowdhury
BB Former Secretary, Government of Bangladesh

Mr Asish Kumar
Dasgupta DGM, Research Department, Bangladesh Bank

Dr Md Idris Ali Dewan
Division Chief (Programming), Planning Commission

Mr Sanjeeb Drong
General Secretary
Bangladesh Adivasi Forum

Mr Jonathan Dunn
Resident Representative
International Monetary Found (IMF)

Dr Mohammed Farashuddin
Former Governor
Bangladesh Bank and Former President, Board of Directors and Chairman, Department of Economics, East West University

Dr M Osman Farruk
Former Education Minister

Mr Shah Abdul Hannan
Former Secretary
Government of Bangladesh

Mr Nurul Haq
Member
CPD Board of Trustees
And Former Member, Planning Commission

Mr Abdul Haque
Managing Director
Haq's Bay, Former Director, FBCCI and EC Member, SAARC Chamber of Commerce and Industries

Mr Faizul Haque
PRO to Hon'ble Advisor
Ministry of Commerce

Md Mesbahul Hoque
Chairman
Reptiles Farm Ltd

Mr Zobdul Hoque
Former Deputy Director General
Bangladesh Bureau of Statistics (BBS)

Mr Azmal Hossain
EC Member, Bangladesh Paper Mills Association

Mr Mir Nasir Hossain
President
FBCCI and Managing Director, Mir Ceramics Ltd.

Mr Mosharaff Hossain
Country Representative
Action on Disability in Development (ADD)

Mr Sk. A K Motahar Hossain
Secretary
Implementation Monitoring and Evaluation Division (IMED)

Ms Tasmima Hossain
Editor
Fortnightly 'Ananya'

Dr Zahid Hossain
Senior Economist, ADB

Mr Shakil Huda
Associate Professor
Institute of Business Administration

Mr Annisul Huq
Former President
BGMEA and, Chairman, Mohammadi Group

Mr Md Shahedul Huq
Additional Secretary
Economic Relations Division (ERD)
Ministry of Finance

Mr S Manzer Hussain
Resident Director
Tata Group, Tata International Ltd

Dr Zahid Hussain
Senior Economist
The World Bank

Mr Asif Ibrahim
Director
DCCI and Managing Director, New Age Garments

Dr Muhammad Ibrahim
Chairman
Federation of NGOs in Bangladesh (FNB) and
Executive Director
Centre for Mass Education in Science(CEMS)

H E Mr Masayuki Inoue
Ambassador
Embassy of Japan

Dr Mahmuda Islam
Professor
Department of Sociology, University of Dhaka and
President, Women for Women

Dr Muinul Islam
Professor
Economics Department, Chittagong University

Mr Syed Monjurul Islam
Joint Secretary
Finance Division
Ministry of Finance

Mr M Tajul Islam
Director
Federation of NGOs in Bangladesh (FNB)

Dr A B Mirza Azizul Islam
Hon'ble Adviser to the Caretaker Government
Ministries of Finance, Planning and Commerce

Mr M Jamaluddin
Vice President, BTMA

Mr Mahbub Jamil
Former President
FICCI and Managing Director,
Singer Bangladesh Ltd.

Mr Saifuzzaman Chowdhury
Javed President
Chittagong Chamber of Commerce and Industry

H E Mr Einer H Jensen
Ambassador
Royal Danish Embassy

Mr Kristian Jervell
First Secretary
Economic and Political Affairs, Royal Norwegian Embassy

Ms Kazi Jesin
CEO, Bioscope

Dr Farah Kabir
Country Director
Action Aid-Bangladesh

Mr Humayun Kabir
Senior Assistant Secretary
Ministries of Finance, Planning and Commerce

Ms Laila Rahman Kabir
Member
CPD Board of Trustees
Former President
MCCI and Managing Director ,
Kedarpur Tea Company Ltd

Mr Mahfuz Kabir
Research Fellow, BIISS

Mr Md Mostafa Kamal
Department of Economics
Dhaka College

Mr Masih Ul Karim
President
FICCI and Managing Director,
Berger Paints Bangladesh Ltd

Mr Ranjan Karmaker
Executive Director
Steps Towards Development

Ms Mitsuru Kayama
Economic Researcher
Embassy of Japan

Mr Abdul Kayum
Joint Advisor
Monetary Policy Department,
Bangladesh Bank

Mr Khabiruddin
Chief Executive
Java Education Foundation (JEF)

Dr Akbar Ali Khan
Former Advisor to the Caretaker Government and Visiting Professor,
BRAC University

Mr Anis A Khan
Chairman
BLFCA and CEO & Managing Director, IDLC

Mr M Hafizuddin Khan
Central Member
SUJAN, Former Advisor to the Caretaker Government and Former Comptroller and Auditor General of Bangladesh

Mr Mahbub Husain Khan
Executive Editor
The News Today

Mr Mashfiqur Rahman Khan
Lecturer
Dept of Economics, University of Dhaka

Mr Mosharraf Hossain Khan
Acting Managing Director
PKSF

Ambassador Nazrul Islam Khan
Secretary General
Bangladesh Institute of Labour Studies (BILS) and
Secretary
Labour Affairs, Bangladesh Nationalist Party

Dr Omar Farooq Khan
Senior Development Advisor
CIDA, Canadian High Commission

Mr Rashed Mowdud Khan
Managing Director
Bengal Fine Ceramics

Ms Runa Khan
Executive Director, Friendship

Mr Shahidullah Khan
Managing Director
Media New Age Ltd. and Publisher, The New Age

Ms Shaila Khan
Senior Programme Officer (Policy Support and Advocacy)
& Coordinator, UNDP

Ms Rabeya Khatun
Lecturer
Department of Economics, University of Dhaka

Mr Abdullah-Al-Mahmud
Vice President
Bangladesh Paper Mills Association

Ms Parveen Mahmud
Deputy Managing Director
PKSF

Mr Kripali Manek
Economist, DFID

Mr Md Lutfor Rahman Matin
Second Vice President
BGMEA & Managing Director, Lufa Garments Ltd

Mr Muhammad Abdul Mazid
Member (Physical Infrastructure)
Planning Commission

Mr Rashed Khan Menon
President, Workers' Party

Mr Mohammed Mesbahuddin
Director General
IMED, Power and Industry Unit, Planning Commission

H E Mr Frank Meyke
Ambassador
Embassy of the Federal Republic of Germany

Ms Nasreen Awal Mintoo
President
Women Entrepreneurs' Association of Bangladesh

Mr Sayed Rana Moostafee
Chairman
Motherland Group and Arthokotha

Ms Jessica Murray
International Trade Consultant
UNDP

Mr Parimal Mutsuddi
Secretary General
Bangladesh Buddhist Federation

Mr A M M Nasir Uddin
Secretary
Energy & Mineral Resources Division, Ministry of Energy & Mineral Resources

Mr A H M Nouman
Secretary General
Development Organisation of the Rural Poor (DORP)

Professor Dr Shaheda Obayed
Former DG
NAEM and Educationist

Dr Durga P Paudyal
Director General
CIRDAP, Engr. Tanveerul Haque
Probal General Secretary, REHAB

Professor A K M A Quader
Professor
Department of Chemical Engineering , BUET

Mr G M Quader
Former Member of the Parliament

Ms Rokeya Quader
Chairman
Desh Group of Companies

Mr A S M Quasem
Vice President
ICC-Bangladesh and
Chairman
The Newage Group of Industries

Mr Ferdous Quddus
Economic and Commercial Specialist, US Embassy

Dr K Siddique-e-Rabbani
Visiting Professor of Physics, Islamic University of Technology (IUT)

Mr Fazle Rabbi
Senior Information Officer
Ministries of Finance, Planning and Commerce

Dr Md Abdur Rahman
President
Probashi Kallayan Samity

Dr A K M Atiqur Rahman
Professor
Department of Economics, North South University

Dr Atiur Rahman
Chairman
Unnayan Shamannya

Mr Badiur Rahman Secretary
IRD and Chairman, National Board of Revenue (NBR)

Mr Ghulam Rahman
Former Secretary
Government of Bangladesh

Mr Latifur Rahman
President
Metropolitan Chamber of Commerce and Industry (MCCI) and Managing Director, Transcom Group

Mr M H Rahman
Former President
DCCI and Chairman, ARENCO Trade Limited

Mr Majedur Rahman
Country Head
Bank Alfalah Ltd

Dr Masihur Rahman
Former Secretary, ERD

Mr Matiur Rahman
President
Japan Bangladesh Chamber of Commerce and Industries
Former President, DCCI and Chairman, Uttara Group of Companies

Dr Nafeesur Rahman
Director
National Forum of Organisations Working With the Disabled (NFOWD)

Mr Syed Khaledur Rahman
Managing Director
Rahman Chemicals Limited

Mr Zillur Rahman
Executive Director
CCN and Host, Channel i Tritiyo Matra

H E Dr Dora Rapold
Ambassador
Embassy of Switzerland

Dr Mohammad Abdur Razzaque
Former Member of the Parliament and Agriculture & Cooperative Secretary, Bangladesh Awami League

Dr Masrur Reaz
Private Sector Adviser
DFID

Ms Taleya Rehman
Executive Director,
emocracywatch

Mr Monaem Sarkar
Chairman
Bangladesh Foundation for Development Research

Dr Zaidi Sattar
Senior Economist
The World Bank

Mr Mohammad Shahid Ullah
Director
Karmojibi Nari

Mr A K M Shamsuddoha
Managing Director
Dohatech New Media

Dr Baker Ahmed Siddiquee
Visiting Professor
Department of Economics, North South University

Mr Lucille Sircar
Research Officer
Society for Environment and Human Development (SEHD)

Ambassador Farooq Sobhan
Former Foreign Secretary and President, Bangladesh Enterprise Institute (BEI)

H E Ms Ingebjorg Stofring
Ambassador
Royal Norwegian Embassy

Ms Shaheena Sultana
Development Programme Specialist, USAID

Mr M Syeduzzaman
Member
CPD Board of Trustees and Chairman, Bank Asia

Dr Muhammad Tareque
Secretary in Charge
Finance Division, Ministry of Finance

Ms Sayeeda Tauhid
Economic Adviser
DFID

Dr Abdun Noor
Tushar Managing Director
Gati Media Ltd.

Mr Niels Veenis
Deputy Head of Development Cooperation, Royal Netherlands Embassy

Mr Carter Wilbur
Economic and Commercial Officer
US Embassy

Dr Hassan Zaman
Senior Economist
The World Bank

Dr Riffat Zaman
Advisor
Economic and Commercial Affairs, Royal Netherlands Embassy

List of Journalists (In alphabetical order)

Mr Kamal Ahmed
Correspondent
Bangladesh Betar

Mr Razu Ahmed
Senior Reporter
The Daily Ajker Kagoj

Mr Md Shahnoor Alam
Cameraman
Bangladesh Television

Mr Mr Rokonuzzaman Anjan
Staff Reporter, The Sangbad

Mr Salahuddin Bablu
Senior Reporter
The Daily Inquilab

Ms Afsana Begum
Reporter, The Executive Times

Mr Miraj Ahmed Chowdhury
Staff Correspondent, NTV

Mr Iqran Chowdhury
Photographer
Press Information Department,
Ministry of Information

Mr Raihan M Chowdhury
Senior Reporter, The Financial
Express

Mr Apurbo Stanly Domer
Staff Reporter, Radio Today

Mr Bishawjit Dutta
Chief Reporter
The Daily Amader Shomoy

Mr Anwar Parvez Halim
Special Correspondent
Weekly PROBE

Mr Sanaul Haq
Senior Reporter
ATN Bangla

Mr Kazi Saimul Haque
Reporter
CSB News

Mr Rafiq Hasan
Staff Reporter
The Daily Star

Mr M Jamil Hossain
Senior Reporter
The Daily Bhorer Dak

Mr Zakir Hossain
Senior Reporter
The Daily Jugantor

Mr Sheikh Didarul Islam
Senior Staff Reporter
The Bangladesh Today

Mr Rashidul Islam
Staff Reporter
Bangladesh Sangbad Sangstha (BSS)

Mr Saidul Islam
Staff Reporter
The Daily Amar Desh

Mr Asif Showkat Kallol
Senior Reporter
Jai Jai Din

Mr Kismat Khondoker
Staff Reporter
The Daily Samakal

Mr Hanif Mahmud
Senior Reporter
The Prothom Alo

Mr Faruk Mehedy
Senior Reporter
Baishakhi TV

Mr Shymal Kanti Nag
Staff Reporter
The Daily Destiny

Mr Shamsuzzaman Nipu
Senior Reporter
The Daily Naya Diganta
Mr Serajul Islam Quadir
Correspondent
Reuters

Mr Kawser Rahman
Special Correspondent
The Daily Janakantha

Mr Kazi Mahfuzur Rahman
Reporter
Dainik Janata

Mr Tutul Rahman
Staff Reporter
The Daily Manab Jamin

Mr Khawaga Main Uddin
Special Correspondent
The New Age

Mr Rakib Uddin
Reporter
The Daily Deshbangla

Mr Profullo Kumar Vokto
Senior Reporter
The Bhorer Kagoj

Annexes

Chronology of Major Economic Events During January 2006 – December 2007

CHRONOLOGY OF MAJOR ECONOMIC EVENTS DURING JANUARY 2006 - DECEMBER 2007

Date	Macroeconomic Events
2006	
January 2	• Visiting WB Vice President Praful Patel states that the WB has decided to provide \$2.89 billion to Bangladesh in four years starting from FY2006 under a new Country Assistance Strategy (CAS) on condition of 'reducing level of corruption' and 'improvement of the procurement process'.
	• The cabinet approves the Non-Formal Education Policy that proposes compulsory literacy for the elderly people.
January 3	• European Commission announces a grant of over Tk 1.59 billion (20.5 million euro) for the newly launched Vulnerable Group Development for Ultra-Poor (VGDUP) programme to be implemented in Kurigram and Lalmonirhat districts.
January 5	• Bangladesh ranks 141^{st} among 161 countries in the 2006 Index of Economic Freedom published by the Wall Street Journal and the Heritage Foundation, a US-based research group.
	• BB decides to redefine rural branch category with greater flexibility so that the private banks can play a bigger role in rural economy and employment generation.
January 7	• The NBR prepares a list of 60 companies and individuals to be treated as VIP taxpayers in the next fiscal year.
	• On the first day of the fourth round of negotiation with the Indian industrial conglomerate Tata Group as regards its US\$2.5 billion investment proposal, the Bangladesh government proposes to provide the group with six years' tax holiday facility for steel and fertiliser units and 15 years for the power plant.
January 9	• The government takes initiative to implement a community-based Local Governance Support Project (LGSP) with support from WB with a view to raising ADP block grant for Union Parishads (UP) and ensure their accountability.
January 12	• The Sri Lankan government ratifies the SAFTA agreement to pave the way for free trade of goods among the seven members of SAARC.
January 13	• The government takes move to disburse Tk 180 million among the small-scale farmers of the northern districts over the second half of FY2007.
January 16	• The Barapukuria 250MW Power Plant, the first ever coal-based plant in the country, goes into trial production, with one of its two units contributing 60MW electricity to the national grid.
January 17	• Bangladesh government decides not to sign the Asian Highway Agreement on the grounds that the entry and exit of the highway were not suitable for Bangladesh. The government prefers that the highway enters Bangladesh from Myanmar and exits through India.
	• Japan Bank for International Cooperation (JBIC) proposes seven projects worth Tk 2516.30 crore for developing roads and bridges, port and power

Date	Macroeconomic Events
2006	
	sectors in Chittagong under a multi-sector infrastructure development programme.
	• The Privatisation Commission at a meeting with WB and IMF set August 31 deadline to privatise the state-run Rupali Bank.
January 18	• Pakistan commerce ministry decides to maintain a sensitive list for Pakistan containing 1,183 items on which it will not allow any tariff concession to other contracting states of SAARC under the SAFTA.
January 20	• The government decides to launch a project worth US$100 million for funding the private sector initiatives in infrastructure development projects supported by WB.
	• The SEC rejects 28 initial public offering (IPO) proposals over the past one and a half years because the companies had submitted flawed documents.
January 22	• IMF and WB initiate a series of discussions with Bangladesh to provide technical assistance in preventing money laundering and terrorist financing. A five-member visiting team discusses relevant issues with BB, commercial banks, and Attorney General's Office.
	• The fifth and final round talks between the Bangladesh government and India's Tata Group is deferred until Feb 6, further delaying a final agreement on commissioning of four proposed projects worth $2.5 to $3 billion.
January 23	• BB, in its July-September, 2005 quarterly release, suggests further adjustment in fuel prices to contain fiscal pressure and establishment of a central bonded warehouse to keep the country's ready-made garment industry competitive in view of the quota-free global world.
January 24	• The SEC launches guidelines on corporate governance for listed companies to establish corporate accountability and transparency.
January 25	• Bangladesh and India conclude the first-ever joint coastguard exercise in the Bay of Bengal on pollution control, search and rescue operations, anti-poaching and anti-smuggling.
	• The government bails out the Bangladesh Agriculture Development Corporation (BADC) from the huge burden of paying Tk 2,043 crore in Debt Service Liabilities (DSL) to foreign donors, incurred by the state-owned entity way back since 1961.
January 28	• Bangladesh requests the IMF to waive some of the conditionalities for the fifth tranche of its Poverty Reduction Growth Facility (PRGF) loan. Bangladesh is to get around $75 million as the fifth PRGF tranche and some $25 million as the last installment of Trade Integration Mechanism (TIM) from the IMF sometime in February.
January 29	• The WB executive board endorses PRSP.
	• Economic Relations Divisions (ERD) at a meeting with the IDB officials requests it to provide an additional loan of $500 this year in addition to the $700 million the bank provides for importing fuel.
January 30	• As the dollar crisis deepened, primarily on account of rising expenditure for

Date		Macroeconomic Events
2006		
		petroleum import, greenback price soars to a record high of Tk 69.25 in case of opening LC.
January 31	•	WB calls for raising the allocation for agricultural research, arguing that poor spending in this area is constraining poverty reduction and food security initiatives.
February 02	•	BB announces a guideline for private banks to determine salaries and allowances of their chief executive officers. A BB circular also says the age of a bank's CEO should not be over 65 years and the banks will not be allowed to give any dividend and commission to the CEOs.
February 03	•	IMF Executive Board approves the fifth instalment of the Poverty Reduction Growth Facility (PRGF) and TIM loan totalling $97.2 million for Bangladesh.
February 04	•	The government decides to formulate a new farm subsidy policy to give maximum benefit to farmers and block loopholes in the existing system.
February 06	•	The High Court stays for four months the operation of a SEC order on transferring 1 million shares and taking over the management of Apex Weaving and Finishing Mills Ltd by Dynamic World Holdings Ltd.
	•	Pakistan Hosiery Manufacturers Association (PHMA) and BKMEA agree to work on boosting investment and commerce between the two countries. A MoU to this effect is signed between the two associations in Dhaka.
	•	As the government enters into the fifth and final round of talks with the Indian business conglomerate Tata, the Group proposes a package for the proposed $3-billion investment, seeking to pay $1 for a unit (1,000 cubic feet) of gas.
February 07	•	Negotiations between the government and the Tata Group ends without a result as attempts to reach a common number on the gas price fail.
	•	Bangladesh-Vietnam Joint Commission agrees to boost bilateral trade and investment through various measures, including holding trade fairs in both countries.
February 08	•	A four-day textile and garment machinery show titled "The 3rd Dhaka International Textiles and Garments Machinery Exhibition-2006" organized by BTMA begins in Dhaka at Bangladesh-China Friendship Conference Centre to introduce local textile entrepreneurs with modern technologies in the sector.
	•	BB launches a special drive to track suspicious transactions in line with the provisions of the existing Anti-Money Laundering Act.
February 11	•	The US government initiates the process of withdrawing double taxation in its trade regime aiming to boost investment in and trade with Bangladesh.
	•	The July 1 implementation of the BIMSTEC free trade area becomes uncertain as negotiators of the seven member countries are divided on issues relating to the rules of origin criteria and product-specific lists. The 11th meeting of the trade negotiation committee was held during February 6–11 in Bangkok.

Date	Macroeconomic Events
2006	
February 12	• WB states that the deepening crisis in the power sector is stemming from unusual delays in tendering for the different projects which originated from lack of transparency. The multilateral donor agency engaged its wing, IFC, in the tender process of some proposed power projects.
February 13	• BB finalises a guideline on Islamic banking allowing a commercial bank to form a separate company for operating Islamic banking with fresh Tk 100 crore paid up capital.
February 14	• Donors ask Bangladesh to prepare performance indicators of public finance management (PFM), as the possibility of getting future aid would depend on 'such governance-related benchmarks'. • Through a circular BB relaxes the provision for loan rescheduling so that the borrowers can avail further bank finance. • Two apex trade bodies, FBCCI of Bangladesh and FPCCI of Pakistan enter into a deal agreeing to hold joint business council meetings regularly every year in either country for increasing bilateral interaction. They sign a MoU to this effect in Islamabad.
February 15	• An evaluation report on the National Strategy for Accelerated Poverty Reduction (NSAPR) is released in Dhaka.
February 16	• BB relaxes its policy relating to rescheduling of loans and offering of fresh credits to clients. The new provision allows commercial banks to offer fresh credit facility to clients subject to payment of a particular amount of the previous loan portfolios.
February 18	• UNDP prepares a six million dollar project for development of Chittagong Hill Tracts (CHT) and employment creation there by utilising local resources.
February 20	• To tackle the fertiliser crisis, the government constitutes a high powered cell to monitor smooth transportation and distribution of fertiliser.
February 21	• BB asks the NBR to lower the tax on earnings of the commercial banks from 45 per cent to 30 per cent in a bid to have the banks narrow the gap between lending and deposit rates, which currently hovers about 5 per cent.
February 22	• The finance ministry issues a circular mentioning the timeframe to offload government shares in SoEs in the capital market within April this year. • The ECNEC meeting, chaired by Prime Minister Khaleda Zia, approves 19 projects worth Tk 5,021 crore, including a foreign aid component of Tk 871 crore. It approves rehabilitation project of Karnaphuli Hydro-Power Station (unit 4-5) with a target to get 100 megawatt electricity in next two years. • The SEC approves direct listing regulations for the bourses to encourage the local and multinational profit-making companies to raise funds from the capital market.
February 24	• Dhaka decides to provide 522 products of three LDCs belongings to the BIMSTEC with duty-free access between June 2006 and June 2009. Finance and Planning Minister M Saifur Rahman approves the list of 522 products for the facility. The products now enjoy 10 percent tariff line.

Date	Macroeconomic Events
2006	
February 27	• The Privatisation Commission decides to revamp the process of disinvestment incorporating into the list 21 more SOEs that are currently under the jurisdiction of the jute and textiles ministry.
February 28	• The government decides to go for a $211 million digital telecom exchange project with a so-called 'buyer's credit' from China.
	• Barapukuria coal-fired power plant stops operation only 12 days after it goes into trial production. Its operation is suspended because the national grid has snapped.
March 2	• After a meeting with the visiting IMF team, Finance Minister Saifur Rahman says that The IMF does not like intervention (in the foreign exchange market), as it is a free economy.
	• A five-year ambitious programme of SAARC Development Goals (SDGs) is launched in Dhaka as a step towards making the South Asian nations free from abject poverty. A fund of 300 million US dollars was to be spent on implementing the programmes in the areas of livelihood, health, education and environment.
March 3	• BGMEA decides to shoot video footages of the noncompliant garment units across the country and threatening to take punitive actions against them.
	• The government decides to stop printing notes of Tk 1, Tk 2 and Tk 5 denominations because of their shorter durability and high production cost associated with continuous printing of the notes.
	• BPC accepts an offer of the Kuwait Petroleum Corporation (KPC) to buy harmful diesel with sulphur content exceeding 0.5 per cent.
March 4	• An important meeting of the Bangladesh-India joint working group on trade is deferred for at least two months. The meeting is rescheduled to be held in New Delhi by the end of April.
	• The BGMEA, through a circular, asks the owners of factories to comply with safety requirements within 45 days. The association issues the circular after inspecting fire safety measures of its member factories located in Dhaka and Chittagong.
March 6	• The closed gate of Adamjee Jute Mill, reborn as an industrial park, reopens to accommodate new-generation industries. The prime minister, Khalada Zia, inaugurates the hub of export industries.
	• BB launches a special drive to find out suspicious transactions which could have links with terrorist outfits.
March 7	• The government may have to fulfill five conditions to get the fourth tranche of WB Development Support Credit (DSC). A WB team led by Sadiq Ahmed starts discussion with the government on the fourth instalment of the DSC.
March 8	• WB approves a credit of $100 million to support the Bangladesh government's efforts to address the systemic governance issues with a view to raising the quality and cost-effectiveness of service delivery, and improve equity of access to secondary education.

Date	Macroeconomic Events
2006	
March 9	• IMF adviser for the Asia and Pacific, at press briefing at the IMF Resident Mission, suggests further tightening of BB's monetary policy to ease inflationary pressure. • BB Governor at meeting of bankers tells that BB will set up an intelligence unit to oversee and investigate any irregularities it may have detected in foreign currency transactions.
March 12	• EPB signs an agreement with German GTZ for building capacity of its Trade Information Centre. EPB Vice-Chairman and Juta Link of GTZ Progress sign the agreement on behalf of their respective organisations.
March 13	• Niko Resources accepts the government's price offer of $1.75 per unit of gas from the Feni gas field.
March14	• The third meeting of the European Commission (EC)-Bangladesh Joint Commission begins in Dhaka with focus on trade and good governance issues. Herve Jouanjean, deputy director general for Asia and Latin America, DG External Relations of the European Commission, is leading a high-level delegation to Bangladesh from the EC headquarters in Brussels. • BB withdraws the principal waiver facility extended to the loan defaulters through a circular. • BB serves a show-cause notice on the Islami Bank Bangladesh Ltd for making 'suspicious' transactions in connection with terror financing.
March 18	• Economist Intelligence Unit (EIU) and the global business intelligence forecasts a rise in government spending, continuation of current account deficit and high rate of inflation in 2005-06 fiscal year in Bangladesh.
March 19	• BB withdraws part of its controversial circular related to rescheduling of defaulted loans. BB in an amended circular withdraws the provision that allows the banks to waive the principal amount of a defaulted loan if no further facility is extended to the defaulter. • The government plans to set up three industrial parks for the garment, ICT and pharmaceutical sectors with assistance from the WB. • Japan decides to provide food aid of 500 million yen, equivalent to Tk 29.4 crore, in support of UN World food Programme's Integrated Food Security Activities in Bangladesh.
March 20	• Prime Minister Khaleda Zia embarks on a three-day visit to India with Bangladesh pinning high hope on opening up a new chapter in Indo-Bangla bilateral relationship. • Dhaka Electric Supply Company (DESCO) and the Power Grid Company of Bangladesh (PGCB) decide to offload 25 per cent stake in the share market by May 15, 2006 with a view to bringing dynamism in the capital market, and to enhance accountability in government utility providing agencies.
March 21	• The two countries Bangladesh and India sign two agreements, including one on joint efforts to check illicit trafficking of narcotic drugs and psychotropic substances. The two sides also agreed to operationalise the Sealdah-Joydevpur

Date	Macroeconomic Events
2006	
	train link and decide to hold high-level meetings over disputes on security and water more regularly.
	• Chittagong Development Authority (CDA) takes initiative to construct new roads and widen several vital roads in the port city under seven primary, outer ring road and secondary road network development projects involving around Tk 500 crore.
March 22	• Bangladesh Prime Minister Khaleda Zia wraps up her three-day official visit to India inviting investment from that country and suggesting strategic partnership between investors and traders of the two countries in key areas including information and communications technology (ICT).
	• The Aman procurement period is extended further until March 30 as the target of official purchase of rice from the local market trails far behind the target.
March 23	• Irked by financial irregularities and mismanagement in DESA, the Public Accounts Committee (PAC) of the Jatiya Sangsad (JS) asks the authorities to recover Tk10 crore given to DESA officials as incentive bonus against distorted figures of systems loss.
	• The NBR will launch a drive in April 2006 to ascertain the actual income and expenditure of 200 businessmen under its large taxpayers' unit (LTU).
	• BB Governor at an interaction meeting with the Economic Reporters' Forum (ERF) on "Floating exchange rate management: How does it work for Bangladesh" at the National Press Club says that BB will monitor profit repatriation by foreign companies, particularly cell phone operators, to contain volatility in the foreign exchange market.
March 25	• In a bid to strengthen economic and social development ties between women entrepreneurs of two neighbouring countries, Women Entrepreneurs' Association (WEA), Bangladesh, and Federation of Indian Women Entrepreneurs (FIWE) signs a MoU in Dhaka.
March 27	• As part of the Danida Private Sector Development (PSD) Programme, the Danish Ambassador to Bangladesh approves Tk 3.2 crore to cover a grant for training and technical assistance and export promotion to support establishment of an Offshore Graphic Service Centre.
	• The first 125MW unit of the country's first coal-based Barapukuria 250MW Power Plant, shut down for technical glitches in January, resumes trial production.
March 28	• The government decides to slash its ADP by 8 percent in the face of resource constraints caused by high spending on fuel oil and less revenue earning than expected.
	• BGMEA launches a crash programme to prevent industrial accidents, particularly fire incidents, which tarnished the image of the industry. Under the programme, the BGMEA may decide impose to fine on a factory equivalent to Tk 10,000 if it keeps its gates closed during working hours for the first time, and Tk 50,000 for the second time.

Date	Macroeconomic Events
2006	
	• The Bangladesh cabinet approved an offer by Kingdom Hotels Investments, owned by Saudi tycoon Prince Alwaleed bin Talal, to spend as much as $ 1 billion to build hotels and resorts in the country.
March 30	• WB says it will lend three billion dollars to Bangladesh through 2009. The Bank will put good governance at the heart of its aid programme. The country assistance strategy for Bangladesh was approved on the previous day by the WB Board.
	• For the first time, three state-owned energy companies propose a Tk 300 crore joint venture to develop Begumganj gas field, which reportedly has a proven gas reserve of 32.7 billion cubic feet (bcf). A meeting at the energy ministry finalizes this joint venture proposal.
April 3	• A meeting of the SAARC finance ministers scheduled for April 14-15 in Islamabad is postponed on request from India.
April 4	• WB urges the government to raise petroleum prices and enforce a low-cost, transparent financing plan for getting over the severe power crisis now dogging the country. A WB mission led by its Senior Economist Sandeep Mahajan in a meeting with Finance Minister M Saifur Rahman conveys the bank's suggestions to the government for getting the fourth tranche of its Development Support Credit (DSC).
	• The ECNEC approves seven projects with an outlay of Tk 1,848 crore, including Tk 112 crore in foreign aid component.
April 5	• BB fines the Islami Bank Bangladesh Limited for transactions supposedly linked to Islamist militants. The fine is imposed under the Anti-Money Laundering Act after The BB detects certain transactions by the bank which were in violation of banking rules.
April 8	• The Japanese government decides to provide about Tk 100 crore as a grant to the Chittagong Port Authority (CPA) for strengthening safe navigation system of the port and for maintaining navigability of the Karnaphuli river through dredging.
April 9	• World Food Programme (WFP) launches urban food security study to develop a food security profile and to have a better understanding of the nature and trends in the food security of urban poor in Bangladesh.
April 10	• Bangladesh Telecommunication Regulatory Commission (BTRC) in a pre-bid meeting with the prospective bidders at its office decides to reduce licence acquisition fee, annual government royalty and revenue sharing obligation for the private land phone operators for the central zone.
	• WB decides to undertake a 15-year programme for agriculture development in Bangladesh. The Bank offers endowment fund of US$50 million for successful implementation of the programme.
April 15	• India restricts import of jute products from Bangladesh by pushing up import duties substantially, and by imposing other non-tariff barriers.
April 17	• Bangladesh Commerce Minister informs that Bangladesh will seek duty- and quota-free access of 1,700 items to the global market at the upcoming WTO meeting in Geneva.

Date	Macroeconomic Events
2006	
	• EC and Micro Industries Development Assistance and Services (MIDAS) sign an agreement for conducting a series of training courses on 'Entrepreneurship and Skill Development Training for Retrenched Women RMG Workers'.
April 19	• German Ambassador in Bangladesh Frank Meyke and Economic Relations Division Secretary Ismail Zabihullah sign an agreement between the two governments under which Germany will provide Tk 717 crore (Euro 83.3 million) for income generation and poverty alleviation projects and for developing rural roads and markets in Bangladesh.
April 20	• Oil price jumped to a fresh record high of above $74 a barrel.
	• BB and EPB decide to jointly carry out data reconciliation of export figures to minimise the discrepancies of data calculation between the organisations.
	• The SAFTA ministerial council ends its first meeting in Dhaka, approving a roadmap for tariff reduction proposed by the SAFTA committee of experts and expressing their willingness to integrate trade in services with the regional trade agreement.
	• Indian government imposes tax on Bangladeshi fish including hilsa violating the Bangkok pact of 1996. Under the pact, all kinds of fish imports including hilsa from Bangladesh are exempted from import taxation in India, Bangladesh fishing export.
April 23	• BB drafts a guideline to reduce credit risk of banks and non-bank financial institutions which involve large loans.
April 24	• The cabinet committee on government purchase approves the installation of three barge/skid mounted power plants in the private sector as an emergency measure to tide over, at least, partially, the mounting power crisis.
April 26	• The ECNEC approves 20 development projects involving Taka 4,307 crore, including Taka 1,494 crore as project assistance.
April 30	• Indian conglomerate Tata group proposes higher gas price and some new package benefits in its revised proposal for investment of US$3 billion. According to the new price model, Tata offered $3.10 for per thousand cubic feet (MCF) gas for its fertiliser project and $2.60 per MCF for its proposed steel plant.
	• The Tata Group comes up with revised proposals on its $3 billion investment, offering the government 10 per cent ownership of each of the four projects and unveiling a new plan to float shares on the local market for raising funds.
May 1	• The country's exports of vegetables, fruits and betel leaf to European and Middle Eastern markets is suspended since May 1 following a sudden rise in freight charges of Bangladesh Biman Airlines.
May 2	• The WB approves a US$50 million credit for building capacity for private sector provision of infrastructure.
May 5	• At the second meeting of the Joint Working Group of BIMSTEC, the member-countries – India, Bangladesh, Sri Lanka, Thailand, Bhutan,

Date	Macroeconomic Events
2006	
	Myanmar, and Nepal – decide to strengthen cooperation on combating financing of terrorism and illicit drug trafficking and intelligence sharing.
May 8	• The Kuwaiti prime minister, Sheikh Nasser Mohammed Ahmad Al-Jaber Al-Sabah conveyes his government's decision to lift all barriers to recruiting manpower from Bangladesh during the official visit of Bangladesh prime minister, Khaleda Zia, at the Kuwaiti PM's office.
	• Responding positively to Bangladesh prime minister's request, the emir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, assures Bangladesh of supplying petroleum products on easy terms and conditions.
May 9	• Bangladesh is elected as one of the 47 members of the newly formed Human Rights Council of the United Nations by a large margin of votes in the council's first ever elections held during the UN General Assembly in New York.
May 10	• A visiting team of the IMF urges the government to raise the prices of all fuels including petroleum products and gas as well as power.
	• The ECNEC approves 14 development projects involving Taka 6174 crore, including Taka 3331 crore as project assistance.
	• SEC initiates a move to introduce fund diversion rules for listed companies in a bid to limit their authority to extend interest-free loan to their non-listed sister concerns.
May 13	• D-8 members sign Preferential Trade Agreement to cut import tariffs and remove non-tariff and para-tariff barriers to boost trade among the member countries. The agreement is signed during the group's fifth summit in Bali, Indonesia.
May 16	• The government approves purchase of 28 main battle tanks (MBTs) worth Tk 448 crore for the army under a five-year procurement plan with Tk 90 crore to be spent in the next fiscal year.
	• The UNFPA decides to launch a countrywide awareness programme on gender equality and prevention of violence against women through one million members of Boy Scouts and Girls Guides.
May 18	• The WB before disbursing the budgetary support attaches a string of conditions including adjusting the prices of oil, power and gas to the $150 million fourth tranche of its Development Support Credit (DSC). WB specified six of the recommended actions, with tabling the Procurement Law in the next session of parliament at the top.
	• The government undertakes a programme to strengthen the national food policy capacity in order to ensure food security for all, including the ultra-poor. The programme is funded by the European Commission and the USAID.
May 21	• Prime Minister Khaleda Zia formally inaugurates the superhighway cable at its landing station in Cox's Bazar coast.
May 26	• The government downsizes the Tk 24,500 crore original ADP to Tk 21,500

Date	Macroeconomic Events
2006	
	crore, a 12.24 per cent cut in the wake of donors' suggestions in view of the sharp decline in foreign aid and a slow revenue growth.
	• A parliamentary body drafts a guideline on private sector housing business that recommends handover of plots or apartments to buyers within four months of full payments.
May 28	• The National Economic Council (NEC) approves a Tk 26,000 crore ADP for the next FY2007, increasing its allocation by 23 percent from the current year's revised ADP.
	• WB and other donors agree to provide Bangladesh assistance worth $2 million to help initiate activities to check Avian Influenza (AI).
May 30	• A mission of the Kuwait Development Fund in a meeting with Communications Minister agrees in principle to provide Tk 350 crore of the Tk 550 crore long-waited third Karnaphuli bridge project in Chittagong.
June 4	• Prime Minister Khaleda Zia lays the foundation stone for construction of a Tk 700 crore Jatrabari-Gulistan flyover, the first such project to be built through private investment without involving any government fund or foreign loan support.
June 6	• Bangladeshi companies and organisations receives Tk 1200 crore spot order and booking from the recently concluded Bangladesh single country trade fair in Riyadh, Saudi Arabia.
	• Bangladesh and Italy sign an agreement for implementing the long-cherished Madunaghat Water Supply Project in Chittagong.
June 8	• The prices of octane jump to Tk 58 from Tk 45 per litre, petrol to Tk 56 from Tk 42, and diesel and kerosene to Tk 33 from Tk 30.
	• The government proposes a budget of Tk 69,740 crore for the next fiscal year which is expected to rely more on borrowing from banks instead of foreign assistance, in order to bridge the financing gap.
	• The cabinet approves the proposed budget for 2006-2007 and revised budget for 2005-2006 at a meeting at the Jatiya Sangsad Bhaban in Dhaka.
June 11	• Kuwait agrees to finance a 450-megawatt power plant in Chittagong and sell fuel on deferred payments of 180 days as requested by Bangladesh.
June 12	• Following the severe labour unrest in the country's premier export-earning garment sector, a MoU is signed by the government, garment owners and workers' leaders to ensure labour rights and peaceful environment in the factories.
June 13	• JS approves a Tk 2,516 crore supplementary budget for the current fiscal, allocating a major part of it to agriculture, defence, and home ministries.
	• CDA takes three projects worth Tk 225 crore for developing roads to maintain hierarchy of road network and open up new urban area in the port city.
June 15	• The cabinet committee on purchase, headed by the finance and planning minister, approves a communication ministry proposal for the appointment of

Date	Macroeconomic Events
2006	
	the China Major Bridge Company to construct the Tk 336.30-crore third Karnaphuli Bridge in Chittagong.
June 16	• WB approves a $111.5 million credit to support government's programme to develop accountable local governance system.
June 18	• Aiming to expand the country's natural gas infrastructure and delivery system, ADB and Bangladesh sign agreements for $230 million in loan. • Bangladesh receives spot and prospective orders worth $123 thousand at the 7th SAARC Trade Fair-2006 held in Pakistan.
June 19	• BB removes the managing director of Oriental Bank and dissolved the bank's board of directors to safeguard the interest of depositors.
June 20	• Japan decides to provide Tk 48.97 crore to Bangladesh for a project titled 'Improvement of Digital Mapping System of Survey of Bangladesh'. The government of Japan approves the utilisation of Japanese Counterpart Fund (JCF) for the phase-1 of the project.
June 21	• The finance ministry finally agrees to provide funds to the Rupali Bank against its non-performing loans (NPLs) prior to its transfer to the private sector by September 2006.
June 26	• Japan decides to provide $218 million in loan for implementing Karnaphuli water supply and two other projects. An agreement to this effect is signed between Japan and Bangladesh.
June 27	• The government relaxes rules for import of sugar and pulse through Trading Corporation of Bangladesh (TCB) in a bid to cool down the market prices of the two essential commodities. • The NBR comes to a decision to launch a vigorous drive to identify black money after the expiry of money whitening provision fromJuly 1, 2006.
June 29	• After 23 years of successful implementation of the Rural Maintenance Programme (RMP), CARE Bangladesh hands over implementation responsibilities of the programme to the Ministry of Local Government, Rural Development & Cooperatives.
July 1	• The agreement SAFTA becomes operational under a pre-set tariff-cut roadmap aimed at boosting regional trade among the seven-nation grouping. • Bangladesh is poised to be officially admitted into the prestigious ASEAN Regional Forum (ARF) at its 13th Foreign Ministers' meeting in Kuala Lumpur on July 28.
July 3	• The cabinet approves construction of a 210-kilometer second highway between Dhaka and Chittagong with private investment at a cost of around $900. • WB Country Director Christine I Wallich at a press conference states that the WB hopes for inter-country railway link between Bangladesh and India to accelerate economic growth of the two countries.

Date	Macroeconomic Events
2006	
July 4	• Jonathan C Dunn, resident representative of the International Monetary Fund (IMF), informed the Bangladesh Finance Minister that The IMF will not disburse the $80 million sixth tranche of its anti-poverty loan under the PRGF if the government fails to take concrete steps to further reduce the losses of the Bangladesh Petroleum Corporation (BPC).
July 5	• The fourth meeting of Bangladesh-India Joint Working Group (JWG) on trade begins in Agartala, India with a view to raising export-import trade between the two neighbouring countries.
July 6	• BB directs the non-governmental organisation Juba Karmasangsthan Society (Jubak) to immediately close down its illegal banking and return depositors' money by December 31. • BB asks all commercial banks to make public their evaluation reports on financial situation through credit rating agencies from January 2007.
July 9	• Japan decides to provide 700 million yen, approximately Tk 41 crore, grant assistance to Bangladesh for constructing portable steel bridges in rural areas.
July 10	• Indian industrial giant Tata suspends pursuing any further its investment proposal in Bangladesh as the government indicated that it did not want to take a decision before the next election.
July 12	• The government signs a deal with a Japanese firm to conduct a feasibility study for setting up a deep-sea port in the country. • The ECNEC okays eight development projects worth Tk 3256 crore, of which Tk 1473 crore will come from the government and the remaining Tk 1783 crore from donors.
July 16	• The government negotiation committee on Tata's proposed plants in the country recommends that at no point of time the gas price will be less than the prices offered by international oil companies (IOCs). • BB issues new 100 taka notes with a new measurement size and security thread.
July 17	• The cabinet purchase committee rejects a home ministry proposal seeking approval of a Tk 1,561 crore procurement of machine-readable passport (MRP), visa and national identity (NID) card and asked the ministry to float a fresh tender for MRP and visa only.
July 18	• A four-member investment team from Saudi Arabia arrives in Dhaka to participate in an international bidding floated by the government to sell off the state-owned Rupali Bank. • WB makes a decision to provide about $275 million for the Siddhirganj Peaking Power Plant (SPPP) Project to help the government overcome nagging power crisis.
July 19	• The ECNEC approves eight projects with an outlay of Tk 1589 crore, including Tk 408 crore in project aid.
July 21	• The visiting Saudi investment team hints at spending about $400 million to buy 67 per cent shares of the state-owned Rupali Bank.

Date	Macroeconomic Events
2006	
July 22	• The BB governor states that the BB will take a strong drive to monitor the disbursement system of the SME loans by financial institutions to ensure that benefits of such loans can reach out to the real entrepreneurs.
July 23	• The government decides to slash land phone connection fees by 40 per cent in Dhaka, Chittagong and by 50 per cent in other parts of the country with effect from August 1.
July 24	• A meeting of world trading powers collapses, throwing the WTO's five-year search for a free trade deal deeper into crisis and raising the spectre of complete failure. The global trade treaty was suspended after the 149 members of the organisation failed to agree on cutting customs tariffs and reducing subsidies.
July 25	• Dhaka and Tehran ink a bilateral preferential trade agreement and a MoU to boost tourism between the two countries.
July 26	• IMF defers around $80 million in the sixth tranche of the PRGF loans scheduled for July as Bangladesh failed to fulfil its energy and revenue reform conditionalities.
July 27	• Government of Japan approves the utilisation of Japanese Counterpart Fund, amounting to Tk 21.75 crore, for a project to develop infrastructure of Barisal City Corporation.
July28	• Bangladesh is officially admitted to the ASEAN Regional Forum (ARF) at the inaugural session of the 13th ministerial meeting. Bangladesh becomes the 26th member of the ARF established in 1994, which deals with issues concerning security of the Asia-Pacific region.
July 29	• NBR starts a probe into alleged irregularities, including under-invoicing, over-invoicing and false declarations, indulged in by the importers.
July 31	• The SAARC Standing Committee comprising foreign secretaries of the member countries meets to approve the regional forum's budget for 2007 and review the activities of different technical committees and working groups.
	• Bangladesh is selected to represent the 49 LDCs in the WTO for the next six months.
August 1	• The 27th SAARC Council of Ministers meeting begins in Dhaka to approve the guidelines concerning the association's observers and guests, new observers and other recommendations of the standing committee.
	• The government seeks $225 million credit from the Hong Kong Shanghai Banking Corporation (HSBC) for future payment of oil bills.
	• BB decides to employ an external auditor to look at alleged irregularities in the functioning operations of Oriental Bank.
August 3	• The government decides in principle to form a national committee on 'Aid for Trade' to reap maximum benefits from the WTO's aid for trade packages following Doha Development Round deadlock.
August 4	• A trade agreement to expand and strengthen trade relations further between the Bangladesh and Cambodia is signed.

Date	Macroeconomic Events
2006	
August 5	• Finance and Planning Minister M Saifur Rahman leaves for Washington to lobby the WB and the IMF for releasing $280 million loans as budget support.
August 7	• The cabinet approves the draft of the overseas employment policy to protect the interests and rights of Bangladeshis working abroad.
	• The Election Commission Secretariat decides to request the cabinet purchase committee to exempt it from the public procurement regulations (PPR) 2003 to enable it to complete printing of the updated voter list by October.
	• Bangladesh Finance Minister and Deputy Secretary of the US Department of Treasury sign a protocol to avoid double taxation and prevent income tax evasion in US.
August 9	• BIMSTEC countries agree during the day-long ministerial meeting in New Delhi to speed up talks to conclude Free Trade Area (FTA) before the next summit to be held here in February next year.
	• WB and IMF assures the timely release of the loans, specially the WB's Development Support Credit phase IV (DSC-IV) worth $ 150 million and sixth instalment of IMF's PRGF and TIM worth $ 100 million.
August 12	• A scientific survey group finds, for the first time, a thick sedimentation of elusive oolitic carbonate in the Bay of Bengal, which promises prime underground reservoir of oil.
August 13	• The cabinet committee on jail reforms approves the draft amendment to the Jail Code to modernise the existing one which was prepared by the British colonial rulers.
August 15	• SEC decides to resume the activities of its advisory committee on capital market in a bid to make the market more vibrant.
	• Bangladesh Small and Cottage Industries Corporation (BSCIC) decides to set up three industrial parks – two for automobile industry and one for plastic goods industry– outside the capital at a cost of Tk 82.26 crore. BSCIC signs two separate Memoranda of Understanding on Monday to this effect with associations of automobile workshop owners and plastic goods manufacturers.
August 16	• BB relaxes the terms and conditions for borrowing from commercial banks by the foreign companies, which will also be applicable for the joint venture ones.
August 19	• The Ministry of Post and Telecommunications revives two cancelled contracts totalling $15 million involving two Chinese companies, and forwarded the purchase proposals to the Cabinet Committee on Public Procurement (CCPP).
August 21	• The High Court (HC) stays the sell-off procedure of state owned Rupali Bank.
	• The purchase committee meeting chaired by Finance Minister M Saifur Rahman, approves 17 other projects, despite many of those being identified as irregular.

Date	Macroeconomic Events
2006	
August 22	• BB and WB officials discuss about fixing interest rate in a meeting with representatives of different banks and financial institutions. They decide that local entrepreneurs will be provided with soft loans from the $50 million (around Tk 350 crore) WB fund for development of eight types of infrastructure development, including power sector.
August 25	• Leaders of workers organisations, political parties and economists, in Jatiya Sramik Federation organised the workers' convention held at the Institution of Engineers, called for immediate announcement of a minimum wage of Tk 3,000 for garment workers for resumption of a healthy atmosphere in garment industry.
August 26	• The National Committee to Protect Oil, Gas, Mineral Resources, Power and Port lay siege to the Asia Energy Corporation Office at Phulbari.
August 27	• Saudi Prince Bandar Bin Mohammad Abdur Rahman Al Saud wins the bid to buy the state-owned Rupali Bank with an offer of $330 million, paving way for the first major takeover of a local bank by a foreigner.
August 29	• The government decides to reduce cash incentive for three agro-based exportable items - fresh vegetables, processed agro-products and allied fruits - to 20 per cent from 30 per cent for fiscal year 2006-07.
August 30	• The Cabinet Committee on salary fixation decides, in principle, to increase salary scales of around 8,000 government officers and employees including district election officers.
September 4	• Finance and Planning Minister informs that the ADB has decided to provide the country with US$ 400 million as credit for the rehabilitation work of the Bangladesh Railway (BR).
September 6	• WB-IFC report titled "Doing Business 2007: How to Reform" is launched which mentions Bangladesh being the third easiest country in which to do business in South Asia; however, the country is lagging behind other parts of the world when it comes to reforms that could enhance business activity.
	• ADB forecasts six per cent GDP growth in FY2007, which is slightly lower than 6.7 per cent growth posted during FY2006.
September 7	• The government withdraws all import duties on pulses (chhola and motor) and onion in a bid to keep the prices of those items stable in the holy month of Ramadan.
	• The Japanese government decides to provide Taka 300 crore for infrastructure development of BEPZA.
	• The government and the UNDP sign an agreement whereby the UNDP will provide support worth US$266.05 million to Bangladesh in five priority areas over the next five years.
	• SEC cancels the merchant banking certificate of Equity Valuation Research & Distribution Ltd for violating securities laws.
September 9	• The government takes up fresh initiative to amend the existing Companies Act 1994 aiming at streamlining accountability and enforcing discipline in the country's business establishments.

Date	Macroeconomic Events
2006	
September 11	• The cabinet approves the draft of a new law for releasing female convicts on parole.
September 12	• The National Wage Board at its 24th meeting fails to reach a consensus on minimum wages for garment workers. The board has drafted a three-tier increase in the wages for the readymade garment workers for implementation in three years.
September 13	• Proposal for the sale of 67 per cent shares of Rupali Bank is approved in a cabinet committee meeting on economic affairs. It decides that the existing staff of Rupali Bank will not be retrenched despite privatisation of the bank.
September 14	• ECNEC approves 16 projects with an outlay of Tk 2,745 crore, including Tk 1,342 crore in project aid. • IMF says release of the sixth instalment of the PRGF loan depends on the government's move for revenue mobilisation and NCB reforms.
September 15	• NBR launches a drive to ensure deduction of tax at source by all financial and commercial organisations in view of allegations that many of those bodies are evading tax.
September 17	• ADB decides to lend US$96.1 million to Bangladesh to help expand economic opportunities for the rural poor by way of improving rural infrastructure and local governance.
September 20	• Removing all uncertainties, the IMF gives green signal to release the sixth instalment of the PRGF and the TIM worth $74 million by mid-October. • The JS passes the 'Information and Communication Technology Bill, 2006'.
September 21	• The cabinet committee on purchase approves appointment of experts from Chinese builder CMC Consortium for operation and maintenance of the Barapukuria coal-fired power plant and import of two lakh tonnes of urea fertiliser. • The three-day Bangladesh Apparel and Textile Exposition (Batexpo-2006) kicks off in the capital to showcase products of the textile and garment industry to foreign buyers.
September 24	• The parliament passes Bangladesh Labour Bill 2006 amid strong protests from the main opposition party, the Awami League (AL).
September 25	• A project to phase in waterways around the capital is once again deferred at ECNEC meeting while a government evaluation report recommends the work to solve persistent water logging and traffic congestion in the city. • With Prime Minister Khaleda Zia in the chair, the weekly meeting of the cabinet approves a proposal for signing 'The Protocol on Preferential Tariff Scheme (PRETAS) aimed at facilitating enhanced trade among the members of the OIC.
September 26	• At the 12th meeting of the Private EPZ Board of Governors chaired by Prime Minister, with five years of delay, the government finally decides to award operating licence to the country's biggest private export zone Korean Export Processing Zone (KEPZ).

Date	Macroeconomic Events
2006	
	• CPA proposes a four-fold increase in container storage charge with a view to easing congestion at the port.
September 27	• The ECNEC approves 18 development projects worth Tk 8,746 crore. It also approves a Tk 3,601 crore project to revitalise the state-run Bangladesh Railway. • Officials from ERD and USAID signs a formal agreement to continue joint development activities in the education sector under which USAID will provide a total of $13 million US dollars towards early childhood education programmes until September 30, 2011.
September 28	• The Prime Minister's Office asks the finance ministry to take initiatives for disbursing aid for rehabilitation of the apparel units. To this effect some 100 sick garment factories are to be provided Tk 89 crore assistance from the government.
September 29	• The Department for International Development (DFID) decides to provide Tk 1,300 crore for the primary education development programme (PEDP)-II through a pooled funding arrangement managed by the ADB.
September 30	• Chief secretary to the Treasury of United Kingdom (UK) Stephen Timms announces during his visit to Bangladesh that the UK will allocate US$15 billion in aid over the next 10 years for promotion of education across the world; a sizable chunk will be earmarked for Bangladesh's primary education.
October 2	• Government decides to introduce an automatic fuel pricing formula by the end of the current fiscal. At the same time ration cards for kerosene or direct cash transfer to the poor is also to be introduced to mitigate the impact of energy price adjustments on vulnerable groups.
October 4	• The ECNEC rejects a proposal to approve revised budget for the 150-megawatt (MW) Chandpur power scheme.
October 5	• The Minimum Wage Board announces the final pay structure for the workers in the readymade garment (RMG) sector fixing Tk 1,662.50 as the minimum monthly wage including basic salary, house rent and other allowances for the entry-level workers. All the six members of the board sign the final recommendation, which is to be sent to the government on the next working day. • The Malaysian government once again imposes a ban on recruiting Bangladeshi workers–only two months after lifting a similar ban–as the agencies concerned fails to send 21,988 workers, who are allowed to enter that country. • A MoU is signed between Dhaka City Corporation (DCC) and American Transport System Corporation (ATSC) to conduct feasibility study on construction of elevated express railway in the capital to ease traffic congestion. • The board of directors of the Oriental Bank rejects the BB investigation report about embezzlement of huge sums of money and claims that no member of the board was involved in any corrupt practices.

Date	Macroeconomic Events
2006	
October 10	• The SAARC Disaster Management Centre, a common institutional mechanism to tackle natural disasters by the seven south Asian countries, is opened in the Indian capital.
October 13	• Professor Muhammad Yunus and the Grameen Bank to win the Nobel Peace Prize for 2006. • The ADB says it decides to lend 430 million dollars to Bangladesh over five years to improve Bangladesh's loss-making rail transport system.
October 15	• The government and the WB signs Multi-Donor Trust Fund (MDTF) Grant Agreement, a way of channelling US$460 million for Bangladesh Health, Nutrition and Population Sector Program (HNPSP). • An agreement is signed on the Agriculture Sector Programme Support Phase II (ASPS) under the Danish government's development assistance to the agriculture sector of Bangladesh. According to this agreement Bangladesh will receive Tk 626 crore in grant from Denmark for the development of her agricultural sector.
October 16	• The ECNEC headed by Finance and Planning Minister M Saifur Rahman approves six projects with an outlay of Tk 3,233 crore including project aid of about Tk 36 crore.
October 17	• BB rejects an appeal by the dissolved board of directors of the Oriental Bank seeking withdrawal of the action taken on charge of failure to properly operate the bank. • IMF is set to release US$ 50 million under the sixth tranche of PRGF arrangement for Bangladesh. • WFP decides to give 60,000 tonnes of foodgrains for distribution among 7.50 lakh beneficiaries under the Vulnerable Group Development (VGD) programme in the country.
October 19	• Saudi Prince Bandar Bin Mohammad Bin Abdul Rahman Al Saudi, preferred buyer of the state-run Rupali Bank, expresses his willingness to buy the rest 26 per cent shares of the bank owned by the government.
October 20	• WB approves a $ 40 million credit to support the government's programme to modernise and reform the country's railway sector. • Government increases the power tariffs, of all types of power consumptions including residential, industrial and agricultural, to be effective from January 1, 2007.
October 21	• A slow pace of reforms and failure to fulfil the conditions of the WB results in non-disbursement of fourth-tranche of the DSC worth about US$200 million on schedule.
October 22	• The Privatisation Commission signs the sales and purchase agreement with the Saudi Arabian prince, Bandar Bin Mohammad Abdur Rahman Al Saud, for handing over 67 per cent share of the state-owned Rupali Bank.
October 23	• Bangladeshi manpower export to Malaysia eventually restarts following the end of a ten-year embargo, with first batch of 91 workers leaving Dhaka for Kuala Lumpur.

Date	Macroeconomic Events
2006	
October 27	• The cabinet's purchase committee approves the purchase of three lakh metric tons of urea fertiliser to avert a potential crisis in December-March.
October 28	• IMF approves disbursement of the sixth instalment of PRGF loan amounting to US$49.7 million.
October 29	• President Iajuddin Ahmed assumes the office of the Chief Adviser to the non-party CTG in addition to his presidential responsibilities as "major political parties fail to reach a consensus on an acceptable person for the post".
October 31	• Ten advisers to the CTG headed by Prof Iajuddin Ahmed are sworn in.
November 5	• Following a meeting with BB Governor Dr Salehuddin Ahmed, Finance Adviser to the CTG Dr Akbar Ali Khan states that fund disbursement to the new projects, taken in the current fiscal year despite not fulfilling 'strict economic criteria', would be suspended until the next government assumes office.
November 6	• Finance Adviser Akbar Ali Khan requests ADB to approve a proposed $450 million fund within this fiscal year for installation of a power generation plant in Bangladesh which was suspended by ADB for non-compliance with certain conditionalities. • Following five years' of consecutive placement at the bottom, Bangladesh graduates to the third place from below on the corruption perception index (CPI) 2006 prepared by Berlin-based international anti-corruption organisation – Transparency International (TI).
November 9	• WB decides to curtail 50 percent of its fourth instalment, worth $200 million, of Development Support Credit (DSC) for Bangladesh, as the CTG cannot fulfil the conditionalities required for receiving the fund.
November 10	• BB decides to implement an international banking settlement guideline on risk-weighted capital, supervisory review and market discipline by 2009.
November 12	• Saudi Prince Bandar Bin Mohammad Bin Abdul Rahman Al Saudi offers in principle $134 million to buy the remaining 26 per cent government-owned shares of the Rupali Bank. • The ADB withholds a grant of $46.5 million for Bangladesh's Power Sector owing to the prevailing political unrest in the country.
November 13	• With a view to increase food grains stock, the government decides to import 65,000 tonnes of rice and wheat.
November 15	• BB issues letters to the heads of all commercial banks to be aware about the irregularities in loan rescheduling by defaulters who are likely to contest the next parliamentary election.
November 16	• The IMF sets five major conditionalities, including introduction of uniform taxpayer identification number for the Large Taxpayers Unit (LTU), for releasing the last instalment under the PRGF. • The government sets a target to procure two lakh tonnes of aman rice through the current aman procurement drive beginning on December 1.

Date	Macroeconomic Events
2006	
	• BB asks the commercial banks to fix a timeframe for sanctioning post-shipment credit with a view to ease prices of essentials and discourage hoarding by unscrupulous importers.
November 21	• With a view to attract the investors to the quality shares, the SEC has decided to provide financial adjustment facility to the investors who are diverting their investments from the shares of Z category to the shares of any other categories.
November 22	• Bangladeshi companies, at Gulf Information Technology Exhibition (GITEX 2006) held during November 18 – 22, 2006 in Dubai, has received worth Tk 2 crore export order. • The largest private-run jute mill in the northern region in Rajshahi starts operation with a view to produce good quality jute products including gunny bags, sacks and ropes for exporting to different countries.
November 29	• The Bangladesh government signs a soft loan agreement for 14.4 million euros (Tk 126 crore) with Italy for the rehabilitation of 50 megawatt third unit of Kaptai hydropower plant.
December 1	• The major feeder vessel liners operating to and from Chittagong Port raises freight charges by US$ 200 and US$ 50 for loaded and empty containers respectively.
December 2	• A survey report released by National Democratic Institute (NDI) for International Affairs on the integrity of the voter list reveals that a total of 1.22 crore names registered in the updated voter list are either excess or duplicates.
December 3	• BB has drafted a guideline to ease the merger rules for commercial banks and financial institutions. The guideline specifies three sets of amalgamation encompassing compromise, reconstruction and arrangement— first, between two or more banks; second, a financial institution or other credit agency with a bank; and third, a financial institution with other financial institutions.
December 5	• SEC approves three recommendations of the Consultative Committee to boost trading in stock markets. As per a recommendation, from now on any person selling shares of A, B, G and N category can also buy the same amount of shares from the same category and there will be no need for financial adjustment facility settlement.
December 6	• ADB has awarded three best performing teams of ADB-funded projects in Bangladesh for their success in project implementation. The award-winning project teams are Urban Governance and Infrastructure Improvement Project, and the Second Small Scale Water Resources Development Sector Project, both being implemented under the LGRD and cooperatives ministry, and the Second Primary Education Development Programme under primary and mass education ministry.
December 7	• To encourage the export of halal meat, the Bangladesh government has decided to provide 20 percent subsidy to the exporters, which is subject to shipment for the period from July 1, 2006 to June 30, 2007.

Date	Macroeconomic Events
2006-2007	
December 10	• The Cabinet Committee on Purchase (CCP) approves the purchase of 11 lakh tonnes petroleum products worth Tk 4,521 crore from the Kingdom of Saudi Arabia (KSA) and Abu Dhabi. • The Bangladesh government borrows Tk 9.00 billion (900 crore) through auctions of treasury bills (T-bills).
December 12	• BB asks all the commercial banks to take strong legal steps to prevent the loan defaulters from exploiting various legal loopholes for contesting the upcoming elections.
December 24	• The government borrows Tk 9.00 billion (900 crore) through auctions of treasury bills (T-bills) resulting in a net outflow of Tk 9.00 billion from the market. • The Cabinet Purchase Committee, decides to import 0.2 million (2.0 lakh) tonnes of fertiliser and 25,000 tonnes of wheat to meet the domestic demand of the two items. • The BB asks commercial banks and non-banking financial institutions to utilise its re-financing scheme for the development of small and medium enterprises (SMEs). Banks and non-banking financial institutions can use the central bank's refinancing scheme after keeping the amount of classified loans within the range of maximum 10 per cent.
December 26	• BB Annual Report 2005-06 is released. The report identifies seven risks in achieving the GDP growth target including rising inflationary pressure and obstacles to reforms in the election year. Soaring oil prices, under-pricing of energy products, power shortage, probable adverse effect from RMG sector and political developments centring the general election were mentioned as the other risks.
2007	
January 03	• This is seen as part of the central bank policy to keep the money and foreign exchange markets stable. The central bank purchases about US$60 million from the commercial banks to help keep their 'Net Open Position (NOP)' within the limit fixed earlier by the BB.
January 04	• Central bank's foreign exchange reserves reaches $3,953 million, an all-time high, thanks to a rise in remittance inflows and export earnings.
January 07	• The NBR awards cash grants to 22 tax officers for their outstanding performance in collecting revenues in 2006. • The BB lends Tk 2,455 crore to the government as a fresh fund release into the market.
January 10	• US-based election watchdogs National Democratic Institute (NDI) and International Republican Institute (IRI) suspend plans to send their delegations for the January 22 parliamentary elections. • The Cabinet Committee on Public Purchases decides to import 21.56 lac tonnes of petroleum fuel from Kuwait in 2007 (January-December).
January 11	• President Iajuddin Ahmed resigns from the post of chief adviser to the CTG, declaring a state of emergency in the country.

Date	Macroeconomic Events
2007	
	• Indian government lifts the full a ban on sugar exports with immediate effect, with the country set for record output of the sweetner in the current cane-crushing season to September.
January 12	• Dr Fakhruddin Ahmed, former governor of the BB, assumes the office of Chief Adviser to the non-party CTG.
	• The Power Grid Company of Bangladesh has decided to lease out its recently commissioned 145km Chittagong-Cox's Bazar fibre optic link along the high voltage transmission line to private sector for telecoms use.
January 14	• Three lending agencies, ADB, WB and Japan Bank for International Cooperation, pledges to give loans amounting to \$887 million to Bangladesh Railways to improve efficiency and capacity of the organisation in order to make it commercially viable. However, the lending agencies have tagged several conditionalities, including restructuring of Bangladesh Railway, a losing state-owned concern, into a corporate entity, before funnelling any fund for investment programmes.
January 16	• The newly appointed CTG in a landmark move publishes gazette notifications of four rules relevant to separating the judiciary from the executive.
January 20	• Bangladesh is all set to produce octane from naptha, a byproduct of imported crude oil, in 2009. The government, in mid-November, signs a contract with Bangladesh-US joint venture Mobil Jamuna Fuel Company (MJFC) to set up a naptha processing plant in Chittagong, which will produce octane from naptha. The MJFC decides to invest \$300 million to set up this plant.
January 21	• The interim government forms advisers' committees on purchase, economic affairs, law and order, administration and national award while the National Economic Council (NEC) and Executive Committee on National Economic Council (ECNEC) have also been reconstituted.
January 23	• The UK Department for International Development (DFID) and Unicef signs an agreement to support Bangladesh government in implementing improved sanitation and hygiene programmes to reach 30 million people in 34 districts across the country. For the five-year project from 2007 to 2011, DFID will contribute up to £35 million (Tk 483 crore), Unicef's own contribution will be approximately £4.8 million while the government investment will be around £8.9 million.
January 24	• Palli Karma Sahayak Foundation (PKSF) and CARE Bangladesh sign a MoU with a view to fighting Monga(a near-famine situation), in Lalmonirhat.
January 25	• The government orders a six-month moratorium on the banking activities of the Oriental Bank, seeking to salvage the beleaguered private commercial bank and safeguard depositors' interest.
January 29	• SEC decides to charge an annual maintenance fee of Tk 300 for each beneficiary owner's (BO) account in a bid to discourage use of 'shady BO accounts' in IPOs, to be effective from April/May, 2007.
	• The BB orders the forfeiture of about 70 per cent of the Oriental Bank's issued shares found under 'benami' ownership. The face value of the shares to be forfeited stands at around Tk. 362.6 million.

Date	Macroeconomic Events
2007	
February 3	• The council of advisers to the CTG approves the draft bylaws required to turn the NCBs–Sonali, Janata and Agrani–into public limited companies. An advisory council meeting at the Chief Adviser's Office gives the seal of approval to the draft Memorandum and Articles of Association which would allow autonomous boards of directors, rather than the finance ministry, to run the three banks.
February 5	• A meeting of the Advisers' Committee on Economic Affairs chaired by committee Chairman Finance Adviser Mirza Azizul Islam takes decision to raise the electricity price in urban areas by five per cent per unit for consumptions above 100 units. • The government approves proposal to sell out its remaining 26 percent shares in Rupali Bank to Saudi Prince Bandar for $128 million, which would give him 93 percent ownership of the state-owned bank.
February 7	• Economic Relation Division (ERD) Secretary Md Aminul Islam Bhuiyan, on behalf of Bangladesh and ADB Country Director Hua Du, on behalf of ADB, sign a US$ 3 million loan agreement to improve governance in the capital market and insurance sector.
February 12	• The interim government decides to implement a Tk 550 crore elevated expressway project linking Panthapath to Pragati Sarani/Gulshan Avenue to improve the city's transport system.
February 13	• In a meeting chaired by Chief Adviser Fakhruddin Ahmed, the CTG considers adjusting petroleum prices up to international market rates and cutbacks in duties on fuel imports to bail out the loss-incurring Bangladesh Petroleum Corporation (BPC).
February 15	• The government signs three credit agreements involving $170m with the WB and the ADB to support plans to transform Bangladesh Railways into a well-managed and customer-focused organisation.
February 17	• Biman Bangladesh Airlines stops flights on all domestic routes except three of Dhaka-Chittagong, Dhaka-Sylhet and Dhaka-Chittagong-Cox's Bazar in view of losses incurred.
February 18	• The Anti-Corruption Commission (ACC) publishes a list of 50 persons, including three dozen former ministers and lawmakers, and top politicians and businessmen. They are asked to appear before the ACC and submit their wealth statements within 72 hours of receiving the notification.
February 22	• The government, as part of its initiative to reconstitute the Anti-corruption Commission (ACC), appoints former adviser to the CTG and army chief Lt General (retd) Hasan Mashhud Chowdhury as the chairman of the ACC.
February 26	• SAARC trade ministers at their second meeting in Kathmandu, decides to address the non-tariff and para-tariff measures. The SAFTA Ministerial Council (SMC) has directed the sub-group on non-tariff measures (NTMs) to submit their recommendations by September 2007 when the next meeting of the SAFTA Committee of Experts (CoE) is scheduled to be held. • BB approves draft guidelines for future merger of banks and other financial

Date	Macroeconomic Events
2007	
	institutions of the country. The banking amalgamation guidelines will be the first of its kind in the sub-continent. It will allow small and weak financial institutions to merge and strengthen their base.
February 27	• The government officially cancels the unsolicited bid for Meghnaghat phase three 450 megawatt power project.
February 28	• The council of advisers, at a meeting with Chief Adviser Fakhruddin Ahmed in the chair, decides to operate the Newmooring Container Terminal at Chittagong Port under SOT (service, operation and transfer) system. However, the decision will be effective after the vacation of the existing court order against operating the terminal on the basis of SOT.
March 01	• A five percent increase in electricity tariff for urban consumers comes into effect. • The NBR asks all commercial banks to suspend immediately all transactions of accounts of the 50 graft suspects listed by the Anti-Corruption Commission.
March 02	• The NBR initiates a drive to minimise revenue shortfall in FY 2007. The measures under the drive include realisation of fine and additional income tax from audited tax files and readjustment of taxes on some essential products.
March 03	• At a meeting chaired by the Chief Adviser Fakhruddin Ahmed, The Executive Committee of the National Economic Council (ECNEC) sent back seven projects including three power schemes involving Tk 1,483 crore. Decision is taken to place fresh proposals within a month.
March 05	• The council of advisers decides to review the 2005 deal to hand over the operational management of Chittagong Shah Amanat Airport to Thai Airways in light of the airport's recent adoption of the new Open Skies policy. The weekly council meeting also decides to ratify the SAARC agreement on mutual administrative Assistance in customs matters at the next SAARC summit.
March 06	• The Economic Affairs Committee at a meeting presided over by the Finance Adviser Dr Mirza Azizul Islam sents back, for revision, a proposal to set up a 10MW power plant at Chittagong Export Processing Zone (CEPZ). • A three-day inter-governmental railway meeting between Bangladesh and India begins at Rail Bhaban in Dhaka. ATKM Ismail, additional secretary, Ministry of Communications, leads the Bangladesh team while Ashok Gupta, adviser (traffic), Indian Railway, leads the Indian team at the meeting.
March 07	• The interim government decides to cut import duties on commodities to ensure increased supply in the market and asks the joint forces to coordinate their drives targeting the corrupt and dishonest businesses only.
March 11	• Chief Adviser Fakhruddin Ahmed directs field-level civil and military officials to open sealed godowns across the county so that the stored good quality foodstuff could be sold in the market. • An inter-ministerial meeting organised by the commerce ministry drafts a proposal defining the amount and period for hoarding of nine essential items including paddy, rice, wheat, lentil, sugar, edible oil, onion, milk powder and baby food.

Date	Macroeconomic Events
2007	
March 12	• BB directs all commercial banks to limit the spread on the purchase and sale of the US dollar to less than Tk 1. The gap is highest in South Asia.
March 13	• At a follow-up meeting of the council of advisers the CTG approves a policy guideline for purchasing captive power on an urgent basis to meet the growing demand for electricity in the country. The Chittagong also approves a draft guideline for remote area power supply system (Raps), a new target conceived under the national policy for providing electricity for every citizen by 2020.
March 15	• As part of the government's initiatives to check price hike of essentials, members of Bangladesh Rifles (BDR) establish 17 makeshift open markets in Dhaka.
March 17	• A 31-month joint project is launched aiming to diversify the country's exports and to enhance trade between Bangladesh and the EU. The project activities include transfer of business expertise, assistance in providing specific EU-related consultancy to individual companies in Bangladesh and developing their capacities to disseminate EU-related information, and strengthen sector-specific lobbying for development of quality products for export to the EU member countries. • A meeting of the council of advisers decides to sign an agreement to establish SAARC Food Bank with a view to ensuring food security in the South Asian region during food shortage and food emergency.
March 25	• The advisers' committee on purchase approves a proposal for importing 12,500 tonnes of fertiliser to meet demands during the current boro season. • The government undertakes further initiatives to consolidate procurement reform and improve performance of the system to strengthen public sector governance. WB will provide assistance for this. This initiative is expected to help institutionalise procurement management capacity, strengthen key sectoral agencies and the procurement policy unit, introduce electronic-procurement on a pilot basis, and build concept of social accountability in procurement.
March 28	• The government takes a move to amend the Emergency Power Ordinance-2007 which will give it powers to formulate special provisions to strengthen the ongoing crackdown on corruption.
March 29	• The NBR launches a special survey to identify new taxpayers, the total number of which has remained stagnant for years at a frustrating 15 lakh. The 15-month survey starts initially in Dhaka and will spread across the country. Eight survey teams, each comprising three members, will conduct the survey in the capital.
April 02	• Advisers Council on Public Purchase, known as Cabinet Purchase Committee, approves a proposal to extend existing agreement on fuel import from Kuwait by another year. • The prices of diesel and kerosene are increased by 21 percent, and octane and petrol by 16 percent, with a view to minimise the staggering loss incurred by costly fuel imports.

Date	Macroeconomic Events
2007	
April 03	• The 14th SAARC summit begins in New Delhi with a call for tangible measures to deliver on the existing trade agreements, combat terrorism and alleviate poverty so the grouping graduate to an 'action-oriented' body.
	• Pakistan Prime Minister Shaukat Aziz announces a five-point roadmap to make the Saarc effective.
	• WB is likely to release $ 200 million before the next budget. The understanding is that the government is on the "right track" to implement the conditionalities under the bank's Development Support Credit (DSC IV). The indication came during a press briefing in Dhaka by Sadiq Ahmed, WB sector director for poverty reduction and economic management, South Asia.
April 05	• From now on Foreign direct investment (FDI) estimates will henceforth be made solely by the central bank. This is expected to put an end to the dispute over figures released by both BB and Board of Investment (BoI).
April 06	• The Ministry of Finance instructs three NCBs, Sonali, Janata and Agrani, to complete all formalities to corporatise by May 31, 2007.
April 07	• The council of advisers approves the amended "Emergency Powers Ordinance 2007" and the "Law and Order Disrupting Crime Speedy Trial (amendment) Act 2002".
April 08	• In a major shake up in the capital market, the Securities and Exchange Commission decides to introduce, at an early date, book-building system for initial public offer.
April 10	• Bangladesh's sixth mobile phone operator, the UAE-based Warid Telecom ,launches its commercial operation in the country, with a target to enlist 20 million subscribers within three years.
	• The government diverts 1.17 lakh tonnes of rice worth about Tk 209 crore for open market sales drive. This is made from budgetary allocation for food for work programme, which was previously designed to help the poor through job-oriented safety net.
April 12	• WB decides to provide Bangladesh with $300 million credit under the WB's budgetary aid package by June following the government's progress in reforming the power and financial sectors, and reconstitution of the Anti-Corruption Commission (ACC).
April 16	• The council of advisers cancels privilege enjoyed till now by lawmakers by way of import of duty-free cars.
April 17	• Barapukuria Coal Mine Company Ltd (BCMCL) officially re-launches production due to a series of fresh hydro-geological problems, daily production is reduced to 1,500 tonnes from the original target of 2,700 tonnes.
	• The government approves a proposal to privatise 17 state-owned enterprises, 12 of them operating in the textiles and jute sector, aiming to complete the process in four months.
	• A five-member WB delegation visits the Chittagong Port to study different aspects of the possible handover of the operation of the the New Mooring Container Terminal (NCT) to the private sector.

Date	Macroeconomic Events
2007	
	The government decides to increase procurement price of rice by Tk 2 to Tk 18 a kilogram to encourage farmers to sell their produce during the current boro harvesting season.
April 18	The BB proposes to sell out sponsor shares of the Oriental Bank through open tender following increase of the existing paid up capital.
	The United Nations Development Programme (UNDP) assures the Election Commission (EC) of providing financial assistance for concurrent preparation of voter list with photographs and national identity cards. The estimated cost for this would be about Tk 400 crore.
	The ADB decides to allocate $250 million to improve water supply situation in Dhaka city, having found its pilot project in the city's Manikdi area to be effective.
	The CTG ratifies an agreement between Bangladesh and the United States on "Avoidance of Double Taxation" and "Prevention of Fiscal Evasion".
	Bangladesh agrees to buy 1.2 lakh tonnes of high-speed diesel per annum from India in a move that could see strengthening of energy cooperation between the two countries.
April 19	A MoU is signed between BGMEA and Bangladesh-British Chamber of Commerce (BBCC), according to which BBCC and BGMEA will jointly work for expansion of market of Bangladesh's garments in UK and other EC members.
April 20	A meeting of the Council of Advisers approves a proposal for signing an agreement on Bangladesh-Myanmar direct road link to promote trade and commerce between the two countries.
April 22	The WB decides to finance corporatisation of NCBs under Enterprise Growth and Bank Modernization Project (EGBMP).
April 23	The advisory committee on purchase decides to buy 80 thousand metric tons of fertiliser for the next aman season.
	BB penalises Sonali Bank to the tune of Tk 63 crore for not maintaining statutory liquidity ratio and cash reserve requirement for the last two months.
	A two-day Bangladesh Cotton and Textile Convention-2006 kicks off at Sheraton Hotel in Dhaka. The convention will focus on the progress of Bangladesh's textile industries in the content of emerging the global market scenario.
April 24	Several thousand Bangladeshi workers, living in Kuwait without appropriate documents apprehend that they may have to return home voluntarily or face deportation. This comes in the aftermath of the announcement made by the Kuwait as government as regards an amnesty period that would allow illegal foreign workers to return to their inspective countries without facing any penalty.
April 25	The governments of Bangladesh and the United Arab Emirates (UAE) sign a MoU as a part of which the UAE government has agreed to compensate all

Date	Macroeconomic Events
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	children including the injured ones who were used as camel jockeys in the UAE.
April 26	IFC Advisory Services for South Asia – the South Asia Enterprise Development Facility (SEDF) – and Bangladesh Garment Manufacturers and Exporters Association (BGMEA) jointly take an initiative to explore ways to strengthen competitiveness of the country's garment sector.
April 28	Bangladesh and Myanmar sign an agreement on direct road link between the two countries, aiming to promote trade and tourism between the two countries and beyond their frontiers.
May 01	India and Bangladesh renew the protocol on inland water transit and trade for movement of vessels between the two countries.
May 06	BB projects inflation to continue in the domestic economy because of pressure on prices originating in global market.
May 07	The authorities at a meeting decide to introduce single-point operation system at the Chittagong port replacing the old fashioned stevedoring system.
May 09	A Japanese consultant firm in its first phase survey report submitted to the Ministry of Shipping recommends Sonadia Island in Cox's Bazar district as the most suitable place for setting up a deep-sea port.
May 10	At the inaugural session of the first-ever international investors' conference in Dhaka, speakers urge foreign institutional investors to avail of the opportunities available in Bangladesh.
May 15	BB hosts the 36th meeting of the Board of Directors of Asian Clearing Union (ACU) which began in Dhaka for the second time in the last seven years.
May 16	The CTG approves an agreement between Bangladesh and Switzerland on avoidance of double taxation.
May 17	Agrani Bank, a nationalised commercial bank, receives a licence from the Registrar of Joint Stock Companies and Firms (RJSCF) to operate as a public limited company.
May 18	Country's costliest power project, worth about $120 million, the 70 megawatt third phase Mymensingh power plant of Rural Power Company Ltd (RPCL) gets off the ground.
May 19	The Council of Advisers approves a number of steps to turn Biman Bangladesh Airlines into a Public Limited Company (PLC) by June, 2007.
May 20	Bangladeshi exporters obtain spot orders of more than million dollars and also receive queries that could eventually lead up to few more million dollars' worth of orders from Australian importers at the trade fair.
May 21	Bangladesh and the United Arab Emirates (UAE) sign a MoU to ensure better working conditions and protect rights and interests of Bangladesh workers in the gulf state.
May 24	Australia announces 33 percent increase in its bilateral assistance to Bangladesh from the next year, raising the amount to around 48 million Australian dollars.

Date	Macroeconomic Events
2007	
	• ADB offers a new loan arrangement to Bangladesh suitable for financing big projects, but BB preferred examining the downside risks of the offer.
May 28	• British company CDC Globeleq decides that it would sell the Haripur 360MW, Meghnaghat 450MW and the NEPC 110MW power plants to the Malaysian investment company Tanjong Public Ltd Co.
May 29	• The WB board appreciates the government's initiatives for reforms and approves $200 million Development Support Credit (DSC) for Bangladesh.
	• Bangladesh and Belarus sign an agreement for expansion of trade and economic cooperation between the two countries through increased contacts at different levels.
May 30	• Janata and Agrani, two NCBs, get licenses from the central bank to become public limited companies.
May 31	• The government announces a three-year Export Policy for FY07 to FY09 setting targets to diversify the export basket, create employment and alleviate poverty.
	• The WB approves additional financing of US$15 million to support rickshaw pullers in Bangladesh, were adversely affected by a ban on non-motorised transport (NMT) on certain roads
June 02	• The government approves Tk 26,500 crore ADP for the FY 2007-08.
	• The Council of Advisers approves a proposal for signing a MoU between Bangladesh Standards and Testing Institution (BSTI) and the Bureau of Indian Standards (BIS).
June 03	• Sonali Bank, a nationalised commercial bank, registers with the Registrar of Joint Stock Companies and Firms (RJSCF2) to operate as a public limited company.
June 04	• Bangladesh and South Korea sign a MoU in Gwacheon City to restart manpower export and allow BD to tap deeper into the Korean demand for 50,000 workers in the textile sector.
June 05	• Sonali Bank, gets licence from the central bank to become a public limited company.
June 09	• The NBR completes draft rules to protect local industries by imposing 'safeguard tax' on import of products that could pose threat to the country's export items.
	• The CTG approves a proposal ratifying an agreement on avoidance of double taxation between Bangladesh and Bahrain, the objective being augmented trade and business between the two countries.
June 11	• The NBR decides to impose five percent import duty, instead of the 10 outlined in the budget, on some types of capital machinery used in leather, textile and pharmaceuticals industries.
	• The German government provides NGOs in Bangladesh with grants worth 110,000 euros to implement 17 small-scale development projects by November 2007.

Date	Macroeconomic Events
2007	
June 12	• The BB asks all commercial banks to increase credit flow as growth in private sector credit shrunk by 3.3 percentage point during the first four months of this calendar year 2007.
June 14	• The WB continues about withdrawing its Tk 280 crore grants for the Bangladesh Water Supply Programme Project because of its slow implementation pace and "reactive" project management.
June 17	• ERD Secretary and WB Country Director sign two separate agreements worth US$ 23 million, with support from IDA, for village community development welfare of urban poor in Dhaka city.
June 21	• The WB approves a US$100 million credit from the International Development Association (IDA) to support government's efforts to deepen and sustain reforms in the education sector.
June 24	• Indian Foreign Secretary Shivshankar Menon arrives in Dhaka to start the Dhaka and New Delhi foreign secretary-level talks on signing a MoU aimed at removal of non-tariff barriers. • The government decides to raise the price of per tonne of urea fertiliser by 51 percent in a bid to minimise the loss of government-run fertiliser factories and to stop smuggling of fertiliser to the neighbouring countries.
June 26	• ADB approves $465 million loans for the development of Bangladesh's power sector. • The two-day foreign secretary-level talks between India and Bangladesh concludes with resolutions to share security information regarding cross-border crimes and as regards speed up decisions border issues and water-resources sharing.
June 27	• The planning ministry launches a project titled 'Formulation of Outline Participatory Perspective Plan (OPPP)' at the auditorium of National Economic Council (NEC) as part of preparation of 'Vision Paper 2030'.The project puts special emphasis on reducing poverty and sets a target to ensure power supply to every household by 2030.
June 28	• President Iajuddin Ahmed approves the budget for fiscal year 2007-08. Proposals for imposition of duties on computer accessories, mobile phone sets, and export-oriented capital machinery in the Budget are withdrawn for FY 2007.
June 29	• The Economic and Social Council (ECOSOC) of the United Nations selects Bangladesh and Cambodia as models of poverty alleviation policies and asks these countries to present their success stories at its ministerial-level meeting in Geneva to be held during July 2-5, 2007.
July 1	• The government withdraws provision for imposing safeguard tax on import that was proposed earlier in the current budget (FY2008) to protect local industries.
July 2	• The caretaker government's purchase committee approves awarding of contracts for 10 small power projects with a total production capacity of around 200 MW.

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2007	
July 5	• Bangladesh Bank approves a Tk 300 crore scheme to provide long-term loans with low interests to people from low and middle income groups for purchase or construction of apartments in urban areas. • The government decides to ban hoarding and export of Hilsha fish for the next six months to ensure greater availability in the local market.
July 8	• A train carrying 30-member Indian official delegation arrives at Darshana station near the border on a trial run as part of the initiative to introduce Dhaka-Kolkata passenger train service.
July 10	• Dhaka and New Delhi decides tentatively to operate two passenger trains, with two trips each a week, between Dhaka and Kolkata, from September 2007. • Dhaka University Teachers' Association rejects the government's proposed Umbrella Act 2007 for the country's 28 public universities terming it a "new version" of the University Ordinance 1961 imposed by military dictator Ayub Khan.
July 11	• Concern Worldwide and PKSF sign an MoU that will facilitate 15 local NGOs to benefit from micro-finance funds to improve the lives of the extreme poor.
July 13	• The Canadian government selects 73 Rohingya refugees from two camps in Cox's Bazar and six Somali urban refugees for resettlement in Canada.
July 14	• SingHealth, one of the largest healthcare groups in Singapore, and Galaxy Healthcare Services formally opens an office in Dhaka with a view to sharing medical expertise between Singapore and Bangladesh.
July 15	• IMF welcomes Bangladesh Bank's contractionary monetary policy which has drawn criticism from different quarters. • Dhaka and Yangon agree to sign a MoU for a joint feasibility study to build a large hydropower plant in Myanmar to feed Bangladesh's national grid. • International Institute of Business Analysis (IIBA) forms its Bangladesh chapter.
July 17	• Dhaka and Colombo decide to meet by August 2007 to re-establish direct air and sea links, with Sri Lanka eyeing greater pharmaceuticals, cement, leather goods and food commodities import from Bangladesh and commit themselves to increasing bilateral trade.
July 18	• The Bangladesh Bank (BB) introduces housing scheme to offer loans at a maximum of 10 percent interest rate for low and middle-income people in urban areas.
July 22	• The Dhaka Chamber of Commerce and Industry (DCCI) and the Chinese Embassy in Dhaka organises a business meeting that is followed up by a purchase agreement signing ceremony. The 12-member business team, belonging to Chinese top 500 enterprises, inked agreements with 12 Bangladeshi companies to purchase goods worth $ 53 million. • A joint chamber of commerce and industry between India and Bangladesh starts its journey in a bid to reduce huge trade gap and increase bilateral trade between these two countries.

Date	Macroeconomic Events
2007	
July 23	• Bangladesh Biman turns into a Public Limited Company (PLC) by starting a new journey with the name Biman Bangladesh Airlines Ltd.
July 25	• Grameen Trust and the Hainan provincial government sign MoU at the Chinese embassy by honouring Nobel laureate Prof Muhammad Yunus as the adviser to the Government of Hainan province of China. • Bangladesh and Indonesia concludes their first Joint Economic Commission (JEC) meeting, where Indonesia showed interest in importing pharmaceuticals and ready made garments, among other goods, to improve bilateral trade with Bangladesh, which currently stands at a paltry Tk 509 crore per year.
July 26	• South Korea urges irregular Bangladeshi workers to return home voluntarily so that they can take advantage of Employment Permit System (EPS), a new recruitment plan for foreign workers which provide better facilities. • A four-day international exhibition of textile and garment machineries, accessories, fabrics and related services starts at the Bangladesh-China Friendship Conference Centre in the capital. • The SDC launches a technical assistance programme worth US$3 million for LGSP of the government. • The government signs an agreement worth US$16 million with the IDA to support the country's efforts to minimise threat and risk of Highly Pathogenic Avian Influenza (HPAI)
July 27	• Bangladesh and Myanmar sign a deal to construct a 25-kilometre road connecting the neighbours to boost trade and people-to-people interaction.
July 29	• A train carrying a 35-member Bangladesh official delegation leaves Dhaka for India on a trial run as part of introducing the Dhaka-Kolkata passenger train service.
July 30	• Foreign Adviser Iftekhar A Chowdhury leaves for Manila for Bangladesh's first-ever participation in the ASEAN Regional Forum (ARF). • The second meeting of SAARC technical committee on women, youth and children begins at Hotel Sheraton in Dhaka.
July 31	• Biman Bangladesh Airlines Ltd signs an agreement with the GoB to start its journey as a PLC.
Aug 1	• Chinese Foreign Minister Yang Jiechi reiterates Beijing's support for Dhaka's proposal for a trilateral road-link project connecting Bangladesh, Myanmar and China at a meeting with Bangladesh Foreign Adviser Iftekhar Chowdhury in Manila, Philippines. • UK gives $2.5 million of immediate aid, providing food, water, shelter and medicines for 50,000 flood hit people in the ten worst-affected districts and special assistance through the Chars Livelihoods Programme (CLP)
Aug 2	• Bangladesh signs ASEAN's Treaty of Amity and Cooperation (TAC) at the ASEAN Regional Forum in Manila for greater economic and political cooperation in the region. • Bangladesh and India aim to expand security cooperation and resolving the

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	outstanding land and border issues during the annual home secretary-level meeting in New Delhi.
Aug 5	• The advisers' committee on purchase approves import of 50,000 metric tons of rice from India at a price higher than local market price.
Aug 6	• WFP urges donors and international community to continue to be generous in helping the flood-affected people of Bangladesh.
Aug 7	• The government of Bangladesh signs two agreements with the government of Japan at the Economic Relations Division (ERD). Japan, through its PHRD Grant programme, will provide US$1.6 million as grants to Bangladesh for preparing two projects on clean air and sustainable energy and water resources management.
Aug 8	• India and Bangladesh decide to exchange principles of sharing water of Teesta and seven other common rivers after two-day talks between Water Resources Secretaries of India and Bangladesh in New Delhi. This will be placed before the next meeting of the Joint River Commission (JRC).
Aug 12	• The WFP decides to distribute 2000 tons of rice among flood victims as initial response to the need for emergency relief of flood-affected people of Bangladesh.
Aug 13	• The government approves in principle a proposal submitted by a Malaysian company for building one lakh apartments for low and middle income groups in the capital, but with a caveat that local companies must have the opportunity to take part in the project. • Saudi Arabia sends five cargo planes loaded with relief supplies worth $50 million for the flood-stricken people of Bangladesh at the instruction of King Abdullah. • The Bangladesh Bank (BB) decides to monitor the activities of 9 non-banking financial institutions (NBFIs) as classified loans and provision shortfall of those went up alarmingly.
Aug 14	• The Council of Advisers at a meeting assigns LGED and Water Development Board to the task of formulating a coordinated policy for a permanent solution to the water logging problems in the DND embankment area.
Aug 15	• The government decides to launch Open Market Sale (OMS) on September 9 for one month in an attempt to keep prices of essentials at a tolerable level during Ramadan. • Ambassador of Japan to Bangladesh Masayuki Inoue signs an agreement with Bangladesh government under which Japan will provide Bangladesh with a grant aid worth 611 million yen (approximately Tk 36 crore) for portable steel bridges in rural areas. • Sri Lanka donates US$ 25,000 to the Chief Adviser's Relief Fund for the flood-affected people.
Aug 18	• A sixteen-member Bangladesh media delegation led by SAFMA President Reazuddin Ahmed attends the sixth regional conference of South Asian Free Media Association (SAFMA), in Sri Lanka.

Date	Macroeconomic Events
2007	
Aug 19	• The high officials of the finance ministry at a meeting with the Local Consultative Group (LCG) asks the donors for $150 million additional budgetary support and food aid to tackle the post-flood situation.
Aug 20	• The government declares that it will sell licences to private operators at an auction in October for running the Voice over Internet Protocol (VoIP) business. • The 8th International Congress on AIDS in Asia and the Pacific in Colombo identifies Bangladesh as one of the five countries where HIV/AIDS infections are rising, despite prevalence rates remaining low in the region. • The government decides to award 'national export trophy' to 82 export houses for their outstanding contributions from 2003 to 2005 fiscal years.
Aug 21	• The government decides to prepare three separate papers on duty and quota-free market access, rules of origin and binding coverage (tariff ceiling) to devise Bangladesh position on these issues at an upcoming meeting at the World Trade Organisation (WTO).
Aug 22	• The United Kingdom contributes about $500 thousand (Tk 3.4 crore) to ICDDR,B for treatment of diarrhoea in Bangladesh.
Aug 23	• The government finalises the modality to sign MoU with the Indian government to export eight million pieces of RMG every year.
Aug 24	• Dhaka steps up diplomatic efforts with Malé to ensure the safety of 25 thousand Bangladeshi workers in the Maldivian capital, following a string of attacks on Bangladeshi workers, including murders, over the preceding month.
Aug 27	• WB at a workshop organised in Dhaka reports that poverty reduction rate in Bangladesh is one of the best in South Asia.
Aug 28	• Bangladesh signs MoU with India on duty-free export of eight million pieces of Bangladeshi RMG to India annually. • Chaired by Chief Adviser Fakhruddin Ahmed, a meeting of the Council of Advisers approves the draft of the Bank Companies (Amendment) Ordinance 2007 updating the Bank Companies Act 1991 in order to streamline the banking sector.
Aug 29	• Foreign Secretary-level talks between Bangladesh and Pakistan takes place in Dhaka for a fresh review of the entire range of bilateral affairs as well as regional and international issues of common concern.
Aug 30	• UK contributes $20 million (equivalent to Tk 140 crore) towards Preparation of Electoral Roll with Photographs (PERP) project. • Bangladesh and Pakistan decide to consider providing preferential market access to each other's exports to raise the annual bilateral trade to US$1 billion from a paltry US$ 300 million.
Aug 31	• Communication and transport ministers of eight SAARC countries meet in New Delhi to discuss ways and means to strengthen a multi-modal transport network in South Asia for boosting intra-regional trade. • The government and the Islamic Development Bank (IDB) sign three agreements at a meeting between Finance Adviser AB Mirza Azizul Islam and

Date	Macroeconomic Events
2007	
	visiting IDB President Ahmed Mohamed Ali under which IDB will provide US$9.2 million for the development of agriculture, rural infrastructure and the power sector in Bangladesh.
Sep 3	• As part of BDR's effort to contain price hike of essentials during Ramadan, about 100 fair-price outlets begin operation in Dhaka.
	• The Government of the Republic of Korea donates US$5 lakh for 'Preparation of Electoral Roll with Photographs (PERP)' project.
Sep 4	• During his visit to Bangladesh Intel Corporation Chairman Dr Craig Barrett announces introduction of its Intel World Ahead Programme which aim at providing information and communication technology (ICT) education and its access to the general population across the country.
Sep 5	• The NBR refuses an IMF proposal to introduce joint audit system for income tax and VAT.
	• Acting Country Director of UNDP Larry Maramis and Swedish Counsellor for Development Cooperation Ola Hällgren sign an agreement under which Sweden will provide US$1 million for the Preparation of Electoral Roll with Photographs (PERP) project implemented by the Election Commission.
Sep 6	• The government decides to set up two new urea fertiliser factories in the country in the wake of growing demand in the agricultural sector. One of the proposed factories, North-West Fertiliser Factory Limited, will be set up in Sirajganj while the other, Shahjalal Fertiliser Factory Limited, will be set up to replace Natural Gas Fertiliser Factory (NGFF) Limited in Fenchuganj.
	• A three-day travel and tourism fair begins in Dhaka with a call to promote the industry as the most potential employment generating sector.
Sep 9	• The caretaker government initiates a study on the impact of signing free trade agreements (FTAs) with India, Pakistan and Sri Lanka.
	• Indonesia donates US$100 thousand to the Chief Adviser's Relief Fund for the country's flood victims.
	• The UN Central Emergency Response Fund allocates a sum of US$6 million for the flood affected people of Bangladesh.
Sep 10	• Defence Secretary Kamrul Hasan inaugurates a new satellite ground station of Bangladesh Space Research and Remote Sensing Organisation at the SPARRSO auditorium in Dhaka.
	• The WB decides to provide US$75 million loan for budget support to Bangladesh as emergency flood assistance.
	• Australia donates over 38,550 tonnes of wheat worth about Tk 78.2 crore to Bangladesh to support its food-based programmes for the ultra-poor.
	• The government starts selling rice under Open Market Sale (OMS) programme across the country through 15,440 dealers.
	• A 12-member Bangladesh delegation, led by Chairman of the Centre for Policy Dialogue (CPD) Prof Rehman Sobhan, leaves for New Delhi to attend

Date	Macroeconomic Events
2007	
	a five-day Indo-Bangladesh Dialogue organised in collaboration with India International Centre (IIC).
Sep 14	• Senior officials of SAARC countries agree to meet in New Delhi in late September to discuss a ways to stop terror-funding. They also agreed to operationalise the proposed regional Development Fund as soon as possible and set up an expert group for the development of capital markets in South Asia.
Sep 16	• Bangladesh places a formal complaint with the Malaysian authorities seeking stern action against Malaysian company PTC Asia Pacific for failing to provide appropriate jobs and facilities to Bangladeshi recruits.
	• Bangladesh and India sign MoU on procedural arrangements for duty-free entry of eight million pieces of Bangladeshi apparels into India annually.
	• India donates US$10 million to Bangladesh to assist ongoing relief and post-flood rehabilitation programmes.
Sep 17	• A US-based rights group makes a move seeking cancellation of GSP alleging the country does not allow labour rights in export processing zones.
	• Norway decides to provide US$1 million for the "Preparation of Electoral Roll with Photographs (PERP)" project. Norwegian Ambassador to Bangladesh Ingebjorg Stofring and UNDP Resident Representative Renata Dessallien signed an agreement under which UNDP undertakes to coordinate donor support for the project.
	• IMF warns Bangladesh Bank about the need for tightening the country's monetary policy to control inflation rate during the present fiscal year.
Sep 18	• The visiting mission of IMF agrees with the government stance of not signing the Policy Support Instrument (PSI).
	• The NBR fixes 10 percent flat tax on import of machinery and equipment for rental power plants.
	• Turkish Ambassador Ferit Ergin and Indian High Commissioner Pinak Ranjan Chakravarti hand over a donation of Tk 10 lakh raised by diplomats and employees of 32 missions in Dhaka for the flood victims.
Sep 20	• The government decides to appoint Dr Debapriya Bhattacharya, executive director of the Centre for Policy Dialogue (CPD), as the new ambassador and permanent representative of Bangladesh to the UN offices in Geneva.
Sep 22	• Chief Adviser (CA) Fakhruddin Ahmed leaves for New York to attend the 62nd session of the United Nations General Assembly (UNGA).
Sep 24	• Bangladesh hosts the 15th TNC meeting of the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC) at Sonargaon Hotel, with Sri Lanka Commerce Department DG Manel de Silva as the chair.
Sep 25	• World Bank President Robert Zoellick assures Dhaka of WB support for various development projects of Bangladesh.
	• An agreement is signed between Bangladesh Export Processing Zones

Date	Macroeconomic Events
2007	
	Authority (BEPZA) and Garisan Etika Bangladesh Ltd under which, Garisan Etika Bangladesh Ltd for setting to set up a 50MW power plant in the Adamjee Export Processing Zone (EPZ) to ease the power crisis of the EPZ and surrounding area.
Sep 26	• Malaysian Prime Minister Abdullah Bin Haji Ahmad Badawi assures Chief Adviser Fakhruddin Ahmed of looking into the problems the Bangladeshi workers have been facing in Malaysia. • Bangladesh improves her the position from the previously held 3rd most corrupt country to the 7th according to the Transparency International's (TI) world corruption perception index (CPI), 2007. • A global survey report by International Finance Corporation (IFC) and the World Bank (WB) states that Bangladesh has come down 18 steps to the 107th position among 178 countries in terms of ease of doing business in a country.
Sep 28	• The World Bank approves US$75 million International Development Association (IDA) credit as flood assistance to Bangladesh.
Oct 2	• The Right Livelihood prize was awarded to peace and environmental activists from Sri Lanka, Kenya, Canada and Bangladesh. Grameen Shakti of Bangladesh was awarded for introducing solar energy applications as an affordable and climate-friendly energy option to the rural poor.
Oct 3	• The Malaysian cabinet decides to freeze intake of Bangladeshi workers with immediate effect.
Oct 4	• The United States decides to provide US$173 million for funding health, economic growth and environmental programmes in Bangladesh under an agreement signed between the US Agency for International Development (USAID) and Bangladesh government.
Oct 5	• Bangladesh is elected chairman of the coordination council of Least Developed Countries (LDCs).
Oct 6	• The Council of Advisers approves a proposal to amend the Income Tax Ordinance 1984. With this approval, the ceiling of income tax deduction at 10 percent from interest or profit of savings certificates has been raised to Tk 150 thousand from earlier Tk 25 thousand. • A two-day secretary level trade talks between Bangladesh and Nepal begins in Kathmandu to boost trade volume between the two countries.
Oct 7	• A service which allows Bangladeshis in Malaysia to transfer money home via their mobile phones is launched by Citibank N.A. and DIGI Telecommunications Sdn Bhd.
Oct 8	• Bangladesh agrees in principle to offer Rohanpur in Chapainawabganj district as the rail port for the transit of goods to and from Nepal.
Oct 9	• The government decides to withdraw two officials of Bangladesh High Commission's labour wing in Kuala Lumpur allegedly due to their inefficient handling of Bangladeshi workers in Malaysia.

Date	Macroeconomic Events
2007	
	• The central bank tightens rules for exchange houses abroad having 'drawing arrangements' with local banks to ensure safety of remittances sent by non-resident Bangladeshis.
Oct 10	• Bangladesh calls upon the United Nations to renew international efforts to facilitate free movement of labour services for creation of large-scale overseas employment opportunities for the citizens of developing countries, particularly the LDCs. • The government forms a science and technology promotion trust under the Ministry of Science and Information & Communication Technology to promote scientific research and education in the country. • Vice President of the Asian Development Bank (ADB) Liqun Jin arrives in Dhaka on a three-day official visit.
Oct 11	• The advisory committee on economic affairs approves leasing out of eight state-run jute mills, four of which are already closed, to the private entrepreneurs in a bid to cut down on losses. • Visiting Asian Development Bank (ADB) Vice-President Liqun Jin pledges US$150 million in credit for post-flood rehabilitation programme in Bangladesh. • The government signs deals with private sponsors to set up 10 small power plants across the country which will have a total capacity of about 200MW.
Oct 12	• Nobel laureate Prof Dr Muhammad Yunus raises US$2 lakh in New York for Bangladesh's destitute children.
Oct 16	• The government fixes an ambitious export target of $14.5 billion for the fiscal year 2007-08 against a backdrop of falling exports in RMG sector.
Oct 17	• Bangladesh government launches an all-out lobbying effort for passage of a bill which was recently placed in the US Congress seeking to allow a duty- and quota-free access of apparels from the poorest countries. • Chief Justice (CJ) Md Ruhul Amin says separation of judiciary from the executive will be effective from November 1. • The European Union (EU) reiterates its support for different initiatives of the Caretaker Government when Netherlands Ambassador BM Ten Tusscher met Foreign Adviser Iftekhar A Chowdhury at the foreign ministry.
Oct 19	• Appreciating Dhaka's institutional reforms, the World Bank assures the government of continuing support for the various efforts to accelerate economic growth and poverty reduction in the country. • The government decides in principle to make it mandatory for recruiting agencies to select overseas job seekers from the databank of the Bureau of Manpower Employment and Training (BMET) in a bid to check fraudulent practices by manpower brokers. • The government decides to submit proposals for 33 trade-related technical assistance projects to receive funds under the WTO's proposed Enhanced Integrated Framework (EIF).

Date	Macroeconomic Events
2007	
Oct 20	• The BoI decides not to allow any foreign national to work in Bangladesh for over five years in order to encourage transfer of technical know-how to local people.
Oct 21	• BB decides not to go at the moment for implementing an IMF suggestion that calls upon Bangladesh to be tough on loan defaulters and to increase bank capital.
Oct 22	• An agreement signed between the Bangladesh Export Processing Zones Authority and M/s Monticore Technology Ltd at BEPZA complex for Monticore to set up a 50MW power generation plant in Ishwardi EPZ to solve the power crisis of the EPZ and its surrounding area. • 4 days Bangladesh trade fair starts in Tokyo.
Oct 23	• Bangladesh Petroleum Corporation (BPC) expects to lose a record Tk 4,500 crore this fiscal year because of a sharp increase in global crude prices. • A view exchange meeting held between leaders of Chittagong Chamber of Commerce and Industry (CCCI) and visiting trade delegation from Confederation of Indian Industry (CII) emphasising joint programmes to increase bilateral trade.
Oct 24	• The Advisers' committee on purchase approves import of 1,37,500 tonnes of urea on an urgent basis to avoid any possible crisis of fertiliser ahead of the Irri-Boro season. • Grameen Shakti wins Katherine M Sawnson Equality Tech Museum Awards 2007 for its outstanding achievement in empowering rural people, especially the disadvantaged rural women, through renewable energy technologies.
Oct 25	• SAARC home ministers decide to exchange information regularly to fight terrorism and work on establishing a convention for mutual legal assistance in criminal matters at the end of a three-day ministerial meeting in New Delhi. • The IMF sets 20 conditions, under a package of reform, for the government as part of the new Poverty Reduction Growth Facilities (PRGF) arrangement. • Kuwaiti government decides to withdraw restrictions on transfer of residency, as a result of which certain categories of Bangladeshi workers in Kuwait will soon be able to change their jobs under the same sponsor.
Oct 28	• SAARC legal experts ask to finalise the draft of the Mutual Legal Assistance (MLA) treaty on criminal matters as member states failed to reach an agreement on an earlier draft prepared by India at the recent SAARC home ministers' conference.
Oct 29	• Malaysian police arrests 39 Bangladesh nationals following a gang fight involving Bangladeshis and locals in Johor Baru of Malaysia.
Oct 30	• The government forms 17-member Regulatory Reforms Commission (RRC) headed by former adviser to the caretaker government Akbar Ali Khan. • Bangladesh Bank increases the Export Development Fund (EDF) to US$ 150 million from the existing US$ 100 million to provide support to selected export-oriented industries.

Date	Macroeconomic Events
2007	
November 1	• The judiciary finally embarks on a historical journey as it comes out of the control of the executive organ of the state. • The ADB provides Bangladesh $150 million in loan to better equip the country in its fight against corruption and to foster economic growth by strengthening the country's governance system.
November 3	• Bangladesh seeks additional assistance from the WB for facing economic challenges caused by global increase of prices of oil and food items and in view of the recent countrywide flood.
November 4	• The visiting WB President Robert B Zoellick offers Bangladesh support for creating a better business environment through the bank's action plan if there is an understanding about major development agendas of the country. • The French government decides to donate 948 thousand Euros, equivalent to over Tk 9 crore, to three NGOs working in the country to support the post-flood food and rehabilitation programmes.
November 5	• The government decides to set a monthly minimum wage of Kuwaiti dinar (KWD) 50 or Tk 12,000 equivalent for sending Bangladeshi workers to Kuwait. • A two-day meeting of the Bangladesh-India Joint Working Group (JWG) on trade begins at the commerce ministry where Dhaka requested New Delhi to lift the ban on export of rice, wheat and pulses to Bangladesh from India. India requested Bangladesh to lift the ban on Hilsa exports. Dhaka also requests India to remove non-tariff and para-tariff barriers to reduce the trade gap between the two countries. • Bangladesh receives around 1.2 lakh metric tons of rice worth 50 million US dollar for flood victims under an order given by the Saudi King Abdullah.
November 6	• The two-day meeting of Bangladesh-India Joint Working Group on Trade ends with little progress in the bid for withdrawing Indian ban on export of rice, onion and pulses. • The ADB extends a financial assistance package to help Bangladesh government in its fight against corruption and enable it to establish a system of good governance that will pave the way for more rapid economic growth. The bank provides a $150 million loan, to be disbursed in three tranches over a period of four years, for good governance programme of Bangladesh. • Software piracy in Bangladesh cripples local industry, costing local retailers $90 million a year, warned a top international software expert in Dhaka.
November 7	• Describing the bilateral relations between India and Bangladesh as 'very good', Indian High Commissioner Pinak Ranjan Chakravarty stresses the need to increase cooperation between the two countries in all sectors, including economy and trade.
November 8	• The advisory committee on purchase approves around Tk 1,400 crore for importing significant amounts of rice and fertiliser to meet growing demand. • Govt decides to suspend Trading of Rupali Bank shares both in the public

Date	Macroeconomic Events
2007	
	and spot markets on Dhaka and Chittagong bourses until a final decision is made on the state-run bank's sell-off procedures.
	• DEG, the German Investment and Development Company, extends a long-term loan of US$ 7.5 million to Esquire Knit Composite Ltd, a concern of Esquire Group, for its expansion of knit composite unit located at Kanchpur in Narayanganj.
November 9	• Bangladesh's permanent representative to the UN, Ismat Jahan, signs the Intergovernmental Agreement on the Trans-Asian Railway Network agreement at UN headquarters which makes Bangladesh the 20th signatory to the deal. This move would connect the country's rail system to a 81,000km network stretching from Europe to East and South-East Asia.
November 10	• Five development partners, WB, ADB, Japan government, Danish International Development Assistance (Danida) and the government of the Republic of Korea, agree to give Bangladesh $800 million as loans for a project for supplying safe drinking water through pipeline and improving sanitation services in Dhaka and Chittagong cities.
	• US-based Dun & Bradstreet, a leading provider of global business information, tools and commercial insight, and BRAC Bank sign a MoU to set up a rating agency for small and medium enterprises in Bangladesh.
November 11	• The advisory council approves the "Consumers Rights Protection Ordinance 2007".
November 12	• At the second Bangladesh-Myanmar Joint Trade Commission meeting held at a Dhaka hotel, Dhaka proposes Yangoon to supply gas for a fertiliser plant in Bangladesh. The produce would then be sent back across the border.
	• In a bid to bring more individuals under tax net, the National Board of Revenue (NBR) forms a three-member committee to simplify the existing tax return forms.
	• Import of rice from Myanmar starts anew after a one-and-a-half-year break under a crash course to bring down the soaring prices of the staple on the domestic market.
November 13	• Malaysia drafts a stringent law to control hiring of foreign workers and their salary in an effort to calm labour unrest and reduce the country's dependency on immigrant workers.
November 15	• State-owned Sonali, Janata and Agrani banks formally emerge as public limited companies (PLCs) with the signing of separate 'vendor' agreements to this effect.
	• Hurricane Sidr hits coastal districts, particularly Khulna and Barisal, as it starts its journey across the country from northern Bay of Bengal with high tidal surge and strong winds of over 200km per hour.
November 16	• The government allocates funds, including Tk 9.5 crore from the chief adviser's relief fund and Tk 11 crore from food and disaster management ministry, for providing assistance to people affected by cyclone Sidr.
November 17	• The government estimates a damage of at least six lakh metric tons of Aman

Date	Macroeconomic Events
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	crops due to Cyclone Sidr. It is apprehended that this will add to the existing food problem of the country.
	• The United Nations, Germany and different local and international organisations allocate funds for conducting relief and rehabilitation activities among the cyclone-hit people.
	• A special meeting of the Council of Advisers allocates Tk 35 crore in emergency aid for house building in the cyclone-affected districts and asks the ministries concerned to restore the snapped communication networks on an urgent basis.
	• Prices of most essential commodities go up in kitchen and wholesale markets in the capital in view of the devastating cyclone Sidr, pinching consumers.
November 18	• In response to the government's formal appeal for international assistance, donor nations and agencies pledge over US$ 25 million in assistance to help Bangladesh meet the country's rising demands in the aftermath of Cyclone Sidr.
November 19	• The government receives assurance of foreign assistance of over $142 million for the cyclone-affected people.
	• Bangladesh seeks help from the international community for its cyclone victims and for post-cyclone rehabilitation.
November 20	• In response to the government's appeal, different countries and donor agencies pledge humanitarian assistance to meet the emergency needs of the cyclone-affected people.
	• The country's first-ever women SME exposition begins at Chittagong.
	• Expatriate Bangladeshis in various countries raise funds to help the victims of the devastating hurricane that left hundreds of thousands people homeless in the southern regions of the country.
November 21	• More countries, donor agencies and financial institutions pledge relief for cyclone victims and their rehabilitation, with the WB offering the highest amount of $250 million.
	• The government decides to give VGF cards to 25 lakh families, beginning from the first of December.
	• The advisory committee on purchase approves a proposal for importing 90 thousand tonnes of different kinds of fertiliser.
November 22	• Donor nations and agencies pledge over $550 million in assistance for the cyclone Sidr-hit people in south and south-western districts as the government unveils a three-phase rehabilitation plan.
November 23	• India lifts the ban on export of non-Basmati rice, only to Bangladesh, to help survivors of the devastating cyclone Sidr.
	• A medical team of Pakistan Army reaches Barisal to provide medical facilities for the Sidr-affected people in Barguna and Bagerhat districts.
November 24	• The caretaker government moves to constitute a Public Accounts Committee

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2007	
	(PAC) on ad hoc basis to scrutinise its accounts. The Committee will also examine the large number of audit reports submitted with various objections by the office of Comptroller and Auditor General (CAG) which have remained unresolved in the absence of parliament.
	• Around 2,300 US Marines and Navy personnel set to start a massive operation in a day or two to reach relief materials to the victims of Cyclone Sidr in the coastal districts.
	• At a meeting of Committee on Economic Cooperation (CEC) of the bloc which began in Dhaka, SAARC nations call for elimination of non-tariff and para tariff barriers to boost intra-regional trade. .
November 25	• The government informs donors that it needs at least two lakh metric tons of food grains in assistance since the cyclone and floods have caused extensive damage to crops leading to a shortfall of about 10 lakh metric tons.
	• The government decides to lend Tk 130 crore from the finance ministry's fund in the form of soft credit to cyclone-stricken small traders and fishermen as well as for livestock and poultry for revival of shattered livelihoods.
	• The business community pledges relief in cash, food and clothing, which the government estimates to be worth about Tk 20-25 crore, for distribution among Sidr-affected people in 12 southern districts.
	• Save the Children Sweden-Denmark decides to set up 200 protection centres in Pirojpur, Borguna, Patharghata, Dublarchar and other areas to provide support for the children affected by the cyclone Sidr.
	• Youngone Corporation, Korea, contributes US $ 100 thousand to the Chief Adviser's Relief and Welfare Fund for relief operations for the cyclone victims.
November 26	• Hilly land port, the second largest land port in Bangladesh, starts operating under private management for the first time.
	• The government forms two taskforces to guide the country to get a new US trade bill passed. The bill has the potential to benefit the apparel industry significantly.
	• Former adviser to the caretaker government and founder of Scholastica School Yasmeen Murshed appointed as High Commissioner to Pakistan on a two-year contract.
	• Micro credit providers of the country consider writing off over Tk 600 crore outstanding loans of some 7.5 lakh borrowers who have been severely affected by Cyclone Sidr.
November 27	• Bangladesh seeks five lakh metric tons (MT) of rice from the international community as assistance for tackling any possible food crisis in the country because of the recent spate of floods and the cyclone.
	• The latest UN Human Development Report (HDR) release states that Bangladesh is among countries to be worst-affected by climate change which may cause a large-scale reversal in human development.

Date	Macroeconomic Events
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	• US Agency for International Development (USAID), as a goodwill gesture of the people of the United States, pledges more than $10 million worth of Food assistance for the cyclone-affected people of Bangladesh.
	• The National Board of Revenue launches a new initiative to increase revenue collection by sending millions of Bangladeshis an SMS text message on their mobile phones reminding them to submit their respective tax returns.
	• The Netherlands contributes about 5 million US dollar over three years for completing the electoral roll with photo and strengthening the capacity of the Election Commission to prepare for holding the up coming polls.
November 28	• The country's livestock sector suffers a loss of around Tk 300 crore in the recent cyclone Sidr. According to the Department of Livestock Services, over one lakh cattle and 21.5 lakh poultry birds were killed only in the four severely affected districts.
	• The cabinet committee on purchase approves a proposal to import 12 lakh metric tons of crude oil at a cost of Tk. 7,335 crore.
November 29	• Cyclone Sidr deals a severe blow to the Sundarbans, destroying 1,528 square kilometres of the forest out of around 6,000 square kilometres, according to forest officials' primary assessment.
	• The World Food Programme (WFP) decides to start, within a week, an emergency six-month food aid for 2.2 million worst victims of cyclone Sidr in nine most affected districts.
	• United Nations Fund for Population Activities (UNFPA) decides to provide assistance to 30 thousand pregnant women in the country's southern part battered by Cyclone Sidr.
	• The Bangladesh embassy in Washington DC, along with Bangladesh consulates in Los Angeles and New York, raises Tk 3.5 crore in donations for the cyclone-affected people of the country.
November 30	• Indian External Affairs Minister Mr Pranab Mukherjee arrives in Dhaka on a day long visit for a first hand assessment of the devastation wrought by Cyclone Sidr.
December 1	• India lifts ban on rice exports to the tune of five lakh tonnes to help Bangladesh deal with her food shortages. India also proposes to pay for the full rebuilding of 10 villages most badly affected by Sidr.
	• The agriculture ministry's final assessment shows a damage of about eight lakh metric tons of Aman crops worth around Tk 2,000 crore due to cyclone sidr.
December 3	• Chief Adviser Fakhruddin Ahmed asks international donors to pump in an estimated $1 billion to assist a massive long-term plan to protect the coastal areas from recurring natural disasters and climate changes, and for supporting the government's efforts to reduce risks that undermine Bangladesh's development.
December 4	• The World Heritage Centre (WHC) invites a formal request from Bangladesh

Date	Macroeconomic Events
2007	
	for receiving support from its emergency response fund for the Sundarbans.
December 5	• Partners of the Global Facility for Disaster Recovery and Reconstruction (GFDRR), Denmark and WB, appeal international donors to support accelerated recovery of the losses caused by Cyclone Sidr. • The Advisory Committee on Public Purchase approves a proposal for import, under which the government will collect 1lakh tonnes of fertiliser from Qatar and UAE to meet the growing demand for this essential farming input.
December 6	• The government approves the final recommendations of the 6th Wage Board Award relating to salaries, allowances and other benefits for the journalists, employees and press workers. • US military ends its emergency relief operation in Bangladesh's cyclone-battered coastal districts after two weeks of work.
December 7	• Eight-member SAARC countries decide to set up a regional security network and finalise a mutual legal assistance treaty (MLAT) for cooperation against criminal activities. • ADB decides to provide Cambodia and Bangladesh with 49 million dollars in loans and grants to help the development efforts of the respective countries.
December 8	• SAARC foreign ministers put into operation a $300 million regional development fund, and finalised the draft agreement on a security pact to share information about criminal activities. They also decide that Sri Lanka will host the 15th SAARC summit next year at the conclusion of the 29th SAARC council of ministers meeting in New Delhi. • An Indian navy ship arrives at Chittagong port with relief materials for cyclone Sidr victims. • The government allocates an additional Tk 60 crore for rebuilding houses in the cyclone-hit Bagerhat and Barguna districts. • The council of advisers approves the National Human Rights Commission Ordinance 2007, a day before World Human Rights Day.
December 10	• The Advisory Committee on Public Purchase approves a proposal for procuring 43,000 tonnes of non-Basmati rice from the local suppliers.
December 11	• Japan decides to provide $ 324 million in loan assistance for New Haripur Power Plant and two other projects in the country. • The Advisory Committee on Economic Affairs decides to relax some provisions of the Public Procurement Regulation (PPR) 2003 to facilitate quick import of rice on an urgent basis. • The Privatisation Commission serves a legal notice to the Saudi prince, asking him to deposit $458 million within December 26 as per the commission's tender participation rules for taking over the Rupali Bank.
December 12	• Readymade garment (RMG) sector leaders at a tripartite meeting that included garment factory owners, employees and the government, pledge to pay due salaries and allowances to their employees by December 19 to avert any unrest in the sector before the Eid-ul Azha.

Date		Macroeconomic Events
2007		
	•	Members of the South Asian Telecommunications Regulators' Council (SATRC) elect Bangladesh the chair of SATRC for the next one year term.
December 13	•	WB Vice President for South Asia region, Praful C. Patel, arrives in Dhaka on a three-day visit to discuss the bank's support strategy with the government.
	•	The European Union signs an agreement with Bangladesh government to provide a grant of 33.6 million Euro (Tk 336 crore) for expanding food security in Bangladesh.
	•	Switzerland decides to provide an additional $3.6 million for emergency cyclone assistance and post-flood rehabilitation programmes, while South Korea donates $300 thousand as immediate lifesaving assistance for the Sidr victims.
December 15	•	Bangladesh government initiates a move to explore natural gas in the country's north, mostly an agrarian region that also has deposits of coal and other minerals.
December 17	•	The cabinet purchase committee approves purchase of 74 thousand tonnes of rice and 33 thousand tonnes of wheat.
	•	The government tightens procedures to issue GSP certificates to exporters in a bid to check misuse of the certificates that allow duty-free access to Bangladeshi export tables to the European market.
December 18	•	The Food and Agriculture Organisation(FAO) of the United Nations put Bangladesh and four other SAARC nations on the list of 37 countries facing food crisis, and requiring external assistance.
December 19	•	UK Secretary of State for International Development, Douglas Alexander announces a grant of over $200 million for various programmes in Bangladesh. This includes $60 million for helping the country adapt to the impacts of the global climate change.
	•	Garment workers in Gazipur's Degerchala area go on the rampage for salary, Eid bonus, overtime bill and allegations of underpayment. About 600 workers of AMC Sweaters turn violent after discovering that the authorities had locked the factory and left the place without paying their salary and other dues.
December 25	•	More than 200 Bangladeshi migrant workers seek refuge outside their country's embassy in Malaysia. They claim that their employers underpaid them and also abused them.
December 26	•	Saudi Prince Bandar Bin Mohammad fails to respond to the Privatisation Commission's notice served to him asking him to deposit the entire amount agreed on for buying the Rupali Bank.
December 27	•	The first-ever non-resident Bangladeshi (NRB) conference begins in Dhaka. The conference aims to bring together Bangladeshi scholars, professionals and investors residing across the globe.
	•	India increases the minimum rate of different kinds of rice exported to Bangladesh to $500 from the cashier announced $425 per tonne (subsequently

Date		Macroeconomic Events
2007		
		reduced to $425/tonne for L/Cs opened before December 27, 2007).
December 29	•	India decides to allow investment from Bangladesh.
December 31	•	Investment Corporation of Bangladesh (ICB), responsible for offloading shares of various government entities, proposes the government to securitise Jamuna Bridge by issuing Tk 500 crore bonds to be traded on the stock market.

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Centre for Policy Dialogue (CPD)
House 40C, Road 11, Dhanmondi, Dhaka 1209
Tel (880-2) 9145090, 9141703, 9141734, 8124770
Fax (880-2) 8130951, E-mail cpd@bdonline.com
Website www.cpd.org.bd

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