State of the Bangladesh Economy in FY2007-08 and Outlook for FY2008-09

Centre for Policy Dialogue (CPD)

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CENTRE FOR POLICY DIALOGUE (CPD)
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The Centre for Policy Dialogue (CPD), established in 1993, is mandated by its Deed of Trust to service the growing demand originating from the emerging civil society of Bangladesh, for a more participatory and accountable development process. CPD seeks to address this felt need through organisation of multistakeholder consultations and dialogues, by conducting research on issues of critical national and regional interests, through dissemination of knowledge and information on key development 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), Investment Promotion and Enterprise Development, Agriculture and Rural Development, Ecosystem and Environmental Studies, Human Resource Development, Gender Issues and Social Protection,* and *Governance and Policy Reforms*. 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 340 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

The views expressed in this volume are those of the CPD IRBD 2008 team members and do not necessarily reflect the views of the CPD.

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PREFACE

The current volume titled State of the Bangladesh Economy in FY2007-08 and Outlook for FY2008-09 has been prepared by the Centre for Policy Dialogue (CPD) under its flagship programme which has come to be popularly known as the IRBD Programme (Independent Review of Bangladesh's Development Programme). The present volume, which is the fifteenth in the IRBD series, carries forward the tradition of CPD's effort, initiated back in 1995, to come up with an independent civil society perspective on major macroeconomic developments in Bangladesh, on a regular basis. Since its inception, the IRBDs have been prepared under the inspiring guidance of CPD's founding Chairman *Professor Rehman Sobhan* who had envisioned IRBDs as a vehicle to promote informed debate on key economic issues of interest and concerns to the citizens of the country as a tool to influence policymaking in Bangladesh. IRBD exercise was meant to serve as an instrument to hold policymakers accountable for the stewardship of the development process and development outcomes in Bangladesh. It is hoped that the current volume upholds the tradition of this lofty ideal. In this connection, it is to be noted that the various sections of the present volume were prepared in consultation with relevant stakeholder groups; findings were presented and discussions held at CPD dialogues with participation of key stakeholders.

In line with the earlier exercises, this year's IRBD volume examines and analyses key macroeconomic performance indicators of Bangladesh in the immediate past fiscal year, i.e. FY2007-08. As is known, this was the first time that a non-party caretaker government (CTG) completed a full fiscal year. And this happened in the midst of some major developments at both global and domestic fronts. The present volume provides an analysis of both the success and failures of economic governance in the challenging period of FY2007-08.

As on the previous occasions, the present IRBD volume is accompanied by a thematic volume. This volume titled *Recent Inflation in Bangladesh: Trends, Determinants and Impact on Poverty* focuses on the issue of high inflation that was a critical feature of macroeconomic developments in FY2007-08. The volume has been brought out as a separate publication.

FY2007-08 passed through some challenging times both in the domestic front, mainly because of consecutive natural disasters, and global front, mainly owing to high inflationary pressure. Whilst some of the steps taken by the CTG in the area of reforms and governance are likely to leave positive long-term footprints, certain other steps added to uncertainty and undermined investment environment. Chapter I of the current volume is a stocktaking of the merits and minuses of the progress made in six major areas of the macroeconomic management in FY2007-08: growth-savings-investment, public finance and financial sector, monetary sector, real economy, external balance, and social sector. Analysis of the performance indicators reveal that such areas as revenue collection, gross disbursement of agriculture credit, export growth, manufacturing production, remittance flows, and flow of equity capital to the stock market registered positive developments during this period. At the same time, price hike of essential commodities, erosion of purchasing power of the poor, rise in fuel price, acute shortage of electricity, and poor implementation of annual development programme (ADP) somewhat overshadowed the positive gains in other areas. Nevertheless, the determined efforts by the government, with limited resources at its disposal, in coping up with the after effects of two consecutive floods and cyclone Sidr, certainly deserve appreciation. In view of these, discussion in this chapter on the outlook for FY2008-09 also identifies major challenges to be addressed over the next fiscal year.

Analysis of the National Budget for FY2008-09 and the Revised Budget of FY2007-08 is presented in Chapter II. This chapter puts various budget proposals under close scrutiny and examines the implications of the budgetary proposals for macroeconomic governance and the economy.

Chapter III underscores a set of proposals which CPD prepared for the Ministry of Finance, Government of Bangladesh (GoB), in view of the then upcoming presentation of the national budget for FY2008-09. This policy document focused on such critical areas as general fiscal measures, export promotion and import substitution, social sector and social protection schemes, price stabilisation/support, sectoral measures and regional development, and restructuring of the tax administration, and came up with concrete recommendations pertaining to these areas.

With a view to assessing the performance of the economy during the first half of FY2008-09, the CPD produced an interim IRBD report which is presented in Chapter IV of this volume. The report highlights ten major challenges to be faced by the newly elected government, cross referencing the issues with manifestos of major political parties. The report then puts forward a number of policy recommendations for the new government.

This present IRBD volume is accompanied by two annexes titled Dialogue Report on State of the Bangladesh Economy and Budget Responses FY2008-09 and Chronology of Major Economic Events during July 2007 – December 2008. The first annex presents a report on a dialogue organised by the CPD on 17 June 2008. The second annex is a compilation of major economic events taken place during the mentioned period.

ACKNOWLEDGEMENT

CPD outputs under the IRBD programme have always been results of collaborative efforts involving researchers, members of the academia, leading policymakers, political leaders, government officials, business leaders, and representatives from grassroots and civil society organisations. Contributions from these stakeholders came in the form of in-depth analyses on various issues, participation in various dialogues and discussion meetings organised by the CPD, and comments on drafts. On behalf of the CPD IRBD team, I would like to put on record our sincere appreciation and gratitude to all of them.

An exercise such as the IRBD requires access to extensive data and information involving various government organisations and departments. In this context, CPD gratefully acknowledges the wholehearted and sincere support extended by concerned officials from a number of institutions, including Bangladesh Bureau of Statistics (BBS), Bangladesh Bank, National Board of Revenue (NBR), Export Promotion Bureau (EPB), Planning Commission, Tariff Commission, Dhaka Stock Exchange (DSE) and Petrobangla.

Sincere appreciation goes to *Ms Anisatul Fatema Yousuf,* Director, CPD, and her team at the Dialogue and Communication Division for successfully organising the CPD dialogues and workshops. I would also like to put on record my heartfelt thanks to my CPD colleagues in the Administration Division for their dedication and commitment which helps the researchers to undertake various IRBD-related activities including field surveys.

My deep appreciation for the hard work put in by *Mr Avra Bhattacharjee,* Senior Documentation and Publication Officer, CPD for completing the technicalities of desktop publishing and designing the cover for this volume under tight schedule. Contribution of *Mr Fazley Rabbi Shakil* is also acknowledged for the excellent work on printing of this volume. I also appreciate the contribution of *Ms Nazmatun Noor,* Senior Dialogue Associate, CPD who have proof-read the document. Furthermore, valuable secretarial support by *Mr Hamidul Hoque Mondal,* Senior Administrative Associate, CPD is acknowledged with thanks.

I would like to sincerely thank the print and electronic media, the readership, and many well-wishers of the CPD for contributing towards expansion of CPD's outreach not only within the country, but also at the international level. We look forward to their continuing support.

As was mentioned, the IRBD owes its genesis to the idea of *Professor Rehman Sobhan,* Chairman, CPD to bring out a civil society perspective on various developments in Bangladesh economy, as an annual exercise. As always, *Professor Rehman Sobhan* has been an inspiration to all IRBD team members who consider the IRBD work as a manifestation of their professional contribution and civic duty. On behalf of the IRBD team, I would like to extend our sincere gratitude to *Professor Rehman Sobhan* for his continuing guidance in preparing the present IRBD volume.

January 2009
Dhaka

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Executive Director
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Acronyms

ACU	Asian Clearing Union
ADB	Asian Development Bank
ADP	Annual Development Programme
AIDS	Acquired Immunodeficiency Syndrome
AIT	Advanced Income Tax
AL	Bangladesh Awami League
API	Active Pharmaceutical Ingredient
ARF	Association of Southeast Asian Nations (ASEAN) Regional Forum
ASEAN	Association of Southeast Asian Nations
ATV	Advanced Trade VAT
AfT	Aid for Trade
AoA	Agreement on Agriculture
BAB	Bangladesh Association of Banks
BADC	Bangladesh Agricultural Development Corporation
BAEC	Bangladesh Atomic Energy Commission
BAPEX	Bangladesh Petroleum Exploration & Production Company
BARC	Bangladesh Agricultural Research Council
BATEXPO	Bangladesh Apparel and Textile Exposition
BBCC	Bangladesh-British Chamber of Commerce
BBF	Better Business Forum
BBS	Bangladesh Bureau of Statistics
BCC	Bangladesh Computer Council
BCIC	Bangladesh Chemical Industries Corporation
BCMCL	Barapukuria Coal Mining Company Limited
BCSIR	Bangladesh Council of Scientific and Industrial Research
BDR	Bangladesh Rifles
BDT	Bangladesh Taka
BEIOA	Bangladesh Engineering Industry Owners' Association
BEPZA	Bangladesh Export Processing Zones Authority
BERC	Bangladesh Energy Regulatory Commission
BGFC	Bangladesh Gas Field Company
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BGTB	Bangladesh Government Treasury Bond
BICF	Bangladesh Investment Climate Fund
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BINA	Bangladesh Institute of Nuclear Agriculture
BJSA	Bangladesh Jute Spinners Association
BKMEA	Bangladesh Knitwear Manufacturers & Exporters Association
BLPA	Bangladesh Land Port Authority
BLRI	Bangladesh Livestock Research Institute
BMET	Bureau of Manpower, Employment and Training
BMTF	Bangladesh Machine Tools Factory Limited
BNP	Bangladesh Nationalist Party
BOI	Board of Investment
BOP	Balance of Payment

BOT	Build, Operate and Transfer
BPC	Bangladesh Parjatan Corporation
BPC	Bangladesh Petroleum Corporation
BPCL	Bharat Petroleum Corporation Limited
BPDB	Bangladesh Power Development Board
BPGMEA	Bangladesh Plastic Goods Manufacturers and Exporters Association
BPO	Bangladesh Post Office
BQSP	Bangladesh Quality Support Programme
BRDB	Bangladesh Rural Development Board
BRRI	Bangladesh Rice Research Institute
BRSIP	Bangladesh Railways Sector Improvement Project
BRTA	Bangladesh Road Transport Authority
BSBL	Bangladesh Samabay Bank Limited
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSTI	Bangladesh Standards and Testing Institution
BTCL	Bangladesh Telephone Company Limited
BTMA	Bangladesh Textile Mills Association
BTRC	Bangladesh Telecommunication Regulatory Commission
BTTB	Bangladesh Telegraph and Telephone Board
B/B	Back-to-Back
CAG	Comptroller and Auditor General
CBM	Chittagong Builders & Manufacturers Limited
CCC	Chittagong City Corporation
CCCI	Chittagong Chamber of Commerce and Industry
CCH	Chittagong Customs House
CD	Customs Duty
CDA	Chittagong Development Authority
CEC	Committee on Economic Cooperation
CEO	Chief Executive Officer
CGA	Comptroller General of Accounts
CHT	Chittagong Hill Tracts
CIF	Cost, Insurance and Freight
CII	Confederation of Indian Industry
CLP	Chars Livelihoods Programme
CMC	China National Machinery Import and Export Corporation
CMI	Census of Manufacturing Industries
CNG	Compressed Natural Gas
CPA	Chittagong Port Authority
CPB	Communist Party of Bangladesh
CPD	Centre for Policy Dialogue
CPF	Contributory Provident Fund
CPI	Corruption Perception Index
CPI	Consumer Price Index
CPR	Contraceptive Prevalence Rate
CSE	Chittagong Stock Exchange

CSO	Civil Society Organisation
CTG	Caretaker Government
DAE	Department of Agricultural Extension
DAM	Department of Agricultural Marketing
DANIDA	Danish International Development Assistance
DAP	Diammonium Phosphate
DCC	Dhaka City Corporation
DCCI	Dhaka Chamber of Commerce and Industry
DCT	Deputy Commissioner of Taxes
DD	Demand Deposit
DESA	Dhaka Electricity Supply Authority
DESCO	Dhaka Electricity Supply Company
DF	Duty-Free
DFI	Development Finance Institution
DFID	Department for International Development
DG	Director General
DGEN	DSE General Index
DITF	Dhaka International Trade Fair
DND	Dhaka-Narayanganj-Demra
DP	Dividend & Profit
DPDC	Dhaka Power Distribution Company
DSE	Dhaka Stock Exchange
DSI	DSE All Share Price Index
DWT	Deadweight Tonnage
DoF	Department of Fisheries
EBA	Everything but Arms
EC	Election Commission
EC	European Commission
ECHO	European Commission's Humanitarian Aid Office
ECNEC	Executive Committee of National Economic Council
ECR	Electronic Cash Register
ECRRAP	Emergency 2007 Cyclone Recovery and Restoration Project
EDF	Export Development Fund
EEF	Equity Entrepreneurship Fund
EGS	Employment Guarantee Scheme
EIF	Enhanced Integrated Framework
EO	Electricity and Others
EOI	Expression of Interest
EP	Essential Priority
EPB	Export Promotion Bureau
EPS	Employment Permit System
EPZ	Export Processing Zone
ERD	Economic Relations Division
ETP	Effluent Treatment Plant
EU	European Union

FAO	Food and Agriculture Organization
FB	Foreign Bank
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FCC	Fund for Climate Change
FDI	Foreign Direct Investment
FFE	Food for Education
FFW	Food for Work
FIVDB	Friends in Village Development Bangladesh
FM	Flour Mill
FOB	Free on Board
FPC	Fair Price Card
FPMU	Food Planning and Monitoring Unit
FSSAP2	Female Secondary School Assistance Project Phase 2
FSSP2	Female Secondary Stipend Project Phase 2
FTA	Free Trade Agreement
FX	Foreign Exchange
GATS	General Agreement on Trade in Services
GBP	British Pound
GDP	Gross Domestic Product
GEF	Global Environment Fund
GFDRR	Global Facility for Disaster Recovery and Reconstruction
GFRP	Global Food Response Programme
GNI	Gross National Income
GR	Gratuitous Relief
GSP	Generalized System of Preferences
GTCL	Gas Transmission Company Limited
GoB	Government of Bangladesh
HDR	Human Development Report
HIES	Household Income and Expenditure Survey
HIV	Human Immunodeficiency Virus
HNPSP	Health, Nutrition and Population Sector Programme
HPAI	Highly Pathogenic Avian Influenza
HS	Harmonised System
HSFSP3	Higher Secondary Female Stipend Project 3rd Phase
HYV	High-yielding Variety
ha	Hectares
IAEA	International Atomic Energy Association
ICA	Insurance Control Authority
ICAB	Institute of Chartered Accountants of Bangladesh
ICAO	International Civil Aviation Organization
ICB	Investment Corporation of Bangladesh
ICD	Inland Container Depot
ICDDR,B	International Centre for Diarrhoeal Disease Research, Bangladesh
ICOR	Incremental Capital-Output Ratio
ICT	Information and Communication Technology

IDA	International Development Association
IDB	Islamic Development Bank
IFC	International Finance Corporation
IFT	Interest, Fees and Tolls
IIBA	International Institute of Business Administration
IIG	International Internet Gateway
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
IMR	Infant Mortality Rate
INR	Indian Rupee
IOC	International Oil Company
IPFF	Investment Promotion and Financing Facility
IPO	Initial Public Offering
IPS	Instant Power Supply
IRBD	Independent Review of Bangladesh's Development
IRD	Internal Resources Division
IRS	Interest Rate Spread
IT	Information Technology
ITC	International Trade Centre
ITES	Information Technology Enabled Services
ITI	Industrial Training Institute
ITP	Integrated Textile Park
iBAS	Integrated Budgeting and Accounting System
JEC	Joint Economic Commission
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JP	Bangladesh Jatiya Party
JPUF	Jatio Pratibandhi Unnayan Foundation
JRC	Joint River Commission
JRD	Joint Record of Discussion
JWG	Joint Working Group
KAFCO	Karnaphuli Fertlizer Company Limited
KOICA	Korea International Cooperation Agency
KPC	Kuwait Petroleum Corporation
KSA	Kingdom of Saudi Arabia
KW	Kilo Watt
KWD	Kuwaiti Dinar
kwh	Kilo Watt hour
LCG	Local Consultative Group
LDC	Least Developed Country
LE	Large Employer
LFS	Labour Force Survey
LGED	Local Government Engineering Department
LGSP	Local Government Support Program
LTU	Large Taxpayer Unit

L/C	Letter of Credit
M2	Broad Money Supply
MDG	Millennium Development Goal
MEP	Minimum Export Price
MEWOE	Ministry of Expatriates' Welfare and Overseas Employment
MFA	Multi-fibre Arrangement
MIS	Management Information System
MLAT	Mutual Legal Assistance Treaty
MMR	Maternal Mortality Ratio
MMT	Million Metric Tonnes
MNC	Multinational Corporation
MP	Member of Parliament
MPA	Mongla Port Authority
MPS	Monetary Policy Statement
MRP	Maximum Retail Price
MRP	Machine Readable Passport
MS	Mild Steel
MT	Metric Ton
MTBF	Medium Term Budgetary Framework
MTMF	Medium Term Macroeconomic Framework
MVT	Motor Vehicles Tax
MW	Mega Watt
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MoHFW	Ministry of Health and Family Welfare
MoP	Muriate of Potash
MoU	Memorandum of Understanding
mkwh	Mega Kilo Watt hour
mmcf	Million Cubic Feet
mmscf	Million Standard Cubic Feet
NCB	Nationalised Commercial Bank
NCC	Bank National Credit and Commerce Bank
NCT	New Mooring Container Terminal
NDA	Net Domestic Asset
NEC	National Economic Council
NER	Net Enrolment Rate
NFA	Net Foreign Asset
NGFF	Natural Gas Fertiliser Factory
NGO	Non-government Organisation
NGRC	Natural Gas Fertiliser Factory
NL	Narcotics and Liquor
NMST	National Museum of Science and Technology
NNP	National Nutrition Program
NPDA	New Partnership for Development Act
NPL	Non-performing Loan

NRB	Non-resident Bangladeshi
NREGA	National Rural Employment Guarantee Act
NSD	National Savings Directorate
NTB	Non-tariff Barriers
OD	Overdraft
ODOP	One District One Product
OMS	Open Market Sales
OP	Other Priority
OPEC	Organization of the Petroleum Exporting Countries
PAC	Public Accounts Committee
PAU	Policy Analysis Unit
PBS	Palli Bidyut Samity
PCB	Private Commercial Bank
PDAB	Primary Dealers Association of Bangladesh
PDB	Power Development Board
PEDP-II	Second Primary Education Development Programme
PERP	Preparation of Electoral Roll with Photographs
PETCO	Petronas Trading Corporation
PFDS	Public Food Distribution System
PGCB	Power Grid Company of Bangladesh
PHRD	Policy and Human Resource Development
PKSF	Palli Karma-Sahayak Foundation
PLC	Public Limited Company
POL	Petroleum, Oil and Lubricant
PPA	Power Purchase Agreement
PPIDF	Public-Private Infrastructure Development Facility
PPP	Polluters Pay Principle
PPR	Public Procurement Regulation
PRGF	Poverty Reduction Growth Facilities
PRI	Panchayati Raj Institution
PRS	Poverty Reduction Strategy
PRSP-II	Second Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PSI	Pre-shipment Inspection
PSMP	Power Sector Master Plan
PSTN	Public Switched Telephone Network
PWD	Public Works Department
PO&R	Post Office & Railway
QF	Quota Free
QIP	Quantum Index of Production
RADP	Revised Annual Development Programme
RAKUB	Rajshahi Krishi Unnayan Bank
REB	Rural Electrification Board
REER	Real Effective Exchange Rate
RERMP	Rural Employment and Road Maintenance Programme

RM	Reserve Money
RMG	Readymade Garment
ROSC	Reaching Out of School Children
RPIP	Revised Project Implementation Plan
RPO	Representation of People Order
RPP	Rental Power Plant
RRC	Regulatory Reforms Commission
RRI	Real Rate of Interest
RoO	Rules of Origin
R&D	Research and Development
SAARC	South Asian Association for Regional Cooperation
SAFMA	South Asian Free Media Association
SAFTA	South Asian Free Trade Area
SATRC	South Asian Telecommunications Regulators' Council
SB	Specialised Bank
SBL	Siemens Bangladesh Limited
SC	Scheduled Caste
SCB	State-owned Commercial Bank
SCCI	Sylhet Chamber of Commerce and Industry
SD	Supplementary Duty
SDC	Swiss Agency for Development and Cooperation
SDR	Special Drawing Right
SEC	Securities and Exchange Commission
SEDCP	Small Enterprise Development Credit Project
SEDF	SouthAsia Enterprise Development Facility
SEQAEP	Secondary Education Quality and Access Enhancement Project
SESDP	Secondary Education Sector Development Project
SEZ	Special Economic Zone
SFC	Service Facilities Centre
SGCF	Sylhet Gas Field Company
SIDBI	Small Industries Development Bank of India
SIM	Subscribers' Identification Module
SME	Small and Medium Enterprise
SPARRSO	Bangladesh Space Research and Remote Sensing Organization
SPPP	Siddhirganj Peaking Power Project
SPS	Sanitary and Phytosanitary
SRO	Statutory Regulatory Order
SS	Stainless Steel
SSI	Services and Solution International
ST	Scheduled Tribe
STP	Software Technology Park
STP	Strategic Transport Plan
SWAN	State Wide Area Network
SoE	State-owned Enterprise
TAC	Treaty of Amity and Cooperation

TAT	Taxes Appellate Tribunal
TBT	Technical Barriers to Trade
TCB	Trading Corporation of Bangladesh
TCF	Trillion Cubic Feet
TD	Time Deposit
TEU	Twenty-foot Equivalent Unit
TFC	Textile Facilities Centre
TFL	Truthful Label
TFR	Total Fertility Rate
TI	Transparency International
TIN	Taxpayer's Identification Number
TNC	Trade Negotiating Committee
TR	Test Relief
TSP	Triple Super Phosphate
TTI	Total Tax Incidence
ToT	Terms of Trade
T&T	Telegraph & Telephone
T-bill	Treasury Bill
UAE	United Arab Emirates
UFMR	Under-Five Mortality Rate
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNGA	United Nations General Assembly
UP	Union Parishad
UPPR	Urban Partnerships for Poverty Reduction
UPS	Uninterrupted Power Supply
US	United States
USAID	United States Agency for International Development
USD	United States Dollar
USDA	United States Department of Agriculture
VAT	Value Added Tax
VGD	Vulnerable Group Development
VGF	Vulnerable Group Feeding
VoIP	Voice over Internet Protocol
WASA	Water Supply and Sewerage Authority
WFP	World Food Programme
WHC	World Heritage Centre
WTO	World Trade Organization

Chapter I

State of the Bangladesh Economy in FY2007-08

1.1 INTRODUCTION

The tenure of the caretaker government (CTG), which came to power on 11 January 2007, spanned over three fiscal years, between FY2006-07 and FY2008-09. However, FY2007-08 was the only period when the CTG was in charge of macroeconomic management for the full fiscal year. FY2007-08 started in the backdrop of considerable uncertainties associated with transition to the third CTG, anti-corruption drive and consequent impact on the country's investment climate. The efficiency of economic management was also seriously undermined by two consecutive floods, cyclone Sidr, high inflationary pressure and rising global prices with adverse implications on domestic prices. Thus, by all accounts, FY2007-08 was a difficult time. Common people in Bangladesh experienced severe erosion of purchasing power and the country in general witnessed a reversal of poverty reduction trends. It needs to be, however, put on record that notwithstanding the formidable challenges, the CTG was able to tackle the emergent situation with commendable success. Immediate post-disaster relief operations were carried out with considerable success and measures were speedily taken to avoid famine, and to expand and strengthen public food distribution and safety net programmes, with support also from the Army and the Bangladesh Rifles (BDR). In the second half of the fiscal, some of the indicators started to demonstrate an upturn, helped by higher industrial and agricultural loan disbursement, a bumper Boro crop and buoyant export and remittance performance. In the end, although the target of 6.5 per cent gross domestic product (GDP) growth was not achieved, the (provisional) growth figure of 6.21 per cent attained in FY2007-08 ought to be considered as a significant achievement. However, high inflation, particularly of essential food items, continued to undermine macroeconomic stability and subsequently requiring adjustments of various prices, increased domestic borrowing and higher budgetary deficit. Thus, the overall scenario with regard to macroeconomic management and performance remained a mixed one.

1.2 BENCHMARK SITUATION IN FY2007-08

1.2.1 Macroeconomic Benchmark at the Beginning of FY2007-08

FY2006-07 concluded in line with the recent performance trend. The provisional estimate of GDP growth rate of 6.51 per cent was however subsequently revised downward to 6.43. Investment rate (as percentage of GDP) stood at low levels though, while the gap between national savings and investment widened indicating investible surplus that looked for opportunities. The fiscal balance continued to face challenges, underpinned by modest revenue mobilisation, relatively higher 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 (BOP) situation was put under some pressure, because of higher trade deficit, as imports continued to surpass exports. Buoyant remittance flow emerged as a saviour providing a much needed breathing space and ensuring a positive overall balance in the current account. Whilst marginal improvement over a low benchmark in foodgrain production gave rise to some anxiety, heightened growth in manufacturing sector was a welcome development. On the flip side, FY2006-07 experienced serious inflationary pressure manifested largely through food inflation, of which the rural population was the worst victims. Frequent power outages continued to affect not only trade and investment, but also disrupted the normal public life. Capital market posted moderate improvement, while policy decisions with regard to off-loading of shares and some large scale foreign direct investment (FDI) projects remained unresolved.

1.2.2 Major Developments in FY2007-08

Macroeconomic management in FY2007-08 had been a challenging job for the CTG. FY2007-08 experienced a number of developments, both domestic and global, that had important implications for the Bangladesh economy. These included higher revenue expenditure leading to higher deficit, increased subsidy burden, all time low implementation of annual development programme (ADP) and acute shortage of power and energy. Uncertainties about political transition to democratic governance and anti-corruption drives undermined investor confidence which resulted in decline in domestic private as well as foreign investments. Industrial slowdown characterised the earlier months of the fiscal year. The situation was aggravated by price hike of essentials, fuelled by both the increase in global commodity prices and domestic market inefficiencies. Two consecutive floods and the cyclone Sidr undermined macroeconomic management and threatened food security.

On the other hand, FY2007-08 witnessed a number of developments which had positive implications on the performance of the economy. These included significant improvements in revenue mobilisation, higher disbursement of credit to the agriculture and industrial sectors, robust export growth, rejuvenated capital market and buoyant remittance flow. Reform efforts started to yield positive results, particularly for port operation. A bumper Boro harvest helped to recover the loss emanating from consecutive natural disasters and commendable success was achieved in the immediate post-flood and post-Sidr management.

It is to be noted that, by the time the CTG handed over the helm of governance to the newly elected democratic government on 6 January 2009, it was able to address many of the challenges that plagued macroeconomic performance in FY2007-08, leaving high food stocks, high reserves, a robust export and remittance performance and a declining inflationary trend. Nevertheless, fact remains that FY2007-08 tested all the skills at the disposal of CTG during a most challenging time.

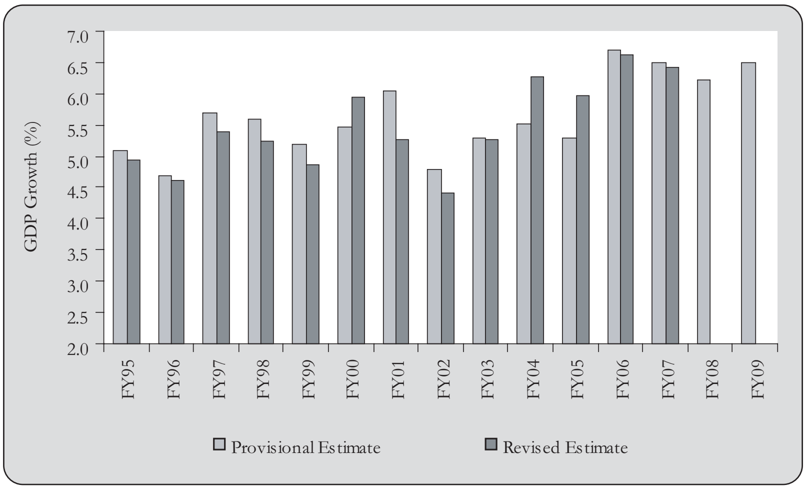
1.3 GROWTH, SAVINGS AND INVESTMENT

1.3.1 GDP Growth

According to the preliminary estimates presented in the budget for FY2008-09, GDP posted a growth of 6.21 per cent during FY2007-08. This growth was attained in the backdrop of two floods and the devastating cyclone Sidr experienced in the first half of the fiscal year FY2007-08. Along with the crop loss, agriculture sector also suffered from avian flu which affected the livestock sub-sector. Industry and service sectors suffered from loss of business confidence due to the anti-corruption drive of the CTG, eventually leading to depressed investment climate and a sluggish growth in export in the first two quarters of FY2007-08. Such adverse conditions led to lower than 6 per cent GDP growth projections by many, including the International Monetary Fund (IMF) and the Asian Development Bank (ADB). However, improved business confidence, upturn in industrial production, regaining of the lost momentum in the export sector and a bumper Boro harvest during the second half of the fiscal year had positive impact on the growth performance of the latter half of FY2007-08, with consequent positive impact for the performance for the entire fiscal year.

Following what has now become a tradition, the provisional GDP was revised downward in FY2006-07, from 6.51 per cent to 6.43 per cent (Figure 1.1). (It may be noted here that such downward revisions occurred 10 times during the last 13 years!) The growth of the agricultural sector was revised upward for FY2006-07 as a result of bumper Boro production; however, slow down in industrial production

Figure 1.1: Provisional and Revised GDP: FY1994-95-FY2008-09

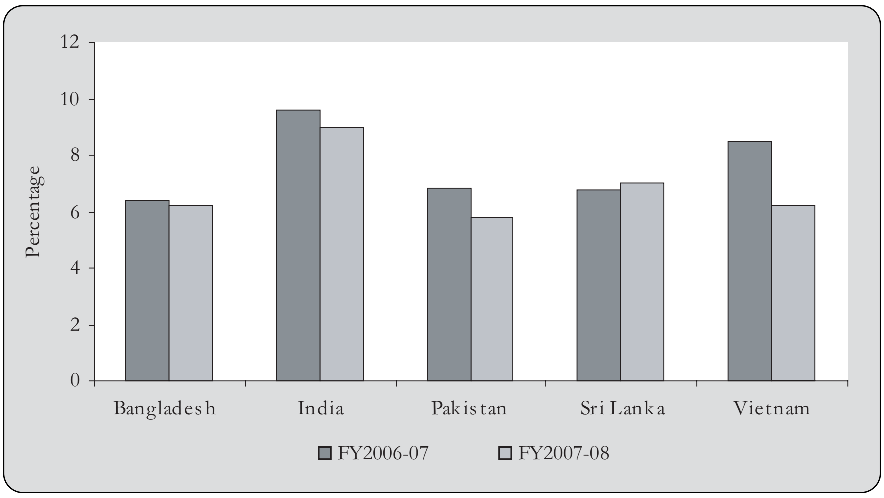


Source: CPD-IRBD database.

informed downward revision of overall GDP growth. The usual trend of revising GDP growth rates in the revised budget of the subsequent year, however, would suggest that this year's growth figure would change when the next budget (for FY2009-10) is placed in June 2009. It is possible that this would then be revised downward to about 6 per cent from the 6.21 per cent mentioned in the budget for FY2008-09.

Compared to the major Asian counterparts, Bangladesh's GDP growth rates appear to follow the trend rather than being exceptional. As can be seen from Figure 1.2, most countries in South and South-East Asia are going through a period of moderately high growth trajectory. Inflation is also high in the region and maintaining macroeconomic stability through modestly high GDP growth rate and low levels of inflation remain the foremost challenge for all policymakers of the South Asian region.

Figure 1.2: GDP Growth in Asian Countries



Source: CPD-IRBD database.

1.3.2 Sources of Growth

Pre-dominant position of the service sector in the structure of Bangladesh's GDP has had implications for overall economic performance in FY2007-08. Service sector contribute about 50 per cent share in the real GDP of Bangladesh. Shocks experienced by agriculture and industry sectors also influenced the growth performance of the service sector. Both agriculture and industry sector experienced slower growth of 3.6 per cent and 6.9 per cent respectively in FY2007-08, while their respective growth rates in FY2006-07 were 4.6 per cent and 8.4 per cent. Even then the overall growth (6.21 per cent) was only 0.22 per cent lower compared to the previous year, owing to the relatively stable performance of service sector. Service sector experienced 6.7 per cent real growth in FY2007-08, compared to 6.9 per cent growth achieved in FY2006-07, contributes to the overall growth rate of 6.2 per cent in FY2007-08. When the numbers are rechecked, they would throw light on whether service sector was really capable of registering such high growth at a time when growth rates of both agriculture and industry had come down significantly.

Adverse impact of the avian flu becomes evident from the fact that real growth in livestock sub-sector in FY2007-08 was only 2.4 per cent, compared to 5.5 per cent achieved in FY2006-07. In view of the high share of the crop sub-sector in the GDP (11.6 per cent in FY2006-07), loss arising from the floods and the cyclone was a major concern in this period. A bumper Boro harvest, however, had contributed significantly in terms of offsetting the loss and resulted in a lower than expected fall (1.0 per cent) in the real growth performance (3.4 per cent) of the crop sub-sector.

Within the industry sector, real growth in production of the manufacturing sub-sector (contributing 17.1 per cent in the total GDP) experienced the largest slowdown, posting a real growth of 7.4 per cent in FY2007-08 against 9.7 per cent growth in FY2006-07. Major surprise was the real production growth of 4.9 per cent achieved in electric, gas and water supply sub-sectors, higher by 2.8 per cent compared to the growth of 2.1 per cent achieved in FY2006-07. This growth does not reflect the growing scarcity experienced in real life, both by households and industrial units. It is to be noted that this sub-sector faced the most drastic downward revision last year.

Among the nine sub-sectors of the service sector, only three experienced higher growth performance (transport and communication, hotel and restaurant and community, social and personal services), while for others real production growth were lower in FY2007-08 compared to FY2006-07.

An analysis of the real growth in GDP achieved in FY2007-08 reveals that service sector contributed 51.2 per cent of the incremental GDP, while industry and agriculture sectors contributed 31.5 per cent and 12.0 per cent respectively. Share of agriculture in the total GDP of FY2007-08 declined by 0.5 per cent, while the share of service sector increased by 0.2 per cent. Much desired improvement in the share of industrial sector has not, however, taken place and remained almost stagnant at 28.6 per cent against 28.5 per cent in FY2006-07.

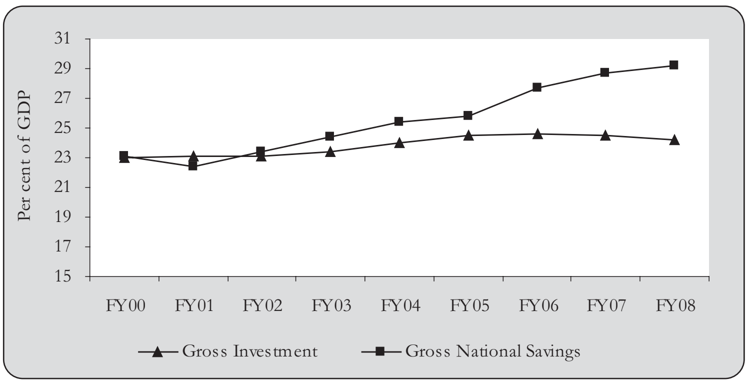
1.3.3 Per Capita Income

Per capita GDP stood at USD 554 in FY2007-08, while per capita gross national income (GNI) stood at USD 599, recording 8.9 and 9.9 per cent annual growth rates respectively. Moderate growth rates accompanied by stable exchange rate facilitated this achievement. However, one should also consider that these averages conceal a high degree of worsening income distribution.

1.3.4 Savings

Stagnation in domestic savings rate remains a major concern for the transitional economy of Bangladesh. Domestic savings as a percentage of GDP in Bangladesh has declined further from 20.3 per cent in FY2006-07 to 20.1 per cent in FY2007-08 as a share of GDP (Figure 1.3). It implies that consumers had to allocate a larger share of their income for consumption on account of rising prices of essential items, particularly for food items.

Figure 1.3: Savings Rate as Percentage of GDP



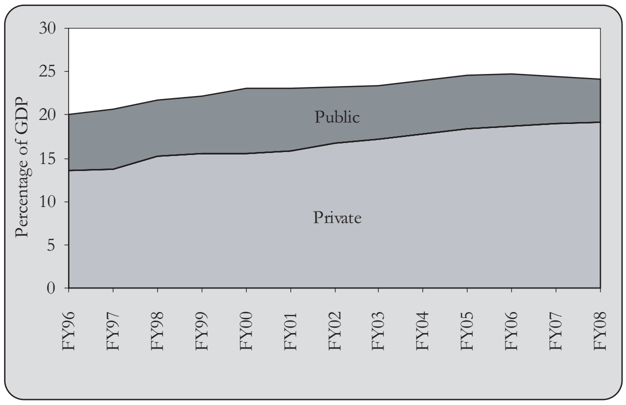
Source: CPD-IRBD database.

On the other hand, inspired by continued robust remittance inflow, national savings rate has been demonstrating encouraging movements since FY2004-05. The share of national savings to GDP increased considerably further in FY2007-08 to reach 29.2 per cent of GDP, as against 28.7 per cent in FY2006-07, registering an impressive rise to the tune of 0.5 per cent of GDP. It is to be noted that, the gap between national and domestic savings is increasing in a consistent manner in recent years. A continuation of such savings behaviour may result in further deterioration in income distribution.

1.3.5 Investment

For the second consecutive year the gross investment rate has declined as per cent of GDP. After achieving an insignificant improvement in FY2005-06 to 24.7 per cent of GDP (from 24.5 per cent of GDP in FY2004-05) the gross investment rate fell back to 24.5 per cent in FY2006-07 and then to 24.2 per cent of GDP in FY2007-08 (Figure 1.4). This is considerably lower than the Medium Term Macroeconomic Framework (MTMF) target of extended Poverty Reduction Strategy Paper (PRSP) which was set at 24.9 per cent in FY2007-08.

Figure 1.4: Investment as Percentage of GDP



Source: CPD-IRBD database.

Public investment continued to plunge and yet again scored a historic low rate of 5 per cent of GDP in FY2007-08, lower compared to the earlier low levels of 5.5 per cent in FY2006-07. Low implementation of ADP also signifies the slow down in the pace of public investment. Similarly, the slack in public expenditure explains stagnating gross investment in recent times. Private investment, which covers four-fifths of total

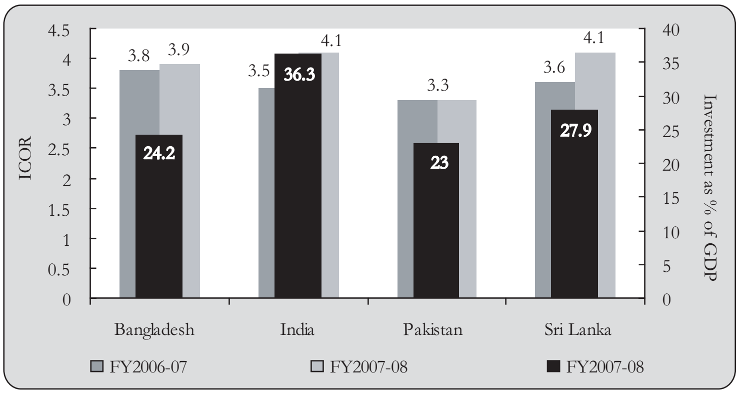


Figure 1.5: Investment Scenario in Regional Context

Source: CPD-IRBD database.

investment of the country, as a share of GDP increased marginally from 19.0 per cent in FY2006-07 to 19.2 per cent in FY2007-08.

Bangladesh continued to remain an under-invested country; her national savings rate (29.2 per cent) remains higher than the gross investment rate (24.2 per cent), indicating availability of idle investible surplus equivalent to about Tk. 27,470 crore (almost 5 per cent of GDP).

The incremental capital-output ratio (ICOR) increased marginally during FY2007-08 from 3.8 in FY2006-07 to 3.9 in FY2007-08, implying a minor fall in capital productivity. From a regional perspective, Bangladesh's investment performance has been better than the political turmoil-hit Pakistan, while India's investment scenario remains formidably strong (Figure 1.5).

1.4 PUBLIC FINANCE

1.4.1 Revenue Receipts

In contrast to the declining trend of the recent past, revenue-GDP ratio of the country increased by 0.8 per cent to 10.7 per cent in FY2007-08. Total revenue collection during FY2007-08 (Tk. 58,170 crore) increased significantly by 24.3 per cent over the actual

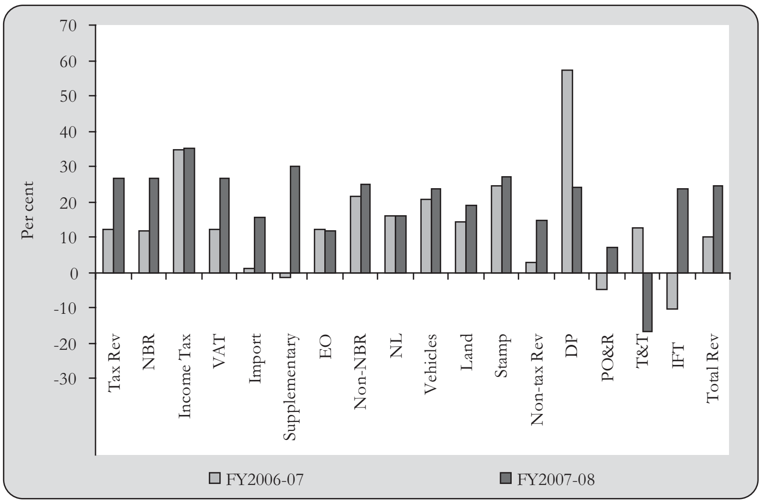


Figure 1.6: Growth in Revenue Collection during FY006-07 and FY2007-08

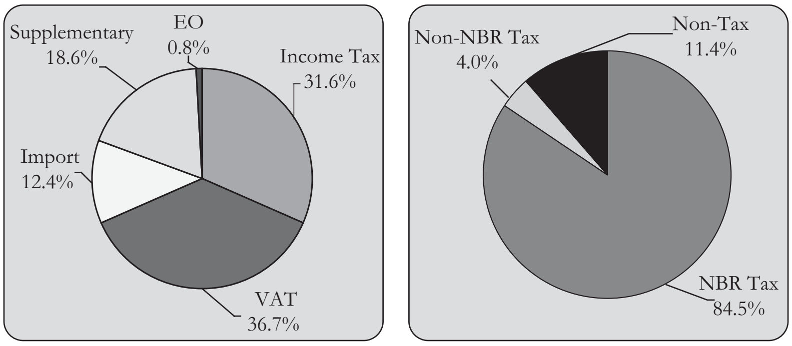
Source: CPD-IRBD database.

collection of FY2006-07 (Figure 1.6); 1.6 per cent more than the target set in the budget for the fiscal year, a unique record. National Board of Revenue (NBR) tax revenue, constituting about 78.7 per cent of the total revenue, posted impressive growth of 26.6 per cent, 4.4 per cent above the original target. This phenomenal growth was mostly driven by the growth in value added tax (VAT) collection of 26.4 per cent and direct tax (income tax) collection of 34.7 per cent (Figure 1.6). Anti-corruption drive and the NBR effort to legalise untaxed income may have resulted in high growth in income tax collection. In addition, individual tax return submission increased from 0.53 million in FY2006-07 to 0.64 million in FY2007-08. Higher imports and high commodity prices in the international market during FY2007-08 marked their impact on import duty collection, achieving a substantial growth of 15.7 per cent (against a marginal growth of 0.9 per cent in FY2006-07). High growth was also achieved in the collection of supplementary duty (SD) (29.9 per cent).

A dissection of the achieved growth of the different components of NBR reveals that highest contribution to the additional revenue of NBR was made by VAT (36.7 per cent), followed by income tax (31.6 per cent) (Figure 1.7). Within the total additional revenue of FY2007-08 over that of FY2006-07, NBR contributed 84.5 per cent. Non-NBR tax and non-tax revenue (achieving 24.7 per cent and 14.8 per cent growth respectively in FY2007-08) contributed 4.0 per cent and 11.44 per cent to this addition respectively.

In view of the real GDP growth of 6.21 per cent, high inflation of 9.93 per cent in FY2007-08 somewhat undermined the efforts in domestic resource mobilisation. However, the performance surpassed that of the preceding year by quite a margin and the achieved revenue-GDP ratio of 10.7 per cent, approximating the original target of 10.8 per cent. Higher revenue mobilisation also provided a cushion to the national exchequer at a time of high expenditure pressure experienced throughout the fiscal year.

Figure 1.7: Contribution of Different Components in Revenue Growth: FY2007-08

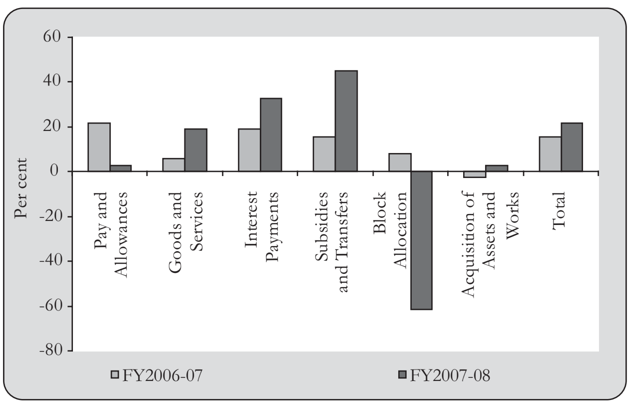


Source: CPD-IRBD database.

1.4.2 Revenue Expenditure

FY2007-08 experienced mounting expenditure pressure on a number of fronts. Increasing fuel price in the international market required fuel subsidy to grow by a significant margin. Worldwide food shortage, and associated food price hike in the world market as also in the domestic market necessitated larger food subsidy and more extensive open market sales (OMS) activities. Higher import of food grains by the government was also necessary due to crop damage owing to the consecutive floods and the cyclone, and larger distribution of food through vulnerable group feeding (VGF) and other safety nets. At the same time, fertiliser subsidy was also expected to overshoot the target because of higher import price.

Figure 1.8: Revenue Expenditure Growth by Economic Classification: FY2006-07 and FY2007-08

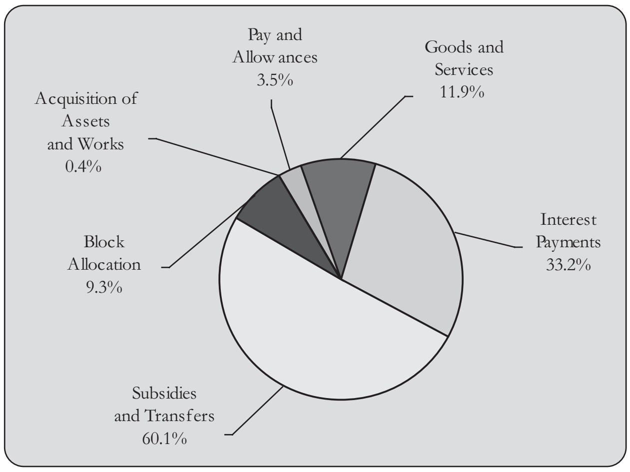


Source: CPD-IRBD database.

On top of it, financing the post flood/cyclone rehabilitation efforts added to significant expenditure burden on the government.

Economic classification shows 21.8 per cent higher revenue expenditure at the end of FY2007-08 over the actual figure of the previous year. Targeted growth rate for FY2007-08 was 19.0 per cent. Among the major three heads that accounted for 82.9 per cent in the total actual revenue

Figure 1.9: Contribution to Revenue Expenditure Growth by Economic Classification: FY2007-08



Source: CPD-IRBD database

expenditure, "subsidies and transfers" and "interest payments" registered significant increase with 45.2 per cent and 32.5 per cent growth respectively. "Salary and allowances" on the other hand posted a rise of only 2.7 per cent during the fiscal year (Figure 1.8).

FY2007-08 experienced substantial rise in subsidies, by 97.8 per cent. When the national budget for FY2008 was prepared, crude petroleum and diesel were selling at USD 67 and USD 85 per barrel at the international market. These prices went up to around USD 140 and USD 175 per barrel at the end of the fiscal year. Such upward movement of prices in the international market made the prevailing local prices unsustainable, calling for a readjustment that was made just after the end of the fiscal year. At the same time, import of rice (Thailand, 5 per cent broken) and fertiliser (Urea) got costlier by 130 per cent and 135 per cent respectively during FY2007-08. High fuel, food and fertiliser subsidy demand made the "subsidies and transfers" head the single largest contributor to the revenue expenditure growth in FY2007-08 (Figure 1.9).

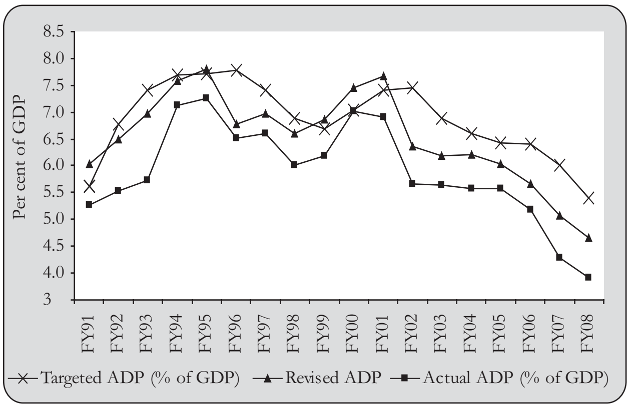
With the unexpected rise in expenditure pressure, fiscal balance got stressed at the end of FY2007-08, notwithstanding the higher revenue mobilisation achieved in the fiscal year. This led to a higher resource constraint reinforcing the difficulties in implementing the ADP.

1.4.3 Annual Development Programme (ADP)

The deteriorating trend of ADP implementation during the recent past continued in FY2007-08 and marked the poorest show ever. The original ADP for FY2007-08 was fixed at Tk. 26,500 crore which was revised downwards by 15.1 per cent to Tk. 22,500 crore in the end. Expenditure record shows that only 82.2 per cent of the revised allocation (69.8 per cent of the original) was spent during the fiscal year which approximated the 82.9 per cent achievement of the preceding year.

When estimated as a percentage of GDP, ADP implementation status has been gradually falling since FY2000-01 and the lowest was in FY2006-07, at 3.8 per cent. But in FY2007-08, actual ADP as percentage of GDP stood at 3.4 per cent, the lowest ever (Figure 1.10). However, in terms of absolute spending, ADP expenditure in FY2007-08 surpassed that of FY2006-07 by Tk. 575 crore, amounting to Tk. 18,492 crore (Tk. 17,917 crore in FY2006-07).

Figure 1.10: ADP as Per cent of GDP: FY1990-91-FY2007-08



Source: CPD-IRBD database.

Among the five Ministries/Divisions which received the highest allocation in the revised ADP (RADP) of FY2007-08, Power Division did not even manage to match the overall poor performance of ADP implementation with only 78.6 per cent of the revised allocation being spent in this period. It is to be noted that this sector was given priority in the original ADP of FY2007-08 with the largest increase over the RADP of FY2006-07. The Local Government Division and the Ministry of Primary and Mass Education did relatively better with 95.5 per cent and 88.2 per cent utilisation of their respective revised allocations. The Ministry of Health and Family Welfare (MoHFW) and the Ministry of Communication on the other hand spent 84.2 per cent and 84.1 per cent respectively. Implementation status of the 16 Ministries, mandated to develop their own budget under the Medium Term Budgetary Framework (MTBF), has shown marginally better performance (84.4 per cent utilisation) compared to the average of the others.

Low expenditure of FY2007-08 needs to be seen from the perspective of higher expenditure requirement of the government on account of revenue expenditure and disaster management linked to floods and Sidr. Another factor behind the slow pace of ADP implementation this time has been the rising cost of inputs which undermined the cost estimations of earlier contracts and led to slowdown of development works by many contractors who asked for review of cost estimation. Apart from these, risk aversion and fear psychosis appears to have played a major role behind the lower performance in FY2007-08.

1.4.4 Budget Deficit and Financing

During the last few years, budget deficit in Bangladesh tended to remain around 3 per cent of GDP. However, national budget for FY2007-08 had targeted the deficit to rise substantially to 4.2 per cent of the GDP. In view of the escalating expenditure pressure, revised budget projected an even higher deficit of 4.8 per cent of GDP. At the end of the fiscal year, actual deficit stood at 4.9 per cent of GDP, highest since FY1999-00.

Total deficit financing amounted to Tk. 26,650.9 crore at the end of FY2007-08, posting a substantial growth of 103.0 per cent over the actual deficit of FY2006-07. In financing the deficit, commendable success was achieved in mobilising foreign resources. Net foreign financing during the year increased by 178.7 per cent, amounting to Tk. 7,775.5 crore (Table 1.1).

Table 1.1: Growth in Deficit and Sources of Financing

	Actual FY06	Actual FY07	Actual FY08	Growth FY07	Growth FY08
	(in Crore Tk.)			(%)	
Net foreign financing	3530.6	2790.0	7775.5	-209.8	178.7
Grant	1061.5	1037.4	2007.4	-22.7	93.5
Loan	6052.1	5743.7	10137.7	-51.0	76.5
Amortisation	3583.1	3991.1	4369.5	113.9	9.5
Domestic financing	9128.2	10335.4	18875.4	132.2	82.6
Non-bank borrowing	2646.7	4282.6	2501.4	618.1	-41.6
Bank borrowing	6431.4	5982.3	16349.3	-69.8	173.3
Sale of assets	50.1	70.6	24.7	409.2	-65.0
Total financing	12658.8	13125.4	26650.9	36.9	103.0
Total financing as % GDP	3.0	2.8	4.9		

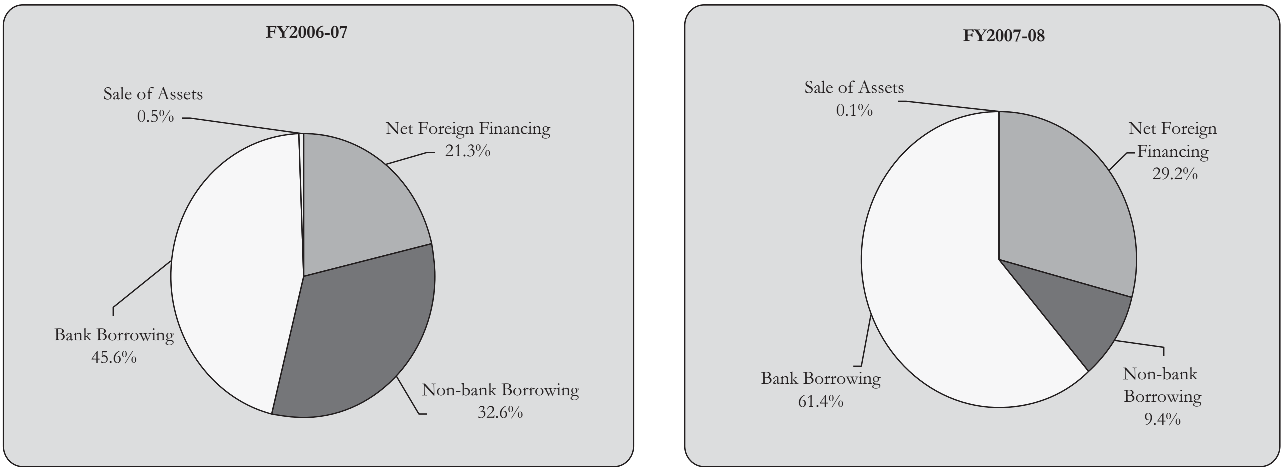
Source: CPD-IRBD database.

In mobilising domestic resources to finance the deficit, the government mostly had to draw on the banking sources, as non-bank financing was not readily available in the backdrop of falling sale of National Savings Directorate (NSD) certificates; probably an impact of the anti-corruption drive that led to a shift of private investment towards the equity market. While domestic financing as a whole increased by 82.6 per cent, non-bank borrowing declined by (-)41.6 per cent. On the other hand, borrowing from the banking sources increased significantly by 173.3 per cent.

Foreign financing was about one-third (29.2 per cent) of the total financing in FY2007-08 with its share increasing from 21.3 per cent of FY2006-07 (Figure 1.11). While the share of domestic financing declined from 78.7 per cent to 70.8 per cent, share of bank borrowing increased substantially from 45.6 per cent to 61.4 per cent. This could leave some impact on the inflationary pressure as bank borrowing has a greater net impact on money supply, compared to non-bank borrowing. Share of non-bank borrowing declined from 32.6 per cent in FY2006-07 to 9.4 per cent in FY2007-08.

Although the amount of deficit is significant, actual deficit could have been substantially higher if the ADP implementation would have been better. A gradually rising deficit not only gives rise to concerns over mobilising resources to finance the deficit itself, but also over the cumulative debt burden that results in higher interest payments over the subsequent years. The viable option would be to strive for a higher revenue mobilisation where there is, in fact, enough scope to do so with only about one-twelfth of the earners over the tax exemption limit actually paying the taxes.

Figure 1.11: Structure of Deficit Financing: FY2006-07 and FY2007-08



Source: CPD-IRBD database.

1.5 MONETARY SECTOR

In view of high inflation rate during the FY 2007-08 Bangladesh had to deal with the challenge of following a monetary that would curb the rise in price levels and help to maintain macroeconomic stability. These objectives could be achieved only through sustainable output growth by channeling adequate resources in the productive sectors of the economy. A prudent monetary policy can play a vital role in resource allocation through the banking and financial framework of the country. The Bangladesh Bank has been pursuing its monetary policy in a transparent way through its successive Monetary Policy Statement (MPS) since January 2006. In its six monthly MPS for the period January - June 2008 the Bangladesh Bank aimed to "support the highest sustainable output growth along with maintaining price stability." To this end, the Bangladesh Bank had earlier resisted the suggestion of the IMF to raise interest rate and follow a contractionary monetary policy and has been pursuing an accommodative policy in view of the emerging domestic and global economic developments. It is expected that the Bangladesh Bank will follow an independent monetary policy to control inflation and stimulate investment in future as well, keeping in view the domestic and global realities.

A brief overview of the trends of some of the major variables in the monetary sector during the FY2007-08 is presented below to understand the recent dynamics in the sector.

1.5.1 Demand and Time Deposits

Striking a balance between high inflation and interest rate has always been a challenge for the Bangladesh Bank while devising a monetary policy. The long-term interest rates in Bangladesh have either declined or remained the same over the years. For example, interest rates on 5-year and 10-year Bangladesh Government Treasury Bond (BGTB) have declined, while the interest rate on NSD certificates remained the same in June 2008 when compared to December 2007 (Table 1.2). This would imply that the real rate of interest (RRI) has declined in the face of high inflation. This has acted as a disincentive to the depositors who are currently shifting towards the capital market instead of saving in NSD certificates. As a matter of fact, net sale of NSD certificates during July-June FY2007-08 was 39.68 per cent lower compared to July-June FY2006-07, while total sale was 6.73 per cent less during the same period (Table 1.3).

Table 1.2: Weighted Average Interest Rate of Government Long-term T-bill/Bonds and Inflation

Period	BGTB		NSD		Inflation Rate (12 Month Average)	Real Rate of Interest on BGTB		Real Rate of Interest on NSD	
	5-Year	10-Year	3-Year	5-Year		5-Year	10-Year	3-Year	5-Year
June 2004	8.00	10.00	10.50	11.00	5.83	2.17	4.17	4.67	5.17
June 2005	8.75	9.93	10.00	10.50	6.49	2.26	3.44	3.51	4.01
June 2006	10.60	12.09	10.00	12.00	7.16	3.44	4.93	2.84	4.84
June 2007		12.14	11.50	12.00	7.20		4.94	4.30	4.80
Dec 2007	10.65	11.73	11.50	12.00	9.11	1.54	2.62	2.39	2.89
March 2008	10.60	11.72	11.50	12.00	10.00	0.60	1.72	1.50	2.00
June 2008	10.60	11.72	11.50	12.00	9.94	0.66	1.78	1.56	2.06

Source: Monetary Policy Department, Bangladesh Bank.

Deposits increased by 16.90 per cent during FY2007-08 compared to FY2006-07. Of this, Demand

Table 1.3: Sale and Repayment of NSD Certificates

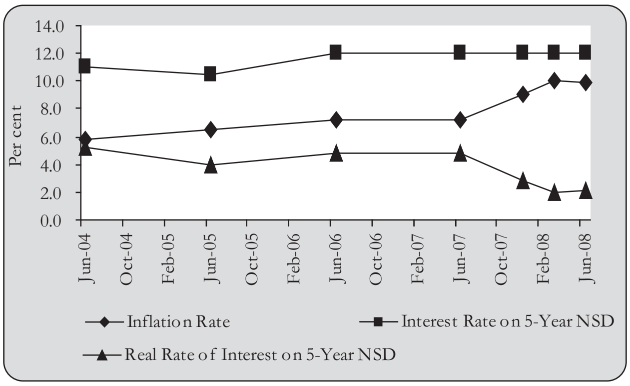
(in Crore Tk.)

Period	Sale	Repayment	Net Sale	Outstanding at the End Period
FY2006-07	15123.53	10948.61	4174.92	43639.18
FY2007-08	14105.79 (-6.73)	11587.50 (+5.84)	2518.29 (-39.68)	46157.47 (+5.77)

Source: National Savings Directorate, Bangladesh Bank.

Deposits (DD) increased by 15.46 per cent and Time Deposits (TD) by 17.11 per cent during this period. A comparison between July 2008 and July 2007 shows that DD increased by 11.18 per cent and TD by 18.21 per cent between the two time periods. The increase in TD implies that even with high inflation rate, the opportunity cost of holding money in these instruments is still attractive.

Figure 1.12: Real Rate of Interest



Source: Bangladesh Bank.

The RRI has been declining on all deposits. For example, the RRI in June 2008 was only 0.66 per cent on 5-year BGTB, 1.78 per cent on 10-year BGTB, 1.56 per cent on 3-year NSD certificate and 2.06 per cent on 5-year NSD certificate (Figure 1.12). Such low interest rate has made savings instruments such as NSD less attractive and led private savers to move towards other forms of investment, such as the capital market. The heated capital market of FY2007-08 is a reflection of such moves. Table 1.2 shows the weighted average interest rates and real interest rates of various savings instruments.

1.5.2 Money Supply, Reserve Money and Liquidity

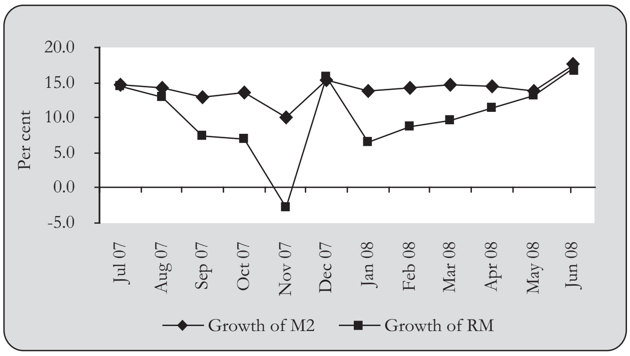
There has been an upward trend in case of Broad Money Supply (M2) during the FY2007-08. M2 has posted a rise of 17.48 per cent as of end of June 2008 compared to July 2007 (Figure 1.13). This growth has been due to growth in the domestic credit by 20.05 per cent during July 2007 and June 2008. Due to increased remittance flow, Net Foreign Assets (NFA) has continued to increase in recent times. NFA increased by 15.07 per cent during FY 2007-08. Net Domestic Assets (NDA) has also experienced an increase of 18.10 per cent during the same period.

Reserve Money (RM) recorded an increase of 19.78 per cent (Tk. 8,716.50 crore) in FY2007-08 compared to increase of 17.67 per cent (Tk. 6,691.80 crore) in FY2006-07. The money multiplier (M2/RM) increased to 4.71 at the end of June 2008 compared to 4.70 in July 2007.

The scheduled banks had an excess liquidity of Tk. 12,988.58 crore as of end of June 2008 which was lower compared to Tk. 14,279.42 crore as of end of June 2007. This is reflected in attempts at undertaking deposit collection drive on the part of some commercial banks through offering of higher interest rates on long-term deposits. Banks have been borrowing from the call money market at a high interest rate for their day-to-day operations.

In order to ease the liquidity crisis, the government has also started to inject money in the economy. The government had earlier withdrawn an amount of Tk. 5,000 crore in FY2007-08 from the banking sector, through primary dealers (by way of sale of treasury bills (T-bills) to nationalised banks and some commercial banks) for government's use, and to control inflation by reducing the money supply in the market. However, this has raised the call money rate, which sometimes reaches as high a level as 15 to 20 per cent. The government is now trying to keep the call money rate around 8 to 8.5 per cent and has recently injected Tk. 1,000 crore to this end.

Figure 1.13: Growth Rate of Money Supply and Reserve Money



Source: Bangladesh Bank.

The reasons behind a decline in excess liquidity could be the following. First, private sector credit has increased to some extent (Section 1.5.3). Second, due to anti-corruption drive since January 2007, a large part of the black money has been taken out of the banking system. Third, due to high inflation rate and high commodity prices, the middle-income group is having to use their savings to cope with high cost of living.

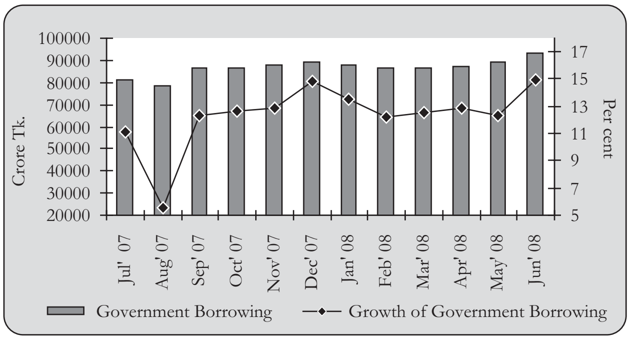
1.5.3 Domestic Credit

Total domestic credit increased by 20.05 per cent (Tk. 41,545.6 crore) during July 2007-June 2008 against the increase of 13.55 per cent (Tk. 24,550.3 crore) during July 2006-June 2007. The rise in domestic credit is due to the rise of both private sector and public sector credit. Private sector credit experienced an increase of 24.38 per cent (Tk. 37,271.3 crore) during FY2007-08. Domestic credit to the public sector experienced an increase of 7.86 per cent (Tk. 4,274.3 crore) in the same period. On the other hand, credit to other public sectors declined by 32.52 per cent during FY2007-08.

Government Sector Borrowing

There has been an increase in government sector borrowing which comprises of bank borrowing plus non-bank borrowing. The increase was 15 per cent

Figure 1.14: Government Sector Borrowing



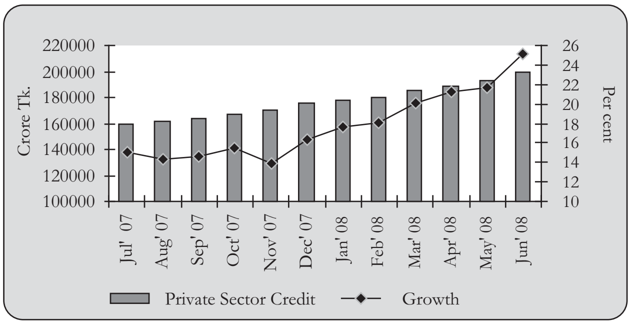
Source: Bangladesh Bank Economic Trends.

during July 2007 and June 2008. In June 2008 government sector borrowing was Tk. 93,157.17 crore, of which, banking sector contributed 50.45 per cent and the remaining from non-banking sector. Outstanding borrowing of the government through NSD certificates as of end June 2008 stood at Tk. 46,157.47 crore, recording an increase of Tk. 2,266.19 crore or 5.16 per cent, against Tk. 43,891.28 crore as of end July 2007. The volume and growth of the government sector borrowing are shown in Figure 1.14.

Private Sector Borrowing

Private sector demand experienced a decline in the beginning of the FY2007-08, partly due to uncertainty and fear created in view of the changed governance framework following takeover by the third CTG in January 2007 and anti-corruption drive pursued by the CTG. The situation started to improve gradually with renewed activities in the economy, which was reflected

Figure 1.15: Private Sector Borrowing



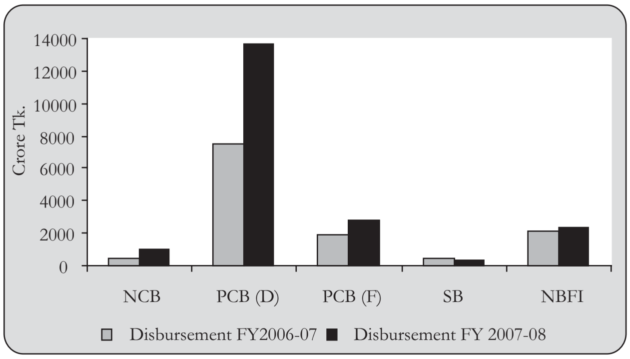
Source: Bangladesh Bank Economic Trends.

in strong growth of the private sector credit during FY2007-08. In FY2007-08 total outstanding domestic credit to the private sector posted an increase of 25 per cent over FY2006-07 (Figure 1.15). Within total credit to the private sector, 92.5 per cent came from the banking sector while the rest came from the Non-bank Depository Corporations (NBDCs).

1.5.4 Industrial Loan

Industrial term loan disbursement stood at Tk. 20,150.8 crore in FY2007-08, registering a high growth of 62.58 per cent from FY2006-07. Term loan recovery in this fiscal year was also 50 per cent higher than previous fiscal year. Term loan disbursed by the nationalised commercial banks (NCBs) increased

Figure 1.16: Disbursement of Term Loan: FY2006-07 and FY2007-08

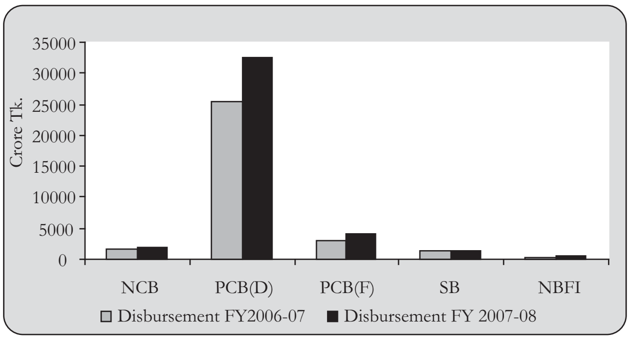


Source: Bangladesh Bank.

significantly by 105 per cent, and their share in total disbursement also increased by a significant margin, from 3.9 per cent in FY2006-07 to 4.9 per cent in FY2007-08 (Figure 1.16). Furthermore, in FY2007-08 disbursements by all other banks have increased significantly except for the specialised banks (SB) that recorded a negative 17 per cent growth compared to the previous fiscal year.

Disbursement of working capital in FY2007-08, recorded a relatively high growth of 26.3 per cent. In

Figure 1.17: Disbursement of Working Capital: FY2006-07 and FY2007-08



Source: Bangladesh Bank.

FY2007-08, an amount of Tk. 39,963.49 crore was disbursed against the sanctioned amount of Tk. 30,489.73 crore (Figure 1.17). Private commercial banks (PCBs) (domestic) accounted for more than 81 per cent of the total disbursement of working capital, while the highest growth (53.8 per cent) was registered by the non-bank financial institutions (NBFIs). On the other hand, disbursement of working capital by the SBs recorded negative growth of 2.6 per cent.

1.5.5 Loan Default Scenario

Total classified loan as on June 2008 was Tk. 24,997.67 crore. Total classified loan increased by 12.09 per cent as on June 2008 compared to the corresponding period of the previous year. Except for the development finance institutions (DFIs), none of the bank was able to make progress in reducing classified loans. The increase in classified loan was 17.09 per cent for the state-owned commercial banks (SCBs), 43.72 per cent for foreign banks (FBs) and 11.69 per cent for PCBs. However, the DFIs made an impressive progress in reducing total classified loan which recorded a negative growth rate of (-)5.28 per cent as of June 2008 from the corresponding time of the previous year (Table 1.4).

Table 1.4: Classified Loan *(in Crore Tk.)*

Bank Type	As on June '07	As on June '08	Growth in FY2007-08 Compared to FY2006-07
SCBs	13058.24	15289.36	17.09
PCBs	5150.62	5752.97	11.69
FBs	160.03	230.00	43.72
DFIs	3933.16	3725.34	-5.28
Total	22302.05	24997.67	12.09

Source: Banking Regulation and Policy Department, Bangladesh Bank.

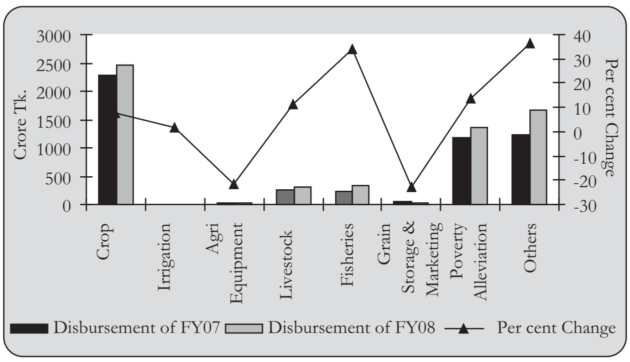
The negative performance in loan recovery is partly due to the anti-corruption drive which put several businessmen behind the bar and led many to flee from the country. Since the corporate governance of most of the companies in Bangladesh is weak with heavy dependency on particular individuals, business has experienced a downward trend due to such cleansing operation. Consequently, many of these companies are not being able to service their respective loans. Also due to the fear factor among the businessmen there was very limited investment during the beginning of the FY2007-08 leading to weak performance of their business which in turn could have had an impact on the loan default scenario.

1.5.6 Agricultural Credit

The Bangladesh Bank has directed all NCBs and PCBs to increase disbursement of agricultural credit in order to increase agricultural production in view of global food crisis, and the loss of domestic production due to flood and cyclone in 2008. The emphasis of the Bangladesh Bank was reflected in increased disbursement of agricultural credit by the NCBs, SBs, Bangladesh Rural Development Board (BRDB) and Bangladesh Samabay Bank Limited (BSBL).

In the backdrop of the prevailing high inflation total credit disbursement to the agricultural sector posted a positive growth of 16.5 per cent in FY2007-08. While total disbursement amounted to Tk. 6,167 crore in FY2007-08, total recovery amounted to Tk. 4,374.6 crore which was 6.45 per cent lower than the recovery of FY2006-07. Crop loan and poverty alleviation received credit with respective disbursements of Tk. 2,463.72 crore and Tk. 1,349.72 crore. Poverty alleviation recorded a positive growth of 13.47 per cent in disbursement for FY2007-08 over that of FY2006-07 (Figure 1.18).

Figure 1.18: Agricultural Credit Position: FY2006-07 and FY2007-08 (July to June)



Source: Agricultural Credit & Special Programme Department, Bangladesh Bank.

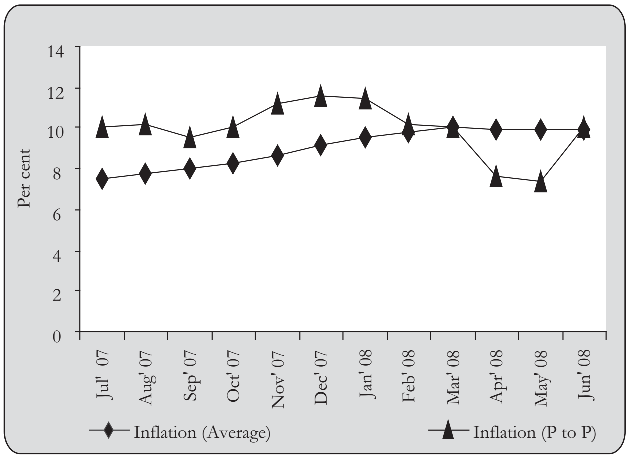
Though private banks have also initiated programmes for disbursing agricultural credit, the effort is still very limited. Private banks are lending to the agriculture sector in two ways. First, following the model of the Indian ICICI Bank's Para Banking (which has in fact been developed on the basis of the Grameen Bank model blended with the Indian reality), a number of private banks have come to an agreement with some large non-government organisations (NGOs), such as BRAC, ASA and TMSS to disburse agri-loan through them. They are now finding out that lending in agriculture sector could also be a profitable operation. Such arrangements have been made in view of the fact that these NGOs have infrastructural and institutional set up in the rural areas, and it is not always financially viable for the banks to establish a new set up in the remote areas. Second, under a tri-partite arrangement among the government, private banks and NGOs, credits are being disbursed in the agriculture sector. Currently, a pilot project is being implemented through two private banks - Eastern Bank Ltd. and BASIC Bank. The ADB has provided a fund of USD 42 million to the Ministry of Finance (MoF) for this. The government has disbursed USD 36 million to these two private banks at 3.5 per cent interest rate. The private banks are lending these funds to the aforesaid three NGOs at 7 per cent interest rate.

1.5.7 Consumer Price Inflation

National Consumer Price Index (CPI)

The annual average rate of inflation (12-month annual average CPI, 1995-96 = 100) increased to 9.94 per cent in June 2008 from 7.49 per cent in July 2007. The increasing trend continued till March 2008 when it reached 10.0 per cent. It has declined slightly during April-June 2008. Higher inflation was due to higher domestic price of food and higher global commodity prices. However, as food comprises about 59 per cent of total CPI in Bangladesh, higher domestic food prices was the dominant factor contributing to the high inflation (Figure 1.19).

Figure 1.19: CPI Inflation



Source: Bangladesh Bureau of Statistics (BBS).

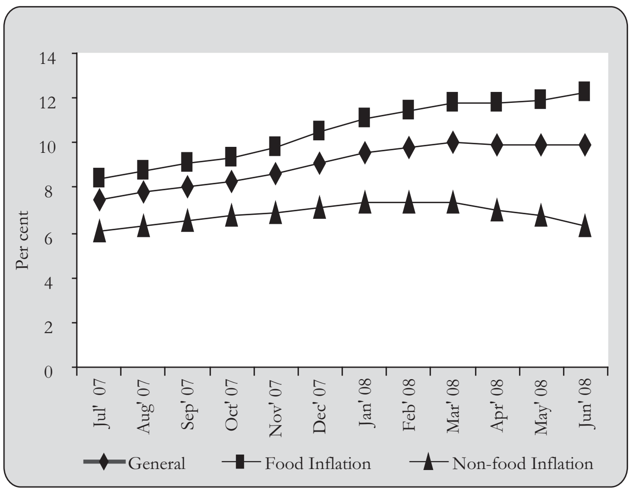
Urban and Rural Inflation

Both rural and urban consumers have been feeling the heat of high prices. The point-to-point (P to P) inflation rate in rural areas in June, 2008 was 10.29 per cent, an increase from 10.10 in July 2007. The food price inflation rate was 14.0 per cent while non-food price inflation rate was 3.50 per cent in June 2008. The point-to-point inflation rate in urban areas in June, 2008 was 9.40 per cent, compared to 10.09 in July 2007. The urban food and non-food price inflation rates were 14.33 per cent and 3.64 per cent respectively in June 2008.

Food and Non-food Inflation

At the end of June 2008, food and non-food inflation rates on a point-to-point basis were 14.10 per cent and 3.54 per cent respectively, compared to 11.42 and 8.23 respectively in July 2007. On the other hand, food inflation rate on the basis of 12-month average increased from 8.45 per cent in July 2007 to 12.28 per cent in June 2008. Non-food inflation rate increased from 6.09 per cent to 6.32 per cent during the same period (Figure 1.20).

Figure 1.20: General, Food and Non-food Inflation (12 Month Average)



Source: Bangladesh Bank Quarterly (January to March).

Global Price Scenario

As opposed to previous years prices of most commodities, especially those of wheat, rice, edible oil, and crude oil have increased at an unprecedented rate during FY2007-08. Prices of rice (for 5 per cent broken parboiled) increased to USD 934.2 per metric ton (MT) in June 2008 from USD 342.5 per MT in July 2007. Crude oil price touched a record high of USD 133 per barrel in June 2008 from USD 77.2 per barrel in July 2007. Similar trend was observed in case of wheat. Prices of soybean oil jumped to USD 1,537 per MT in June 2008 from USD 886 per MT in July 2008 (Table 1.5).

Table 1.5: Global Price of Some Important Commodities

Period	Rice USD/MT
	5 % broken parboiled
July 2007	342.5
January 2008	412.5
June 2008	934.2
	Crude Oil, Brent USD/Barrel
July 2007	77.2
January 2008	91.9
June 2008	133.0
	Soybean Oil USD/MT
July 2007	886.0
January 2008	1276.0
June 2008	1537.0
	Wheat, US, HRW USD/MT
July 2007	238.4
January 2008	370.7
June 2008	348.6

Source: World Bank, The Pink Sheet.

Regional Inflation

High inflationary trend was also observed in South Asian countries. The point-to-point inflation was 11.9 per cent in India and 28.2 per cent in Sri Lanka in June 2008, compared to 4.7 per cent and 15.4 per cent in India and Sri Lanka respectively in July 2007. In Pakistan, inflation rate was 21.5 per cent in June 2008. Table 1.6 shows a comparison of inflation rates at various points of time.

Table 1.6: Regional Comparison of Inflation (Point-to-Point)

Period	Bangladesh	India	Pakistan	Sri Lanka
December' 06	6.1	6.6	8.9	19.3
December' 07	11.59	5.9	8.8	16.4
July' 07	10.10	4.7	6.4	15.4
March' 08	10.06	7.9	14.1	28.1
June, 08	10.04	11.9	21.5	28.2

Source: Bangladesh Bank, http://www.sbp.org.pk, http://www.statistics.gov.lk/.

Impact of Inflation on Real Income

Inflationary pressure during the last several months has had an adverse impact on the consumers through reduction of their purchasing power due to income erosion. High inflation, particularly high food inflation, has particularly affected the poor and people in the fixed income group. A Centre for Policy Dialogue (CPD) estimate shows that those below the poverty level of income experienced an income erosion of 36.7 per cent during January 2007 to March 2008. This section of the population spends 45.6 per cent of their income on rice alone. Given the increase of rice price by 66.9 per cent during January 2007 and March 2008, income erosion (due to price hike of rice alone), was about 30.5 per cent. For the remaining 54.4 per cent expenditure, income erosion would be to the tune of 6.2 per cent, if only the overall inflation rate was considered. Indeed, most of the workers in the manufacturing and other sectors whose income level is very low have experienced considerable income erosion. If wages of the lower income groups are adjusted against this inflationary trend, real wage would be much lower. For example, monthly wages of workers in grades 5, 6 and 7 in the readymade garments (RMG) sector have been fixed at Tk. 2,046, Tk. 1,851 and Tk. 1,662.5 respectively at the time of the last minimum wage review. Taking into account an average income erosion of 36.7 per cent following the high rice price inflation, the real wages had come down to Tk. 1,295, Tk. 1,172 and Tk. 1,052 per month for workers belonging to the respective grades.

The CPD estimates also show that even when the increase in cumulative GNI is considered (between 2005 and 2008), given the price hike (particularly taking into consideration of the weighted inflationary impact of price of rice), an additional 8.5 per cent people have fallen below the poverty line in recent times because of high inflation (taking Household

Income and Expenditure Survey (HIES) data for 2005 as the reference point). This would mean that as high as an additional 2.5 million households could have fallen below the poverty line in terms of real income. Without doubt, the public food distribution system (PFDS) and other safety net programmes of the government, covering about 10 million people have helped to mitigate the food deprivation of people below the hardcore poverty line, although the overall adverse impact of such high inflation as was experienced in FY2007-08 is undeniable.

1.5.8 Interest Rate

In view of the high spread between lending and borrowing rates, interest rate has been a contentious issue as far as business and banking communities were concerned. This conflict of interest has persisted for quite some time now. The Bangladesh Bank has already directed major commercial banks to reduce the interest rate spread and bring down their lending rates. Commercial banks have agreed recently to fix the highest lending rate at 14.0 per cent.

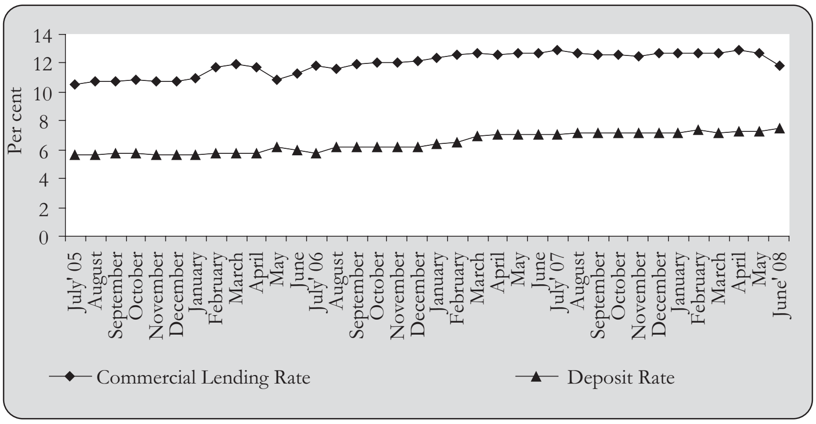
Table 1.7: Weighted Average of Interest Rates

Period	Lending Rate	Deposit Rate	Call Money Rate
December 2004	10.83	5.56	7.62
December 2005	11.25	5.90	8.40
December 2006	12.60	6.99	7.16
December 2007	12.75	6.77	9.37
June 2008	12.29	6.95	9.90

Source: Bangladesh Bank.

PCBs feel that given the high cost of funds and high risks of lending in Bangladesh, any further reduction in the lending rate is not feasible. Moreover, a lower lending rate calls for a lower deposit rate which will discourage savers to keep money in the bank and thus, create liquidity crisis. This, in turn, will have an impact on the overall economy. However, the business community is still pursuing for a higher cut in the lending rate. This demand is being voiced afresh by the business community in view of the global meltdown of financial markets.

Figure 1.21: Monthly Trend of Lending and Deposit Rates



Source: Bangladesh Bank.

Ensuring better returns on deposits would be one way to improve the liquidity situation. The lending rate (calculated on a quarterly basis) of scheduled banks was 12.29 per cent in June 2008 compared to 12.75 per cent in December 2007. Their deposit rate (also calculated on a quarterly basis) stood higher at 6.95 per cent in June 2008 as compared to 6.77 per cent in December 2007 (Table 1.7 and Figure 1.21).

The Bangladesh Bank has to strike a balance here as the demand for liquidity in the banks has to be ensured to tackle the financial crisis. The problem of spread between banks' lending and deposit rates in Bangladesh owes also to some other factors. A study by the Bangladesh Bank pointed out that the spread is relatively high in Bangladesh because of inefficiencies, market segmentation and lack of competition.

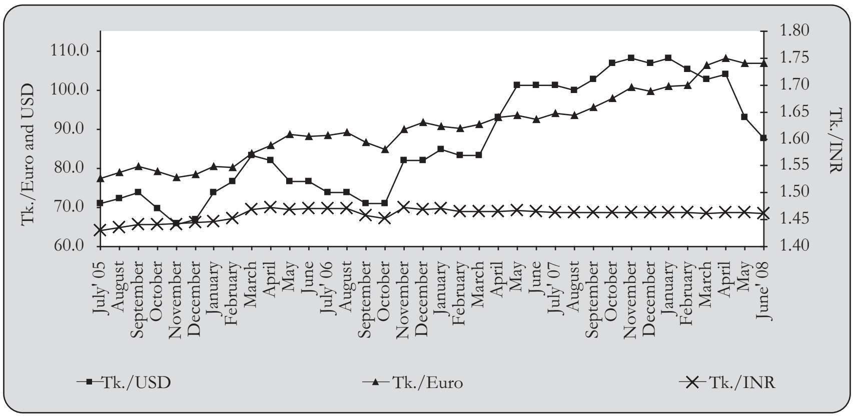
1.5.9 Exchange Rate

The exchange rate between Bangladesh Taka (BDT) and United States Dollar (USD) has remained stable for the last one year or so. As is known, floating exchange rate was introduced in Bangladesh in 2003 to contain fluctuations of Taka against foreign currencies, particularly the US Dollar. During July 2007 and June 2008, Taka appreciated insignificantly by 0.17 per cent. At the end of June 2008, Taka per USD decreased to Tk. 68.52 from Tk. 68.64 at the end of July 2007 (Figure 1.22). Taka depreciated against Euro by 13.35 per cent in June 2008 compared to July 2007.

High levels of foreign exchange reserves underpinned by unprecedented growth in remittance flows have helped BDT to remain strong against

USD, notwithstanding the prevailing high inflation rate. In FY2007-08 the Bangladesh Bank injected about USD 500 million in the foreign exchange market to keep BDT from depreciating further. A stable exchange rate against the USD has been helpful in not allowing import prices to rise further.

Figure 1.22: Movements to BDT against USD, Euro and INR

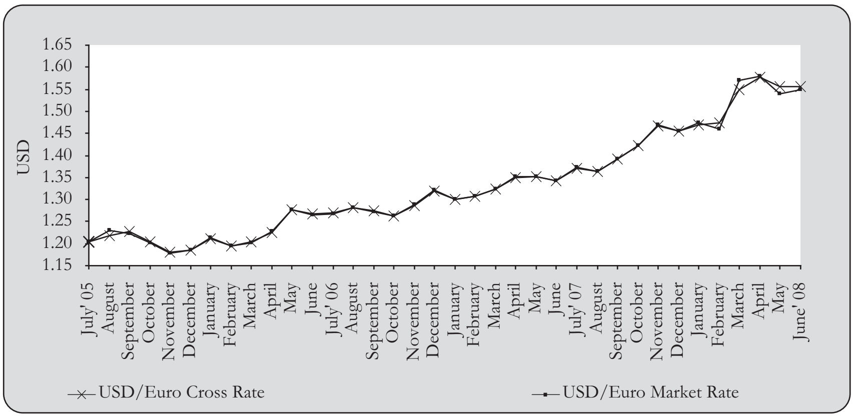


Source: Bangladesh Bank.

In Bangladesh, there is no Euro/BDT market and Euro/BDT rate is calculated from the traded rates of USD/BDT. BDT appreciated against Euro as it has been depreciating against the USD (Figure 1.23). USD continued to remain stable against BDT.

Given the increase in volume of trade between Bangladesh and India, the exchange rate of BDT with Indian Rupee (INR) is assuming importance. Depreciation of BDT against INR in recent years has helped Bangladeshi exporters. However, BDT has started to appreciate against INR as INR depreciated significantly against the USD. Indeed, whilst BDT remained stable against USD over the last one year, INR depreciated by about 5.96 per cent between July 2007 and June 2008. Figures 1.22, 1.23 and 1.24 present monthly movements of BDT against USD, Euro and INR between July 2005 and June 2008.

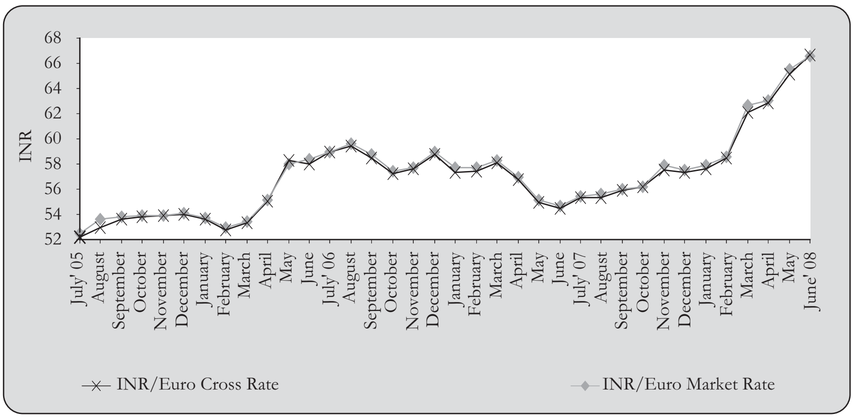
Figure 1.23: USD/Euro Cross Rate and Market Rate



Source: Bangladesh Bank, http://www.exchange-rates.org/history/USD/EUR/G/M.

Some exporters have demanded that BDT should be depreciated to cover the probable loss of export income as a result of global recession. The importers oppose the idea as some of them have suffered significant loss due to fall of commodity price. In this context, the Bangladesh Bank has to devise a balanced policy to take care of the interests of both exporters and importers. The proposal of dual exchange rates appears not to be feasible under the present situation. The Bangladesh Bank has to carefully examine the request of exporters to devise special packages for making up for the likely losses of export income at this juncture of global economic crisis.

Figure 1.24: INR/Euro Cross Rate and Market Rate



Source: Bangladesh Bank, Indian Ministry of Finance.

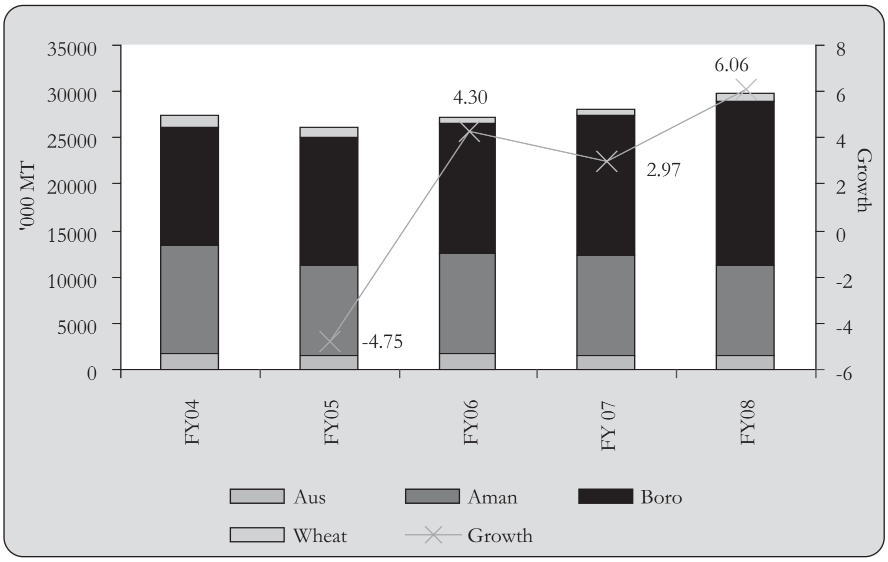
1.6 REAL SECTOR

1.6.1 Agriculture

Production of Foodgrains

According to the final estimates of Bangladesh Bureau of Statistics (BBS), total production of foodgrains (rice and wheat) in FY2007-08 was 29.77 million metric tonnes (MMT) (Aus: 1.51 MMT, Aman: 9.66 MMT, Boro: 17.76 MMT and wheat: 0.84 MMT) which was 6.06 per cent higher than that of the previous year (FY2006-07) (Figure 1.25). However, it was 9.92 per cent less than the original target for production of foodgrains in FY2007-08. Increase in production of foodgrains in FY2007-08 was mainly due to the increase in production of Boro rice. It should be noted here that wheat production in FY2007-08 was 14.5 per cent higher than the previous year, a welcome change from the declining trend since 1999.

Figure 1.25: Estimated Foodgrain Production in FY2007-08



Source: Bangladesh Bureau of Statistics (BBS), CPD estimates.

Department of Agricultural Extension (DAE) initially set the operational target for foodgrains production in FY2007-08 at 33.05 MMT (Aus 2.22 MMT, Aman 13.05 MMT, Boro 16.95 MMT and wheat 0.84 MMT) which was 15.04 per cent higher than actual production in FY2006-07. After the consecutive floods and Sidr in 2007, DAE planned for a massive agricultural rehabilitation programme and revised its target for Boro rice production. As per the revised target, DAE planned to produce 17.50 MMT of Boro rice from 4.50 million hectares (ha) of land comprising of 1.25 million ha for Hybrid rice, 3.125 million ha for high-yielding variety (HYV) rice and 0.125 million ha for local Boro rice in FY2007-08. It is pertinent to recall here that both Aus and Aman rice was affected by two consecutive floods in 2007 and super cyclone Sidr also destroyed the standing Aman crops. According to the estimates of CPD and BRAC, about two MMT of rice was lost due to flood and Sidr. According to the Ministry of Agriculture (MoA), 1.295 MMT of rice was damaged by the cyclone Sidr alone.

Published information by BBS does not provide information about the contribution of different rice cultivars to the total Boro area in FY2007-08. A study conducted by the CPD provides estimations as regards distribution of area under different cultivars in the Boro season of FY2007-08. According to these estimates, share of HYVs, Hybrids and Local varieties in this year were 85 per cent, 12 per cent and 3 per cent, respectively. Important local varieties cultivated were Kali Boro, Jagli and Binni. Popular HYV rice varieties were BR28 and BR29. These two varieties covered approximately 60 per cent of area under HYV, while BR14 (Gazi) was grown in about 4 per cent of total HYV area. Rest of the area under HYV was covered by other varieties. Among the Hybrids, most popular variety was Heera (32 per cent of all hybrids), followed by BRAC hybrids (Aloran, Jagoron and Shakti covering 22 per cent of all hybrids), Sonar Bangla (9 per cent of all hybrids), hybrids marketed by ACI (9 per cent of all hybrids), Aftab (7 per cent of all hybrids), Lal Teer (marketed by East-West Seed Company: 7 per cent of all hybrids) and others (14 per cent). Thus, area under all Hybrids in the Boro season of FY2007-08 was around 0.6 million ha.

Potato production was good in FY2007-08 but production of jute was poor compared to the previous year. According to the BBS, potato production in FY2007-08 was 6.65 MMT, which is 28.7 per cent higher than that of FY2006-07. On the other hand, jute production in FY2007-08 was 4.62 million bales which is 0.28 per cent lower than that of FY2006-07. Lower production of jute was mainly due to flood damage. Production situation of winter and summer vegetables were good.

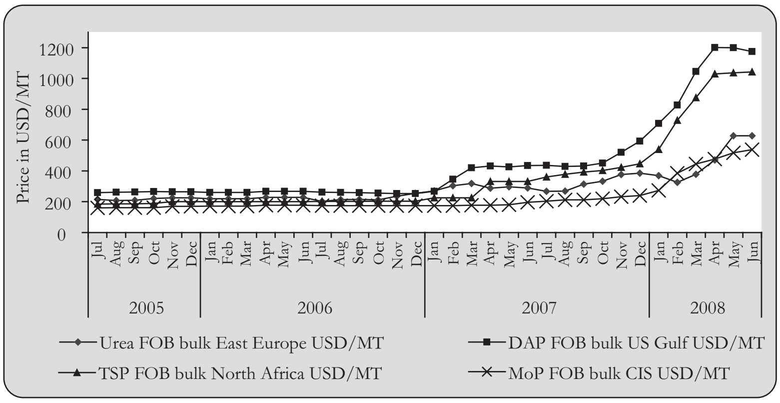
Input Supply and Subsidy for the Crop Sector

Input supply situation was relatively good in the Boro season of FY2007-08, compared to the previous year. Total consumption of electricity by irrigation pumps during July-March of FY2007-08 was 75.84 mkwh which was 17.9 per cent higher than that of FY2006-07 (comparable months). Electricity consumption by irrigation pumps during the Boro season (November-March) of FY2007-08 was 72.99 mkwh which was 24.6 per cent higher than that of FY2006-07 (comparable months). As is known, subsidy on account of irrigation reached up to Tk. 75 crore in FY2007-08.

Total supply of fertiliser was less than what was required in this period. There was a gap between actual requirement to attain high yield goals and the amount of total fertiliser distributed. However, concerned agencies were able to distribute the available fertiliser in an effective manner. National budget FY2007-08 allocated Tk. 1,500 crore as subsidy for fertiliser and Tk. 750 crore as subsidy for diesel. Fertiliser used by farmers in Bangladesh is obtained from two sources: domestic and international. The MoA estimated demand for Urea fertiliser in FY2007-08 as 28.18 lakh metric tonnes, triple super phosphate (TSP) 4.76 lakh metric tonnes, diammonium potash (DAP) 2.50 lakh metric tonnes, and muriate of potash (MoP) 4.00 lakh metric tonnes. The MoA planned that total demand for Urea would be met through 15.00 lakh metric tonnes from production of Bangladesh Chemical Industries Corporation (BCIC) factories, 4.50 lakh metric tonnes from Karnaphuli Fertilizer Company Ltd. (KAFCO) and 9.00 lakh metric tonnes from international import. According to the MoA report (October 2007), per kg production cost of Urea in Bangladesh was Tk. 7.20 which was sold at Tk. 4.80 and subsidy for per kg urea from domestic sources was thus equivalent to Tk. 2.40. On the other hand, import cost of per kg Urea was estimated at Tk. 31.00 which was sold at Tk. 5.30 and thus government had to subsidise Tk. 25.70 for each kg fertiliser imported from abroad. According to the aforesaid report, amount of total subsidy for fertiliser was estimated at Tk. 3,606 crore (Urea: Tk. 3,120 crore and TSP, DAP and MoP: Tk. 486 crore). As it happened, price of fertiliser in the international market continued to rise, and consequently, actual subsidy on account of fertiliser had to be substantially increased.

Between July 2007 and June 2008, price of all types of fertiliser rose at consistently high pace in the international market (Figure 1.26). During this period, price of Urea increased from USD 267.90 to USD 628.40 per metric ton (MT) while price of TSP increased from USD 360.00 to USD 1,043.00, and that of DAP increased from USD 436.30 to USD 1,175.00. On the other hand, price of MoP increased from USD 203.10 to USD 537.50 per MT.

Figure 1.26: International Price of Fertiliser (Urea, DAP, TSP & MoP): July 2005-June 2008



Source: Commodity market review, World Bank.

Available information suggests that total subsidy for fertiliser distribution and other related activities under the MoA could be about Tk. 3,740 crore (Tk. 3,408.5 crore for fertiliser, Tk. 75.0 crore for electricity for irrigation and Tk. 250 crore for diesel for irrigation and Tk. 6.5 crore for sugarcane). Though the amount of subsidy on account of fertiliser was increased, farmers could not reap the full potential benefit of this due to substantial (2-3 times) increase in prices of all types of fertiliser in the international market. To cope with the increased level of subsidy, the government increased administered price of Urea fertiliser on 9 June 2008, which came into effect on 11 June 2008. The mill-gate price of urea was refixed at Tk. 10,000 per ton or Tk. 10 per kg, while the new rate was to be Tk. 10,700 per ton or Tk. 10.70 per kg at the level of buffer stocks. The new farm-gate price of urea fertiliser was fixed at Tk. 12 per kg in remote areas and Tk. 11.50 in areas with well developed transport facilities which were Tk. 6.00 per kg previously. Prior to the increase, the official prices of urea were Tk. 4,800 per ton or Tk. 4.80 per kg and Tk. 5,300 per ton or Tk. 5.30 per kg at the mill-gate and the buffer stock levels, respectively. The government also decided to continue to provide subsidy at the rate of 15 per cent on the sale of other imported non-urea fertilisers - TSP, DAP, MOP - at farmers level. It is pertinent to mention here that the price of urea fertiliser was fixed for the last time on 3 June in 1997. In 1997 the per ton price at the factory point was Tk. 4,800 while the production cost was Tk. 4,652. The price at the buffer end was Tk. 5,300 and the import cost was Tk. 8,086.

Table 1.8: Food Import in FY2006-07 and FY2007-08

(in '000 Metric Tonnes)

Category of Imports	FY2006-07 (July-June)			FY2007-08 (July-June)		
	Rice	Wheat	Total Foodgrains	Rice	Wheat	Total Foodgrains
Food aid	25	65	90	82	177	259
Public commercial import	0	121	121	296	0	296
Private import	695	1514	2209	1681	1235	2916
Total	720	1700	2420	2059	1412	3471

Source: Food Planning and Monitoring Unit (FPMU), Ministry of Food and Disaster Management.

High and rising prices of fertiliser and diesel in the international market have implications for the national budget FY2008-09. Given the global situation of export restrictions on foodgrains, particularly on rice, Bangladesh must have to produce more foodgrains to feed her increasing population. To do so, estimated fertiliser requirement in Bangladesh in FY2008-09 is likely to be 35.2 lakh metric tonnes of Urea, 5.9 lakh metric tonnes of TSP, 5.0 lakh metric tonnes of MoP and 3.2 lakh metric tonnes of DAP. Bangladesh will need to ensure availability and distribution of the subsidy on fertiliser accordingly.

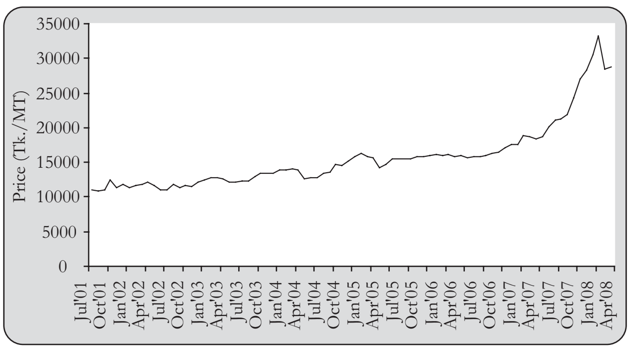
Food Aid and Commercial Import

Imports of foodgrains to Bangladesh are sustained from two sources: food aid and commercial imports. The latter comes through both government and private channels. During July-June of FY2007-08, total import of foodgrains (food aid and commercial imports) was 3,471 thousand MT, out of which 259 thousand MT was food aid, 296 thousand MT was imported as commercial import by public sector, and 2,916 thousand MT was imported by the private sector import (Table 1.8). It may be noted that private sector import of total foodgrains in FY2006-07 was 2,209 thousand MT. Private sector import of rice in FY2007-08 was 1,681 thousand MT against 695 thousand MT in FY2006-07. On the other hand, wheat import by private sector in FY2007-08 was 1,235 thousand MT against 1,514 thousand MT in FY2006-07. Total import of foodgrains and rice in FY2007-08 were respectively 43.4 and 185.8 per cent higher than those of the comparable months in FY2006-07. After two consecutive floods, when it was clear that there was substantial production loss and price was increasing in the domestic market, private sector started to import large quantities of rice. Import would have been much higher had there been no restriction on export of rice and other foodgrains by various countries. Even though import of foodgrain in FY2007-08 was much higher (10.50 lakh MT more) than that of the previous year (FY2006-07), it failed to meet the gap in view of requirement and production loss caused by flood and Sidr (to the tune of 20 lakh MT), leading to price volatility in the market.

Rice Price

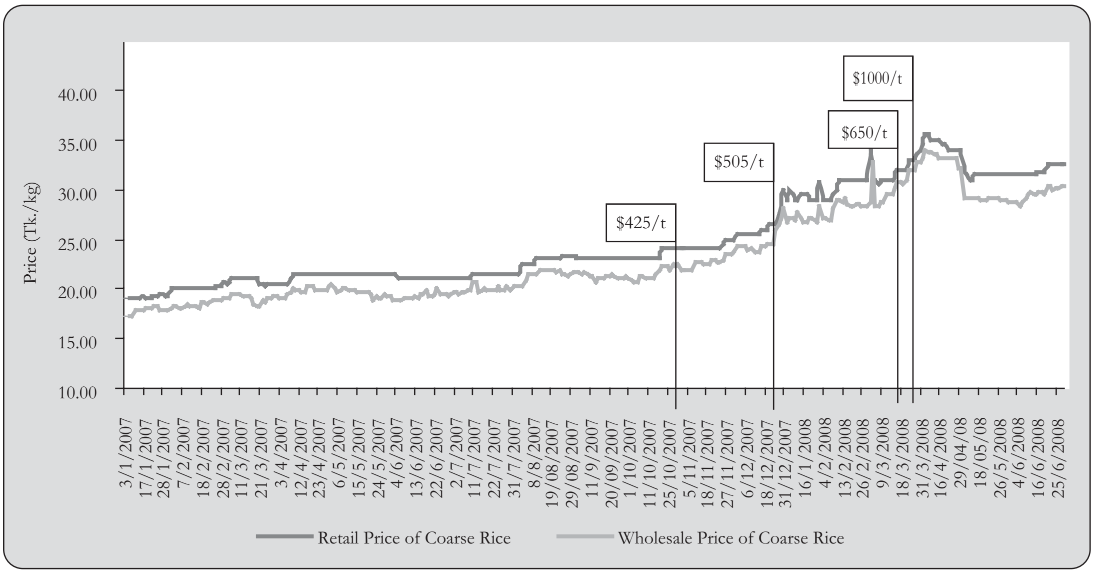
In the beginning of FY2007-08 (i.e. July 2007, the wholesale price of coarse rice in Bangladesh was Tk. 18,700 per MT which gradually increased to Tk. 29,000 per MT in early January 2008 and reached record high levels in April (Tk. 33,196) and then declined to Tk. 29,141 in May 2008 after harvest of Boro rice (Figure 1.27). Domestic prices (both for

Figure 1.27: Wholesale Price of Coarse Rice: July 2001- June 2008



Source: Food Planning and Monitoring Unit (FPMU).

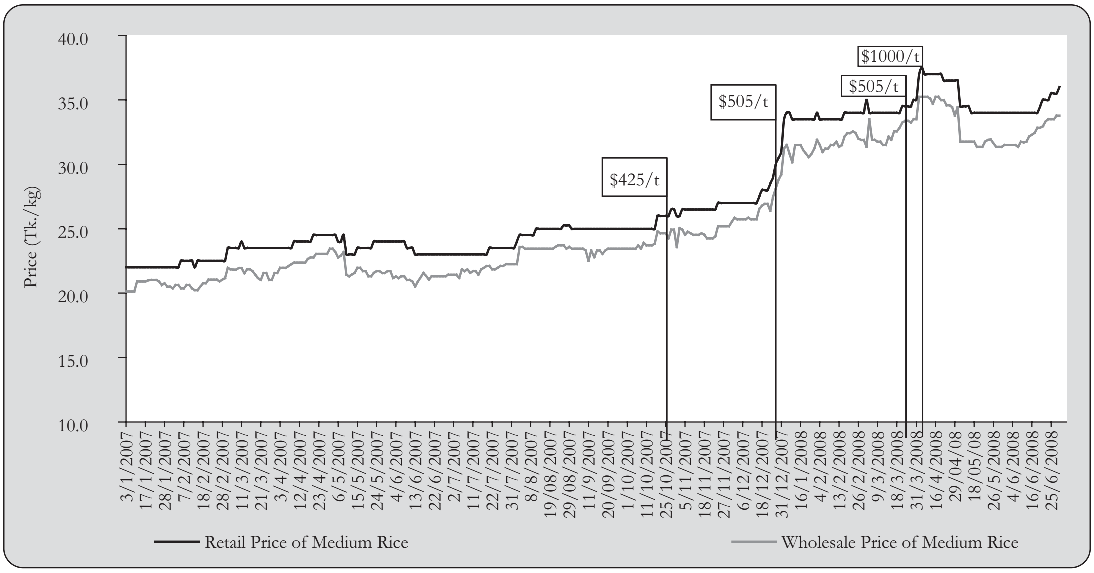
Figure 1.28: Retail and Wholesale Price of the Coarse Rice (BR 8, BR 11, Swarna): January 2007-June 2008



Source: Department of Agricultural Marketing (DAM).

wholesale and retail) of coarse and medium rice (Figure 1.28 and Figure 1.29) increased exponentially in FY2007-08. It becomes evident from analysis of price dynamics that domestic price of rice had increased sharply with the announcement of minimum export price (MEP) by India. This was true for both the retail and the wholesale market. It may be recalled here that India first fixed MEP of non-basmati rice at USD 425 per MT on 25 October 2007. Subsequently, India announced USD 505 per

Figure 1.29: Retail and Wholesale Price of the Medium Rice (BR 28, Parija): January 2007-June 2008



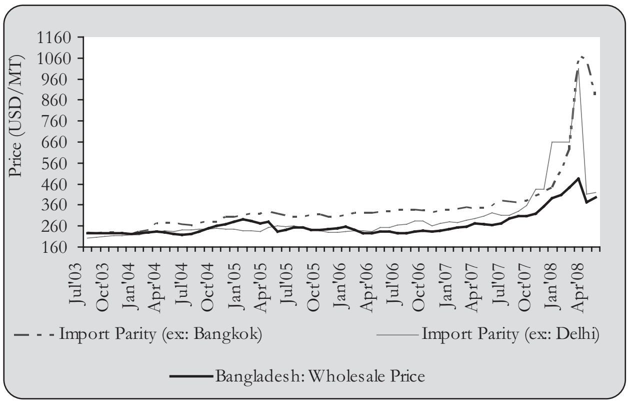
Source: Department of Agricultural Marketing (DAM).

MT on 27 December 2007 and USD 650 per MT on 19 March 2008. Finally, India announced MEP of USD 1,000 per MT for non-basmati rice and USD 1,200 per MT for basmati rice on 28 March 2008. And then, on 1 April 2008 India banned export of non-basmati rice.

It is possible that MEP fixed by the government of India also had an effect on the global rice price (Figure 1.30). Policies taken by India had, to some extent, influenced those of other countries such as Vietnam, Cambodia and Egypt, who were persuaded to rethink their export strategy. At some point in time these countries had also imposed temporary ban on export of rice.

In 1998 and 2004, following floods, Bangladesh was able to import huge quantities of rice and wheat from international market to offset the production loss caused by flood. Due to restrictions imposed on rice exports by major exporters, import of rice was a problem in the current fiscal year of FY2007-08. However, it is evident from Figure 1.31 that private sector of Bangladesh has responded well to the domestic and international prices and polices to bridge the gap between demand and supply in Bangladesh.

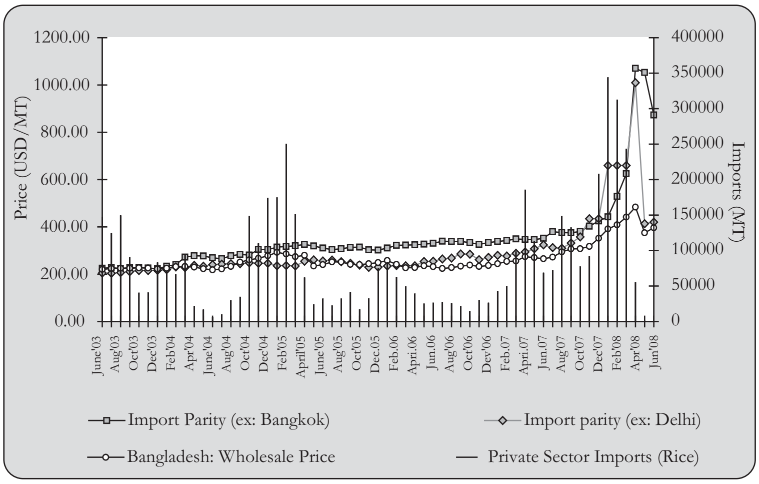
Figure 1.30: Comparison of Domestic Prices of Rice with Import Parity Price: July 2003-June 2008



Source: Food Planning and Monitoring Unit (FPMU), Bangladesh; United States Department of Agriculture (USDA); and Price Monitoring Cell, Ministry of Consumer Affairs, Food and Public Distribution, Government of India

Caution will be needed with regard to future production and prices of foodgrains in Bangladesh and also in view of movements in global production scenario. There are a number of medium and long term factors which will have an impact on future food production, to varying extent. First, the conflict between food and fuel will increase with high demand for fuel by the rich countries and also the big emerging economies, such as India and China. The distribution of land for agriculture and fuel will be a major factor determining the possible food production scenarios. Second, the ongoing Doha Round Negotiations of the World Trade Organization (WTO) on agriculture will have an impact on net food importing countries. The objective of agriculture negotiation in the WTO is to withdraw domestic support given by the United States (US) and the European Union (EU). This will imply that net food importing countries such as Bangladesh will have to buy food at a higher and unstable price from the global market. Third, the impact of climate change will be felt more frequently and severely by low lying poor countries such as Bangladesh. Frequent flood, cyclones and other extreme weather events are early indications of this danger. This will not only destroy production, but also reduce the fertility of land and change the cropping pattern. Fourth, every year 90 million people are being added to the global population leading to increased demand for food. This will have implications both for availability and prices.

Figure 1.31: Rice Prices and Quantity of Private Rice Imports in Bangladesh: June 2003-June 2008



Source: Food Planning and Monitoring Unit (FPMU), Bangladesh; United States Department of Agriculture (USDA); and Price Monitoring Cell, Ministry of Consumer Affairs, Food and Public Distribution, Government of India

Livestock Production

In FY2007-08, total production of milk, meat and egg was 26.5 lakh tonnes, 10.40 lakh tonnes and 56,540 lakh pieces, respectively. Production of milk and eggs in 2007-08 was 16.23 and 5.31 per cent higher than that of FY2006-07 while meat production was constant. Livestock producers were severely affected by flood and Sidr in 2007. According to the Department of Livestock Services, two consecutive floods had affected 2,794 livestock farms and 5,412 poultry farms of 228 upazilas under 39 districts. Floods have also damaged about 148 thousand tonnes of livestock and poultry feed. Total loss to the livestock and poultry sector by floods in 2007 was Tk. 64.36 crore. On the other hand, Sidr led to the death of 108 thousand cattle, buffalo, sheep and goats and 2.57 million poultry birds. Sidr had also destroyed more than six thousand livestock and poultry farms. Estimated loss of livestock sector, affected by Sidr is Tk. 132.26 crore.

As part of rehabilitation measures for livestock and poultry farms affected by flood and Sidr, government and other organisations have taken following measures: (i) a medical team of four members are working in each upazila and providing medical services and continuing vaccination programme; (ii) a high ranked medical team of four members are supervising local activities in each division; (iii) 47 MT of livestock feed was distributed in 7 districts; (iv) up to second week of May 2008, more than 200 thousand of livestock and about 2,010 thousand poultry have been vaccinated; medical service was provided to about 195 thousand livestock and 803 thousand poultry; and (v) Bangladesh Army, BRAC, and other NGOs distributed 1,665 cows, 882 oxen, 2,581 calves, 13,115 goats and 6,564 chickens in 27 upazilas of Barisal and 2 upazilas of Khulna district. In addition, Tk. 17.94 lakh were distributed to reconstruct the damaged farms in these areas.

Poultry production in many areas faced bird flu (avian influenza). According to the Department of Livestock Services, bird flu was found in 219 poultry farms (commercial: 177 and family: 42) under 110 upazilas and 13 metro thanas of 47 districts. A recent study shows, during February 2007 to June 2008, 1.6 million chickens were culled and further 277,000 died in a total of 287 outbreaks and nearly 2.2 million eggs were destroyed by the concerned authority. Government distributed Tk. 11 crore 20 lakh to compensate for the affected farm owners. Each farm owner received Tk. 95 per domestic chicken, Tk. 90 per layer, Tk. 60 per broiler and Tk. 3 per egg as compensation. An analysis conducted by Bangladesh Livestock Research Institute (BLRI) showed that the poultry industry of Bangladesh had an estimated financial loss to the tune of Tk. 3,858 crore in 2007 and 2008. During the time of bird flu outbreak, prices of broiler and eggs declined by 28.0 and 26.5 per cent, respectively. As a result of death and culling of poultry, sharp price fall of poultry and eggs, price hike of poultry feed, bird flu panic and lack of insurance coverage, as many as 17,990 poultry farms were pushed out of business during July 2007 to February 2008. According to the Poultry Farm Owners' Associations of Bangladesh, estimated loss due to bird flu as Tk. 4,165 crore and around 5 lakh people became jobless due to the outbreak of the disease. Concerned agencies of the government had taken prompt actions such as active disease surveillance, culling of birds in affected farms, limiting human movement in affected farms and disinfecting the affected farms which are crucial to containing the situation. However, the threat is not yet over. According to news published in a number of national newspapers, a boy has been affected by bird flu in Bangladesh. We thus need to remain vigilant with regard to the spread of bird flu. To this end, effective implementation and continuation of the two projects on prevention of bird flu and development of poultry sector would be required.

Fisheries Production

In FY2007-08, total fish production was 2,592 thousand MT (about 6 per cent higher than that of FY2006-07), even though the sub-sector was affected by two consecutive floods and cyclone Sidr. During this period, marine fisheries grew by 20.4 per cent and inland fisheries grew by 2.7 per cent. According to the Department of Fisheries (DoF), two consecutive floods affected more than two lakh ponds and dighies in 259 upazilas under 39 districts. Total loss of fish production was 33.56 thousand metric tonnes which was worth of Tk. 196.49 crore. The government allocated Tk. 41 crore for rehabilitation of the fisheries sub-sector. During the flood, concerned agencies suspended planned disbursement and release of fingerlings (worth Tk. 3.03 crore). Following the flood these agencies distributed 1.2 crore fingerlings in the flood affected areas.

Sidr hit the coastal belt at a time when it was off-season for Bagda shrimp. However, loss incurred by fish farmers, who invested in ponds with prawn (galda) and various types of fresh water fish, were substantial. Fish farmers made fairly good investment, often financed by microcredit. Ponds were flooded and a large part of the fish stock escaped to creeks and canals. The water in the ponds was contaminated with fallen leaves and twigs and has become unfit for fish culture in the immediate future. According to the DoF, 11 districts (Khulna, Satkhira, Bagerhat, Barisal, Jhalokati, Pirojpur, Bhola, Barguna, Patuakhali, Gopalganj and Munshiganj) were severely affected by Sidr. More than 139 thousand ponds and dighies were affected by Sidr which together covered an area of about 44 thousand acres. As a result about 799 metric tonnes of shrimp, 5.7 thousand metric tonnes of fish, and 205 lakhs fingerlings were damaged. It is to be noted that fish farming is no longer a business of the rich people only. To sustain the growth of the fisheries sub-sector, a massive rehabilitation programme would be required in FY2008-09. Small farmers would require both technical (reclamation of damaged fish pond, fish fry) and financial support in the form of loan.

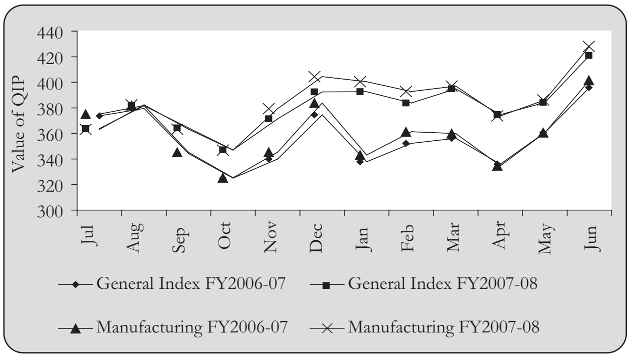
1.6.2 Industrial Sector

Industrial Production

Industrial production registered a modest growth of 6.9 per cent in FY2007-08; this growth was 2-

percentage point lower compared to what was achieved in FY2006-07 (Figure 1.32). This moderate level of industrial growth in FY2007-08 was mainly accounted for by the relatively low pace of growth of the manufacturing sector in FY2007-08. However, performance of some of the other sectors was relatively higher during the same period compared to the previous year, e.g. electricity (7.1 per cent *vis a vis* 6.7 per cent). Both large and medium scale units as well as small scale units registered relatively low levels of growth in FY2007-08 (6.8 per cent and 5.8 per cent respectively). Movement of general and manufacturing indices indicated sluggish growth during the first quarter of FY2007-08; both the indices, particularly manufacturing sector index had picked up in the following quarters. The continuity of upward movement of the manufacturing sector in the next fiscal will largely depend on whether there is perceptible improvement in the business environment of the country.

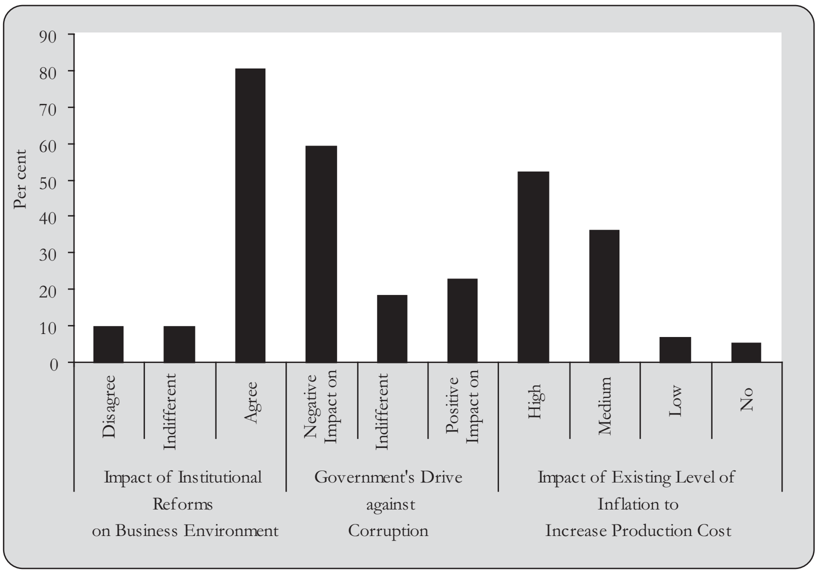
Figure 1.32: Movement of Quantum Index of Production (QIP) in FY2006-07 and FY2007-08



Source: CPD - IRBD database.

Business confidence in the country appears to have improved in the latter half of FY2007-08 thanks to a number of initiatives taken by the CTG. These included, among others, relaxation/withdrawal of several stringent measures taken earlier for monitoring business practices, formation of Better Business Forum (BBF) headed by the Chief Advisor, establishment of Regulatory Reforms Commission (RRC). According to CPD's "Executive Opinion Survey 2008," which was conducted during February-April 2008, 80 per cent business executives were of the opinion that various institutional reform measures pursued by CTG in FY2007-08 have improved business environment in the country (Figure 1.33). On the contrary, government drives against improper business activities including corruption in 2007 were perceived to have had a negative impact (60 per cent). Besides, 52 per cent of business executives in FY2007-08 thought that the prevailing high inflation has increased cost of production by a "high" margin, when the corresponding figure for 2007 was only 19 per cent.

Figure 1.33: Perception of Business Executives on Various Institutional Reforms with the Improvement of Business Environment of Bangladesh



Source: CPD Executive Opinion Survey, 2008.

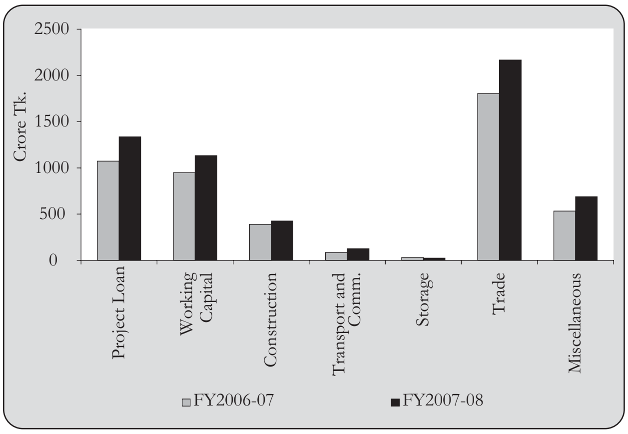
Major manufacturing sectors, such as apparels and leather, wood products, basic metals attained moderately high level of growth in FY2007-08. Production of various processed food products suffered during FY2007-08 mainly because of higher prices of imported raw materials. Indeed, with the fall in purchasing power due to high inflation, demand for some consumer goods declined which is clearly reflected in sluggish growth of production of perfume and cosmetics, rubber and footwear. Notwithstanding the rising demand for fertiliser in the domestic market, production of fertiliser was only 80 per cent in FY2007-08 (15,81,683 MT) compared to that in FY2006-07 (19,90,280 MT). One of the major reasons for the low level of fertiliser production was the decline in the supply of gas to fertiliser plants (24 per cent of total gas supply in FY2002-03, 17.4 per cent in FY2006-07 and 13.5 per cent in FY2007-08).

New opportunities for Bangladesh had been developed in building small-size ships. Entrepreneurs are taking initiatives to develop export oriented ship-building industry in the country in view of recent rise in the demand for small-size ships (capacity of less than 15,000 DWT) which traditional manufacturing countries such as Japan, China, South Korea and Vietnam are not interested to manufacture. During FY2007-08 production of ship-building sector was 4,266 MT, which was 3,705 MT for FY2006-07.

Disbursement of Industrial Term Loan and Bank Advances

A total of Tk. 20,151 crore has been disbursed by commercial banks as industrial term loan during FY2007-08, which was 62.5 per cent higher compared to that of the previous year. During the same period, a total of Tk. 13,625 crore was recovered, which was 50 per cent higher compared to the previous year; consequently, net disbursement of industrial term loan has increased: Tk. 6,525.6 crore in FY2007-08 *vis a vis* Tk. 3,326.3 crore in FY2006-07. According to Figure 1.34, net disbursement was highest in case of trade related activities (Tk. 2,167 crore) being 20 per cent higher than the previous year. Disbursements of project loan and working capital during the same period have increased by 24.5 per cent and 19.3 per cent respectively. Investment in the construction sector was not significant during the last fiscal.

Figure 1.34: Net Disbursement of Credit in Different Economic Activities



Source: Bangladesh Bank.

Financing SMEs

In order to strengthen the small and medium enterprise (SME) sector, Bangladesh Bank gave directives to commercial banks to expand their credit operation for the small and medium scale enterprises. During FY2007-08, bank advances have increased - outstanding position of SME loans at the end of June 2008 was more than one-fifth of the total outstanding credit for all types of industrial loans (Table 1.9). Although state-owned banks (SOBs) distributed one-third of their advances to the SMEs, PCBs in terms of absolute figure, distributed the highest amount (Tk. 19,890 crore). This trend has continued over all the four quarters in FY2007-08. PCBs' interest in SME financing is possibly coming from increased availability of funds which have been partially leveraged with the supply of soft loan from Bangladesh Bank for SME financing, as well as the very low provisioning requirement in case of SME financing.

Table 1.9: Outstanding Position of SME Loans

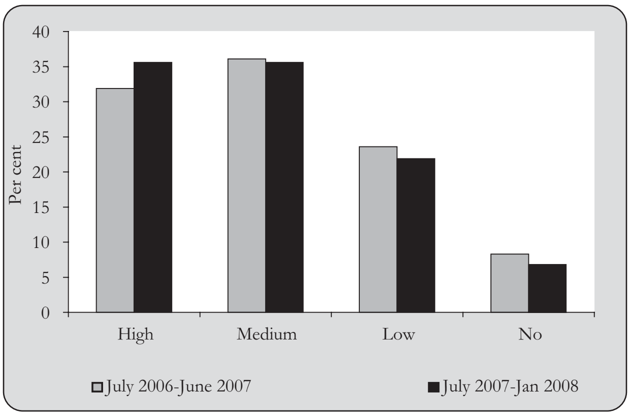
Loan	State-owned Banks	Private Banks	Foreign Banks	Specialised Banks	Non-financial Institutions	Total
Outstanding loan (in Crore Tk.) as of 30 June 2008	9918.9 (28.3)	19889.8 (56.77)	611.7 (1.75)	3249.1 (9.27)	1367.7 (3.90)	35037.1 (100.0)
SME loans as percentage of total loans	33.3	19.7	6.5	22.9	19.7	21.7

Source: Agricultural credit & special programmes department, Bangladesh Bank.

High rate of interest on term loan and working capital is considered to be a major constraint for businesses in Bangladesh, particularly for SMEs. According to the perception of leading business executives captured through CPD's "Executive Opinion Survey 2008," as many as 93.2 per cent business executives perceived that high rate of interest is a major cause for cost escalation; of these 36 per cent business executives considered the extent of cost escalation due to interest rate as "high" (Figure 1.35). In 2007, the comparable figures were 91 per cent and 32 per cent respectively.

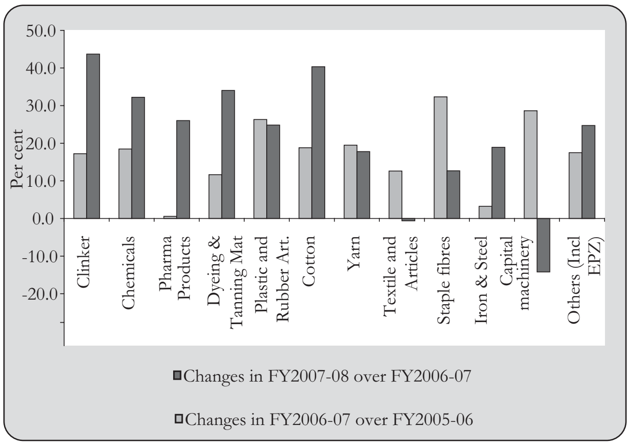
Recently, banks have decided to lower the lending rate of term loan and working capital, and fixed this at the maximum rate of 14 per cent. A total of 23 banks have decided to reduce their rates of lending from a maximum of 16 per cent to 14 per cent level (Table 1.10). In case of term loan, a good number of banks have decided to reduce the lending rate by about 1-2 per cent, while in case of working capital financing 11

Figure 1.35: Perception of Business Executives on Impact of Inflation on Cost of Production



Source: CPD Executive Opinion Survey, 2008.

Figure 1.36: Changes in Import of Intermediate Products, Raw Materials and Capital Machinery



Source: Bangladesh Bank.

banks have reduced the lending rate by less than 0.5 per cent. Reduction of interest rate on term loan and working capital was expected to somewhat reduce entrepreneur's cost of borrowing from the banking sector. Performance of industrial investment in FY2007-08 also reinforces the need for development of infrastructure and services, particularly energy services, in Bangladesh.

Table 1.10: Number of Banks having Lending Rate Higher than 14 Per cent

Range	Term Loan to Large & Medium Scale Industry	Term Loan to Small Industry	Working Capital to Industry
14< r* ?14.5	6	6	11
14.5 < r ? 14.75	5	2	2
14.75 < r ? 15	4	3	5
15 < r ?16	7	7	5
Total	22	18	23

Source: Calculated on the basis of the Bangladesh Bank Data.
Note: * r denotes the rate of interest.

Import of Intermediate Products, Raw Materials and Capital Machineries

Import of various types of intermediate products and raw materials posted higher level of growth in FY2007-08 compared to FY2006-07 (Figure 1.36). Although import of cotton, yarn and staple fibres registered growth rates higher than 10 per cent (with a range of 12.7 per cent to 40.3 per cent) in the last fiscal, import of textiles and articles recorded negative growth over the same period (-0.6 per cent). More importantly, import growth of these items except cotton was lower than the previous year. Import of dyeing and tanning materials substantially increased in the last year. However, import of capital machineries registered a negative growth in FY2007-08 (-14 per cent). Analysis of different types of capital machineries in terms of fresh opening and settlement of letter of credits (L/Cs) indicates that although fresh opening of L/Cs for import of textile machinery was 27 per cent higher compared to the previous year, settlement of L/Cs for import of such machineries was 17 per cent lower for the corresponding period (Table 1.11). The comparable figures for other industries were both ways: garment industry (16.9 per cent and 1.8 per cent), leather industry (-11.2 per cent and 40.9 per cent) and pharmaceuticals (19.5 per cent and -19.4 per cent). A positive change in import of raw materials and intermediate products for most of the industries, on the one hand, and a negative growth of import of capital machineries (both opening and settlement of L/Cs) on the other, indicate a mixed picture. Entrepreneurs were using working capital to run existing production lines and businesses; with regard to expansion and new investments, they tended to be

Table 1.11: Changes in Fresh Opening and Settlement of L/Cs for Capital Machineries

Industry	Fresh L/Cs Opening	Settlements of L/Cs
Capital machinery	15.9	-8.4
Textile machinery	27.2	-17.1
Leather / tannery	-11.2	40.9
Jute industry	16.6	-26.5
Garment industry	16.9	1.8
Pharmaceutical industry	19.5	-19.4
Plastic industry	-23.9	23.0
Packing industry	9.1	-7.2

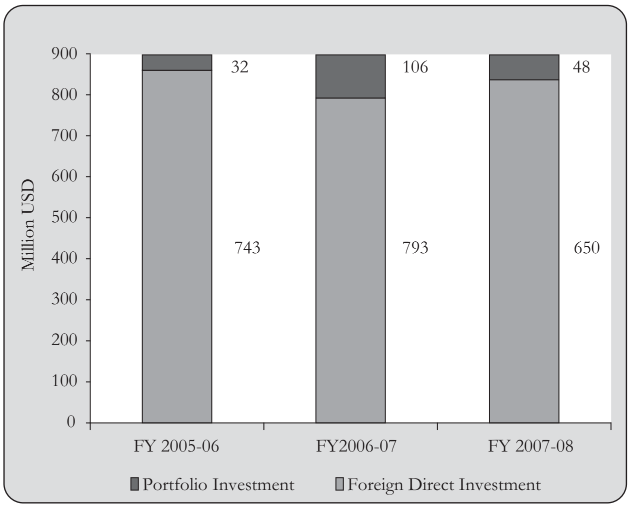
Source: Bangladesh Bank.

cautious perhaps in view of the various domestic and external risks and challenges.

FDI in Bangladesh

Inflow of FDI to Bangladesh has not been encouraging particularly in the backdrop of the high FDI flow to some of the other developing countries including Vietnam, Cambodia and India. FDI is yet to touch the USD 1 billion mark which was set for the year 2006. In FY2007-08 FDI flow to Bangladesh was USD 698 million, which was 22.4 per cent lower compared to the previous year (Figure 1.37). Both direct investment (-18 per cent) and portfolio investment (-55 per cent) registered negative growth in FY2007-08 *vis a vis* the previous year. It is reckoned that, in view of the ongoing global financial crisis and the consequent economic slow down, multinational companies would be more careful when considering investment in countries such as Bangladesh. It is to be noted in this context that according to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2008, Bangladesh's rank in terms of FDI performance index in 2007 has slipped down by 1 position from 120 to 121.

Figure 1.37: FDI and Portfolio Investment in Bangladesh



Source: CPD - IRBD database.

In fact, net FDI flow to the country (measured by subtracting outward transfers from inward FDI), indicates a gloomy picture (Table 1.12). Taking into account - the large amount of outward transfers of FDI related income in the form of profit, dividend, royalties, license fees (most importantly those that relate to power, oil and gas companies), it is found that net FDI flow in FY2007-08 was as low as USD 44 million since about USD 653 million was transferred abroad on account of the aforesaid forms of outflow during the said period. Transfer of FDI related income has increased by 13.6 per cent in FY2007-08 over the previous year. Net FDI flow in FY2006-07 was only USD 320 million. Reinvestment of foreign companies needs to be encouraged. Credit availability from local banks should also be made easier. Indeed, conducive business environment in the country is the key factor that FDI entities consider whilst making reinvestment decisions.

Table 1.12: Net Inflow of FDI

(in Million USD)

Items	2006-07 July-June	2007-08 July-June	% Change in FY08 over FY07
A. FDI Inflow	899.00	698.00	-22.36
B. Transfer of FDI related income	574.93	653.04	13.59
Royalties	5.56	7.89	41.91
Profit and dividends	165.42	173.33	4.78
Earnings of oil, gas & power	403.95	471.82	16.80
C. Net FDI inflow (A-B)	324.07	44.96	-86.13

Source: Bangladesh Bank.

Registration of new foreign investment has declined during January-December 2007 over 2006 - about USD 318 million worth of investment projects were registered in 2007, which was 78.7 per cent lower compared the previous year (Table 1.13). Investment proposals for manufacturing and textiles units were high in value (worth about USD 113 million and USD 169 million respectively), while in the other sectors particularly power and gas, the number of new investment proposals was small. Bangladesh Export Processing Zones Authority (BEPZA), on the

Table 1.13: FDI Registered at Board of Investment (BOI) in 2006 and 2007

(in Million USD)

Sector	2006	2007	% Change
Agriculture & food	8.6	3.1	-63.3
Manufacturing (other than textile)	62.7	113.8	81.5
Textile & wearing	128.9	169.1	31.2
Power, gas, petroleum	17.9	17.0	-5.1
Service	45.9	5.8	-87.3
Telecommunication	1116.1	0.3	-100.0
Transport, storage & comm.	115.6	8.7	-92.5
Total	1495.6	317.8	-78.7

Source: Board of Investment (BOI).

Table 1.14: Proposed Investment in EPZs

(in Million USD)

Sector	FY2006-07	FY2007-08*
Textile	9	133
Terry towel	0	7
Metal products	0	10
Electronics & electrical goods	0.1	5
Garments	211	73
Plastic goods	12	41
Footwear & leather goods	7	68
Knitting & other textile dept.	43	14
Agro products	1	6
Garment accessories	21	110
Power	64	163
Chemical & fertiliser	0	14
Furniture	0	173
Sports goods	0	3
Service oriented industries	0	59
Tent	0	49
Miscellaneous	3	15
Total	370	943

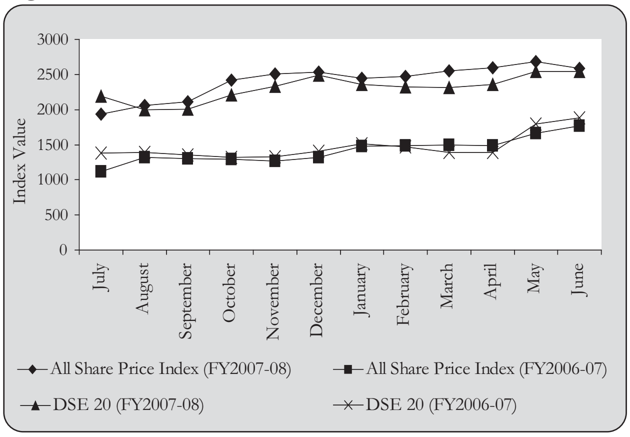
Source: Bangladesh Export Processing Zones Authority (BEPZA).
Note: * Up to 21 May 2008.

other hand, has received substantially large number of investment proposals (USD 943 million) during July 2007 - May 2008 compared to that in FY2006-07 (Table 1.14). This was mainly because of new investment opportunities created in the two recently opened export processing zones (EPZs) - Karnaphuli and Adamjee EPZs. Major investment proposals were for furniture (USD 173 million), power generation (USD 163 million), and garment accessories (USD 110 million). If realised, investment proposed for such industries as terry towel, metal products, chemical, sports goods, tent, and services would contribute to the diversification of production and export base of the manufacturing sector of the country. However, there is a long way between proposing something and getting those off the ground. A renewed effort will be required to ensure that the memorandum of understandings (MoUs) turn into real investments.

Capital Market

Buoyancy in the capital market was visible from the beginning of the early months of FY2007-08 sustaining over the subsequent months, despite the sluggish trends both in industrial growth and long-term investments. All share price index, general index and top 20 index in the Dhaka Stock Exchange (DSE) have registered a significant rise in FY2007-08 compared to that in FY2006-07 (Figure 1.38). Movement of the various share prices in the DSE

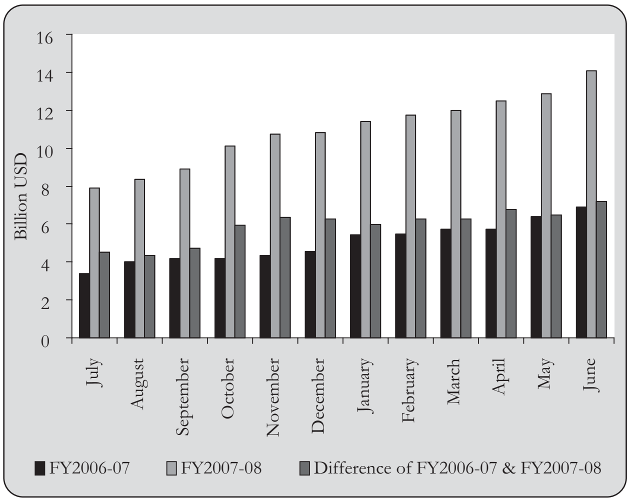
Figure 1.38: Trend of Share Price Index of DSE



Source: Monthely Reviews, DSE, various issues.

(also in Chittagong Stock Exchange (CSE)) reveals that prices of all types of shares have increased including 'Z' category shares in FY2007-08. Indeed prices of blue chips have increased at relatively slower pace compared to all share price index and the general index (which includes 'Z' category shares). It appears that a large number of small investors are possibly unaware of, or do not appreciate appropriately, the state of current performance and future plans of enlisted companies. Many of these investors are currently buying shares at high prices in anticipation of further rise in prices. Consequently their exposure to risks could be high. Adequate monitoring of the performance of the country's stock markets by the Securities and Exchange Commission (SEC) will be required to avoid any possibility of repetition of the 1996 boom and bust.

Figure 1.39: Market Capitalisation of DSE



Source: Monthely Reviews, DSE, various issues.

In July 2007, market capitalisation of DSE was USD 7.9 billion, which surged in the following months and reached USD 14.1 billion in June 2008; the corresponding figures for FY2006-07 were USD 3.4 billion and USD 6.9 billion respectively (Figure 1.39).

Table 1.15: IPOs Floated in the DSE during 2007 and 2008

IPOs	FY2006-07	FY2007-08	% Change of FY08 and FY07
No. of IPOs	10	12	20.00
Total issued shares (after IPO)	143310876	76127314	-46.88
Sponsors portion (share)	90153081	45245264	-49.81
Public offer (share)	53157795	30882050	-41.90
Public offer as percentage of total issued shares (after IPO)	37.09	40.57	9.36
Total paid up capital (after IPO) (in crore Tk.)	651.54	749.68	15.06
Over subscription as % of total public offer	734.30	378.44	-48.46

Source: Calculated based on information collected from the DSE website.

Growth of market capitalisation of DSE by more than 100 per cent in the span of a single year does indicate bullish trend in the market. Similarly, market capitalisation of CSE was USD 11.35 billion in June, 2008, which was 74.6 per cent higher compared to that in July 2007. Small investors took interest to invest in the capital market possibly because of incentive in the form of capital gains tax waiver on investment. One will need to closely monitor how the capital market makes necessary adjustments in the coming months in view of the relatively slow pace of growth of the industrial sector. It is important to note that during FY2007-08 USD 48 million worth of portfolio investment had entered into the capital market of Bangladesh, which was 54.7 per cent lower compared to the corresponding period of the previous year.

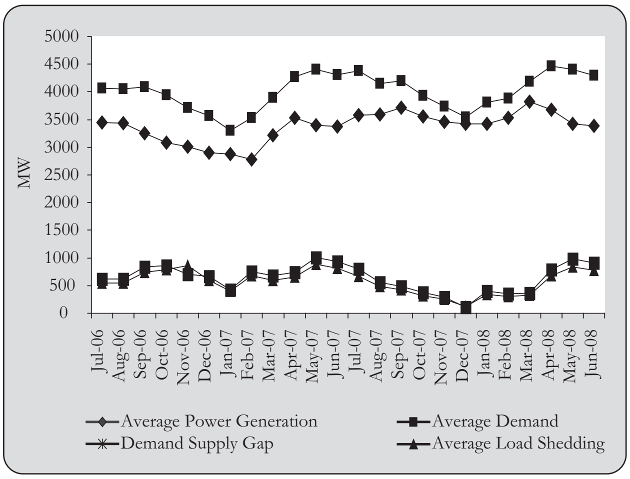
New Initial Public Offerings (IPOs) in the capital market in FY2007-08 was only 12; the number of IPOs in the previous year was also lower (10) (Table 1.15). All new IPOs in FY2007-08 were related to financial sector including banks, insurance and mutual funds. The amount of over subscriptions (though reduced by 48 per cent in FY2007-08) does indicate that a large number of investors are ready to invest in country's capital markets if more good IPOs are floated in the market. The government has given tax incentive to companies (to the tune of 10 per cent of company tax) to encourage them to participate in the share market. Government's initiative to attract large companies to the capital market including the telecom companies is yet to produce results (the Grameenphone is expected to off-load 9.4 per cent of its share in the coming months). Off-loading the shares of a number of public limited companies (PLCs) including those of Meghna Petroleum and Jamuna Oil were completed in FY2007-08; however, off-loading shares of other public sector companies under the power and telecommunication sectors is yet to take place. Off-loading of shares of large companies in the capital market is likely to attract more local and foreign portfolio investment in the country.

1.6.3 Power Sector

Generation and Distribution

Inadequate power supply has been a major bottleneck which has severely constrained investment and business activities in Bangladesh. New investments in trade and industries are discouraged because of absence of reliable and adequate power supply; even the existing ones suffer from frequent outages, leading to damage of equipments, production disruption and the cost escalation originating from more costly alternative sources. Demand for power in the country ranged between 3,500 mega watt (MW) - 3,900 MW during the winter season and between 4,000 MW - 4,500 MW during the summer season. However, current level of power generation is unable to meet the requirements. Power generation in FY2007-08 was 23,406 mkwh, which was 7.3 per cent higher

Figure 1.40: Power Demand, Generation and Load Shedding of Electricity

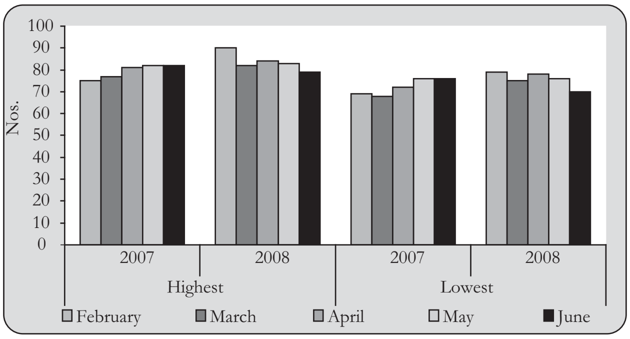


Source: BPDB.

compared to the previous year. Owing to high demand for electricity, this additional power generation is considered to be inadequate. The gap between demand and generation of power was as high as 980 MW in April 2008 (Figure 1.40).

Protracted load shedding has come to be a regular feature in Bangladesh. In FY2007-08, the highest level of load shedding was in May 2008 (839 MW), while the lowest level of was in December 2007 (116 MW). According to Bangladesh Power Development Board (BPDB) major reasons for the generation shortfall are repair and maintenance works of plants and forced stoppage, and very recently shortage of gas (Figure 1.41). Power generation was hampered in recent months due to shortages of gas to the tune of 939 MW in February 2008, 728 MW in March 2008, 720 MW in April 2008 and 780 MW in June 2008. Because of frequent power outages, industries and businesses are becoming increasingly dependent on captive power in order to ensure uninterrupted power supply to factories and business premises. This has escalated their costs and undermined their competitiveness.

Figure 1.41: Highest and Lowest Number of Power Plants in Operation during FY2006-07 and FY2007-08 (February-June)



Source: Power Division.

There is no alternative to generating electricity through new power plants in order to meet the increasing demand for electricity. During FY2007-08 four new power plants with a capacity of 231 MW were established under the rental power plants (RPPs) contract (Table 1.16). All these are small scale power plants with a capacity in the range of 24-105 MW; two of these plants are gas operated, while other two are oil operated and combined cycle. However, most of these plants operated below their installed capacity.

According to BPDB, a total of 30 power plants are to be set up in the country by 2012, of which 17 power plants are now under construction phase which are expected to be commissioned by 2009, and another 13 power plants are under processing which are planned to be commissioned by 2010 to 2012. If all these power plants are constructed in time, a maximum of 4,445 MW additional power supply could be added to the national grid. A total of 12 power plants with a production capacity of 694 MW is planned to be built during 2008. However, only one has been set up as of now and others are still under construction. Out of this, 11 power plants will be constructed on rental terms for 3 years to 15 years. Since the majority of these constructed or proposed power plants are gas-based, supply of the required gas to the power plants will be a critical factor. According to an estimate of generation of electricity in a large scale combined cycle power plant, a total of 0.16-0.19 mmscf gas is required for generation of 1 MW of electricity. Taking this into account, an amount of 711.2-844.55 million standard cubic feet (mmscf) gas will be required for generating 4,445 MW of electricity. It will be a challenge for Petrobangla to make available the required quantity of gas to the power plants from its limited reserves, over a prolonged period of time, unless exploration to find new sources of gas is carried out in all earnest and new gas fields are discovered.

Table 1.16: New Power Plants Operated in FY2007-08

Power Plant	Date of Power Generation	Fuel Type	Capacity (MW)	Available Generated Electricity (MW)
Khulna RPP	6 June 2008	Oil	50	40
Sylhet RPP	23 June 2008	Gas	52	45
Bogra RPP	16 June 2008	Gas	24	24
Fenchuganj	FY2007-08	Combined	105	75
Total Amount (MW)			231	184

Source: Power Grid Company of Bangladesh (PGCB), BPDB.

To take pressure off gas resources (almost 87 per cent of the total electricity production now depends on gas), alternative inputs for electricity generation such as coal will need to be made use of. About 3,300 million tonnes of country's coal reserves could generate more than 80 trillion cubic feet (TCF) equivalent of energy. A priority for the new government, therefore, will be to come up with a "National Coal Policy," which addresses both investment and environmental concerns and ensures required investment in the sector.

Gas Production

As is known, Bangladesh's gas reserves are estimated to be lower than what was earlier projected. According to some estimates, proven reserves of natural gas are about 8.3 TCF and probable reserves are another 5.5 TCF. Gas generation has increased at a rate of 6 to 8 per cent per year in the recent past. In FY2007-08 as well, 6.9 per cent growth was achieved with a total production of 17,015 million cubic feet (mmcf) (Table 1.17). However, this was 94.4 per cent of the target set

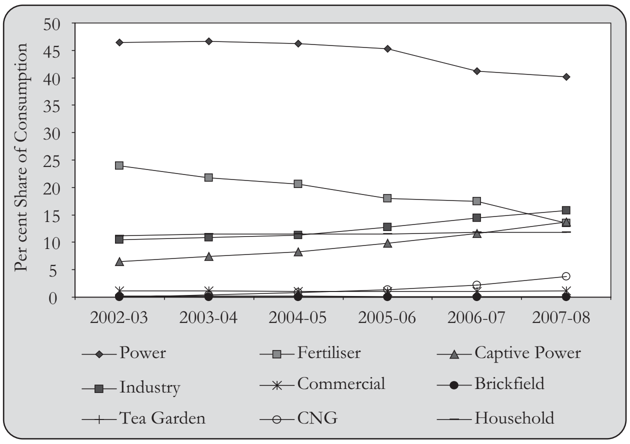
Table 1.17: Gas Production in Different Years *(mmcf)*

Financial Year	Petrobangla	International Oil Company (IOC)	Total	Growth Rate (%)
FY2002-03	9449.1	2476.7	11925.9	
FY2003-04	9715.1	3106.0	12821.1	7.5
FY2004-05	10086.5	3696.9	13783.4	7.5
FY2005-06	10116.6	4804.3	14920.8	8.3
FY2006-07	10148.5	5771.7	15920.1	6.7
FY2007-08	9282.0	7732.5	17014.5	6.9

Source: Management Information System (MIS) Report, Petrobangla.

for FY2007-08 (18,025 mmcf). Though more than 50 per cent of gas currently generated in the country is being used for power generation and fertiliser production, its use for other purposes has been on the increase over time, including for industrial and commercial use and for conversion into compressed natural gas (CNG) (Figure 1.42). However, due to

Figure 1.42: Consumption of Gas in Different Sectors

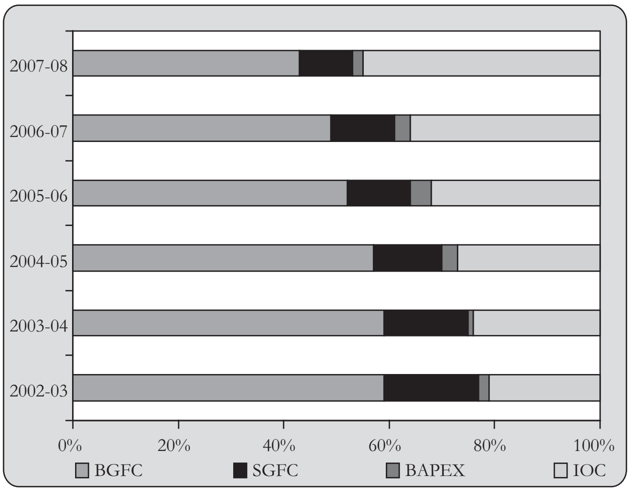


Source: Management Information System (MIS) Report, Petrobangla.

shortage of gas, government has delimited/controlled the supply of gas to various economic activities, especially in industrial units, particularly yarn and textile manufacturing units during the evening hours. As is known, gas supply to industrial units in Chittagong has been rationed in recent times. Appropriate initiatives will have to be taken to put in place additional power for meeting the increasing demand of consumers and entrepreneurs.

The share of private companies in overall gas distribution has been increasing over time. Over the last 5 years, this share has doubled from 21 per cent in FY2002-03 to 45 per cent in FY2007-08 (Figure 1.43).

Figure 1.43: Gas Production by Public and Private Companies



Source: Management Information System (MIS) Report, Petrobangla.

Petrobangla's share of production of gas was 64 per cent in FY2006-07 which came down to 55 per cent in FY2007-08. To consolidate domestic presence in the energy sector and ensure command over potential benefits, further strengthening of Bangladesh Petroleum Exploration & Production Company (BAPEX) has assumed critical importance from Bangladesh's long-term growth perspective.

According to energy experts, current gas reserves, estimated to be about 8.0 TCF, will not be able to meet the demand of the country beyond 2015; about 24 TCF gas will be required to meet the energy demand up to 2025, with an estimated investment requirement of USD 8 billion in the energy sector. As is known, Petrobangla floated international tender on 15 February 2008 to lease out 28 offshore gas blocks, divided into two categories-shallow blocks and deep water blocks. As reported in the newspaper, a United Kingdom (UK)-based consulting firm has recently mentioned that 12 out of 28 gas blocks offered under the latest offshore bidding round have been wholly or partly licensed by neighbouring countries. One shallow water block and eleven deepwater blocks have been wholly or partly licensed by India and Myanmar. It is reported that of the 12 blocks, India has already licensed five of the offshore gas blocks, while Myanmar has licensed seven blocks in the prospective Bay of Bengal zone. Taking into cognisance the possible disputes with Myanmar and India, the President has recently formed a Committee to discuss these issues with neighbouring countries. A coordinated and strengthened effort is needed in this regard, along with resolving territorial issues with Myanmar and India over offshore gas blocks. This issue ought to be given priority by Bangladesh's policymakers in view of the critical importance of gas for energy security, prospects of FDI inflow, need to meet domestic consumption and overall economic development of the country in near and medium-term future.

Petroleum Subsidy

Government has been providing substantial amount of subsidy to the Bangladesh Petroleum Corporation (BPC), over a long period of time, because administered prices of various types of fuels were kept at consistently lower levels compared to global prices. In April 2007, prices of petroleum products were increased from Tk. 33.00 to Tk. 40.00 for per litre of kerosene and diesel, from Tk. 56.00 to Tk. 65.00 for per litre of petroleum, and from Tk. 58.00 to Tk. 67.00 for per litre of octane, to adjust to the rising global prices. In the budget FY2007-08, the government had taken the liabilities of BPC worth Tk. 7,523 crore which was financed through issuance of Bonds. It was expected that this support will help bring BPC out of red and it would be able to start working with a clean slate.

International price of crude and refined petroleum products increased quite considerably since the last adjustment of prices. Between June 2007 (budget announcement) and June 2008, price of crude oil had doubled from USD 65.37 per barrel to USD 131.47 per barrel (according to Commodity Price Data, World Bank). As mentioned earlier, this sky-rocketing price of fuel also had an adverse impact on the subsidy for fuel. During the last week of May 2008, cost of refined products was as follows: diesel and kerosene: Tk. 97.40 per litre, octane: Tk. 80.35 per litre, jet fuel: Tk. 97.57 per litre (according to report published in the Prothom-Alo). On the other hand, per litre administered price of diesel and kerosene was Tk. 40.00, octane Tk. 67.00, and jet fuel Tk. 72.00. Thus, subsidy provided to per litre of diesel and kerosene was Tk. 57.40, octane Tk. 13.35 and for jet fuel this was Tk. 25.57. Consequently the burden on the government in the form of subsidy was quite high.

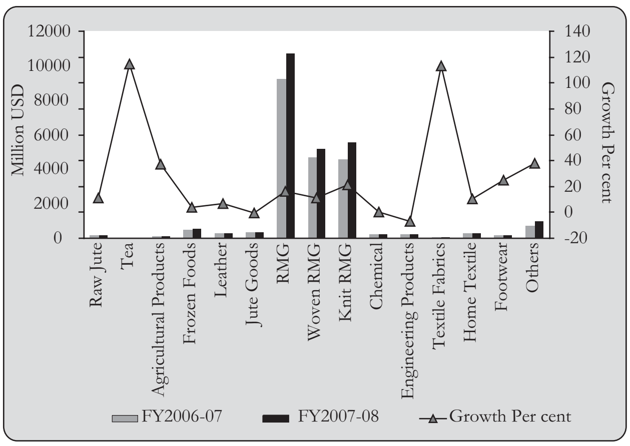
1.7 EXTERNAL SECTOR

1.7.1 Export Sector Performance

Robust performance that was demonstrated by Bangladesh's export sector over the recent past has continued in FY2007-08, despite suffering from two consecutive floods and the cyclone Sidr in the first half of FY2007-08. Bangladesh's total export earnings during FY2007-08 stood at USD 14,088.27 million, registering a double-digit growth of 15.9 per cent over FY2007-08. The sector was able to recover from the debacle suffered in the first quarter of FY2007-08 (July-September 2007) when export earnings registered a negative growth of (-)5.4 per cent. The growth rate posted in FY2007-08 is all the more impressive since it comes in the backdrop of the high growth rates of 24.7 per cent and 15.6 per cent attained in FY2005-06 and FY2006-07. Although exports fell just short of the target of USD 14.5 billion set in the beginning of the fiscal, this record stands out given the challenges Bangladesh faced in FY2007-08.

As Figure 1.44 shows, Bangladesh's foremost export

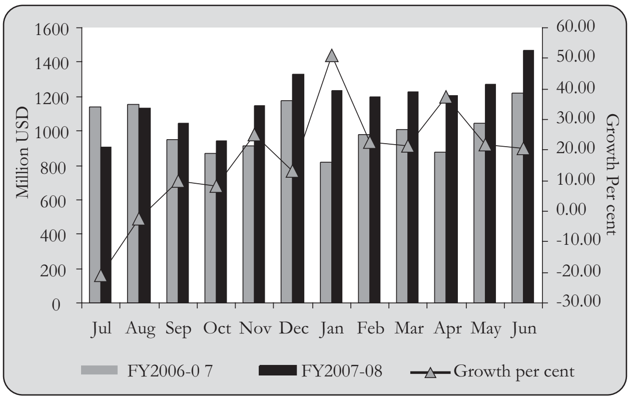
Figure 1.44: Export of Major Commodities: FY2006-07 and FY2007-08



Source: CPD-Trade database, 2008.

item, RMG, posted a high growth of 16.2 per cent during FY2007-08. Bangladesh earned USD 10.7 billion from export of apparels in FY2007-08, compared to the USD 9.21 billion earned in FY2007-08. This was 76 per cent of Bangladesh's total export earnings. It is of interest to note that, Bangladesh's export earnings from the RMG sector crossed the USD 10 billion threshold for the first time ever in this fiscal. During the period under review (FY2007-08), an additional amount of USD 1.49 billion was earned by the sector compared to FY2006-07, major share in this originating from the increasing export of knit-RMG (amounting to USD 978.20 million or 65.7 per cent). A decomposition of the RMG export indicates robust growth rates for both woven-RMG (11.0 per cent) and knit-RMG (21.5 per cent). Thanks to the consistently high growth rates of knitwear in recent years, share of this sub-sector in the total RMG export now exceeds that of the woven-wear. Since domestic value retention of knitwear (55-60 per cent) was substantially higher than woven wear (25-30 per cent when the fabric is imported, and about 60 per cent when the fabric is locally sourced), this structural shift within the RMG must be viewed as a remarkable achievement that has contributed to intra-RMG diversification. Indeed estimates of net export carried out by the CPD illustrates that during FY2007-08, value retention in knit-RMG was about USD 3,042.99 million compared to USD 1,744.05 million for the woven-RMG (or about 1.74 times more). RMG's performance needs to be seen as Bangladesh's ability to realise her competitive strength in the context of the quota-derestricted regime of the post Multi-fibre Arrangement (MFA) global market. The quota imposed on the Chinese export of apparels by both the USA (2003) and the EU (2005) had also worked in favour of Bangladesh in FY2007-08.

Figure 1.45: Monthly Trends in Export: FY2007 Vs. FY2008

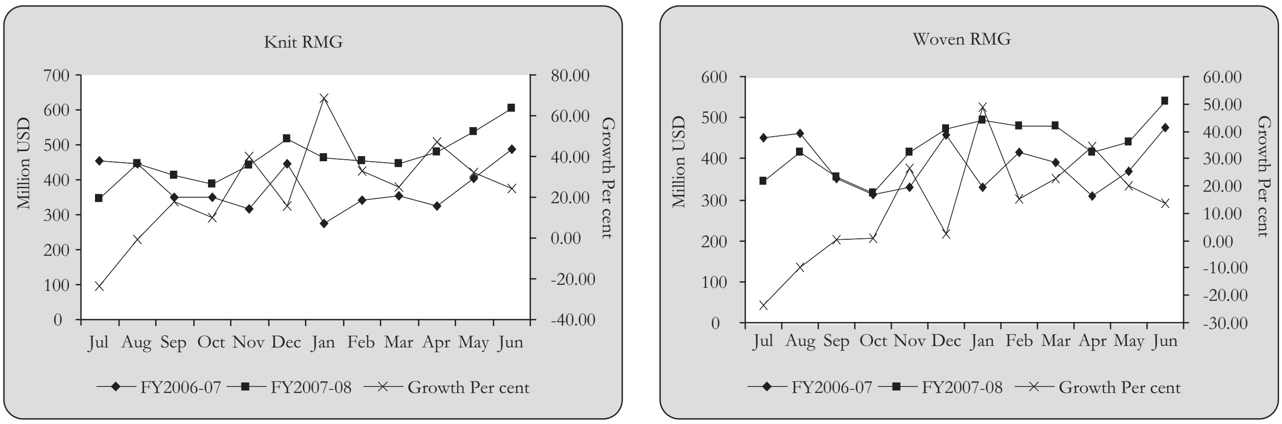


Source: CPD-Trade database, 2008.

Of the other major items of export, home textile (10.3 per cent), textile fabrics (113.5 per cent), footwear (24.7 per cent), frozen food (3.6 per cent) and leather (6.9 per cent) demonstrated high growth rates. On the other hand, earnings from Bangladesh's traditional export items such as jute goods failed to register an upturn and posted negative growth (-0.8 per cent) during FY2007-08.

Month-by-month export earnings during FY2007-08 exceeded that of the corresponding period of FY2006-07 for all months except July and August 2007 (which is evident from Figure 1.45). There was some cause for concerns when export dipped during these two months, posting negative growth rates of (-)21.1 per cent and (-)2.3 per cent respectively (in large measure caused by domestic political uncertainties following take over by the CTG in January 2007 and labour unrest during May, which resulted in low export orders from major buyers). Export earnings, however, started to rise in the subsequent months and maintained the momentum till the end of FY2007-08 helping to achieve the aforesaid robust growth of 15.9 per cent. Indeed, the fall in exports in

Figure 1.46: Monthly Trends in RMG Export: FY2007 Vs. FY2008



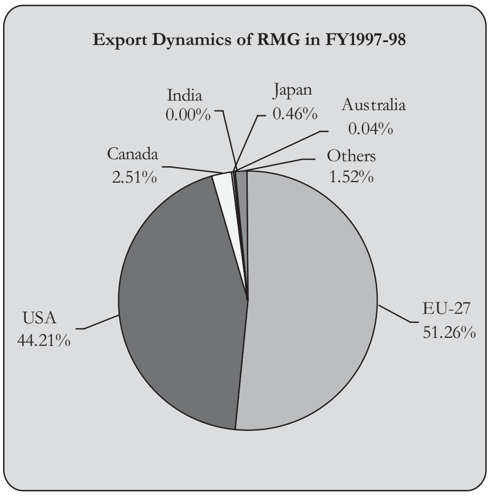
Source: CPD-Trade database, 2008.

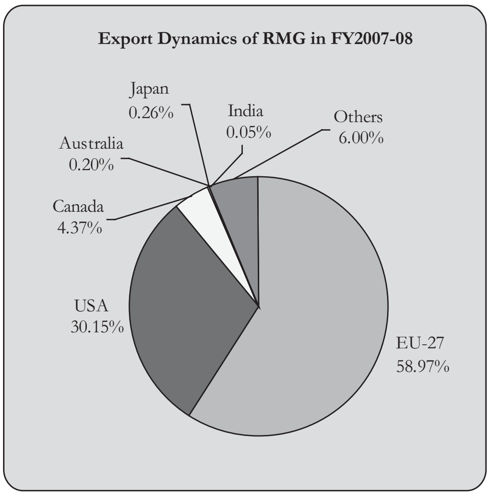
July and August 2007 reflected falling export earnings for both knit and woven wear which declined by (-)23.6 per cent and (-)9.7 per cent for woven wear, and (-)23.5 per cent and (-)0.4 per cent for knitwear respectively. During the following ten months, export of both knitwear and woven wear had gradually picked up, which resulted in high growth rates for the overall RMG exports in FY2007-08 (Figure 1.46).

In terms of markets for Bangladesh's export, there was no visible deviation in FY2007-08 from the traditional destinations. The EU-27 and the US continued to be the major earning sources for Bangladesh, contributing around 77.3 per cent of total export earnings in FY2007-08, followed by Canada and India, whose contribution to the export basket is way behind the leaders. The EU-27's contribution to the export basket amounted to USD 7.31 billion - exports to the EU rose by nearly 14.3 per cent, (which meant an additional earning of USD 917.20 million); to compare, the performance of the US market was rather discouraging, with exports increasing by about 4.4 per cent (to USD 3,590.56 million), perhaps because of depressed demand following the recent economic downturn. A steady BDT-USD exchange rate could also have contributed to this. During FY2007-08, Bangladesh was able to register an increase in export of only USD 149.54 million to the cent, in FY2007-08 it has increased to about 59 per cent. To compare, the market share in the US was around 44.2 per cent in FY1997-98, which had decreased considerably over the last 10 years with the market share currently standing at about 30.2 per cent. Apparels export growth to the US had been, about 9.3 per cent on an annual basis, over this last decade. However, this pace of growth lags way behind that of the EU-27 for which the average apparels growth has been close to 23 per cent (10-year average).

Over the last decade, Bangladesh has also been able to increase her apparels market share in Canada (from 2.5 per cent to 4.4 per cent, thanks mainly to the least developed country (LDC)-friendly rules of origin (RoO) of 25 per cent domestic value addition), Australia (from 0.04 per cent to 0.3 per cent) and India (from 0 per cent to 0.1 per cent). However, there is a growing concern for Bangladesh in terms of expanding her apparels share to the US market in the near future in view of the US sanctions on China to be withdrawn in January 2009. Phase-out of quota on 21 categories of apparels from China (which together accounted for about 70 per cent of Bangladesh's total export to USA in 2006) is likely to put Bangladesh's export of apparels to US under more competitive pressure in 2009.

Figure 1.47: Structural Shift in Market Share in Export of Apparels





Source: CPD-Trade database, 2008.

USA. The lion's share of export earnings came from exports of apparels from the EU and USA. Over the years EU has consolidated its share in the export basket of Bangladesh; the reverse is the case for US market. Figure 1.47 clearly illustrates this structural shift. While in FY1997-98, the EU-27's contribution to Bangladesh's total apparels export was 51.3 per

It is a matter of interest to note that Bangladesh's export to India has been on the rise in recent years. In FY2002-03 export to India was USD 84.08 million which increased to USD 241.96 million in FY2005-06 and USD 289.42 million in FY2006-07. Export growth in FY2007-08 matched those of FY2006-07, registering a growth of 23.7 per cent (taking the tally to USD 358.08 million from USD 289.42 million between FY2006-07 and FY2007-08). It is important to identify the new products of export to India (ceramic, cement, melamine) and build on this. It is a good sign that the zero-duty offer by India for 8 million prices of garments export from Bangladesh (worth about USD 30-35 millions export) has now been operationalised. Bangladeshi exporters should make every effort to realise this offer on the ground. A comprehensive strategy is required to take advantage of the bringing forward of the time line for duty-free (DF) access under the South Asian Free Trade Area (SAFTA) and reduction of the negative list. Although intra-developing country trade is on the rise globally, Bangladesh is yet to take advantage of the expanding demand for imports developing and emerging markets.

Product and market diversification along with the increase of local value addition, continue to remain major obstacles facing Bangladesh's export sector in its quest for higher growth. Export growth, whilst impressive, have continued to be driven in large measure in terms of volume growth rather than rise in prices. A decomposition of the growth dynamics of Bangladesh's exports reveals the rise in export (15.1 per cent) was, to a large extent, accounted for by the rise in volume (14.1 per cent); only an insignificant share was contributed by rise in average prices (1.8 per cent). This particular issue also needs to be considered in relation to the considerable deterioration of Bangladesh's terms of trade (ToT) experienced in recent years. As is evident from Table 1.18, if export prices of FY1999-00 are taken as the base year, ToT declines significantly to 88.0 by FY2007-08. A CPD analysis of export and import of selected items vividly illustrates the deteriorating ToT situation (Table 1.19). While in 2006, to import a barrel of crude petroleum Bangladesh had to export 2.34 dozens of RMG, in 2008 this has increased to 4.72 dozens. Similarly, to import one ton of rice, in 2006 Bangladesh had to export 0.52 tonnes of jute goods; in 2008, to import the same amount of rice Bangladesh had to export 1.70 tonnes of jute goods.

Table 1.18: Deteriorating Terms of Trade

(Base: FY1999-00= 100)

Financial Year	Export Price Index	Import Price Index	Terms of Trade
FY1999-00	100.00	100.00	100.00
FY2000-01	102.40	107.53	95.24
FY2001-02	104.82	115.61	90.67
FY2002-03	107.44	124.57	86.25
FY2003-04	115.07	129.62	88.78
FY2004-05	118.82	134.21	88.54
FY2005-06	121.18	139.50	86.88
FY2006-07	127.06	144.58	87.88
FY2007-08	131.53	149.55	87.96

Source: CPD estimates based on the Bangladesh Bank ToT.

Table 1.19: Falling Purchasing Power of Exports

Selected Import Items	Dozens of RMG		Rise (in Times)	Tonnes of Jute Goods		Rise (in Times)
	2006	2008		2006	2008	
1 barrel of oil (fuel)	2.34	4.72	2.0	0.11	0.23	2.1
1 ton of rice	10.97	34.59	3.2	0.52	1.70	3.3
1 ton of wheat	6.23	17.25	2.8	0.30	0.85	2.9
1 MT soybean oil	21.19	48.46	2.3	1.00	2.38	2.4
1 MT whole milk powder	77.87	154.68	2.0	3.69	7.61	2.1

Source: CPD-Trade database, 2008.

Bangladesh's narrow export base is one of the reasons for the sector's vulnerability in the global market. There is a need for both intra-RMG and extra-RMG diversification. Special attention ought to be given to stimulate new non-traditional exports such as home textile, light engineering and ship-building. The prospects of ship-building industry call for special mention. Recently, Bangladesh has started to gain a foothold in this lucrative market with the first export having been made in May 2008. A number of Bangladeshi companies have received orders for small-size ship (of less than 10 thousand DWT). It is widely believed that Bangladesh has the maritime tradition and skilled manpower and entrepreneurial expertise to emerge as a major player in the global market for smaller vessels. To realise the potentials, the sector will need support in such areas as (a) bonded warehouse facilities, (b) availability of bank guarantee, (c) duty rebate for import of capital machineries, (d) special zoning policy to facilitate setting up of shipyards. The global market for ships of various sizes is worth USD 800 billion; if Bangladesh is able to capture a mere 1 per cent share, this could amount to an export of about USD 8 billion!

The ongoing negotiations in the WTO also pose formidable challenges for Bangladesh. In recent months, Bangladesh has been lobbying the US for an LDC-friendly design of the duty-free quota-free (DF-QF) (97 per cent) list. Besides, the New Partnership for Development Act of 2007 (NPDA 2007), which has been tabled in the US Congress, is also being debated at present. These issues ought to get priority attention of policymakers. In view of ongoing WTO negotiations on sanitary and phytosanitary (SPS), technical barriers to trade (TBT), environmental issues, Bangladesh (and also other LDCs) is likely to be confronted with new challenges in terms of complying with the various standards. Agricultural exports (SPS-TBT), knitwear (affluent facilities) and other sectors will need to considerably strengthen their compliance strength in view of the likely stringent demands stemming from the current round of trade negotiations. Bangladesh's export policies and incentive structure will need to be geared towards addressing the attendant issues. Bangladesh will need to jointly fight with other LDCs for getting market access in Mode 4 under General Agreement on Trade in Services (GATS) negotiations, which is being discussed as part of the WTO's Doha Work Programme. It is also important that Bangladesh receives her due share under the proposed Aid for Trade initiative (AfT) of the WTO to strengthen her trade related supply side capacities. Appropriate proposals will need to be developed to claim Bangladesh's stake in the proposed funds. Bangladesh should make every effort to get a fair share of this financial support of the WTO. The envisaged change in the RoO for apparels under the Everything but Arms (EBA) and the phase-out of quota on Chinese apparels export in the USA should be kept in mind whilst designing policies to stimulate Bangladesh's export sector in the coming days.

Box 1.1: Export Diversification: Emergence of Ship-building as an Expression of Interest (EOI)

Bangladeshi ship-builders have been in the export business since the year 2000 when they started to build and export fishing vessels. Recently, in May 2008, Ananda Shipyard exported the first seagoing vessel from Bangladesh (HS8901.90.10, 2900 DWT to Denmark worth USD 6.2 million); it has also received orders for building another 19 ships worth about USD 209 million to be delivered by 2012. Two other private sector shipyards have also signed similar export contracts with a total contract value of about USD 137 million. These are indeed encouraging developments.

As is known, ships come in various shapes and sizes: tankers, bulk carriers and containers which make up by far the largest part of the fleet and a significant part of the output of the ship-building industry. Bangladesh's comparative advantage lies with the third type of ship, where the tonnage ranged between 2,000 to 10,000 DWT (cargo vessels for the transport of both people and goods). Current market for the global small ship-building industry is worth about USD 76 billion (HS Chapter 89; data analysed at the CPD on HS6 digit level based on the Trade Map dataset). The category of ships that Bangladesh is exporting (8901.90) is worth about USD 44.0 billion. Bangladesh has the potential to capture a significant share of the market and eventually become a major destination for companies seeking construction of small ocean going vessels. It is to be noted that traditional ship-building countries such as South Korea and China are now focusing on building large size ships. Even, relatively new ship-building countries such as Vietnam is becoming less interested to build small ships weighing up to 2,500 DWT. As a result, a new window of export opportunities is opening up for Bangladesh. Bangladesh has a strong maritime tradition with skilled manpower and a history of building small scale ocean and river going vessels. Indeed USD 3.57 million worth of ship related products including life boats, fishing boats, scraps, etc. was exported by Bangladesh to Netherlands, Maldives, India, etc. during July-March

(Box 1.1 contd.)

(Box 1.1 contd.)

of FY2007-08. Apart from the cargo vessel, Bangladesh could also gradually make inroads into export market for cruise ships, excursion boats, dredgers, floating or submersible drilling or production platforms, warships, lifeboats and hospital ships through sealing up (above 10,000 DWT).

With regard to the growth of supply and demand for container shipping, it is to be noted that for the first time in 2006 since 2001, the growth of fleet again outstripped the growth of containerised trade. For 2007, it was estimated that that world container carrying capacity grew at an annual rate of 13.4 per cent, which was 2.4 per cent higher than the estimated growth in demand. In September 2007, the order book of containerships stood at 6.2 million TEUs[1] representing 60 per cent of the existing fleet.

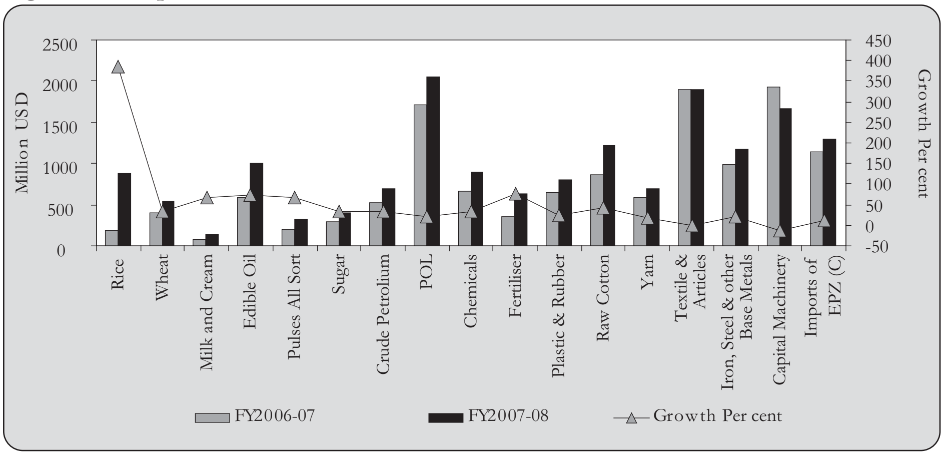
In view of the emerging opportunities, there is a need to provide strategic support to this industry, which has been declared as a thrust sector, through fiscal, banking and infrastructure development support.

[1]TEU refers to twenty-foot equivalent unit.

1.7.2 Key Features of the Import Sector

As evidence suggests, import growth has been quite high for the last few years. Total merchandise imports to Bangladesh during FY2007-08 amounted to USD 21.63 billion, registering a growth of 26.1 per cent compared to the corresponding period of FY2006-07. Imports to the EPZs also registered a positive growth of 13.1 per cent. Import share of petrolium, oil and lubricant (POL) was the highest, around 9.5 per cent of total import. The second highest import share (in value terms) was of textiles and related articles, accounting for about 8.8 per cent of total import. This was followed by capital machineries accounting for about a 7.7 per cent of total import. Imports of foodgrains posted a staggering growth of 142.6 per cent (6.5 per cent of total import), with rice registering a high increase of 4.9 times and wheat 1.3 times compared to FY2006-07. The huge rise in imports of foodgrains, particularly rice and wheat, as is well known by now, was necessary to address the shortfall caused by the two consecutive floods and cyclone Sidr in 2007.

Figure 1.48: Import of Some Selected Commodities

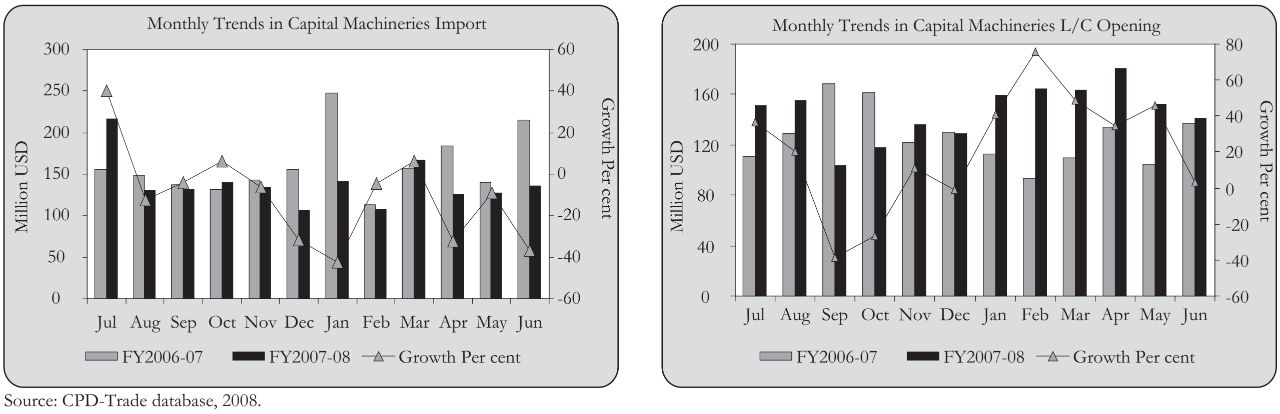


Source: CPD-Trade database, 2008.

Import growth was high to moderate for all major non-food items excluding capital machineries, which posted negative growth rate of (-)13.7 per cent. Import growth of textiles and articles were very low (at 0.01 per cent only)! Import growth of crude petroleum was high at 32.7 per cent, fuelled by the rise in global oil prices. By the end of June 2008, crude oil price/barrel has already hit USD 136. Import of POL also posted a positive growth of 20.4 per cent. The bill for this was to the tune of USD 2,058 million in FY2007-08. High import growth of intermediate inputs, such as raw cotton (41.1 per cent) and yarn (18.7 per cent) would indicate strengthened backward linkage activities; import of iron, steel and other base metals, also posted significant increase (19.7 per cent) (Figure 1.48).

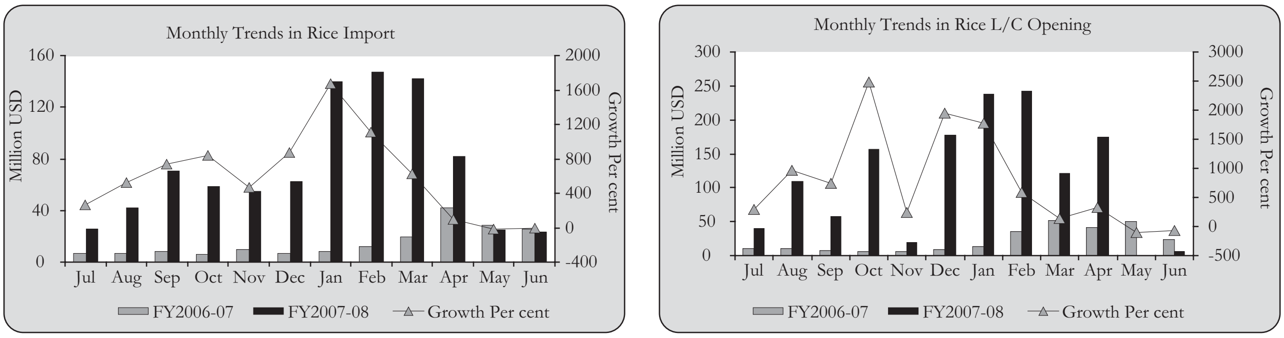
As mentioned earlier, import of capital machineries fell by (-)13.7 per cent during FY2007-08 compared to FY2006-07. Except for the month of July, October and March (growth of 24.9 per cent, 6.1 per cent and 6.2 per cent respectively), in all the other months (compared on a monthly basis with FY2006-07), import of capital machineries maintained a declining trend. Interestingly, opening of L/C in case of capital machineries for FY2007-08 showed a positive trend of over 15.9 per cent, whereas settlement of L/C for capital machineries revealed a negative growth of (-)8.4 per cent when compared against FY2006-07 (Figure 1.49). The fact of declining import of capital

Figure 1.49: Monthly Trends in Capital Machineries Imports, in Value Terms



Source: CPD-Trade database, 2008.

Figure 1.50: Monthly Trends in Rice Imports, in Value Terms



Source: CPD-Trade database, 2008.

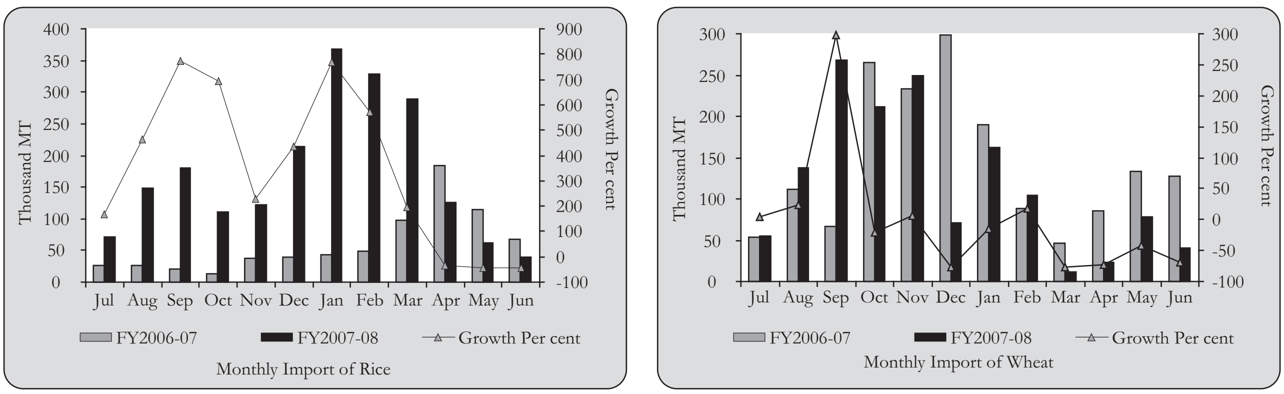
machineries is disturbing since this was likely to have negative implications for investment. However, double-digit growth of L/C openings for capital machineries transmits positive signals as to future demand with likely positive impact on investment over the subsequent period.

In view of the crop losses caused by two successive floods and cyclone Sidr, high import of rice was expected to be a salient feature of FY2007-08. Import of rice rose from USD 179.90 million to USD 873.60 million, by 4.9 times in value terms. Import of rice in FY2007-08 picked up from the very beginning of the fiscal year and continued to be on the rise till April 2008 - not only in value terms, but also in volume terms. During FY2007-08 import of rice was 2,058.63 thousand metric tonnes, 185.7 per cent higher than the previous fiscal (Figure 1.51).

with export ban on rice by major rice producing countries (India, Thailand, Vietnam) contributed to this. Bangladesh imported rice at a cost of USD 342 per ton in July 2007 whereas she had to pay USD 934 per ton in June 2008, a rise of 2.7 times (172.8 per cent rise).

Thailand, world's largest rice exporter, was quoting export price of rice well beyond USD 1,000 per ton by June 2008. Vietnam, the world's second largest rice exporter, experienced a downturn in her domestic production which resulted in low availability of rice for export. The Chinese government, following the removal of VAT export rebate on rice (coupled with some other agricultural products in December 2007), introduced 5 per cent export duties on rice beginning from 2008. India initially imposed a ban on rice export; later on the government withdrew the restriction while increasing the MEP of rice to USD

Figure 1.51: Monthly Trends in Rice and Wheat Imports, in Volume Terms



Source: Analysis from information collected from Food Directorate, Ministry of Food and Disaster Management.

Relatively higher growth rate in value terms indicate the effect of rising prices of rice in the international market. Whereas on average import price of rice was USD 320.06 per ton during FY2006-07, it stood at USD 541.30 per ton in FY2007-08 (an increase of 69.1 per cent in unit price). High global prices combined

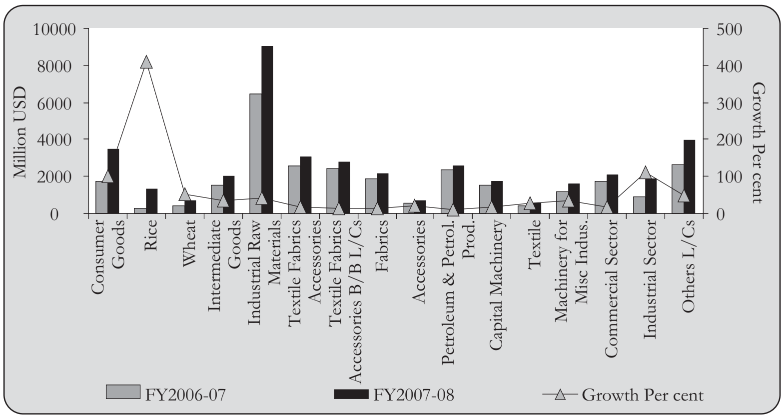
400, USD 500, USD 650 and finally USD 1,000 per ton, at which point excepting the basmati variety export of all other types of rice was banned.

Increasing global population, higher demand in India and China, soaring demand for bio-fuels and animal feed, and unfavourable weather conditions are considered to be major reasons contributing to the rapid hike in global rice prices. It is reckoned that, use of corn for ethanol and bio-fuels became economically viable once fuel prices went beyond USD 80-90 per barrel. The tension between fuel and food, factory and farm is likely to be a feature in the future global scenario with major implications for net food importing countries such as Bangladesh.

1.7.3 L/C Opening and Settlement

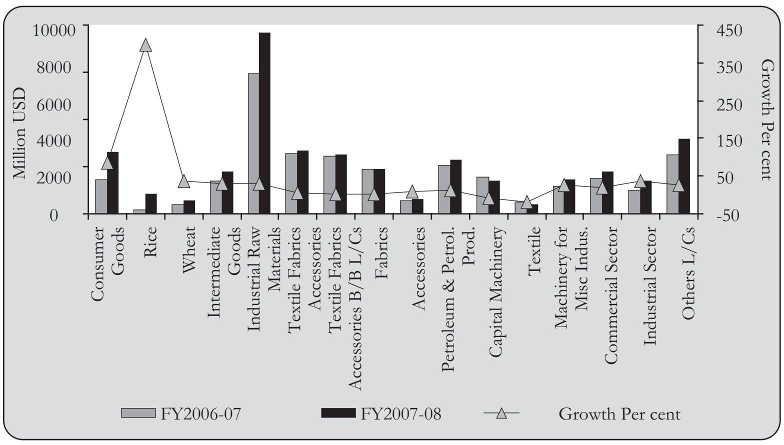
L/Cs opened during FY2007-08 were worth USD 24.43 billion, which was 40.0 per cent higher compared to L/Cs opened during FY2006-07. To compare, L/Cs settled in this period amounted to USD 20.37 billion which was 27.5 per cent higher than in FY2006-07. Indeed, as Figure 1.52 indicates, for FY2007-08, L/Cs opened for all major commodities registered high positive growth rates ranging from 8-50 per cent. For some items including capital machinery, there was a decline in terms of L/C settlement (-8.4 per cent). Settlement of L/Cs for textile also suffered a serious setback, registering a negative growth of (-)17.1 per cent (Figure 1.53).

Figure 1.52: Opening of L/C



Source: CPD-Trade database, 2008.

Figure 1.53: Settlement of L/C



Source: CPD-Trade database, 2008.

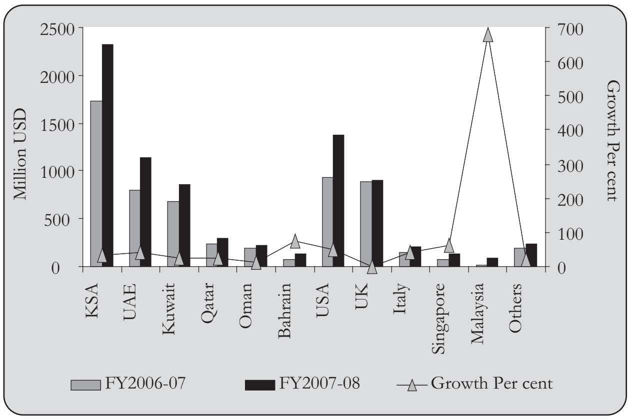
On the other hand, L/C opening for consumer goods has been exceptionally high (99.2 per cent), driven by import of cereals, particularly rice, and also wheat, soybean, vegetable oil etc. As Figure 1.50 bears out, following comparatively lower levels of L/Cs opened for rice in the months of May and June, the number of import L/Cs opened in other months demonstrated quite high growth (with overall FY2007-08 growth of 411.3 per cent). In case of wheat, the trend in L/C opening was somewhat inconsistent, with ups and down all through FY2007-08, overall growth in FY2007-08 was 51.7 per cent compared to FY2006-07.

1.7.4 Remittance Flow

In recent years, remittance flow to Bangladesh was able to record quite remarkable growth. From under two billion dollars in FY1999-2000 (USD 1.95 billion), remittance rose to USD 5.98 billion in FY2006-07. During FY2007-08, earnings from remittance was to the tune of USD 7.91 billion which was about USD 1.92 billion more than that of FY2006-07 (32.0 per cent growth). CPD estimates indicate that remittance earnings was equivalent to more than half of Bangladesh's gross export (56.2 per cent), and was equivalent to the figure of net export (101.0 per cent).

From Figure 1.54 it is seen that, Saudi Arabia (KSA) continued to rank as the major source for remittance, accounting for 29.4 per cent of all remittance flow in FY2007-08, recording a growth of 34.0 per cent compared to FY2006-07. Of the other major sources, growth rates of remittance from United Arab Emirates (UAE) (41.0 per cent), Kuwait (26.9 per cent) and USA (48.3 per cent) have been significantly high. Significant growth of remittance earnings has been observed from countries such as Malaysia. During FY2006-07 remittance earnings from Malaysia was only USD 11.84 million, which increased to USD 92.44 million, posting an

Figure 1.54: Country-wise Flow of Remittances



Source: CPD-Trade database, 2008.

impressive growth of 680.7 per cent as compared to the last fiscal. Though in terms of aggregate remittance earnings this value does not hold much significance considering the earnings from KSA, UAE, USA and Kuwait, it has important policy implications. Contracts signed in FY2006-07 with the UAE, Malaysia and South Korea has contributed importantly to the growth in remittances. Recent market opening in Oman also created a favourable environment for Bangladesh in terms of boosting her manpower export. In very recent times, some skilled Bangladeshi textile workers have been invited to work in Russia. In the course of 2007 some 832 thousand workers went abroad. By the end of 2007, a total of 5,390,854 Bangladeshis have gone overseas as migrant workers (from 1976 till 2007). Among them, the number of professional workers was 166,413 (3.1 per cent), skilled 1,614,762 (29.9 per cent), semi-skilled 859,054 (15.9 per cent) and unskilled 2,750,625 (51.0 per cent). In the first 10 months of 2008, a record 763 thousand workers have gone abroad. Although the skill composition of workers leaving for overseas employment has shown some positive change in the past years (favouring skilled labour as against unskilled and semi-skilled), percentage of skilled workers in the total migrant labour force of Bangladesh has, however, come down in the recent past. Bangladesh is expected to send around 900 thousand workers abroad in 2008. A total of more than 352 thousand workers have already received permission to go abroad (till May 20), which is 56 per cent more than the comparable period of last year.

Box 1.2: Exploring New Markets for Manpower Export

CPD study shows that in order to stabilise the size of the working population in the European Union (EU-15), an annual net gain of some 550,000 foreign workers and professionals would be necessary up to 2010 and a further 1.6 million per annum between 2010 and 2050, totaling a net inflow of 68 million people between 2003 and 2050. This is the likely scenario that would emerge because of ageing, low fertility rate and limited manpower. This will create new export opportunities for developing countries such as Bangladesh. CPD study further highlighted that the potential benefit from exporting 2 lakhs professionals from Bangladesh would be USD 11.57 billion, and an increase of 2 lakhs unskilled workers would bring an additional USD 3.5 billion to the county.

There is an urgent need to design a comprehensive policy with a view to make Bangladesh capable of taking advantage of the rising demand for workers in the global labour market. More effort needs to be taken to train up workers who plan to travel abroad for work related purposes. Bangladesh should also be well-prepared to take advantage of any possible market opportunities in Mode 4 in the WTO, particularly in health and caring services. Such opportunities could open up in the coming years either as a result of multilateral negotiations under WTO-GATS, or through bilateral initiatives of developed countries.

1.7.5 Balance of Payments (BOP)

Trade balance recorded a high deficit of USD 5,541 million in FY2007-08 compared to that of USD 3,458 million in FY2006-07. Services also posted a higher negative balance (-)USD 1,525 million in FY2007-08 against (-)USD 1,255 million in FY2006-07. Despite larger deficit in the trade balance, current account balance recorded a surplus of USD 672 million in FY2007-08 against the surplus of USD 936 million during FY2006-07, mainly thanks to a larger current transfer of USD 8,743 million (Table 1.20).

Overall trade balances of FY2007-08 indicate some deterioration, although robust remittance flows have eased the situation. Export earnings and import payments during FY2006-07 were USD 12,053 million and USD (-)15,511 million respectively. Although export earnings increased to USD 13,945 million, import payments have outstripped this totaling about USD (-)19,486 million in FY2007-08 (indeed trade balance deteriorated further in FY2007-08 and reached USD 5.54 billion). However, this large deficit in the trade balance was offset by the surplus in the current transfers (mainly private transfers in the form of worker's remittances which recorded an earning of USD 7,915 million). On the financial account side, BOP experienced a net deficit of USD 431 million in FY2007-08, against a surplus of USD 762 million during FY2006-07. The overall balance also showed a modest surplus of USD 604 million in FY2007-08 against a surplus of USD 1,493 million in FY2006-07, thanks to surplus in the capital and current accounts of USD 576 million and USD 672 million respectively. Overall, the current account balance fell from USD 936 million in FY2006-07 to USD 672 million in FY2007-08, whereas capital account balance increased from USD 490 million in FY2006-07 to USD 576 million in FY2007-08 (Table 1.20).

Table 1.20: Balance of Payment

(in Million USD)

Components	FY2006-07	FY2007-08
Trade balance	-3458	-5541
Services	-1255	-1525
Income	-905	-1005
Current transfers	6554	8743
Official transfers	97	127
Private transfers	6457	8616
of which : Workers' remittances	5979	7915
Current account balance	936	672
Capital account	490	576
Financial account	762	-431
Errors and omissions	-695	-213
Overall balance	1493	604
Reserve assets	-1493	-604

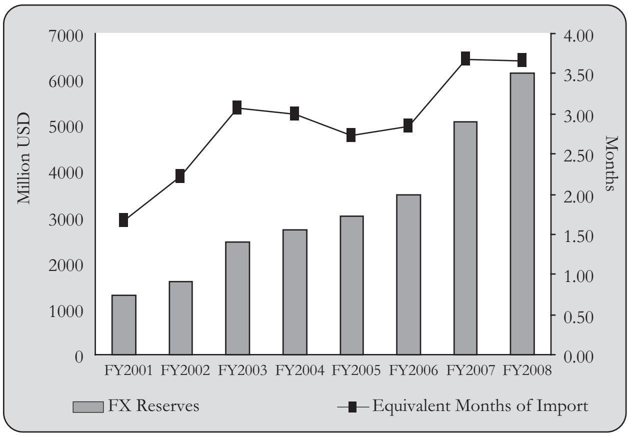
Source: CPD-Trade database, 2008.

As observed earlier, balance of current transfer responded positively to robust remittance flow, which increased by 32.4 per cent (from USD 5,979 million in FY2006-07 to USD 7,915 million FY2007-08), somewhat compensating for the negative trends in balances on account of trade and services. Although remittance is expected to continue with its high flow in the coming months, anticipated higher import payments combined with modest exports is likely to create further pressure on the BOP position in the near future

1.7.6 Foreign Exchange Reserves

In the backdrop of high export and remittance earnings, the foreign exchange (FX) reserves stood at USD 6,148.82 million at the end of June 2008 (following two Asian Clearing Union (ACU), payment of USD 462.3 million made in mid-November 2007 and USD 733.17 million on 6 March 2008). This was 21.11 per cent higher than the comparable figure of June 2007. The current FX reserve is equivalent to about 3.7 months of import payment (Figure 1.55). Whilst comfortable, given the pressure from the import side in the wake of the pick-up of the economy in recent months, the reserve position will need to be carefully monitored.

Figure 1.55: FX Reserves and Equivalent Months of Import



Source: CPD-Trade database, 2008.

Bangladesh has been pursuing floating exchange rate regime since May 2003. However, the Bangladesh Bank has in all practicality been implementing a managed float policy. In the early part of FY2007-08 Bangladesh Bank has intervened in the FX market directly to keep the BDT appreciated against the USD, by injecting (selling) about USD 500 million in the FX market. This was perhaps done to contain the negative implications of imported inflation on the economy. As is known, BDT has been quite steady against USD (at around 68.00 Tk./USD) in recent times. The Bangladesh Bank has also stopped intervening in the FX market in the past few months. The challenge for the Bangladesh Bank will be to ensure that the exchange rate of Taka against major currencies is kept at a level that provides incentive to exports but at the same time acts as a cushion against imported inflation. Whilst under a floating exchange regime the market should take care of the exchange rate, some type of market monitoring and selective intervention will be required on the part of the Bangladesh Bank given the volatility of the external sector observed in recent times. The other issue relates to the composition of Bangladesh's reserves. Given the depreciation of USD against all foreign currencies, particularly Euro, and given that a large part of Bangladesh's import is from Euro-denominated area, it appears that keeping a higher share of reserves in Euro could serve Bangladesh's interest better. It is interesting to note the rise of Euro as a hard-currency for foreign exchange reserves - from 2000 to 2006, the share of USD official holdings of FX worldwide declined from 71 per cent to nearly 65 per cent, while during the same period, the share of Euro official holding of FX increased from 18 per cent to almost 26 per cent. The Deutsche Bank Research Group predicts that the Euro share of global FX reserves will rise to 30- 40 per cent by 2010. In recent years, both Russia and China have opted for basket of currencies rather than pegging those to USD. In view of the increasing worldwide rapid use of Euro as an anchor currency, the Bangladesh Bank may need to rethink about currency composition of its FX reserves, which is to a large extent, USD denominated (although a significant part is also kept in Euro and Pound Sterling). Possible routes to hedge against further depreciation of USD need to be given careful examination.

1.7.7 Foreign Aid

Flow of foreign aid during FY2007-08 increased significantly compared to the inflow during the corresponding period of FY2006-07. Total aid disbursements during FY2007-08 were higher at USD 1,956.70 million, compared to USD 1,624.62 million during FY2006-07. Net receipts of foreign aid in FY2007-08 also stood markedly higher at USD 1,376.54 million, against USD 1,099.52 million in FY2006-07; with payment (principle) also registering a modest growth (10.5 per cent growth). USD 83.31 million arrived as food aid (provided by the United Nations World Food Programme (WFP)) in FY2007-08 following two consecutive floods in September and the cyclone-Sidr in December 2007, against USD 59.89 million of food aid in FY2006-07.

Apart from the food aid disbursed for the cyclone-Sidr, a sum of USD 634.00 million was also committed in view of the natural disasters. A large part of this aid commitment intended for the cyclone Sidr was made by the World Bank (USD 325 million) of which USD 100 million has already been disbursed (in January 2008) as a budgetary support under the World Bank DSC IV-Supplemental Financing II. It is to be noted that, the government has chalked out a 15-year long plan designed by the joint Damage Loss and Needs Assessment mission, made up of 11 donors including the World Bank. These donors have pledged to release USD 1.5 billion in 2008-12, another USD 1.4 billion in 2013-17 and a further USD 1.1 billion in 2008-22 towards strengthening the country's preparedness for natural disasters.

1.8 SOCIAL SECTOR

1.8.1 Health

Compared to some of the other sub-sectors, the record of the MoHFW has been somewhat better in terms of utilisation of allocated funds in FY2007-08 (Table 1.21). However, there appears to be little opportunity for enthusiasm. Budgetary allocation for FY2007-08 was higher than that of the previous year, actual expenditure in FY2007-08 (76.29 per cent) was lower than that of FY2006-07 (80.5 per cent). Even though development expenditure posted a marginally high utilisation rate in FY2007-08, ensuring effective and timely completion of health related projects would require further strengthening of proactive intervention by the government.

Table 1.21: Expenditure for Health and Family Planning in FY2007-08

(in Crore Tk.)

Item	Revised Budget FY2006-07	Budget FY2007-08	Revised Budget FY2007-08	Actual Expenditure		Actual Expenditure in FY2006-07 as % of Budget FY2006-07	Actual Expenditure in FY2007-08 as % of Budget FY2007-08
				FY2006-07	FY2007-08		
Revenue Expenditure	2682.4	2863.2	2888	2488.1	2586.3	92.77	89.6
Development Expenditure	2275.2	2606.3	2363	1502.6	1586.3	66	67.1
Total	4957.6	5469.5	5251	3990.7	4172.6	80.5	76.29

Source: Ministry of Finance (MoF).

The Health, Nutrition and Population Sector Programme (HNPSP), initiated in 2004, is a programme with highest allocation under the Health Ministry. The programme encompasses such critical areas as reducing malnutrition and mortality, promoting healthy life styles, and reducing risk factors to human health from environmental, economic and social and behavioural causes. The programme also focuses on providing adequate healthcare services for the vulnerable section of the society and the elderly people. While 84 per cent of the allocated budget for the programme has been utilised during FY2007-08, this certainly is not a significant achievement given the size of the programme itself (Table 1.22).

Table 1.22: Planned, Budgeted and Actual Expenditure of the HNPSP

(in Crore Tk.)

Item	2005-06	2006-07	2007-08
Revised Programme Implementation Plan (RPIP)	3173.00	3047.30	3234.10
Budget	1693.90	2119.50	2362.97
Expenditure	1453.40	1402.10	1988.68
Utilisation of budget (%)	86.00	66.00	84.00

Source: Bangladesh Health, Nutrition and Population Sector Programme (HNPSP): Mid Term Review, 2008, and Ministry of Health and Family Welfare (MoHFW).

With the initially approved project life being up to 2010, a target was set to utilise about 50 per cent of the total approved cost by the end of FY2007-08. However, at the end of June 2008, total utilisation stood at about only 29 per cent. In view of this, the Revised Project Implementation Plan (RPIP) proposed extension of the project by another year, i.e. 2003-2011 (Table 1.23). However, with 71 per cent still remaining in reserve, the government will need to put in place comprehensive policy measures to ensure effective utilisation within the revised time frame.

Table 1.23: Summary of Estimated Budget for HNPSP (2003-2011) by Sources of Financing

Area of Expenditure	2003-2008	2008-2011	Total	% of Total
GoB Revenue	977395.00	1104369.52	2081764.52	55.69
GoB Development	257721.82	372190.00	629911.82	16.85
Sub-Total of GoB	1235116.82	1476559.52	2711676.34	72.54
Project Aid (PA)	407497.23	619237.48	1026734.71	27.46
Sub-Total of Dev (GoB+PA)	665219.05	991427.48	1656646.53	44.31
Total (Rev+Dev)	1642614.05	2095797	3738411.05	100.00

Source: Ministry of Health and Family Welfare (MoHFW).

With a view to reducing maternal mortality, ensuring safe motherhood, and better health and nutrition of hardcore poor mothers as well as ensuring safe birth and sound upbringing of infants, the government initiated a pilot programme in FY2007-08 titled "Maternity Allowance for the Poor Lactating Mothers." While Tk. 16.6 crore was disbursed from the allocated Tk. 17 crore, at the end of FY2007-08 total distribution among 45 thousand expecting mothers from 3 thousand unions stood at Tk. 16.2 crore. Another Tk. 6 lakh was spent as operational expenditure (Table 1.28). The remaining amount (Tk. 34 lakh) has been reimbursed to the government exchequer. However, the fact that basic health status indicators such as infant mortality rate (IMR), mortality of children under-five years, and total fertility rate (TFR) had declined between FY2004-05 and FY2007-08 (Table 1.24) calls for urgent policy and strategic intervention by the government.

Table 1.24: Basic Indicators of the Health Status

Indicator	Baseline Condition in FY2004-05	Target in FY2007-08	Condition in FY2007-08
Infant Mortality Rate (IMR)	65.0	45.0	52.0
Under-Five Mortality Rate (UFMR)	88.0	64.0	65.0
Maternal Mortality Ratio (MMR)	320.0	264.0	n.a
% U5 underweight (6-59 ms)	47.5	42.0	46.0
% U5 severely underweight	12.8	<5.0	11.8
% U5 severely stunted (24-59 ms)	16.1	n.a	16.1
Total Fertility Rate (TFR)	3.0	2.6	2.7
Contraceptive Prevalence Rate (CPR) (modern methods)	15.0	29.5	18.2

Source: Bangladesh Health, Nutrition and Population Sector Programme (HNPSP): Mid Term Review (2008).

1.8.2 Education and Technology

Ensuring quality education for all had traditionally been a top priority of all successive governments. However, available data show that full utilisation of allocated resources is hardly attained. As is seen in Table 1.25, while 88 per cent utilisation in FY2007-08 is certainly a not so pessimistic outcome, it still lags behind the corresponding figures for the previous year

Table 1.25: Budget (Revenue and Development) and Actual Expenditure in Education in FY2007-08

(in Crore Tk.)

Line Item	Sub-sector	Revised Budget FY2006-07	Budget FY2007-08	Revised Budget FY2007-08	Actual Expenditure in		Expenditure in FY2006-07 as % of Revised Budget FY2006-07	Expenditure in FY2007-08 as % of Revised Budget FY2007-08
					FY2006-07	FY2007-08		
Revenue Expenditure	Education Sector	8020.60	8659.10	8658.80	7524.10	8145.30	93.81	94.10
	Ministry of Primary and Mass Education	3201.70	3371.10	3386.30	2817.00	2987.70	87.98	88.20
	Ministry of Education	4706.60	5172.60	5172.60	4615.30	5052.80	98.10	97.90
	Ministry of Science and Technology	112.40	115.40	111.40	91.90	104.80	81.76	94.08
Development Expenditure	Education Sector	2874.90	3710.20	2995.80	2512.60	2754.00	87.40	91.90
	Ministry of Primary and Mass Education	1796.60	2279.90	1886.60	1519.10	1742.70	84.60	92.40
	Ministry of Education	1002.70	1315.90	1000.50	927.30	909.20	92.50	90.90
	Ministry of Science and Technology	75.60	114.40	108.80	66.20	102.10	87.57	93.84
Total (=Rev.+Dev.)	For all Ministries	10895.50	12369.30	11654.60	10036.70	10899.30	92.12	88.12

Source: Ministry of Finance (MoF).

(92 per cent). This again sets a cautionary alarm as the revised allocation for FY2007-08 was about Tk. 750 crore higher than the amount allocated under the revised budget for FY2006-07.

During July-June of FY2007-08, actual expenditure of the revenue budget was 94.1 per cent, compared to 93.81 per cent in FY2006-07. On the other hand, spending under development budget in FY2007-08 was 91.9 per cent, against 87.4 per cent for the comparable months of FY2006-07. Strengthening of the line Ministries' ability to ensure higher utilisation of budget allocations will be of utmost importance for the government in the next fiscal. This is essential for realising the goal of adequate human capital development through providing quality education.

Female Stipend Programmes

Mainstreaming women into development process is a target set by the government in line with both the PRSP and the millennium development goals (MDGs). It is in this context that there are currently three ongoing stipend programmes for female students at the secondary and one programme at the higher secondary level. These are: Female Secondary Stipend Project Phase 2 (FSSP2), Female Secondary School Assistance Project Phase 2 (FSSAP2), Secondary Education Sector Development Project (SESDP), and Higher Secondary Female Stipend Project 3rd Phase (HSFSP3). In order to receive the stipend, one has to fulfill three conditions: (i) obtain at least 45 per cent marks in the final examination, (ii) have at least 75 per cent attendance in class, and (iii) be unmarried. It needs to be mentioned here that SESDP is the only programme that covers poor male students under the stipend

Table 1.26: Female Stipend Programmes in Bangladesh

(in Crore Tk.)

Project	Project Period	Project Fund	Covered Upazila	Allocation for FY2008		Expenditure in FY2008		Expenditure in FY2008 as % of RADP		Stipend Recipient (End June, 2008) (in Lakh)
				ADP	RADP	Total	Stipend	Total	Stipend	
FSSP2	July 2005 - December 2008	502.98	302	183.43	123.00	117.00	110.00	95.12	89.43	16.01
FSSAP2	July 2001- June 2008	766.27	119	33.00	65.00	57.62	53.60	88.65	82.46	7.24
SESDP	January 2007 - June 2013	793.33	53	110.00	83.13	67.27	30.00	80.92	36.09	3.12
HSFSP3	July 2005 - June 2008	184.86	All over the country	70.24	72.00	70.24	65.65	97.56	91.18	3.27
All Projects				396.67	343.13	312.13	259.25	90.97	75.56	29.64

Source: Directorate of Secondary and Higher Education.

programme. Out of the total enrolled students, 30 per cent female and 10 male poor students are selected for the stipend. During July-June of FY2007-08, total expenditure for all the four programmes was Tk. 312.13 crore which is 90.97 per cent of the RADP. It may also be noted that a total of 29.64 lakh female students received stipend and Tk. 259.25 crore was spent, which is 75.56 per cent of allocation under RADP (Table 1.26).

Available data indicate that the number of stipend recipients was in most cases less than 50 per cent of the enrolled female students. This largely owes to the inability of potential to meet all the three aforesaid conditions. In view of this, a review of the selection criteria should be undertaken so that larger share of the targeted poor female students receive the stipend.

Primary Education

Steps towards ensuring universal primary education for all has long been a priority development agenda for successive governments. To this end, three programmes for children at the primary level are currently in operation. These are: (i) Second Primary Education Development Programme (PEDP-II), (ii) Primary Education Stipend Project (Phase I), and (iii) Reaching Out of School Children (ROSC). PEDP is the largest programme under the Ministry of Primary and Mass Education. It aims at increasing enrolment and improving school infrastructure. The Innovation Grants programme under the PEDP-II was initiated in FY2007-08 to finance some novel education project targeted for special community or to the special type of children who have little or no access to receive education under the traditional education system. On the other hand, ROSC programme has three broad objectives: (i) improving access to primary education for the disadvantaged out-of-school children; (ii) improving quality of education in the ROSC learning centres and Shishu Kalyan Primary Education; and (iii) building capacity of related institutions.

Under the three projects for primary students, a total of Tk. 2,053.54 crore was allocated in the ADP of FY2007-08, which was reduced to Tk. 1,666.65 crore in the RADP (Table 1.27). During July-June of FY2007-08, actual expenditure of the primary education stipend project was about an impressive 99.99 per cent of the RADP allocation, while it was 94.94 percent of the allocated amount under the PEDP-II. For the ROSC project, 96.12 per cent was spent during July-June of FY2007-08.

Table 1.27: Primary Education Stipend Programmes in Bangladesh *(in Crore Tk)*

Project	Project Period	Covered Upazila	Allocation for FY2007-08		Expenditure in FY2007-08		Amount Surrendered	Expenditure in FY2007-08 as % of RADP		Stipend Recipient (End June 2008) (in Lakh)
			ADP	RADP	Total	Stipend		Total	Stipend	
Second Primary Education Development Programme (PEDP-II)	July 2003 - June 2010	All over the country	1484.00	1114.35	1058.00	-	56.35	94.94	-	-
Primary Education Stipend Project (Phase I)	July 2002 to June 2008	477	468.00	468.00	467.93	446.96	0.07	99.99	95.50	48.16
Reaching Out of School Children (ROSC)	July 2004 to June 2010	60	101.54	84.30	76.64	25.31	7.66	90.91	30.02	4.90
All Projects			2053.54	1666.65	1602.57		64.08	96.12		

Source: Ministry of Primary and Mass Education.

1.8.3 Social Safety Net

For social empowerment, social safety net, poverty reduction, and employment generation (including microcredit support scheme) programmes, total allocation in the budget for FY2007-08 was Tk. 3,893 crore. It was targeted that 20 lakh people would be directly benefited through these programmes. These programmes are administered by a diverse group of Ministries, departments and organisations. A large group of NGOs are also involved in the implementation of some of these schemes.

Programmes under the social safety net include old-age allowance; allowance programme for the widowed, deserted and destitute women; capitation grant for public and private orphanage; honorarium programme

Table 1.28: Utilisation of Funds Allocated for Social Safety Net Programmes

(in Crore Tk.)

Programme	FY2007-08 (RB)	Target Number of Beneficiaries (Thousand)	Achievement in FY2007-08			Achievement as % of Target	
			Disbursed	Distributed	Number of Beneficiaries (Thousand)	Distribution with Respect to FY2007-08 (B)	Beneficiary
Old-age allowance	448.80	1700.00	448.80	448.80	1700.00	100.00	100.00
Allowance programme to the widowed, deserted and destitute women	198.00	750.00	198.00	198.00	750.00	100.00	100.00
Capitation grant for public orphanage	14.94	10.375	14.94	14.94	10.375	100.00	100.00
Capitation grant for private orphanage	30.74	42.70	30.74	30.74	42.70	100.00	100.00
Honorarium programme for insolvent freedom fighters	72.00	100.00	72.00	72.00	100.00	100.00	100.00
Programme for the assistance to the fully retarded	52.80	200.00	52.80	52.80	200.00	100.00	100.00
Fund for mitigating risk due to natural disaster	20.00	n.a.	20.00.	10+10 (Distributed in Sidr affected area)	n.a.	100.00	n.a.
Fund for rehabilitation of the acid burnt women and the physically handicapped	10.00	6.00	9.69	8.00	8.19	80.00	136.50
Maternity allowance for the poor lactating mother	17.00	45.00	16.60	16.26	45.00	95.65	100.00

Source: Budget documents.

for insolvent freedom fighters; programme for the assistance to the fully retarded; fund for mitigating risk due to natural disaster; fund for rehabilitation of the acid burnt women and the physically handicapped; seasonal unemployment reduction fund; development fund for the RMG workers; maternity allowance for the poor lactating mother; vulnerable group development (VGD), VGF, test relief (TR) and gratuitous relief (GR).

An allowance of Tk. 220 per person is provided to the beneficiaries of the *old-age allowance*, and *allowance programme to the widowed, deserted and destitute women*. Tk. 300 per month is provided to the beneficiaries of the *maternity allowance for the poor lactating mother* programme. Tk. 600 per month is provided to the public and private orphanage for each orphan. The *programme for the assistance to the fully retarded* provides a monthly allowance of Tk. 200 for disabled students at the primary level, Tk. 300 for secondary level, Tk. 400 for higher secondary level and Tk. 600 for university level. Tk. 600 is provided as honorarium to insolvent freedom fighters on a monthly basis. Under the VGD programme women are receiving 30 kg of rice or wheat or 25 kg atta for one year.

During FY2007-08, 100 per cent of the target set for the full fiscal year was achieved in case of allowance programme to the widowed, deserted and destitute women; maternity allowance for the poor lactating mother and capitation grant for public orphanage (Table 1.28). About 100 per cent of the target was also achieved in case of capitation grant for private orphanage. In case of honorarium programme for insolvent freedom fighters, 100 per cent of the target beneficiaries were covered and 100 per cent of the total budget allocation was spent during of FY2007-08. About 100 per cent of the target beneficiaries received benefit from the programme for the assistance to the fully retarded and 100 per cent of the total budget allocation was spent during FY2007-08. As for rehabilitation of the acid burnt women and the physically handicapped, number of actual beneficiaries was 136.5 per cent of the targeted number while total spending was only 80 percent of the budget allocation.

Public Food Distribution System (PFDS)

The government distributes rice and wheat under the PFDS through priced and non-priced (targeted) channels. Monetised distribution is the sale of rice and wheat through Essential Priority (EP), Other Priority (OP), Large Employers (LE), Flour Mill (FM), OMS, and Fair Price Card (FPC). Non-monetised (targeted) channels include targeted safety net programmes such as Food for Works (FFW), TR, GR, VGD, VGF, Food for Education (FFE) and other relief channels.

Distribution of rice and wheat under the PFDS has been used as a useful tool to help mitigate the adverse implications of low purchasing power of resource poor people in the society. It is encouraging to see that about 92 per cent of the total 1,697 thousand metric tonnes of allocated foodgrains was distributed during FY2007-08 (Table 1.29). The corresponding figures for FY2006-07 were 86.80 per cent and 1,685.4 thousand metric tonnes respectively. While distribution through priced channels was lower in FY2007-08 (74.62 per cent as against 94.45 per cent in FY2006-07), the same for non-priced channels was way above the corresponding figure for FY2006-07.

However, distribution under OMS, TR, and VGF in FY2007-08 witnessed significant decline when compared to those in FY2006-07. On the other hand, performance under LE and VGD was significantly high in FY2007-08. The fact that disbursement in the Chittagong Hill Tracts (CHT) region considerably surpassed the target with an achievement of 126.67 per cent is also to be appreciated. Maintaining a comfortable reserve position of foodgrains for distribution among the vulnerable group is of utmost importance. In this regard, the government will have to take appropriate steps to procure adequate foodgrains from both domestic and international markets.

Table 1.29: Sector-wise Public Distribution of Foodgrains *('000 MT)*

Distribution Channel	Allocation FY2006-07 (RB)	Distribution		Allocation FY2007-08 (RB)	Distribution	
		Total	%		Total	%
Priced						
Essential Priorities (EP)	285.00	260.00	91.23	256.00	209.00	81.64
Other Priorities (OP)	22.40	19.00	84.82	27.00	21.00	77.78
Large Employers (LE)	21.00	15.00	71.43	12.00	12.40	103.33
Open Market Sale (OMS)	417.00	408.00	97.84	389.00	268.00	68.89
Flour Mill (FM) / Fair Price (FP)	-	2.00	200.00	-	-	-
Sub Total	745.40	704.00	94.45	684.00	510.40	74.62
Non-Priced						
Food for Work (FFW)	201.00	125.00	62.19	185.00	155.00	83.78
Test Relief (TR)	150.00	149.00	99.33	150.00	76.00	50.67
Vulnerable Group Development (VGD)	200.00	163.00	81.50	265.00	267.00	100.75
Vulnerable Group Feeding (VGF)	250.00	230.00	92.00	274.00	188.00	68.61
Gratuity Relief (GR)	64.00	32.00	50.00	64.00	38.00	59.37
VGF (Relief)*	-	-	-	-	231.55	-
Hill Tracts/Others	75.00	60.00	80.00	75.00	95.00	126.67
Sub Total	940.00	759.00	80.75	1013.00	1050.55	103.71
Total	1685.40	1463.00	86.80	1697.00	1560.95	91.98

Source: Management Information System (MIS), Directorate-General of Food.
Note: * 231.55 thousand MT was Saudi and other relief.

1.9 OUTLOOK AND CHALLENGES FOR FY2008-09

1.9.1 Growth Outlook

Real GDP growth target for FY2008-09 has been set at 6.5 per cent in the budget for F2008-09, which was only 0.29 per cent higher than what is expected in FY2007-08. All other things remaining the same, achievement of the growth target set for FY2008-09 will require either some rise in the rate of investment or an improvement in the ICOR or a combination of both, compared to FY2007-08.

The new MTMF projects a combination of a minor ICOR improvement (ICOR of 3.8, 0.1 lower than FY2007-08) and a moderate rise in investment (24.4 per cent of GDP, higher by 0.2 per cent of GDP over FY2007-08) (Table1.30). Considering the average rise

Table 1.30: Recent ICOR Trends in Bangladesh

Indicators	FY06	FY07	FY08	FY09
Growth rate of GDP at constant price (%)	6.6	6.4	6.2	6.5
Investment as % of GDP	24.7	24.5	24.2	24.4
ICOR	3.7	3.8	3.9	3.8

Source: CPD-IRBD database.

of investment by 0.2 per cent of GDP during the last five years, with highest increase by 0.6 per cent of GDP in FY2003-04, investment and capital productivity growth projections for FY2008-09 appear to be rather conservative. At the same time, assuming a normal year for FY2008-09 (no major natural calamities), there should be some automatic growth enhancement in the upcoming fiscal year.

While the growth target for FY2008-09 remains modest, one major concern with regard to attaining the "hoped-for" 7-8 per cent growth in the medium term (which has been claimed to be "highly probable" in the national budget for FY2008-09) would be the issue of mobilising resources to finance the investment demand. Here, it is pertinent to mention once again that Bangladesh has continued to remain an under-invested country over a protracted period of time; indeed, in recent years the gap between savings and investment has increased.

During the last 13 years, gross investment (as a percentage of GDP) increased from 20.0 per cent to only 24.2 per cent in Bangladesh (it increased from 26.9 per cent to 36.3 per cent in India over the comparable period). Factors contributing to this slow pace of increase in Bangladesh could be fall in public investment (as a percentage of GDP) which tends to negatively affect private investment. Public investment as a percentage increased to 7.8 per cent in India FY2007-08.

1.9.2 Medium Term Macroeconomic Outlook

The new MTMF (FY2009-11) forecasts the economy to grow at 7.0 and 7.2 per cent during FY2009-10 and FY2010-11 respectively (Table1.31). The MTMF also targets to lower inflation rate to 7.5 and 7.0 per cent in FY2009-10 and FY2010-11 from 9.5 per cent in FY2008-09. Such a target would require reversal of the prevailing price dynamics and demands an all out effort to increase domestic productivity, and production not showing any sign of retreat. Much will depend on global price dynamics. If there is a slump in global demand, with consequent downward pressure on commodity prices, this will be of benefit to Bangladesh.

According to the targets set by the MTMF (Table1.31), budget deficit, which has been targeted at 5.0 per cent of GDP in FY2008-09, is expected to come down gradually to 4.0 per cent of GDP by FY2010-11, mostly due to the envisaged reduced growth in public expenditure and increased revenue earnings (as a share of GDP). However, slowdown of public expenditure is expected from slower growth of development expenditure, rather than revenue expenditure. This does not augur good for the economy where this is large unmet demand for infrastructure that is likely to play a crucial role in terms of crowding-in private sector investment.

Table 1.31: Medium Term Outlook of Bangladesh Economy

Medium Term Macroeconomic Framework			
Indicators	Budget	Projected	
	2008-09	2009-10	2010-11
Output (%)			
Real GDP growth (%)	6.5	7.0	7.2
CPI inflation	9.0	7.5	7.0
GDP deflator (% change)	7.5	6.5	6.0
Gross Domestic Investment (% GDP)	24.4	26.3 2	7.0
Government Accounts (% of GDP)			
Total Revenue	11.3	11.7	11.9
Tax	9.3	9.6	9.8
Non-Tax	2.1	2.1	2.1
Total Expenditure	16.3	16.1	15.9
Current Expenditure	10.1	10.9	10.8
Of which: Interest Payments	2.0	2.0	2.0
Overall Balance (excl. Grants)	-5.0	-4.4	-4.0
Financing (Net)	5.0	4.4	4.0
Domestic Borrowing	2.8	2.2	2.0
External Borrowing	2.2	2.2	2.0
Money and Credit (% Change)			
Net Domestic Assets	17.5	17.3	17.1
Private Sector	17.0	19.0	19.0
Broad Money	16.9	15.8	15.3
Balance of Payments			
Exports, f.o.b (% change)	16.5	17.0	17.5
Imports, f.o.b (% change)	21.0	21.0	21.0
Remittances (USD million)	9492	11862	14828
Current Account Balance (% of GDP)	-0.9	-1.3	-1.7
Gross Official Reserve (USD million)	6000	6350	6500
Gross Official Reserve (Months of Imports)	2.6	2.3	1.9

Source: Budget documents, PRSP-II.

In the monetary sector, broad money growth is expected to slow down during FY2009-10 to FY2010-11, compared to FY2008-09. Private sector credit, however, is projected to rise during FY2009-10 to FY2010-11(Table 1.31).

Significant growth is projected on all BOP components over the next three years. Export growth targets have been set at 16.5 per cent, 17.0 per cent and 17.5 per cent for FY2008-09, FY2009-10 and FY2010-11 respectively against an import growth of 21 per cent projected for all the three years (Table 1.31). Movements in commodity prices and the issue of food import will decide whether such high import growth will actually take place. Robust growth in remittance earnings is expected to continue while foreign exchange reserve is expected to remain steady and reach USD 6.5 billion by FY2010-11.

1.9.3 Employment Outlook

The last Labour Force Survey (LFS) in Bangladesh was conducted in 2005-06. Since then no real time data is available to assess the present situation and to make future projection. Proxy indicators for FY2007-08, i.e. low ADP implementation and strained situation with regard to overall investment, however, do not evince a promising picture in this regard. According to the draft PRS-II projections, labour force will grow to 54.6 million in FY2008-09, 56.4 million in FY2009-10 and 58.3 million in FY2010-11, indicating an additional 5.44 million inclusion to the labour force over the three year period. This will mean on average an additional 1.8 million people entering the job market every year. On the other hand, total employment is predicted to increase to 52.25 million, 53.97 million and 55.75 million in the respective years. These assumptions allude to an unemployment rate of 4.3 per cent throughout the PRS-II period. During the last survey (LFS 2005-06), unemployment rate was found to be 4.2 per cent. While this indicates towards an already deteriorated employment situation, no improvement is expected in near future if the PRS-II projections are taken into cognisance. Such pessimistic assumptions in the national strategy are not in accordance with the national aspirations of reducing unemployment rate at a faster pace, which could help Bangladesh acclerating her poverty reduction trend. A more energetic planning is called for from this perspective.

To create new employment opportunities the PRS-II made the following three core policy suggestions - firstly, introducing policies for making growth more employment-friendly; secondly, increasing overseas migration of workers; and thirdly, undertaking special schemes for job creation (especially through microcredit) and employment based safety nets through public works programmes.

Given the expanding overseas employment market, energetic steps are required if Bangladesh is to take advantage of the emerging opportunities. Particular emphasis is needed on skill upgradation. Initiatives such as private-public partnerships in vocational training targeted at aspiring workers ought to be given high priority. Creating conducive investment environment for the Non-resident Bangladeshis (NRBs) should also get precedence. There is also a growing need for providing support to facilitate aspiring migrant workers from low-income households and backward regions in the form of credit and other support. Recently, Palli Karma-Sahayak Foundation (PKSF) has decided to team up with Bureau of Manpower Export and Training (BMET) and provide support through easy term loans for aspiring migrant workers from hard core poor families in monga-prone areas. This is a welcome initiative. The government is also planning to introduce guaranteed employment programme in FY2008-09. Creation of 20 crore man-days work during the lean seasons of the year through this programme is expected to make some positive impact on the overall employment situation. However, Bangladesh will need to be more ambitious in this area.

1.9.4 Challenges for FY2008-09

In view of the state of macroeconomic indicators in FY2007-08, a number of emerging challenges for Bangladesh economy may be identified for the upcoming year. "Overcoming of the crisis" mentioned in the budget for FY2008-09 will indeed hinge on the efficacy with which the CTG, and subsequently, the newly elected government, are able to address these emergent challenges. It is to be reckoned that whilst the CTG will be in charge of economic governance for the first half of FY2008-09, it will be the responsibility of the newly elected government to steer the economy forward during the second lap of the journey.

Reining-in High Inflation, Particularly Food Inflation

Average inflation in FY2007-08 remained high, close to double-digit figures. This average figure, however, does not fully capture the implications of price rise for the general consumers since prices of essential items such as rice, wheat, milk powder and vegetable oil, comprising a significant component of household expenditure, outpaced the average food inflation in the past year. Whilst the possibility of reducing the prevailing high prices in any substantial way is unlikely, and will depend on both domestic and global factors, maintaining stability in the food market must be seen as a key objective in implementing the budget in FY2008-09. Both market and non-market interventions will need to be brought into play to achieve this. These will include OMS, a focused and strengthened role of Trading Corporation of Bangladesh (TCB), inducement to broad base private sector imports, continuous monitoring of the dynamics of supply and demand situation, maintaining appropriate stocks, and carrying out fiscal interventions when required. For essential items such as rice, key to stabilising price levels will be higher domestic production in the upcoming Aman and Boro seasons for which availability of good quality seeds and inputs, at affordable prices, on time and in the required amount, will be necessary.

Reducing Income and Regional Inequality

Rising income inequality has undermined Bangladesh's achievements in reducing poverty. As is evidenced by consecutive HIES reports, in spite of poverty reduction of 1 per cent per annum in the 1990s, and 2 per cent per annum between 2000 and 2005, income inequality (as evidenced by gini-coefficient of income distribution) has been on the rise in Bangladesh. Between 2006 and 2008 both the poverty situation and income distribution has, in all likelihood, deteriorated. According to CPD estimates, up to about 8.5 per cent of households have perhaps experienced income erosion (mainly because of rising food prices) to the extent that they have fallen below the poverty line. Since rising food prices affect poor households disproportionately, it would be logical to pursue that income inequality has exacerbated further. This is notwithstanding the fact that successful large scale public food distribution and safety net programme have targeted hard core poor. Accordingly, the challenge in FY2008-09 will be to create earning opportunities through income augmentation and employment creation for people living below the poverty line. The emergence of growing regional disparity as a major cause of concern will necessitate targeted regional programmes and projects, and perhaps block allocation through regional development fund (as proposed in the document on regional disparity prepared by the Planning Commission).

More Thrust on Agriculture

In spite of its falling share in GDP, agriculture's role as major absorber of incremental labour force and its crucial role in terms of food security, will necessitate renewed attention to this key sector of the Bangladesh economy. The HYV technology has arguably reached a technological frontier, and further productivity enhancement would require introduction of a set of new seed-technology combination. Investment in agriculture will need to be given emphasis, both under public sector initiative and also through greater participation of the private sector. In recent times, flow of credit through private sector (in partnership with NGOs) has seen appreciable increase. This will need to be supported through appropriate incentives. Inducements for technology adoption, through fiscal stimuli, strengthened institutional support and more knowledge based support from the extension system, will need to be given high priority. Crop rotation, crop insurance, crop diversification and modern cropping practices will need to be supported through strengthening of public-private partnerships. Agriculture, both crop and non-crop sub-sectors such as fisheries, livestock and poultry, will need to be geared to a pace and level where it is able not only to meet domestic demand, but also to access global market opportunities which are likely to emerge as a result of the ongoing negotiations in the WTO on Agreement on Agriculture (AoA). Heightened attention will need to be given to SPS-TBT compliance issues if those opportunities are to be realised through enhanced export of agri and agro-processed exports.

Improving Quality and Enhancing Implementation of ADP

Public sector continues to remain a major source of service delivery in Bangladesh, particularly in areas related to human resource development such as education and health. The sector also plays a crucial role in terms of providing infrastructure and other services that augment private sector investment and create conducive environment for private entrepreneurs. However, in recent years ADP implementation record has tended to be quite discouraging, in the range of 75-80 per cent of even the RADP, in most instances. Disbursement of ADP has been particularly low in case of a number of critically important sectors including power and energy, which have tended to adversely impact investment and productivity. There is a need to strengthen institutional capacity of the government to properly allocate, implement and monitor the ADP. It may be necessary to revisit the procurement policy to examine whether amendments are required to expedite decision making in the course of ADP implementation.

Augmenting Remittance Flow

As is known, remittance flow has emerged as a major source of FX earning for Bangladesh. Whilst remittance earning was less than USD 2.0 billion in FY2000-01, that reached close to USD 8.0 billion in FY2007-08. It is currently the single most important FX earner (in net term) of Bangladesh. The number of workers leaving Bangladesh has risen three-times over the last four years. Given the demographic dynamics, in coming years the market for service and care providers is likely to increase manifold in the developed world. Bangladesh lags far behind countries such as Philippines in terms of per capita remittance earnings because only about 3 per cent of her migrant workers belong to the category of professionals, and more than 50 per cent belong to the unskilled category. There is a need to design a comprehensive medium term strategy to augment the skills of the migrant workers. It has been seen that remittance earnings also play a highly positive role in augmenting income of poor households, and reducing income inequality. However, hard core poor households have not been able to tap into this market because of inability to mobilise the initial capital. There is thus an urgent need to set up an appropriate mechanism (e.g. provide loan against future earnings, impart skills) to enable these households to participate in the overseas labour market. In this context, recent initiative of the PKSF to facilitate participation of hard core poor households calls for careful examination for the purpose of replication.

Energy Security

Energy has emerged as a key constraining factor that inhibits investment in Bangladesh. This is true for both domestic investment and FDI. Per capita energy availability is lowest in Bangladesh compared to other regional countries. Potential growths in agriculture, industry and services have been severely limited on account of lack of electricity and gas. What is particularly disturbing is that in spite of having been declared a priority sector, pace of ADP implementation has been consistently low in this sector. There is an urgent need to revisit the energy strategy if Bangladesh is to register high GDP growth rate and ensure high pace of poverty reduction. The draft Coal Policy needs to be finalised speedily. The CTG has initiated offshore bidding process for exploration of gas and oil resources in the Bay of Bengal (28 blocks). It is to be noted that of these blocks, 12 have been licensed by India and Myanmar as well. In view of this, it will be advisable that Bangladesh initiates a process of consultation with these countries to come to negotiated settlements on disputed issues.

An Effective Safety Net Programme

Bangladesh has passed through a challenging time in FY2006-07. Consecutive floods, Sidr, production losses and high inflation have led to a situation where food security for people below the poverty line has come under severe strain. It is to Bangladesh's credit that she has been able to tackle the situation by bringing more than 10 million people under one or other form of safety net programmes. Targeting and entitlement of such programmes need to be improved further to ensure that a speedy and flexible response is available to meet the needs of the hour. There is a need for closer cooperation with local government bodies to raise the effectiveness of such programmes.

Improving Terms of Trade (ToT)

Bangladesh's export sector has demonstrated commendable resilience at a time of challenging global environment (declining world trade, recession in major economies, lower consumer spending). However, it is equally true that Bangladesh's ToT has been experiencing a secular fall in the recent past. At a time when global commodity prices are rising, Bangladesh's average export prices are on the decline. There is an urgent need for intra and extra-RMG diversification as well as diversification of markets to ensure higher value addition, movement up the value chain and better prices in the global market.

Technology upgradation, productivity enhancement, process and product modification and design capability improvement are becoming key factors in translating Bangladesh's comparative advantages into competitive advantages. Realising potential export opportunities in ship-building, pharmaceuticals, light engineering and home textile will require significant investment in technology and skills development. A dedicated "Technology Development Fund" (in line with one in India) needs to be set up towards this.

Higher Mobilisation of Investible Resources

Mobilisation of greater investible resources for the entrepreneurs will be key in attaining higher GDP growth in Bangladesh. It needs to be ensured that government borrowings, particularly from the banking sector, do not crowd-out the private entrepreneurs from the credit market. The current buoyancy in the capital market will need to be supported through appropriate incentives to business enterprises with good track record to get listed in the capital market. Off-loading of public sector enterprises, securitisation, etc. will need to be encouraged. Of crucial importance will be appropriate monitoring of the securities market to guard against manipulation, insider trading, and creation of "boom and bust" situations. Bangladesh Bank's monetary policy, particularly interest rate policy, will play an important role in terms of creating an environment that stimulates savings and generates credit and equity for investors.

Moving Ahead with Institutional Reforms

The CTG has set up BBF and RRC with a view to putting in place an investment friendly environment for the entrepreneurs. Both the BBF and the RRC have put forward a number of recommendations which relate to introduction of e-commerce, doing away with unnecessary regulatory barriers and putting in place systems that facilitate quality service delivery by state-owned entities and, at the same time, are consumer and investor friendly. These initiatives are expected to reduce cost of doing business in Bangladesh and provide encouragement to both domestic and foreign investors. There is a need to vigorously pursue and continue with these reforms. It is hoped that the newly elected democratic government will ensure sustainability of these reforms and continuity of the functioning of these bodies, so that reforms towards business friendly and consumer friendly environment in Bangladesh remains an ongoing endeavour.

1.10 CONCLUDING REMARKS

The end of FY2007-08 coincided with rapid rise in global commodity prices, including food, fuel and fertiliser prices. These developments had serious implications for macroeconomic management during the early months of FY2008-09, at a time when the country was just starting to come out of the severe after-shocks of consecutive natural disasters. The global inflation and the consequent impact on domestic prices undermined the macroeconomic prospects for FY2008-09 and led to reactive steps in terms of provisions for subsidy, projections about domestic borrowings and fiscal-budgetary deficits in the budget for FY2008-09. Thus, the severe strain experienced in managing the economy in FY2007-08 informed the budget for FY2008-09 to the extent that the Finance Advisor termed the budget as a document "to overcome crises." Erosion of purchasing power and consequent reversal of poverty reduction trends required energetic corrective steps which would help deal with the immediate and urgent tasks of strengthening social safety net programmes. However, as FY2008-09 was crossing its half-way mark, the consequences of global financial meltdown and the remittent recessionary trends started to change the entire scenario that informed its journey in July 2008. The emerging scenario had important implications for how critical macroeconomic indicators of Bangladesh would develop in the second half of FY2008-09. Falling commodity prices eased some of the fiscal-subsidy pressures, whilst the prospect of deepening of the global recessionary trends implied that some of the components of the external sector such as export and remittance, and to some extent aid and FDI, could come under increasing strain. Call for review of GDP growth projections were made by some, whilst others maintained that in spite of the uncertainties and volatilities, Bangladesh would be able to attain most of her macroeconomic targets. Thus, as FY2008-09 crosses its equator, the economy remains challengingly poised between optimism and cautionary notes. The transition to democratic governance that has just been made on the wave of high aspirations and profound change, will hopefully prove the optimists to be correct.

Chapter II

Analysis of the National Budget for FY2008-09

2.1 INTRODUCTION

As is known, the National Budget for the fiscal year 2008-09 (FY2008-09) and Revised Budget for FY2007-08 were presented by the Hon'ble Advisor for Finance and Planning on 9 June 2008. In keeping with its tradition, the Centre for Policy Dialogue (CPD) presented its budget reaction the following day at a Media Briefing. The present report has been prepared in continuation of yet another of CPD's traditions which aims to analyse major proposals in the budget with a view to assess the implications of the budget proposals for the economy, highlight the challenges of implementation of the proposed measures and identify areas where additional interventions were required. The analyses are based on data and information generated by various Ministries, departments and agencies of the government, CPD's own surveys and also other sources. The objective of the present report is to put under scrutiny the Budget FY2008-09 document at a time, when the budget proposals are being discussed by various stakeholders so that policymakers could benefit from reactions of the citizens and take cognisance of their suggestions whilst finalising the Budget document.

2.1.1 Departures and Distinguishing Features of Budget FY2008-09

In presenting the budget for the previous year i.e. FY2007-08, the caretaker government (CTG) was aware that it would be responsible for implementing the budget proposals for the duration of the entire fiscal year. This time around, in the backdrop of the election roadmap and national aspiration for democratic transition by the end of 2008, it is envisaged that the CTG will be responsible for implementing the budget proposals only during the first half of the FY2008-09; it is expected that the responsibility to implement the budget proposals during the second half of FY2008-09 will fall on a democratically elected government.

The Finance Advisor has termed the Budget for FY2008-09 as a "document to overcome crisis." Evidently, this is a clear recognition of the manifold challenges faced by the CTG in terms of maintaining macroeconomic stability, attaining growth targets and implementing the planned activities envisaged in the Budget for FY2007-08. As is known, these challenges originated both in the global market and also in the domestic economy, in the backdrop of high inflationary trends in the global market and consecutive natural disasters which affected the domestic economy negatively. International market prices of food, fuel, fertiliser, vegetable oil and other essential items, and also those of machineries, industrial raw materials and intermediates had registered a rise in the range of 50-120 per cent in the span of one year. Floods cost a crop loss to the tune of about 1.6-1.8 million tonnes of rice and the damage caused by cyclone Sidr was estimated to be at least about USD 1.8 billion. Adverse global and domestic factors slowed down economic performance in FY2007-08, with growth rates in key sectors such as agriculture, (both crop and non-crop sub-sectors) and the industry falling behind the budgetary targets.

It is true that a number of key macroeconomic indicators did start to register some improvements, particularly in the latter half of FY2007-08 thanks to higher Boro harvest (of about 17.5 million tonnes), larger credit infusion to both agriculture and industry, higher industrial growth and higher export, enhanced remittance flows, and better domestic resource mobilisation through significantly higher income tax collection. A large scale public food distribution system (PFDS) and extensive safety net programme were successfully geared up to provide food security in the aftermath of floods and cyclone.

However, underachievement in annual development programme (ADP) implementation, including in some key sectors such as energy, continued to severely constrain the investment environment required to stimulate employment generation and accelerate poverty reduction. Higher expenditure, required to sustain mounting subsidies, required the CTG to incur an increasingly larger debt burden. Consequently, level of overall economic performance remained below the projected targets. Growth of gross domestic product (GDP) initially projected at 7 per cent for FY2007-08 had to be subsequently revised downward to 6.2 per cent (in the FY2008-09 budget speech). Each of the eight objectives as set out in the budget speech for FY2007-08, which included maintaining macroeconomic stability; accelerating economic growth; keeping inflation within tolerable limits; reduction of poverty; ensuring food security; ensuring regional and income equity; and removing constraints to private sector-led growth came under challenge as the fiscal year progressed.

The budget for FY2008-09 had to be thus formulated in the backdrop of the aforesaid realities on the ground. Understandably, there is an attempt in the budget FY2008-09 to address these emergent challenges through various fiscal initiatives, and revenue and developmental expenditure measures.

As is known, following the implementation of Poverty Reduction Strategy (PRS) during 2005-07, and its extension in 2008, a three-year PRS-II is now being finalised. Budget FY2008-09 is supposed to be the first year of PRS-II. PRS-II was expected to act as the key medium-term plan that would be implemented through allocation of resources through subsequent budgets. Indeed, the budget for FY2009 takes cue from the Medium Term Macroeconomic Framework (MTMF) prepared for PRS-II. However, the key targets, including those for poverty reduction, reduction of income inequality and employment creation are yet to be set out in PRS-II. It is thus not surprising that there is no clear indication in the budget with regard to these targets. The question of sequencing of the two documents remains. There is a need to ensure both coherence and synchronisation of the key targets in PRS-II and the budgets prepared during the period of implementation of PRS-II, so that both the documents are geared to implement the medium term macroeconomic framework targets in tandem.

The budget for FY2008-09 talks about attaining three major objectives: maintaining macroeconomic stability, accelerating GDP growth and achieving poverty reduction. The budget mentions eight priority areas: maintaining price level of essentials within tolerable limit; employment generation; widening and deepening of social safety net programmes; reducing regional disparity; increasing agricultural projection; ensuring food security; increasing power generation; and the overall development of communication network including information technology (IT).

An attempt has been made in the following sections to examine the various proposals in the budget FY2008-09 from the perspective of the objectives and targets mentioned in the budget speech.

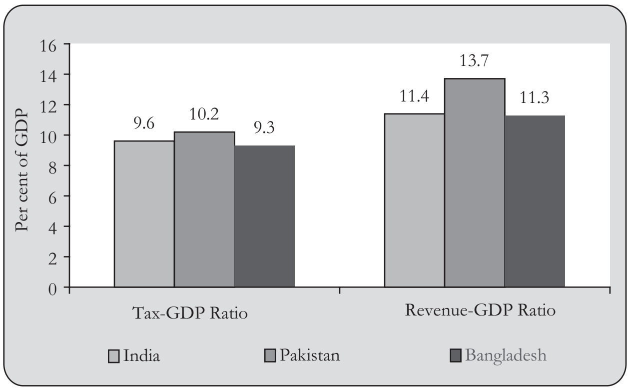
2.2 PUBLIC FINANCE FRAMEWORK

One of the primary concerns of the proposed budget for FY2008-09 is overcoming the crises stemming from global and domestic markets. The budget is exposed to a number of challenges. One major concern is the expenditure target. Expenditure budget for the fiscal year approaches the milestone of Tk. 100 thousand crore, which whilst not being significantly larger compared to the revised budget of the last year, is appreciably higher than the original budget of FY2007-08. However, the prevailing inflationary pressure perhaps justifies this increased expenditure since the growth will not be significant in real terms. Despite the large budget, marginalisation of development expenditure is evident with lowest ever targeted ADP (in terms of share of GDP). With the high deficit target of 5 per cent of GDP, mobilising resources to finance this earnings-expenditure gap might turn out to be a major challenge for the government during the fiscal year. Notwithstanding the fact that a record aid inflow will be required, pressure on domestic sources will also be significant, forcing higher borrowing from the banking system that might threaten credit flow to the private sector.

2.2.1 Revenue Earnings

A target of Tk. 69,382 crore in revenue collection has been set for FY2008-09, which is Tk. 8,843 crore or 14.6 per cent higher than the revised figure for FY2007-08. Revenue-GDP ratio and tax-GDP ratio are targeted at 11.3 per cent and 9.3 per cent respectively, remaining more or less stagnant compared to the revised targets of FY2007-08 (11.3 per cent and 9.0 per cent respectively). However, these targets are somewhat modest when compared to neighbouring economies (Figure 2.1).

Figure 2.1: Revenue-GDP and Tax-GDP Ratio of South Asian Countries



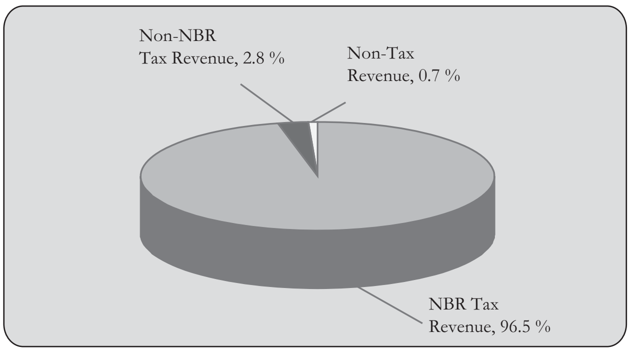
Source: CPD-IRBD database.
Note: * Budget figures for FY2008-09.

NBR Tax Component

Targets set for FY2008-09 requires National Board of Revenue (NBR) tax earnings to achieve 18.6 per cent growth over the revised budget of FY2007-08, compared to 27.1 per cent growth in the revised budget of FY2007-08 over the actual receipts of FY2006-07. This target leaves NBR to contribute 78.6 per cent of the total revenue earnings for the next fiscal year, which was 75.9 per cent in FY2007-08, according to the revised estimate.

Revenue growth in FY2008-09 will solely depend on the increased earnings by the NBR as the targets require the NBR to contribute 96.5 per cent of the total additional revenue (Tk. 8,843 crore) of FY2008-09 (Figure 2.2). According to the targets, supplementary duties (SD) will have to record the highest growth (19.5 per cent), followed by value added tax (VAT) (19.0 per cent) and income tax (18.6 per cent). Import duty is targeted to increase by 16.8 per cent. However, growth target for import duty may not be eventually met in view of the slow growth performance demonstrated during the recent years, owing to reduction or withdrawal of duties on import of food items and critical inputs for industrial sector.

Figure 2.2: Contribution to Revenue Growth by Components: FY2008-09



Source: Budget document.

Provision of legalising undisclosed money reintroduced in the budget for FY2008-09 may again contribute towards the targeted NBR growth. However, continuation of this facility in consecutive years may weaken its impact. At the same time, with the anti-corruption drive losing some of its momentum, achieving NBR target will be a challenge in FY2008-09.

Non-NBR Tax and Non-Tax Components

Growth target for Non-NBR tax component Narcotics and Liquor (NL), Vehicles, Land and Stamps) has been set at 12.1 per cent in FY2008-09, which was 10.1 per cent in the revised budget of FY2007-08 over the actual receipt of FY2006-07. The projected growth for FY2008-09 will marginally reduce the share of non-NBR tax in total revenue to 3.3 per cent, which was 3.4 per cent in the revised budget for FY2007-08.

Major surprise, however, comes from the target of non-tax revenue set for FY2008-09. While the posted growth in FY2007-08 (revised budget) was as high as 42.7 per cent over the actual receipt of FY2006-07 under this head, budget for FY2008-09 targets only 0.5 per cent growth (over the revised budget of FY2007-08). Conversion of Telegraph and Telephone (T&T) board into a company is said to be the cause behind the significantly lowered growth in non-tax revenue collection. But even if the revenue collected from T&T board is excluded from the total non-tax revenue collection of FY2007-08, the growth posted in that fiscal year would be 21.2 per cent over the actual receipt of FY2006-07 (including revenue from T&T). Therefore, the growth target in earnings from the non-tax component still appears to be rather conservative. Contribution of non-tax component in the total revenue earnings of FY2008-09 is also set to decrease to 18.2 per cent (20.7 per cent in the revised budget of FY2007-08).

2.2.2 Public Expenditure

The budget for FY2008-09 proposed an expenditure target of Tk. 99,962 crore, which is

Tk. 20,348 crore (25.6 per cent) higher than the original budget and Tk. 13,877 crore (16.1 per cent) higher than the revised budget of FY2007-08. This indicates faster expenditure growth target against the revenue growth of 14.6 per cent. Public expenditure as a percentage of GDP in FY2008-09 will be 16.3 per cent, which is marginally higher than that of FY2007-08 (16.1 per cent, revised). Share of ADP in the total expenditure, which was already getting marginalised in FY2007-08 compared to the previous years, got squeesed further in FY2008-09. Within the total expenditure, share of ADP and non-ADP expenditure accounts for 25.6 per cent and 74.4 per cent respectively, while their respective shares in FY2007-08 (revised) were 26.1 per cent and 73.9 per cent. In FY2006-07 (revised), these figures were 32.3 per cent and 67.8 per cent respectively.

Table 2.1: Sector-wise Distribution of Total Expenditure

Sector	FY08 (Revised)	FY09 (Budget)	Change	
			Crore Tk.	%
Public service	9052	14824	5772	63.8
Fuel and energy	3585	4340	755	21.1
Industrial and economic services	662	951	289	43.7
Social security and welfare	4627	8207	3580	77.4
Agriculture	8690	9126	436	5.0
Housing	804	935	131	16.3
Recreation, culture and religious affairs	838	879	41	4.9
Interest	11967	12565	598	5.0
Transport and communication	6042	6070	28	0.5
Education and technology	11654	12258	604	5.2
Health	5261	5862	601	11.4
Public order and safety	5147	5588	441	8.6
LGRD	6945	7285	340	4.9
Defence services	5951	6405	454	7.6
Total expenditure	81225	95295	14070	17.3

Source: Budget documents.
Note: Excluding loans and advances, domestic and foreign debt, food account operations and structural adjustment expenditure.

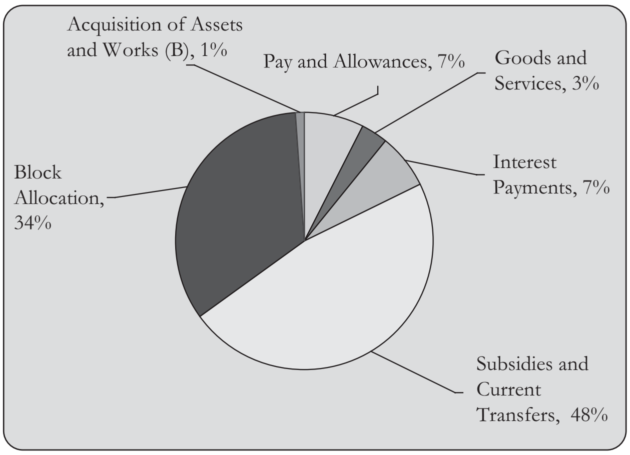
A sector-wise distribution analysis of total expenditure (development and non-development) reveals that highest growth will take place in social security and welfare sector (77.4 per cent), followed by public service sector (63.8 per cent) over the revised allocation of FY2007-08. Expenditure on industrial and economic services sector and fuel and energy sector are also targeted to post significant growth of 43.7 per cent and 21.1 per cent respectively (Table 2.1). Higher expenditure on social security and welfare sector stemming from increased expenditure on safety net programmes might help to ease the impact of inflation among the poorest population.

Revenue Expenditure

Revenue expenditure (augmented) target for FY2007-08 is Tk. 62,635 crore, which is Tk. 8,402 crore or 15.5 per cent higher than the revised figures for FY2007-08. Economic analysis of revenue expenditure reveals that expenditure on account of the three major heads, "salary and allowances," "interest payments" and "subsidies and transfers"[2] - which is set to account for 80.6 per cent of the total actual revenue expenditure, will grow by 4.7 per cent, 5.0 per cent and 21.0 per cent respectively in FY2008-09. Tk. 3,395 crore is kept as block allocation which was only Tk. 447 crore in the revised budget of FY2007-08. An increased block allocation raises some concerns since this type of allocation goes against transparency aspects of a budget.

It is to be noted that the total growth in revenue expenditure in FY2008-09, according to economic classification, over the revised budget of FY2007-08, is mostly due to the increased expenditure on subsidies and increased block allocation (Figure 2.3).

Figure 2.3: Contribution to Growth in Revenue Expenditure by Major Heads



Source: Budget document 2008-09.

[2]Subsidies and transfers in economic classification excludes those of BPC, PDB and Petrobangla.

These two subheads contribute about 84 per cent of the total additional revenue expenditure of FY2008-09 (subsidies and transfers: 48.9 per cent, block allocation: 35.1 per cent). Increased domestic debt servicing liabilities will contribute about 7.5 per cent to this growth.

Total subsidy demand (including Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (PDB) and Petrobangla) for FY2008-09 is estimated to be Tk. 13,641 crore which is 127.4 per cent higher compared to the original allocation for FY2007-08. However, due to growing

Table 2.2: Distribution and Growth of Subsidy Expenditure

	FY2007-08 (Budget)	FY2007-08 (Revised)	FY2008-09 (Budget)	Change (Budget 2009 over Revised Budget 2008)	
				Crore Tk.	%
Food	785.0	735.0	1318.0	583.0	79.3
Agriculture- fertiliser and electricity	1500.0	3642.0	3738.0	96.0	2.6
Agriculture- diesel	750.0	250.0	540.0	290.0	116.0
Export- cash incentive	1.1	1270.0	1050.0	-220.0	-17.3
Others	64.0	15.0	55.0	40.0	266.7
BPC	1200.0	5317.0	6106.0	789.0	14.8
PDB	600.0	600.0	400.0	-200.0	-33.3
Petrobangla	0.0	300.0	434.0	134.0	44.7
Total	5999.0	12129.0	13641.0	1512.0	12.5

Source: Budget documents 2008-09.

fuel, fertiliser and food subsidy demand, revised budget of FY2007-08 increased the allocation to Tk. 12,129 crore. Even then, subsidy allocation of FY2008-09 is Tk. 1,512 crore or 12.5 per cent higher (Table 2.2). Total subsidy payment in FY2008-09 will be 13.6 per cent of the total budget.

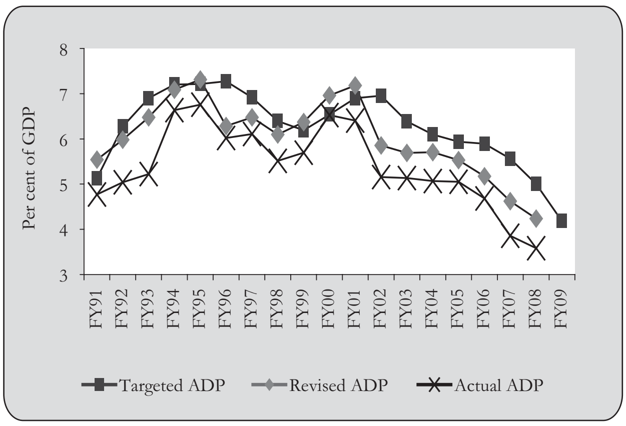
Development Expenditure: ADP

New ADP target for FY2008-09 is set at Tk. 25,600 crore. Although the size of this ADP is 13.8 per cent higher than the revised ADP of FY2007-08, it will be 3.4 per cent lower than the original ADP of FY2007-08. This will be a unique phenomenon as it will be the first time that an ADP has been planned to be smaller than the original ADP of the previous year. ADP growth in real terms (taking current 10 per cent average inflation into account) in FY2008-09 over the original ADP of FY2007-08 would be even lower by about 13 per cent, which approximates the revised ADP (RADP) of FY2007-08. In fact, ADP of FY2008-09 is targeted to be only 4.2 per cent of the GDP, which is the lowest since FY1990-91 (Figure 2.4). Such a low ADP raises serious concerns. Reduced development expenditure is expected to have negative implications for the economy from the perspective of employment generation, infrastructure development and private sector investment.

Another distinguishing feature of the new ADP is the high share of foreign resources in its financing. Foreign component is targeted to contribute about 47 per cent of the total ADP, which was 37 per cent in the RADP of FY2007-08 and 40 per cent in the original ADP of FY2007-08. This would require larger mobilisation of donor assistance in FY2008-09, and an inability to do so will put into doubt about implementation of the ADP.

In the new ADP, social welfare and industries sector received the highest increase over the RADP of FY2007-08 by 138.6 per cent and 103.4 per cent respectively. Rural development sector got highest allocation (Tk. 3,523.0 crore or 13.8 per cent of the total allocation) in the ADP of FY2008-09, followed by education and religion (Tk. 3,519.0 crore or 13.7 per cent), and power (Tk. 3,502.9 or 13.7 per cent). Agriculture and energy (oil, gas and natural resources) sectors have also been prioritised in the ADP of FY2008-09 with 38.4 per cent and 75.9 per cent increased allocations respectively over the RADP of FY2007-08

Figure 2.4: ADP as Per cent of GDP



Source: CPD-IRBD database.

As was the case for the original ADP of FY2007-08 (mentioned in CPD's analysis of the national budget of FY2007-08, made on June 2007), ADP of FY2008-09 also raises the question about an attempt to transfer the fiscal burden from the previous year to the budget for FY2008-09 (Table 2.3).

Table 2.3: Changes in ADP for Selected Sectors

Sector	Change (Crore Tk.)	
	ADP08 - RADP08	ADP09 - RADP08
Transport	752.6	899.3
Education and religious affairs	721.3	489.4
Power	644.1	513.9
Rural development and institutions	381.9	348.5
Health, nutrition, population and family welfare	286.7	142.6
Oil, gas and natural resources	270.5	348.0

Source: Budget document 2008-09.

Sectoral allocation structure shows that large downward revisions were experienced by some of the sectors from the original ADP to RADP in FY2007-08. These sectors again experienced large upward revision in the allocation made in the ADP of FY2008-09 over the revised ADP FY2007-08. This tendency towards transferring fiscal burden from one fiscal year to another may lead to increased cumulative expenditure for years to come.

One innovative information provided in the new ADP for FY2008-09 is the allocation made to different regions to reduce regional inequality. However, per capita ADP allocation for different regions does not tally with regional inequality indicators. Except for Barisal, regions with lower hardcore poverty rates paradoxically received larger per capita allocations (Table 2.4).

Table 2.4: Allocation to Reduce Regional Inequality in the ADP of FY2008-09

Region	Per Capita ADP Allocation (Taka)	Hardcore Poverty Rate
Rajshahi	621.5	34.5
Barisal	1354.2	35.6
Khulna	957.4	31.6
Dhaka	1000.2	19.9
Chittagong	1724.4	16.1
Sylhet	1287.2	20.8

Source: Budget document 2008-09.

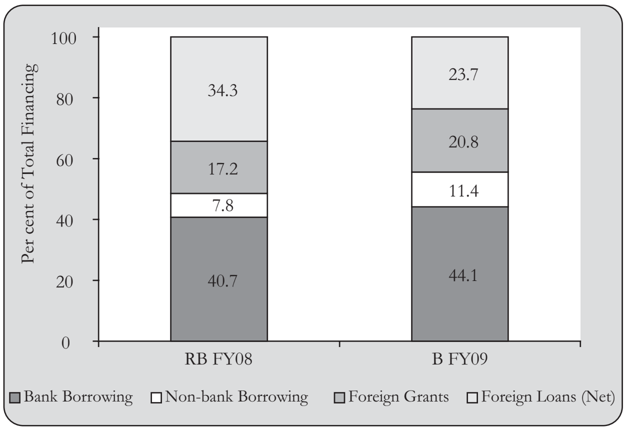
Given the increasing investment needs of the country, an improvement in implementation capacity was called for this year, rather than a reduction in the size of ADP. Thrust needs to be put on raising the efficiency of implementation of the ADP which would enable public service delivery institutions to handle larger ADP. The budget for FY2008-09 could have kept a special allocation in this regard. Quality implementation of some sectors with crucial importance for the economy, like the power and energy sectors, should get the highest priority throughout the fiscal year in the face of the existing crises.

2.2.3 Budget Deficit and Financing

A large deficit of Tk. 30,580 crore (excluding grants) has been projected for FY2008-09 which will be 5.0 per cent of the GDP (Table 2.5). Given the deficit of Tk. 25,546 crore in the revised budget of FY2007-08 (4.8 per cent of GDP, excluding grants and BPC liabilities), budget deficit in FY2008-09 is set to increase by 19.7 per cent.

Given the increased expenditure pressure by higher import payments and subsidy demands, this high deficit became a reality without an escape rout. The crucial part of it will be the mode of financing rather than its size. As the targets indicate, domestic sources will contribute to the tune of 55.6 per cent (Tk. 16,998 crore) of the total deficit financing. Tk. 13,498 crore (79.4 per cent) of domestic financing will be made from the banking system which was Tk. 10,398 crore or 83.9 per cent in the revised budget of FY2007-08, indicating 29.8 per cent higher bank borrowing in FY2008-09 (Figure 2.5). Tk. 3,500 crore (20.6 per cent) will be financed from the non-bank instruments.

Figure 2.5: Sources of Financing



Source: Budget documents.

A major concern would be the high projection of foreign financing made in the budget. Share of foreign financing (net, including grants) is set to be 44.4 per cent in FY2008-09, which will be of Tk. 13,582 crore in net terms and Tk. 17,803 crore in gross terms (without amortisation). This means roughly USD 2.6 billion gross aid inflow (USD 2.0 billion in net terms) will be required during FY2008-09. An analysis of aid inflow to Bangladesh since independence reveals that highest foreign assistance was received in FY1989-90, which was USD 1.81 billion in gross terms. Aid projections of FY2008-09 thus appear to be overoptimistic and may not eventually materialise. This may force the government to resort to increased domestic borrowing in the end, possibly requiring an even higher bank borrowing.

Table 2.5: Fiscal Framework in Budget FY2008-09

	Revised Budget FY2007-08	Budget FY2008-09	Growth	Per cent of GDP in Revised Budget FY2007-08	Per cent of GDP in Budget FY2008-09
Revenue collection	60539.00	69382.00	14.60	11.30	11.30
Total expenditure (excl BPC liabilities)	86085.00	99962.00	16.10	16.10	16.30
ADP	22500.00	25600.00	13.80	4.20	4.20
Non-ADP	63585.00	74362.00	16.90	11.90	12.10
Overall deficit (excl grants and BPC): Financing	-25546.00	-30580.00	19.70	-4.80	-5.00
Foreign grants	4388.00	6346.00	44.62	0.82	1.04
Foreign loan (net)	8756.00	7236.00	-17.40	1.60	1.20
Foreign loan	13024.00	11457.00	-12.00	2.40	1.90
Amortisation	4268.00	4221.00	-1.10	0.80	0.70
Domestic borrowing (excl BPC)	12400.00	16998.00	37.10	2.30	2.80
Bank borrowing (net)	10398.00	13498.00	29.80	1.90	2.20
Non-bank borrowing (net)	2002.00	3500.00	74.80	0.40	0.60
Total aid req (net)	13144.00	13582.00	3.30	2.50	2.20
Total aid req (net, bln USD)	1.90	2.00			
Total aid requirement (gross)	17412.00	17803.00	2.20	3.30	2.90
Total aid requirement (gross, bln USD)	2.50	2.60			

Source: Budget document 2008-09.

Experience of the neighbouring countries indicates that concerns about inflationary pressure arising from high bank borrowing by the government may not be fully justified. However, there is always a possibility of the private sector being threatened by a credit crunch owing to the potential "crowding out" effect from such borrowings. Continued monitoring of the situation will be required by the Bangladesh Bank, particularly in terms of the dynamics and volatility manifested in the call money market.

2.3 OVERVIEW OF FISCAL MEASURES

2.3.1 Tax and Duty Measures

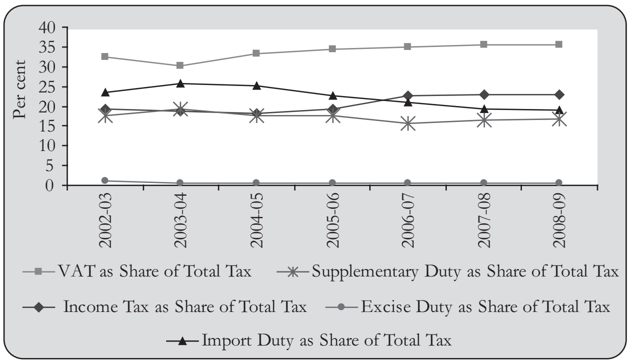
Direct Tax

Traditionally, Bangladesh has depended more on indirect tax than income tax for revenue generation. Though there have been efforts to increase the tax net through various initiatives such as modernising the existing revenue administration through computerisation and setting up of large taxpayer units (LTU) in all districts for facilitating the process of tax payment, share of income tax remains relatively low compared to, for example, VAT. As in the previous years, in FY2008-09 the share of income tax is estimated to be 23 per cent compared to the share of VAT at 35.7 per cent. Figures 2.6 and 2.7 provide trends of tax structure in Bangladesh during FY2002-03 and FY2008-09.

Budget Proposal: Personal Income Tax

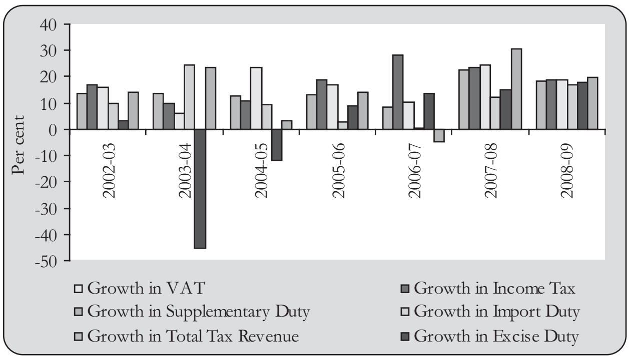
- The existing boundary for general tax free income, tax rates, income slabs for individuals will remain unaffected in FY2008-09. Given the high inflation rate at 10 per cent during FY2007-08, the proposed budget could have considered a mark up to allow for the impact of inflation on earnings of citizens.

Figure 2.6: Various Taxes as Per cent of Total Tax



Source: Compiled from FY2008-09 National Budget of Bangladesh (www.mof.gov.bd).

Figure 2.7: Growth of Taxes



Source: Compiled from FY2008-09 National Budget of Bangladesh (www.mof.gov.bd).

- However, budget proposals for FY2008-09 have extended benefits for certain personal income tax payers such as female and senior citizens which are positive moves. Both India and Pakistan have also increased limit of tax free income for female in their respective budgets for this fiscal year.

- For female and senior tax payers aged above 70, tax free income up to Tk. 165,000 has been proposed. In case of India, tax free income for female taxpayers is Tk. 288,000, and in case of Pakistan it is Tk. 244,800.

- Ceiling for taxable income from agriculture has been increased to Tk. 200,000. However, for female and people above 70 years this limit has been set at Tk. 215,000.

Table 2.6 presents the structure of personal income tax.

Table 2.6: Income Tax Slabs

Bangladesh		India	
Rate	Taka	Rate	Rupee
Nil	150,000	Nil	0 - 150,000
10 per cent	275,000	10%	150,001 - 300,000
15 per cent	325,000	20%	300,001 - 500,000
20 per cent	375,000	30%	500,001 +
25 per cent	Above		
Minimum taxable income	12,501		
Minimum tax	2,000		
Maximum exemption	150,000		
For female			
Tax free income	165,000		180,000
Tax free agricultural income	215,000		
For senior citizens (above 70 years old)			
Tax free income	165,000		225,000 (individuals above 65 years)
Tax free agricultural income	215,000		
For agriculture			
Tax free income	200,00		

Source: Budget speech of the Finance Advisor of Bangladesh FY2008-09; indiabudget.nic.in/ub2008-09/ubmain.htm.

Budget Proposal: Corporate Income Tax

- Existing tax rate for companies listed for public trading has been proposed to be reduced from 30 per cent to 27.5 per cent, and for companies not listed for public trading from 40 per cent to 37.5 per cent in order to influence more firms to enlist in the stock exchange and positively impact the equity market. This is a welcome move.

- The 45 per cent rate for banks, insurance, financial institutions and mobile phone operators will remain unchanged.

- Corporate tax payers will have to pay income tax on dividend income in accordance with the applicable scheduled rates for companies instead of the existing 15 per cent. Taxing of dividend income is being viewed as a means of double taxation, which may hinder the growth of the capital market.

- According to Section 16CC of the Income Tax Ordinance, all companies, irrespective of profit or loss, currently have to pay a minimum tax on the basis of their turnover which is clearly in breach of the fundamental principles of Income Tax. The Finance Advisor has proposed to rescind this Section, which is a step in the right direction.

The structure of company tax is presented in Table 2.7

Table 2.7: Company Tax Rate

(in Per cent)

Sectors	FY2007-08	FY2008-09
Listed for public trade	30.0	27.5
Not listed for public trade	40.0	37.5
Bank, insurance and other financial institutions	45.0	45.0
Dividend income of corporate tax payers	15.0	Applicable scheduled rates for companies
Mobile phone operator	45.0	45.0

Source: Budget speech of the Finance Advisor of Bangladesh, FY2008-09.

Budget Proposal: Special Tax Benefit

- The tax exemption period for income from farms engaged in fisheries, poultry, cattle breeding, dairy, mushroom cultivation, silk worm production, seed production, marketing of locally produced seeds sectors and income generated from cultivation of flowers and plants, etc. by another three years from 1 July 2008 to 30 June 2011.

- Two types of opportunities have been extended for the declaration of undisclosed income.

  - First, the fine for undisclosed income will be set at a fixed rate of 10 per cent for each year of evasion in FY2008-09. At present the rate of fine ranges from a minimum of zero to a maximum of five times the amount of evaded tax.

  - Second, undeclared legal income accrued in any year has been given an opportunity to legalise income by paying a penalty of 7 per cent on the tax payable along with the regular taxes at rates applicable for FY2008-09. This shall come into effect from 1 July 2008 to 31 October 2008. Last year, the rate of fine was 5 per cent and the timeframe was only for two months.

Two observations can be made as regards the above options on undisclosed income.

- The first option described in para 153(3) of the budget speech does not clearly say whether the undisclosed income would be legal or illegal as has been clearly mentioned in case of the second option in para 165(1) of the budget speech that the income has to be undeclared legal income. Though it has been mentioned by the Finance Advisor during a post-budget press conference that only undeclared legal money will get such opportunity this ambiguity has to be clarified in records.

- There are several economic and moral implications as regards the provisions for tax evaders. It is true that the revenue base will be expanded to some extent from collecting this undisclosed income, but in the long run, this policy may be seen as a way of discriminating the regular tax payers and favouring the tax dodgers. Instead of relaxing measures every year for certain section of people there should be attempts to create a genuine sense of civic responsibility among citizens. Also it has been experienced that in many instances, tax evaders do not come forward on their own to pay tax with a penalty, it is the tax administration which has to go around investigating tax evaders and collect tax. The "carrot and stick" approach may be adopted in this case. That this should be done by both moral persuasion and proactive tax collection drive. FY2007-08 was an exceptional year when the anti-corruption drive had a significant impact on tax collection. However, when such drive is expected to lose momentum in the coming months, there should be other in-built mechanism within the NBR to collect tax from tax evaders. The announcement of honouring three highest tax payers and two longest paying tax payers from each district every year is a welcome initiative.

- Any income generated from constructions of multi-storied buildings in areas outside the areas of the City Corporations, Cantonment Board, Municipalities of district headquarters and Municipal Areas under Dhaka district, is to be exempted from tax for the next 10 years. This provision has been made in order to retain cultivable land which is being rapidly lost due to construction of buildings for residential purposes. This may provide incentives for investment in development of planned housing in more remote areas in these regions.

- The income from exports of handicrafts, computer software development, data processing, data entry and call centre is to be kept tax free from 1 July 2008 to 30 June 2011 to maintain growth in these sectors.

- Customs duty (CD) and VAT of drugs for thalassemia disease have been withdrawn. Duties on other life saving drugs have also been made zero. This is a commendable measure.

- Proposal to continue with the provision of imposition of income tax at a discounted rate of 15 per cent on textiles and jute sectors from 1 July 2008 to 30 June 2011 is a positive move.

Indirect Tax

Budget Proposal: Reduction and Waiver of Duties

With a view to contain price increase of essential commodities, promote local industries and increase agricultural production there have been attempts to reduce taxes of various forms. Some of them are as follows. These are also presented in Table 2.8.

- Withdrawal of CD on the import of food grains and edible oil will help the government stabilise the existing market conditions.

- Fertiliser will continue to enjoy zero per cent CD along with capital machinery and spares imported for dairy and poultry industries considering the huge loss incurred by the poultry sector resulting from bird flu virus. Also, dairy and poultry industry will benefit from a waiver of all duties and taxes on importation of plastic trays used for transportation and maintenance of poultry chicks, and nursery trays used for seed growing.

- There will be a reduction in the CD on agricultural equipment such as irrigation pumps, tractors and diesel engines to 3 per cent to reduce production costs for this sector.

Table 2.8: Reduction and Waiver of Duties

Sector	Item	Measures	Implications
Agriculture and food	Food grain and edible oil	Continue zero CD on import of food grain and edible oils	Will ease price pressure on consumer
	Fertiliser and seed	Continue to enjoy zero CD along with capital machinery and spares imported for dairy and poultry industries	Will help recover loss due to bird flu virus
	Dairy and poultry industry	Waiver of all duties and taxes on importation of plastic trays	Will help reduce cost of production
	Agriculture equipment	Reduced to 3 per cent	Will reduce production cost
Automobile	Ordinary non-luxurious Microbus (1500-1800 CC)	SD 20 per cent	Will facilitate transportation of industrial raw material and passengers
Capital machinery	Capital machinery and spare parts	Reduced from 5 to 3 per cent	Will help boost investment and industries
Construction	Import of mild steel (MS) bar and rod	Withdrawal of 15 per cent VAT on importation	Will have positive impact on real estate
Media	Printing paper	Duty reduced from 15 to 12 per cent	Will lower prices of books and newspapers
Medicine	Drugs for Thalassemia	VAT and CD have withdrawn on medicine used for Thalassemia	Will save children's lives
	Life saving drugs	Zero duty	Will lower prices and help save lives
	Inhaler actuator	CD reduced from 25 to 7 per cent and SD abolished	Will help patients with respiratory problems

Source: Budget speech of the Finance Advisor of Bangladesh, FY2008-09.

- Finished products will continue to have a duty of 25 per cent while zero per cent duty on food stuff, medicines and raw cotton will be continued.

- The rate of tax for capital machinery and spare parts has decreased from 5 per cent to 3 per cent. Given the depressed investment scenario, import of capital machinery and spare parts may be made duty-free to strengthen the industrial base of the country.

- There will also be a 7 per cent duty on finished rods and billets instead of the previous 10 per cent, and the additional 1.5 per cent surcharge on the imports is to be lifted as well. Duties on steel industry chemicals have been cut down by one-third of the initial rates. This is expected to ease the price of real estate.

- While duties on luxurious vehicles have been increased (described below), SD on microbuses between 1500 to 1800 CC, used for transportation of industrial raw been reduced from 60 per cent to 20 per cent. This probably has been proposed with a view to reduce the transportation cost of both industrial goods and common passengers. However, without monitoring of the usage of such microbuses, differentiation cannot be made between private use and commercial use as mentioned above.

- Duty on computers and peripheral devices has been reduced from 5 per cent to 3 per cent. This reduction in duties will benefit the growing IT industry in Bangladesh and is a positive change.

- Existing CD of 25 per cent has been reduced to 7 per cent for importing inhaler actuator, used as medicaments, and SD has been abolished. This is a commendable measure towards health care.

Budget Proposal: Increase and Imposition of Duties

A number of items will face increased duties. These measures have been taken to promote local industries and discourage consumption of luxurious goods (Table 2.9).

Table 2.9: Increase and Imposition of Duties

Sector	Item	Measures	Implications
Agriculture	Sugar	SD imposed	Might distort market prices
Automobil	Luxurious vehicles	Adjustment of SD of 60, 100, 250 and 350 per cent	Increase prices of vehicles. Government's revenue collection may increase
Education	Pictorial and drawing books for children	25 per cent CD as well as imposition of VAT	Increase prices of drawing books. This is a measure to tax knowledge!
Health	Raw material for manufacturing tobacco	Imposition of 60 per cent SD	Serve public health interest
Industry	Capital machinery	Withdrawal of indemnity bond and imposition of 1 per cent CD	Raise producers' cost
Media	Satellite channels	SD increased from 15 to 25 per cent	Increased cost will have to be borne by customers

Source: Budget Speech of the Finance Adviser of Bangladesh, FY2008-09.

- Specific duty has been raised on sugar to protect domestic suger cane growers. It might distort the market prices.

- The indemnity bond system is to be abolished and replaced with a concessionary rate of 1 per cent CD. This will raise producer's cost. However, this has come in the wake of complaints by entrepreneurs who have faced harassment in taking advantage of the previous system.

- Pictorial and drawing books used for educational purposes are to be charged 25 per cent CD compared to the 10 per cent last year. The government has taken this initiative as it feels these books are not in tune with the country's cultures and values. However, this move might only encourage piracy and a reduction in the government revenue in the long run. This measure is rather knowledge unfriendly.

- An attempt has been made to discourage luxurious vehicles by readjusting SD of 60, 100, 250 and 350 per cent on vehicles having higher displacement capacity. This could be a way of government's revenue generation. The eligibility criterion of reconditioned vehicles has been fixed: a time gap of 365 days between registration and deregistration. Vehicles also have to run 1,000 kilometres before shipment. This is a good initiative in favour of customers who used to be cheated very often at the time of buying vehicles. Proposal to reduce the SD on importation of ordinary non-luxurious Taxicabs will be allowed to be converted into normal vehicles and get registered by paying 20 per cent duties after 8 years. Given the poor maintenance of taxicabs in Bangladesh, before allowing these to run further, their fitness should be examined properly. Otherwise, they may contribute to environment pollution.

- The media is also about to face certain challenges. SD for satellite channel distributors has been increased from 15 per cent to 35 per cent. This has been proposed in an effort to discourage foreign commercials broadcast via satellite which supposedly encourage domestic consumers to demand more imports of foreign goods. It has been stated that this is an indirect effect. This increase if duties will ultimately be borne by the customers. In a globalised world, attempt to discourage people from consuming global products through increasing the rate of pay channels is somewhat unreasonable.

- An SD of 60 per cent on the raw materials for manufacturing of cigarettes and 20 per cent on the papers used in producing packaging materials of cigarettes has been imposed. This should have positive impact on human health.

Budget Proposal: Value Added Tax

- Enhancement of threshold level for VAT from existing Tk. 2,000,000 to Tk. 2,400,000. This will be helpful for the small businesses. This may also encourage payment of VAT.

- The limit of house rent for which tax will be deducted at source will be increased from Tk. 15,000 to Tk. 20,000 per month. While this may give some relief to the house owners, it may not mean much to those who live in rented houses as rents has tended to be increased on the excuse of inflation and irrespective of such tax incentives by the government.

- The budget proposes to continue withdrawal of VAT and CD on imports of drugs used for treatment of the deadly thalassemia disease. This is a positive step to save lives of children.

- Cottage industry will benefit from simplification of VAT and reduction of VAT on some of the cottage-made products like biscuits, fabrics, etc. This will help small and medium enterprises (SMEs).

Notable Proposals

Budget Proposal: VAT Collection

- In order to ensure proper business records keeping, use of Electronic Cash Registers (ECR) was made mandatory from 1 July 2008 for all medium and large enterprises located within a City Corporation area and in the district towns. The system will be introduced in the divisional towns and from 1 July 2009 and in the district towns from 1 January 2009 to allow businesses time to adjust to the changes.

- No duties or taxes shall be imposed on imports of ECRs. Existing 15 per cent VAT, 3 percent advanced income tax (AIT) and 1.5 per cent advanced trade VAT (ATV) on import of ECRs will be abolished for ordinary traders.

Budget Proposal: Non-resident Bangladeshi

- The budget has proposed duty-free clearance of ordinary electronic appliances brought by Non-resident Bangladeshi (NRB) by amending the existing baggage rules. This has been proposed in view of the hassles faced by NRB foreign exchange earners at the airport.

- This proposal is a positive one. However, the budget has not proposed any measure for the NRBs towards utilisation of their remittances in a more productive way. Given the fact that they are the single most important contributor to the foreign exchange earnings of the country, there should be special packages for them for investment of remittances in productive sectors. Also, in order to increase the remittance there should be special allocation for training centres which would facilitate upgradation of migrant skills.

Change in Tariff Structure: Impact on Revenue Earnings

With a view to simplify the tariff structure and provide support to the importers of raw materials and intermediate inputs, the government has restructured the overall tariff structure by replacing the existing three tier slabs to a four tier one. The existing 5 per cent, 10 per cent and 15 per cent CD have been replaced by 3 per cent, 7 per cent and 12 per cent respectively, and the existing 25 per cent remains unchanged. Apart from these specific changes in tariff structure, the government has made alterations in the supplementary duty, VAT and Harmonised System (HS) Code structure.

Table 2.10: Simulation with Proposed Changes in Tariff Structure

	CD	SD	VAT	AIT	ATV	Total Tax Incidence (TTI)	Change in TTI and Impact on Revenue Earnings (%)
CD decreased from 10 to 7 per cent							
Old	10	0	15	3	1.5	31.3150	-3.4995
New	7	0	15	3	1.5	27.8155	
CD decreased from 15 to 12 per cent							
Old	15	0	15	3	1.5	37.1475	-3.4995
New	12	0	15	3	1.5	33.6480	
CD decreased from 25 to 12 per cent (special item)							
Old	25	0	15	3	1.5	48.8125	-15.1645
New	12	0	15	3	1.5	33.6480	
CD increased from 15 to 25 per cent (electrical apparatus, domestic industry protection)							
Old	15	0	15	3	1.5	37.1475	11.6650
New	25	0	15	3	1.5	48.8125	
SD increased from 20 to 60 per cent (unmanufactured tobacco)							
Old	25	20	15	3	1.5	77.9750	58.3250
New	25	60	15	3	1.5	136.3000	

Source: CPD estimation based on the government SROs and Tariff Structure.

The proposed budget has increased CD on 39 HS items mainly to protect the interest of the domestic industries. The supplementary duty on 50 HS items has also been increased. The budget Statutory Regulatory Order (SRO) has proposed splitting of 7 HS item into 14 HS item and has also proposed the deletion, merger and addition of 19, 14 and 11 items respectively.[3] With this change in the tariff structure, the government revenue earnings from import duty is expected to increase by 16.8 per cent (even though the overall tariff structure has been liberalised, the government expects increase in revenue earnings from import duty). This will be a challenge.

The government has set Tk. 225.36 billion, 41.0 per cent of the total revenue target, as the collection target for customs department for FY2008-09. This must have taken congnisance of the specific changes (increase) in some commodities in terms of CD and SD, perhaps with a view to providing protection of domestic industries. However, an NBR study estimates net revenue loss of Tk. 9.55 billion in FY2008-09 due to the considerable readjustment of the duty structure in the proposed budget. The NBR will incur loss amounting to Tk. 10.25 billion due to restructuring of the duty slab, while Tk. 600 million for duty reduction on scrap iron. With the proposed imposition of 1.0 per cent duty on import of capital machinery under indemnity bond in the backdrop of widespread allegation of abuse of the bond facility, the NBR will perhaps be able to collect additional revenue worth about Tk. 700 million. The government has proposed an increase of "specific duty" for importing refined sugar by Tk. 1,000 to Tk. 6,000 per ton. This readjustment of SD on sugar will enable NBR an additional revenue earnings worth Tk. 600 million. Table 2.10 presents the change in revenue earnings as a result of duty changes.

While in the last budget, the government's proposal to change the tariff structure lead to an anti-domestic industry bias situation, this time the government was careful enough not to repeat the same mistake. CPD estimation shows that, when CD changed to 7 per cent from 10 per cent, the total tariff incidence decreases by 3.5 per cent. This has been done to safeguard the interest of the producers of finished goods who use raw materials as input for their final products. When CD decreases to 12 per cent from 15 per cent, mostly for intermediate goods that are used as industrial inputs, the total tariff incidence is decreased by 3.5 per cent.

In the interest of public health, the government raised SD of raw tobacco by 60 per cent, leading to a 58.3 per cent increase in revenue earnings in that particular item, while it has reduced the SD of non-alcoholic beer by 40 per cent (earlier it was 100 per cent). This should be viewed as a health friendly initiative.

[3] This new proposed structure will affect about 3510 HS items (defined at HS 8 digit level).

2.4 PRICE STABILISATION MEASURES

Price hike of essential commodities has been one of the major challenges facing the incumbent CTG of Bangladesh. In the proposed budget for the FY2008-09, the Finance Advisor has identified "maintaining price level of essentials within tolerable limit" as one of the eight priorities. A number of measures, both market-based and non-market-based, has been proposed to keep prices of essential commodities at a tolerable limit. These measures ranged from fiscal measures (e.g. continuation of zero or reduced import tariff on certain commodities) to direct market interventions (e.g. continuing open market sales (OMS) outlets of daily essentials). To mitigate the negative impact of high price on the food security of the poor segment of the society, the budget has proposed to broaden allocation and coverage of the safety net programmes. In addition, the budget has proposed employment generation programmes for the poor and the marginalised. A new programme titled "100-Days Employment Guarantee Scheme" is proposed with an allocation of Tk. 2,000 crore to generate employment for 20 crore man-days for the ultra-poor and the rural middle and lower middle class communities. Alongside, a further allocation in terms of food worth Tk. 1,578 crore is proposed under the Food for Work (FFW) Programme, which is expected to generate another 14.4 crore man-days of employment. The budget has also proposed measures to stimulate agricultural production. These are related to subsidy for agriculture and reduction in duties on import of agricultural inputs and machineries (see Section 2.6 for details).

To arrest the rising prices, following direct measures are proposed in the Budget.

Continued Withdrawal of Tariff on Necessary Food Items: Considering the high global price of rice and wheat, the budget has proposed to continue with the zero duty on import of rice and wheat (which was initiated on 8 March 2007).

Measures through Monetary Policy: In order to curb inflation, the Bangladesh Bank has stated that it will adopt a contractionary monetary policy. The government has set a target rate of 9 per cent in place of the prevailing 10 per cent inflation rate.

Box 2.1: Reasons for Price Hike

A CPD study has attempted to investigate the reasons behind the creeping inflation that has reached a 10 per cent level now in terms of current figures. 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, a large number of 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, productions of bio fuels and global price hike of petroleum products and supply snags.

Direct Market Interventions: To raise efficacy of marketing system by reducing the number of market intermediaries and to continue temporary measures like OMS by Bangladesh Rifles (BDR), Trading Corporation of Bangladesh (TCB), Food Directorate and establishment of open market (Unmukta bazaar). The budget proposed a comprehensive plan to distribute food to the tune of 30 lakh metric tonnes through OMS at a concessional price.

Institutional Measures: The government has taken initiatives to introduce Consumers' Rights Protection Ordinance. The initiation of this act will somehow ease the price hike of the essential commodities.

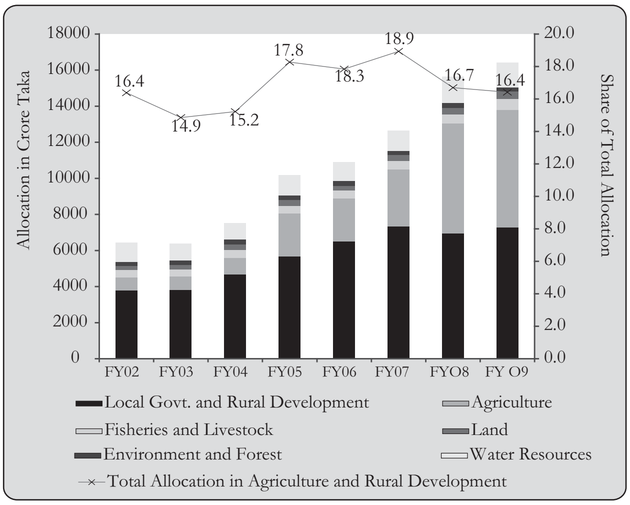
The Finance Advisor has mentioned about keeping prices of essential items like rice, wheat, edible oil, lentils, onion and garlic at normal level (also during the Ramadan). However, he did not mention about any specific measures to achieve this. The government's initiatives in the area of legislative, regulatory, institutional and macroeconomic policies to improve government's capacity to manage the market for essential commodities are welcome steps in this context.

2.5 SECTORAL AND REGIONAL MEASURES

2.5.1 Agriculture

Increasing agricultural production is mentioned as one of the eight identified priorities. Accordingly, agriculture and rural development is given the highest priority in FY2008-09 budget (Figure 2.8). Total allocation for agriculture and rural development in FY2008-09 is Tk. 16,411 crore (16.4 per cent of the budget) against Tk. 15,632 crore in FY2007-08 (16.7 per cent of total budget for FY2007-08). Allocation for agriculture and rural development in the proposed budget for FY2008-09 is 5 per cent higher than that of FY2007-08. Allocation for the agriculture and allied sectors (crop, livestock, fisheries, forestry, land, and water resources) is Tk. 9,126 crore (9.12 per cent of total budget). Total ADP allocation for agriculture in FY2008-09 is Tk. 1,862.63 crore (7.28 per cent of total ADP in FY2008-09; 75 per cent higher than FY2007-08 RADP) which is allocated for 149 agricultural projects.

Figure 2.8: Total Revenue and Development Allocation in Agriculture and Rural Development



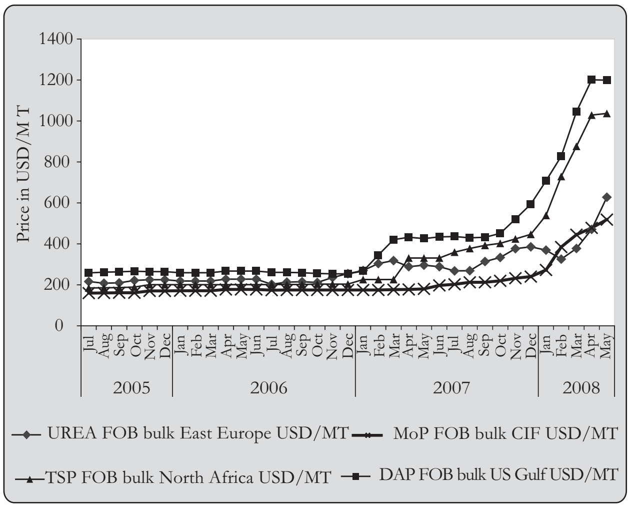
Source: Budget documents.

Subsidy for Agriculture: To boost agricultural production in FY2008-09, Tk. 540 crore is allocated for diesel subsidy against actual disbursement of Tk. 250 crore in FY2007-08. This is a good and feasible initiative and has been continued over the second year. In case of subsidy for fertiliser, it is not clear how much resources have been allocated. The Budget has mentioned a total allocation of Tk. 13,648 crore as subsidy for fuel, food and fertiliser. It does not specify how much is allocated for fertiliser and electricity for irrigation. Considering the high price of fertiliser in the international market and low administered price of fertiliser in the domestic market, it seems that the resources would not be sufficient to cater the actual needs. Available information suggests that total subsidy for fertiliser and other activities under the Ministry of Agriculture (MoA) in FY2007-08 would amount to about Tk. 3,740 crore (Tk. 3,408.5 crore for fertiliser, Tk. 75.0 crore for electricity for irrigation and Tk. 250 crore for diesel for irrigation and Tk. 6.5 crore for sugarcane). On the other hand, subsidy on account of BPC and PDB in FY2007-08 would amount to about Tk. 5,760 crore by June 2008.

Increase in Fertiliser Price: The Finance Advisor in his budget speech did not mention anything about increase of fertiliser price. After the declaration of budget for FY2008-09 on 9 June 2008, the government has increased administered price of Urea fertiliser which came into effect on 11 June 2008. The mill-gate price of urea has been refixed at Tk. 10,000 per ton or Tk. 10 per kg, while the new rate will be at Tk. 10,700 per ton or Tk. 10.70 per kg at the level of buffer stocks. The new farm-gate price of urea fertiliser is fixed at Tk. 12 per kg in remote areas and Tk. 11.50 in areas with well developed transport facilities, which was Tk 6.00 per kg. Prior to the increase, the official prices of urea were Tk. 4,800 per ton or Tk. 4.80 per kg and Tk. 5,300 per ton or Tk. 5.30 per kg at the mill-gate and the buffer stock levels respectively. As is known, the government will continue to provide subsidy at the rate of 15 per cent on the sale of other imported non-urea fertilisers - triple super phosphate (TSP), diammonium phosphate (DAP), muriate of potash (MoP) - at farmers levels. It is pertinent to mention here that the price of urea fertiliser was fixed for the last time on June 3 in 1997. In 1997 the per ton price at the factory point was Tk. 4,800 while the production cost was Tk. 4,652. The price at the buffer end was Tk. 5,300 and the import cost was Tk. 8,086.

Price of fertiliser at the international market has increased manifold over the recent past (Figure 2.9). In May 2008, price of per metric ton (MT) of Urea at international market was USD 627.50 (Tk. 43.05 per kg). According to the government estimate, import cost of urea has reached to Tk. 58.0 per kg.

Figure 2.9: International Price of Fertiliser (Urea, DAP, TSP & MoP): July 2005 to May 2008

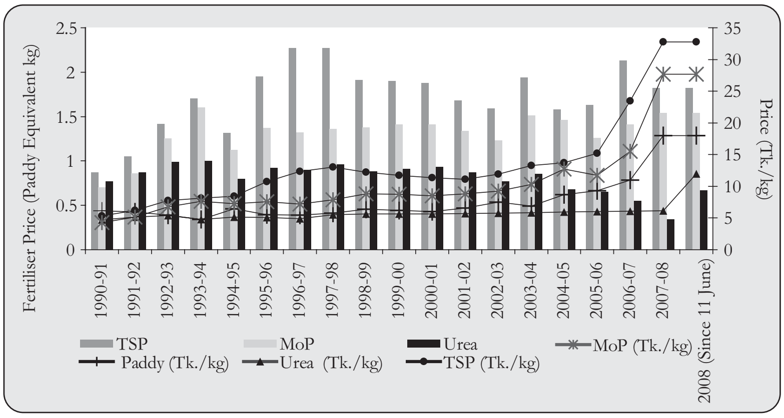


Source: World Bank Commodity Outlook, various issues.

not be ensured. According to the estimates of the government, total demand for urea fertiliser in 2008-09 is 28.50 lakh metric tonnes while demand for TSP is 5.0 lakh tonnes, MoP 4.0 lakh tonnes and DAP 2.0 lakh tonnes. In our view, this is grossly under estimated. Because of high price of agricultural commodities and export restrictions imposed by major exporters of agricultural commodities, particularly foodgrains, Bangladesh must aim for "high yield goal" for agricultural production. The CPD, using recommended fertiliser doses to achieve "high yield goal" by the Bangladesh Agricultural Research Council (BARC) published "Fertilizer Recommendation Guide 2005," has estimated demand to the tune of 35.2 lakh metric tonnes of Urea, 5.9 lakh metric tonnes of TSP, 5.0 lakh metric tonnes of MoP and 3.2 lakh metric tonnes of DAP in FY2008-09. It is felt that the

An analysis of prices of fertiliser and paddy revealed that to buy one kg of urea fertiliser in FY1997-98, farmers were required to sell 0.96 kg of paddy, but they would require to sell 0.67 kg paddy with the new price of urea (Table 2.11 and Figure 2.10). Considering the high and rising price of fertilisers in the international market it was essential to increase the administered price of fertiliser. However, it seems that even after the increase in fertiliser price, supply of adequate quantity of fertilisers may

Figure 2.10: Trends in Paddy and Fertiliser Price: FY1990-91-FY2007-08



Source: Authors' calculation based on data obtained from Ministry of Agriculture.

Table 2.11: Comparison of Fertiliser Price with that of Paddy: FY1996-97-FY2007-08

Year	Price of Boro Paddy	Price of Fertiliser (Tk./kg)			Per kg Fertliser Price Equivalent to Boro Paddy		
	(Tk./kg)	Urea	TSP	MoP	Urea	TSP	MoP
1990-91	6.16	4.72	5.36	4.28	0.77	0.87	0.70
1991-92	5.94	5.17	6.23	5.13	0.87	1.05	0.86
1992-93	5.44	5.40	7.73	6.79	0.99	1.42	1.25
1993-94	4.76	4.75	8.11	7.63	1.00	1.70	1.60
1994-95	6.45	5.18	8.42	7.24	0.80	1.31	1.12
1995-96	5.50	5.06	10.74	7.55	0.92	1.95	1.37
1996-97	5.44	4.91	12.37	7.21	0.90	2.27	1.32
1997-98	5.76	5.52	13.05	7.86	0.96	2.27	1.36
1998-99	6.38	5.62	12.20	8.83	0.88	1.91	1.38
1999-00	6.18	5.63	11.72	8.72	0.91	1.90	1.41
2000-01	6.03	5.63	11.35	8.51	0.93	1.88	1.41
2001-02	6.60	5.73	11.08	8.82	0.87	1.68	1.34
2002-03	7.50	5.77	11.93	9.23	0.77	1.59	1.23
2003-04	6.86	5.84	13.30	10.33	0.85	1.94	1.51
2004-05	8.68	5.93	13.73	12.70	0.68	1.58	1.46
2005-06	9.30	6.00	15.20	11.70	0.65	1.63	1.26
2006-07	11.00	6.10	23.43	15.50	0.55	2.13	1.41
2007-08	18.00	6.15	32.75	27.65	0.34	1.82	1.54
2008 (11 June onwards)	18.00	12.00	32.75	27.65	0.67	1.82	1.54

Source: Authors' calculation based on data obtained from Ministry of Agriculture.

fertiliser demand in FY2008-09 should be revised by taking cognisance of the increased demand so that adequate amount of fertiliser may be made available to the farmers.

Special Allocation: Special allocation of Tk. 272.35 crore is proposed in the budget FY2008-09 for agricultural development assistance and rehabilitation. This is a welcome initiation. However, allocation alone would not provide the desired result. A mechanism for spending and implementation would be required. It may be recalled that Tk. 350 crore was allocated for agriculture research in FY2007-08 which remained unused.

Agricultural Credit: Increased target for disbursement of agricultural credit is fixed at Tk. 9,000 crore in FY2008-09 against targeted Tk. 6,351 crore in FY2007-08 and actual disbursement up to April 2008 was Tk. 6,731.35 crore. Some private sector banks are also coming up with initiatives to disburse agricultural credit through a number of NGOs. Experience is showing that agriculture credit disbursement could be a profitable business. If new technologies are encouraged through these credit facilities, this would help adoption of modern technology in agriculture.

Tax Incidence on Agriculture: The budget has waived all duties and taxes on fish feed; duty-free import of equipments, medicines and vaccines have been extended for livestock feed. Minimum taxable income limit for agriculture has also been increased from 1.9 to 2.0 lakh. This limit was further revised for women and senior citizens from 2.00 to 2.15 lakh which is appreciable. These are positive measures.

Tax exemption period has been extended for the farms engaged in fisheries, poultry, cattle breeding, dairy, mushroom cultivation, silk worm production, seed production, marketing of locally produced seeds sector and income generated from cultivation of flowers and plants, etc. for another three years (up to 30 June 2011) which will also have a positive impact on flourishing SMEs. Tax exemption from incomes from multistoried building in rural areas to reduce conversion of agricultural land for other uses is a timely initiative. Continuance of the zero per cent CD for fertiliser, seed and machinery and spares imported for dairy and poultry industries and all duties and taxes on plastic trays used for transportation and maintenance of poultry chicks and nursery trays used for seed growing are proposed to waive. This will be helpful for the affected poultry farmers. Tax on irrigation pumps, diesel engine and tractors is proposed to reduce to 3 per cent from various existing rates (up to 10 per cent). The CPD, in an earlier report, had recommended duty-free import provision for agricultural machineries in the budget.

Concerns: The government has taken a number of initiatives to compensate for the loss caused by bird flu, but extended direct measures are necessary. These would include mandatory vaccination for the day-old chicks and ensure supply of quality chicks to the farmers. Agricultural producers are facing increasing number of natural calamities compared to earlier years. We suggest that the government provide insurance or develop other mechanisms to enable farmers to safeguard against unforeseen losses originating from natural disasters. Without such mechanisms, agricultural production growth prospects will be constrained.

2.5.2 Environment

Environment has traditionally been a neglected area in Bangladesh, particularly in terms of fiscal allocations. However, due to increased international demand for environmental compliance requirements and radical change in the global climate and its subsequent impact on Bangladesh, there has been some improvement in terms of awareness at various levels. The government had withdrawn import duty from effluent treatment plant (ETP) in the budget of FY2007-08 to encourage industries to use ETP. Bangladesh is at risk of being the worst hit victim of climate change in terms of sea level rise, extreme weather and frequent natural disasters. In appreciation of the emerging risks, the government has made an allocation for adaptation of climate change in the budget of FY2008-09.

- The government has created a fund titled "Fund for Climate Change" (FCC) and allocated Tk. 300 crore for this purpose. This will increase climate change adoption and hopefully minimise the damage caused by future natural disasters.

- Given the extent of damage arising from climate change, this fund may not be adequate. However, the initiative is a recognition of the problem and needs to be appreciated. The government can also seek funds from various global initiatives, such as Global Environment Fund (GEF) to adapt and mitigate the damage due to climate change.

- ETP should be made mandatory for the polluting industries. This would not only help keep the environment clean but will also help get broader market access. A fund could be allocated for the SMEs to buy ETP.

- There is no mention of duty-free import of ETP in this year's budget. This should be continued.

2.5.3 Industrial Sector

The performance of the manufacturing sector in FY2007-08 has not been satisfactory; its growth is expected to be rather low (7.4 per cent) which is lower than compared to the past several years (9.7 per cent in FY2006-07, 10.8 per cent in FY2005-06 and 8.2 per cent in FY2004-05). Large, medium and small scale manufacturing industries have started with a very sluggish growth in the first and second quarters of FY2007-08 and gained some momentum only in the latter half of FY2007-08. Slower growth of the manufacturing sector was to a large extent caused by uncertainties originating from institutional reform measures, inadequate infrastructure facilities particularly lack of adequate electricity supply, high inflation and high interest rate for borrowings from the banks. In this backdrop, it was expected that the budget for FY2008-09 would take various fiscal measures and allocate adequate resources to encourage private sectors to invest in existing and new ventures. It is to be noted that an accelerated GDP growth rate through high domestic investment as projected in the PRS-II during 2009-2011 will not be achieved unless adequate investment in the public sector is ensured during this period.

A proper examination of the impact and implication of various budgetary measures would critically hinge on the availability of up to date information on the changing structure of the manufacturing sector including composition of industries, size of the market at domestic and international level, cost and return, raw materials and intermediate products used in different industries and their sources, etc. The existing database, which is the most relevant, is the Census on Manufacturing Industries (CMI) 2001-02, Census on Handloom Industries 2003, Bangladesh Small and Cottage Industries Corporation (BSCIC) 2001, etc. However, these are quite dated. In the absence of a CMI based on recent trends and composition of the industrial sector, analysis of various measures proposed in the budget can at best be only indicative. In this context, it is critically important that adequate funds are allocated for generating up to date data on the industrial sector, including the CMI.

Fiscal Measures

Production and investment by the private sector is directly influenced by various fiscal measures proposed in the budget. In the budget FY2008-09, a number of fiscal measures proposed by the Finance Advisor are likely to encourage private sector to invest in various domestic market and export oriented industries. Important proposals in the budget include: introduction of four-tier tariff structure instead of the existing three, extension of tax holiday facility, reduced income tax facility for SMEs, extension of bonded warehouse facility, reduction of duty on raw materials and intermediate products without reducing the duty on final products, imposition of SD on importing final products, etc. Government has proposed reduction of CD on 15 products and raising it for 19 products; reduction of SD on 20 products; imposition of specific duty on three items and special duty on 11 products. According to an NBR estimate, proposed changes in the duty structure may cause a revenue loss of Tk. 9.55 billion in this fiscal, which will need to be compensated through growth of the manufacturing sector in the medium and long term and generating additional taxes from this growth.

Tariff Structure

A four-tier tariff structure has been proposed in the national budget (25 per cent, 12 per cent, 7 per cent and 3 per cent) which will replace the current three-tier tariff structure (25 per cent, 15 per cent and 10 per cent). The proposed structure will reduce duty on raw materials, intermediate products and specific products, which is likely to have favourable impact on reduction of cost of production. Maintaining a significant difference in the duties between final and intermediate products and raw materials, though running against the gradual liberarisation initiative of the recent past, is likely to have positive impact on domestic import substituting industries.

Tax Holiday

Government has extended tax holiday facility, in a staggered manner, for new industries to be set up between July 2008 and June 2011. The list of beneficiary industries was further extended by including eight new industries, including agro-processing, diamond cutting, steel production using billets, jute, textile related industries, underground and mono rail, telecommunication infrastructure other than mobile phone. However, ship-building industry, IT enabled services (ITES) should have been included in this list. The facility of accelerated depreciation will continue till 30 June 2010. Both initiatives will ensure support for new investors which are being enjoyed by existing industries. Business associations in their post-budget reaction have demanded a 100 per cent tax holiday facility for five years. Impact of the facility for various industries will need to be revisited after June 2011, especially in the context of distortion in the tax structure, level of risk and return for new industries, industry's potentiality in domestic and international market, etc. It is pertinent to note that Sri Lanka has restricted tax holiday facility to a limited number of sectors in order to reduce the distortion in the tax structure and to generate additional resources.

Reduced Rate of Income Tax

Government has set a reduced income tax at a rate of 15 per cent in order to provide support to backward linkage industries of apparels sector such as yarn, yarn dyeing and finishing, apparel making, fabric dyeing and finishing, printing, etc. for the period of July 2008 to June 20011. In view low level of income due to rising cost of production, this initiative would help creation of more investible surplus in the backward linkage textile industries.

Indemnity Bond System

Indemnity bond system in case of import of capital machineries for export oriented industries has been repealed and replaced by a concessionary CD (1 per cent). Manufacturers of apparel sector often found the system cumbersome because of lack of direction in the existing SRO as regards new machineries. Bangladesh Garment Manufacturers and Exporters Association (BGMEA) has proposed for providing discretionary authority to NBR to identify non-listed products imported under this facility. On the other hand, there are allegations of misuse of the indemnity bond facility. Taking all these into cognisance, it appears that proposed system will lessen the hassle in importing capital machineries in the one hand, and will generate revenue for the government, on the other. According to an NBR estimate reported in a daily newspaper, this initiative could ensure additional revenue of about Tk. 700 million in this fiscal year.

PSI System

Government has decided to extend the Pre-shipment Inspection (PSI) system for a limited period with appointment of fresh companies. Though allegations against existing PSIs have necessitated change in the system, because of the limited human resources in the customs department, government has decided to continue with the system for some more time. However, without improving the level of skill and operational efficiency of customs officials, and appropriate computerisation of the system, only increasing the number of personnel will not be enough to generate the required revenue. Government's decision as regards withdrawn PSI for products imported under bonded warehouse facility, equipments for power plants, oil and gas exploration activities, etc. is likely to reduce transaction cost. However, it needs to be recalled that the PSI system itself was introduced in view of the hassle and the abuse faced by importers at the customs point.

ADP Allocation

Public investment, in the form of ADP allocation targeted to development of industrial sector, needs to be examined in the context of focus and target of allocation, extent and nature of allocation in the ADP and disbursement in the revised ADP, actual level of implementation, etc. In the budget FY2008-09, government has allocated a total of Tk. 536 crore for 31 projects for the industrial sector. Compared to the allocation in the original and revised ADP in FY2007-08, this amount is about 56.8 per cent and 103.3 per cent higher. Ten projects, which will be completed by this year, are related to fertiliser production, trade related support programme, and development of Saidpur export processing zone (EPZ), etc. Besides, four new projects have been included, of which three are related to fertiliser production. In view of the increasing demand for fertiliser, completion of these projects will help ease the domestic supply situation. An "Active Pharmaceutical Ingredient (API) Industrial Park," a long demand of the pharmaceutical companies, is being proposed for ADP allocation. However, timely completion of this project is necessary in order to reap the benefit of existing comparative advantage in the global pharmaceutical industry.

An allocation of Tk. 96 crore has been proposed for projects which are not yet approved. This includes projects like development of textile institute, vocational textile institute, textile processing plants, etc. In view of the demand for skilled workers in the textile and apparels sector, these projects should be approved for funding and should be implemented on an urgent basis. In this context, it is important to mention here that a number of projects initiated in previous year's budget targeted to development of textile and supporting readymade garments (RMG) in the post Multi-fibre Arrangement (MFA) were not implemented during July-December 2007 (17.1 per cent and 24.7 per cent of FY2007-08 RADP). The same situation prevailed in case of establishing textile vocational institutes and textile engineering college. Poor implementation of such projects will weaken the initiative of enhancing productivity of capital and labour through upgradation of technology and skill, thereby reducing the competitiveness of manufacturing sector in the international market.

Support for a number of critically important and potential sectors have not been provided under the proposed budget FY2008-09. It can be recalled here that in the budget FY2007-08, government has allocated funds for various projects such as endowment allocation for SME Foundation, trust fund under BSCIC, Entrepreneurs Equity Fund (EEF) for agriculture, welfare fund for RMG workers, fund for training of workers' efficiency, etc. A major thrust for such financial support was to enhance the productivity and efficiency of factors of production including labour and capital. Government should consider establishing "Technology Upgradation Fund" for RMG, textile, jute and for other thrust sectors, which CPD had proposed in its budget proposal. "Cluster Development Fund," "Fund for Research and Development (R&D)," "Fund for Relocation of RMG Factories from the City," etc. should be actively considered for budgetary allocation. "Workers' Livelihood Improvement Fund" is also required for workers, especially in the garment sector. Appropriate modus operandi for utilisation of such funds should be identified. In this context, public-private partnerships should be explored. To effectively implement government's decision to set up ETP at factory level from July 2008, an allocation should be made for helping industries to set up ETPs either centrally or individually by industrial units in different industrial areas. There is nothing existing for the jute sector in the budget. Jute sector will enjoy tax holiday facility according to the budget FY2008-09. Government has decided to continue reduced income tax facility at a rate of 15 per cent for the jute sector up to 2011. There is no mention about the allocation needed for paying the arrears accruable to retrenched workers of the public sector jute mills.

A new programme is going to be introduced to provide support to low-income workers particularly for working mothers of the garment sector, with a monetary support of Tk. 20 crore. In Sri Lanka, government has proposed to grant concessionary loans subject to a maximum of Rs. 15 million in the budget FY2008-09 (at an interest rate of 10 per cent) for garment factories situated outside the Colombo district to support modernisation process. In India, government allocated funds of Rs. 15,000 crore to establish a non-profit corporation for skill development taking support from government, private and public sectors, and bilateral and multilateral sources. Government is also upgrading 238 Industrial Training Institutes (ITIs) for which Rs. 750 crore has been set apart.

5.4 Export Oriented and Import Substituting Industries

The proposed budget of FY2008-09 puts forward a number of initiatives to safeguard the interest of the export oriented industries in the form of tariff restructuring (mainly through liberalisation of tariffs for raw materials and intermediate inputs) and higher rate of tariff on certain items to protect the domestic industries. While the government has put lots of effort in making the current budget industry and business friendly, it has not put adequate emphasis on the thrust sectors which were identified in the Export Policy 2006-2009. Whilst some initiatives were taken to promote the information and communication technology (ICT) and handicraft sector, it has not provided incentives towards development of pharmaceuticals, footwear or light engineering sector. If we look at the FY2007-08 export incentive document (released by the Export Promotion Bureau (EPB) we see that cash incentives were provided to bicycle (15 per cent), jute products (7.5 per cent), light engineering products (10 per cent) among some others; whether these incentives will be continued in FY2008-09 has not been mentioned in the budget.

Whilst the government's initiative to suspend illegal imports of export oriented capital machineries is a welcome gesture (earlier the government allowed import of capital machineries for 100 per cent export oriented industries at zero duty), imposition of 1 per cent duty is a questionable move as it will add to production cost. A number of domestic import substituting activities have been identified for protection and complementing this with SD in some cases (e.g. paints and varnishes, teflon tape, printed books and brochures, table and kitchenware, electrical apparatus, etc.). As regards the case of export subsidy, the government, this year has also allocated Tk. 1,050 crore. The government should have allocated some funds in support of the emerging ship-building industry, which has a large potential in the global market. An allocation of fund for infrastructural development in this sector would have boosted the export performance of this sector.

The introduction of bonded warehouse facility in the proposed budget for enterprises that have 100 per cent export oriented units will enhance competitiveness of Bangladesh's exports and reduce lead time. Like RMG, they can now import inputs without having to pay duties. This should help growth of non-RMG exports and export diversification. Besides, the continuation of tax holiday is a welcome move.

Export Promotion

The proposed budget has not gone for enough to diversify country's export. According to a CPD study, a major emerging concern which had an adverse impact on the balance of trade in FY2007-08 had been Bangladesh's deteriorating terms of trade (ToT). In view of this, the need to diversify exports and markets and the urgency of moving into higher value items through process and product upgradation, and productivity enhancement are becoming increasingly important tasks for Bangladesh. Besides, to develop and strengthen backward linkage textile industry and the country's traditional jute industry, a Technology Upgradation Fund could have played an important role for product and process upgradation. As part of the decision to provide bonded warehouse facilities to all export oriented sectors, the ship industry will also benefit from this initiative. However, government did not declare ship-building industry as a thrust sector in the budget. To contrast, Vietnam government in their budget has declared ship-building industry as a major thrust sector and provided a Tk. 75 crore funds up to 2011. The government could think about declaring tax holiday.

Proposed budget initiative for export thrust sector also registered a mixed scenario. The 231 acre hi-tech park at Kaliakoir will add value both to the ICT and also to the investors. Efforts are underway to attract private and foreign investors to this park. Proposed allocation of Tk. 100 crore as an EEF fund for the information technology (IT) sector is a welcome gesture. The IT sector has been seen as a thrust sector and the low prices of computer accessories and computer related products is contributing to dissemination of the technology in Bangladesh. Given the bumper production of foodgrains, the government could have allocated fresh EEF funds for the agro-processing industries. The proposed tax holiday, with regard to income stemming from exports of handicrafts to remain outside of the purview of taxes from 1 July 2008 to 30 June 2011, is a commendable move by the government. This will hopefully increase investment in this sector.

Tax Holiday is continuing on a selective basis and broadening in other sectors. The continuation of the scheme for newly setup industries to provide 100 per cent tax holiday in the first 2 years (Dhaka and Chittagong) and 3 years (Rajshahi, Khulna, Sylhet, Barisal and 3 Chittagong Hill Tracts (CHT) districts). is a welcome move.

The budget has introduced a new scheme in dealing with duties and complications with the present system of indemnity bonds. According to the proposal, the government will no more continue with the process of bonds and will instead impose a duty of 1 per cent on the import of intermediate machineries and capital machineries for export oriented industries. The other slab for 5 per cent has been reduced to 3 per cent as an added incentive and for raising the competitiveness of the local producers. CD of washing chemicals decreased from 25 per cent to 12 per cent, which will minimise the cost of the RMG exporters.

A number of steps have also been mentioned in the proposed budget to strengthen the institutional capacity to deal with the complexity of the issues of the World Trade Organization (WTO). Finance Advisor in his speech recalled strengthening of the WTO cell in the Ministry of Commerce to facilitate sharing of information relating to international trade and initiating prompt actions accordingly. Tk. 10 crore has been allocated (unapproved) for the modernisation of Bangladesh Standards and Testing Instituion (BSTI) to help procurement of sophisticated equipments and for infrastructure development of laboratories for accreditation. CPD had earlier proposed this budgetary measure. Intellectual property issue will become vital in the coming days and thus the setting up of Bangladesh Integrated Intellectual Property Office (unapproved) will be a positive move.

Import Substitution

In the last fiscal budget, given the global inflation the price of imports had increased significantly. To support the growing demand for foodgrains, capital machineries and raw materials, the government has proposed a revised structure for the tariff slab system. The current budget has proposed a number of changes in the tariff structure - from changing the number of tires to changes in SD structure. If the changes were to be summarised, it can be stated that some of these changes were made to support exporters and some were proposed to protect our domestic industry. Some of these changes are presented in the Table 2.12, and explained in the following sections to have a better understanding as regards the plausible impact these will have on domestic industries and consumers.

In order to promote local ceramic industry, government has proposed supplementary duties on finished marble tiles and granite tiles to be increased from 20 per cent to 60 per cent. The ceramic industry is an upcoming thriving industry for the economy. Local ceramic industries are producing market ready quality tiles. Hence, a duty on the import of finished tiles is likely to have a positive effect on the ceramic industry. To encourage the local producers of plastic and provide them more market security, the budget proposed for protection measures to this industry. Feeding bottles, plastic cups for food packaging and plastics caps and other like products are now manufactured locally. CD have been proposed to increase from 15 per cent to 25 per cent and SD from zero per cent to 20 per cent. Products such as caps and plastic feeding bottles are locally made, and higher tariffs on final goods will raise effective rate of protection for these industries.

Table 2.12: Domestic Industries Protection Measures in the Budget FY2008-09

Industry/ Products	Initiative	Comments
Ceramics industries	- SD increased from 20 to 60 per cent	- Duty on the import of finished tiles will have a positive effect on the local ceramic industry. The number of ceramic producing companies in Bangladesh is approximately 15 and the total exports in FY2006-07 amounted to USD 32.80 million
Plastic industries	- CD of intermediate goods used to make plastic tap and others increased from 10 to 12 per cent - CD of feeding bottles increased from 15 to 25 per cent - SD increased from zero to 20 per cent	- It will encourage the local producers of plastic goods. Plastic is also now exported to others countries. The growing number of plastic industries (about 20) will be protected from outside competition
Electric apparatus industry	- CD increased from 15 to 25 per cent	- The increase in CD for the import of electrical apparatus will be an incentive for the local electrical apparatus producers (electric switch board, socket, plug, etc.)
Stainless steel	- CD increased from 15 to 25 per cent - SD increased from zero to 20 per cent	- The tariff imposed on stainless steel is a protective measure for the local industry - Bangladesh is producing quality kitchenware, this measure will provide protection to this industry
UPS/IPS industries	- CD of lead acid batteries decreased from 25 to 12 per cent	- Due to power crisis, UPS/instant power supply (IPS) becomes important both as a home appliance and office purpose. A number of IPS/UPS producing and assembling industries are now operating in Bangladesh. Proposed duty reduction will encourage local industry and will have positive affects on end price
Furniture industries	- SD on chair to be increased from 20 to 60 per cent	- This measure will provide protection to local industries
Water taps	- CD increased from 15 to 25 per cent	- It will be beneficial for the local tap producers since they will be protected from foreign imports
Urea fertiliser industry	- CD of boric acid reduced from 15 to zero per cent	- Boric acid is an important ingredient for urea production. As the price of the imported urea has gone up, the domestic urea industry needs to be competitive

Source: Adopted from the various documents of budget FY2008-09.

Local stainless steel kitchenware sector has the ability to produce quality kitchenware and needs to be protected from the foreign imports of stainless steel cutlery and other kitchen products. Hence, CD is proposed to increase from 15 per cent to 25 per cent and SD from zero per cent to 20 per cent. Proposed budget has taken protection to safeguard for the interest of small domestic biscuit industry. Proposed withdrawal of VAT at the production stage of hand made biscuits and fabrics produced from artificial fiber and thread using handloom to provide impetus to the small, labour intensive and employment friendly industries will encourage small scale producers, especially women entrepreneurs.

In the interest of the local paper industries, the existing zero per cent duty on pulp and paper waste (being its prime raw materials) has been proposed to continue.

Import duty of maintenance-free lead acid batteries used for assembly of import substituting rechargeable lamps and uninterrupted power supply (UPSs) has been reduced to 12 per cent from the existing 25 per cent.

2.5.5 Development of SMEs

Although development of SMEs bears critical importance for employment and income generation in the country, its development has often been constrained by various budgetary measures, or lack of budgetary measures. In the budget of FY2007-08, the government has allocated an endowment fund of Tk. 100 crore for the *SME Foundation* to provide credit to SMEs through private commercial banks (PCBs). Government has decided to provide more fund to the Foundation in the FY2008-09, an amount of Tk. 100 crore has been allocated to support SMEs. The *SME Refinancing Scheme* of Bangladesh Bank has been allocated Tk. 500 crore, up from Tk. 300 crore last year. Allocation of EEF in the FY2008-09 (Tk. 100 crore) has been targeted to IT related industries; in FY2007-08 EEF allocation was targeted to agro-based industries. However, the EEF covered only about 38.1 per cent of the total cost of the projects, which needs to be increased to provide adequate support to the eligible business activities. Out of 249 EEF projects, 82 projects have received full financial support, while another 145 projects received partial support costs of projects.

To encourage PCBs to provide more financing to the SMEs, government may consider reduction of corporate tax rate for financial institutions that target SMEs (in a proportional manner). SMEs which were damaged during the floods and Sidr in FY2006-07 required adequate financial support. In the budget FY2008-09, a number of projects can be identified which are targeted to enterprises of affected regions such as infrastructure damage rehabilitation project of BSCIC affected by cyclone Sidr in 2007, programme for rehabilitation for handloom owners affected by flood in 2007, etc. However, these are unapproved projects; government should implement those projects with adequate ADP allocation. It is worthwhile to mention that the projects which are being implemented in the FY2007-08 under BSCIC (such as salt industry project, tannery estate project) posted poor performance in terms of implementation during July-December, 2007 period (about 19.5 per cent). Rajshahi Krishi Unnayan Bank (RAKUB)-implemented "Small Enterprise Development Credit Project (SEDCP)" has seen completion of only 57 per cent during the first six months of the FY2007-08. Ensuring implementation of the project by using allocated fund timely and properly should be seen as an urgent task.

Table 2.13: Changes in Total Tax Incidence (TTI) on SME Products

HS Code	Products	TTI (FY2007-08)	TTI (FY2008-09)	% Change
3923.29.91	Articles for the conveyance or packing of goods of plastics, stoppers, lids, caps and other closures of plastics	47.3	134.8	87.5
3923.29.99	Other sacks and bags (incl. cones), excl. ethylene and other plastics, other colour	76.5	134.8	58.3
3923.30.90	Other carboys, bottles, flasks and similar articles of plastics	76.5	134.8	58.3
3924.90.30	Feeding bottles, plastic cup for packing food preparation	35.6	76.5	40.8
3924.90.90	Other household articles and toilet articles of plastics	76.5	134.8	58.3

Source: CPD estimate.

A number of fiscal measures have been proposed in the budget FY2008-09 to support SMEs. The SME sector has been given income tax relief by defining SMEs as entities having annual turnover below Tk. 2.4 million. Along the same lines, export earnings from handicrafts export will enjoy tax holiday from 1 July 2008 to 30 June 2011. The upper limit of investment in capital machinery, in order to enjoy cottage industry benefit (i.e. no VAT), will be increased from Tk. 700,000 to Tk. 1,500,000 and turnover limit will be raised from Tk. 2 million to Tk. 2.4 million. This measure is expected to help growth in the SME sector. VAT is to be withdrawn from the production stage of hand made biscuits, fabrics produced from artificial fibre and thread using handloom. Tax holiday to agro-processing industries has also been proposed. CD and SD on a number of plastic products have been raised, which has increased total tax incidence by about 41 per cent to 88 per cent (Table 2.13). Such initiative will support domestic plastic industries to expand their operation. However, Bangladesh Plastic Goods Manufacturers and Exporters Association (BPGMEA) has demanded cash incentive for exports of plastic goods. CD on electrical apparatus has been increased from 15 per cent to 25 per cent, which will benefit domestic industries. BPGMEA has proposed to lower the import duty on electric generator's spare parts from 10 per cent to 0 per cent. In the context of acute power crisis, government may provide the facility to encourage setting up of generators at industrial units.

The SME Foundation has established the National Women Entrepreneurs' Forum in order to stimulate women's entrepreneurship. It is an appreciable initiative which should be effectively utilised for identification of problems and demand voiced by women entrepreneurs and solving those problems.

In India, as on 31 January 2008, the Credit Guarantee Trust with Small Industries Development Bank of India (SIDBI) had extended guarantees to 89,129 small industrial units for an amount of Rs. 2,479 crore. SIDBI has decided to reduce the guarantee fee from 1.5 per cent to 1 per cent and the annual service fee from 0.75 per cent to 1 per cent for loans up to Rs. 5 lakh. Government of India has established a non-profit corporation for skill development of SMEs with a capital stock of Rs. 15,000 crore contributed by private and public sectors, and bilateral and multilateral sources. In order to upgrade the ITIs the Indian government has allocated an amount of Rs. 750 crore for 300 ITIs in 2008-2009.

Sri Lanka extended tax free period for importers of high tech machinery and equipment to enhance the production capacity of local enterprises, till December 2009. Financial assistance is to be extended at concessionary rates from the National Co-operative Fund, pertaining to project proposals submitted by Co-operative Societies for production purposes in diary, fishery, livestock, textile and small and medium industries.

2.5.6 Development of ICT

Use of ICT in government offices, manufacturing and service sectors, educational institutes, etc. is very limited. It is felt that a strong boost is needed by the government to implement plan of action on establishing e-government. Private sector should take pro-active role to support government's initiatives in terms establishing e-governance at all levels. In the budget for FY2008-09, government has reduced duty from computer accessories from existing 5 per cent to 3 per cent. This in effect will reduce the total tax incidence of computer accessories by about 2 per cent (Table 2.14). Exemption from income tax on computer software development, data processing, data entry and call centres and increase of the rate of normal depreciation on computers from existing 20 per cent to 30 per cent will have a positive effect on overall ICT sector. However, there is a need to extend this to other emerging IT-enabled services (graphics, web-based services, animation, etc. to name a few). Under EEF, government has provided an allocation of Tk. 100 crore for IT related projects. Instead of concentrating only on software related IT projects, the coverage of the EEF support should be extended to other IT-enabled services as well.

The first phase of infrastructural work for the hi-tech park at Kaliakoir, Dhaka will be completed by FY2008-09. It is expected that local and foreign firms will invest in the high-tech park. Government will need to take pro-active measures to attract private and foreign investors to make investment in this park. To attract investors related regulations, particularly in the intellectual property rights areas, will need to be appropriately enforced.

The introduction E-Citizen Services is an appreciable initiative. However, to make it successful a widespread internet facility at domestic level needs to be ensured. The introduction of Integrated Budgeting and

Accounting System (iBAS) is a good initiative of the government which will help develop an integrated budgeting and accounting system ensuring better transparency. However, the budget has not mentioned about lowering of internet charges which will help disseminate internet services for the purposes of business, education and other activities. Indian government has allocated a fund for establishing broadband internet-enabled common service centres in rural areas and a scheme for establishing State Wide Area Networks (SWAN) with central assistance. Bangladesh could consider such initiatives.

Table 2.14: Changes in Total Tax Incidence (TTI) on Computer Accessories

HS code	Description	TTI (FY2007-08)	TTI (FY2008-09)	% Change
3707.10.90	Toner cartridge for computer printer	25.5	23.2	-2.3
8443.32.10	Computer printer	25.5	23.2	-2.3
8443.99.10	Toner cartridge/ Inkjet cartridge	25.5	23.2	-2.3
8471.80.00	Other units of Automatic Data Processing Machines	9.7	7.7	-2.0
8471.30.00	Portable Digital Adp machines, wt<= 10kg, comp. At least CPU, Keyboard & Display	9.7	7.7	-2.0
8471.60.00	Adp Input/ Output units whether/ Not containing storage units in same housing	9.7	7.7	-2.0
8471.70.00	Automatic Data Processing machines Ne	9.7	7.7	-2.0
8504.40.20	UPS/ IPS (capacity up to 2000VA)	25.5	23.2	-2.3
8517.62.30	Modem	25.5	23.2	-2.3
8517.62.40	Ethement Interface card; computer network switch and hub	25.5	23.2	-2.3
8517.62.90	Other reception, transmission app. (excl. modem, telephonic/ telegraphic switch)	25.5	23.2	-2.3
8523.29.12	Computer software	25.5	23.2	-2.3
8523.40.12	Optical recorded media, computer software	25.5	23.2	-2.3
8523.40.91	Other recorded media for computers (excl. magnetic, optical)	25.5	23.2	-2.3
8523.51.10	Flash memory card or similar media to be used with computer	25.5	23.2	-2.3
8528.41.00	Cathode- ray tube monitors of a kind solely or principally used in an automatic	25.5	23.2	-2.3
8528.59.00	Other monitor, excl of a kind solely or principally an automatic data process.	25.5	23.2	-2.3
8538.90.00	Parts of Apparatus of 85.35 to 85.37, Nes	25.5	23.2	-2.3
8544.49.00	Electric conductors, nes, for A voltage> 1000 v	25.5	23.2	-2.3
8544.70.00	Optic Fibre Cables made up of individually sheathed fibres	25.5	23.2	-2.3
9612.10.10	Ribons (computer printers cartrige)	25.5	23.2	-2.3

Source: CPD estimate.

Allocation for ICT under the ADP in FY2008-09 will be Tk. 1,084 crore. For different projects to be implemented under various Ministries, government has made little change in the ADP allocation of FY2007-08 in the RADP for Ministry of Science, Information and Technology (Table 2.15). However, status

Table 2.15: ADP and RADP Allocation for the Ministry of Science, Information and Technology in FY2007-08

Organisation	Original ADP in FY2007-08 (Tk. Crore)	RADP in FY2007-08 (Tk. Crore)	Disbursement during July-December 2007 (Tk. Crore)	Revised as % of Original ADP	Status of Implementation as % of Revised Allocation
Ministry of Science, Information and Technology	11.06	4.95	1.35	44.76	27.27
BSTI	4.58	3.05	0.90	66.59	29.51
Bangladesh Atomic Energy Commission (BAEC)	56.84	61.49	9.97	108.18	16.21
Bangladesh Council of Scientific and Industrial Research (BCSIR)	8.40	14.67	1.72	174.64	11.72
Bangladesh Computer Council (BCC)	19.30	17.78	5.06	92.12	28.46
Planning Division	21.00	21.00	1.25	100.00	5.95
National Museum of Science and Technology (NMST)	4.00	4.00	0.02	100.00	0.50
Grand Total	125.18	126.94	16.83	101.41	13.26

Source: RADP, FY2008-09.

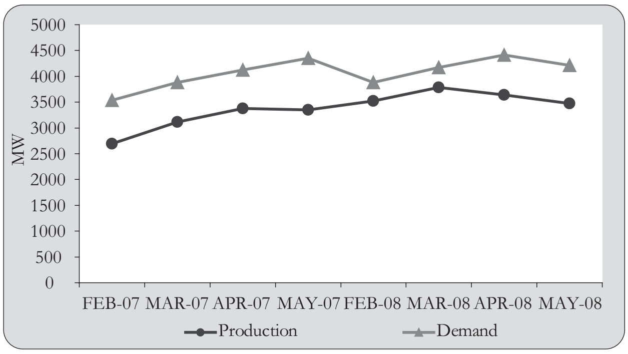
of implementation indicates very poor performance of various projects related with IT. During July-December of 2007, the status of implementation of these projects ranged between 0.5 per cent to 29.5 per cent, indicating a highly unsatisfactory performance. Thus, ADP allocation in this year for IT related projects will need to be implemented in an appropriate manner.

2.5.7 Power and Energy

Power

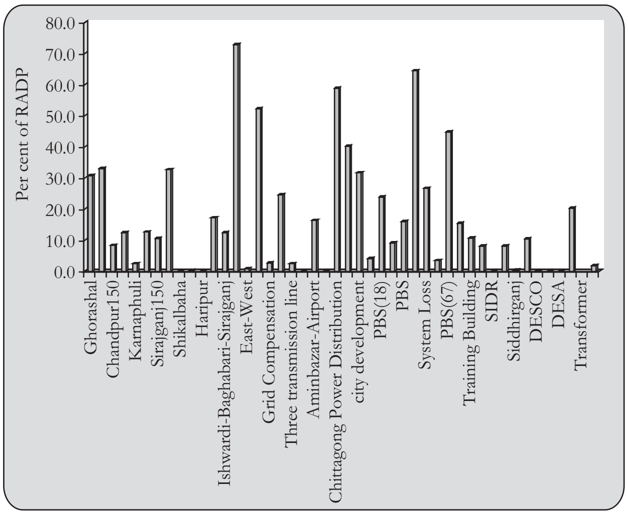
Inadequate supply of power and energy has been a major bottleneck that has severely constrained investment and business activities in Bangladesh. New industries and economic activities are not coming up due to absence of adequate power supply. The existing ones suffer from frequent outages, leading to damage of equipments, production disruption and cost escalation originating from more costly alternative sources. Currently, there is a large gap between demand and supply (734 MW in May 2008). In spite of some increase in power supply in recent months (8.7 per cent higher in April 2008 compared to April 2007), load shedding has continued to be very high (1049 MW in May 2008). According to the Power System Master Plan Update (published by Power Division in 2006), demand for electricity in base case (considered a GDP growth rate of 5.3 per cent in FY2004-05 and 6 per cent in FY2005-06) for years 2008, 2010 and 2015 would be 5,569 MW, 6,608 MW and 9,786 MW; in low case (considering a GDP growth of 5.3 per cent in FY2004-05 and 5 per cent for next five years) the corresponding figures would be 5,339 MW, 6,160 MW and 8,501 MW; and in high case (considering a growth rate of 6.5 per cent in FY2004-05 and the rate steadily increased to 9 per cent till 2015) corresponding figures would be 5,904 MW, 7,355 MW and 13,408 MW respectively. Taking the GDP growth rate of FY2007-08 at 6.2 per cent, which is expected to be 6.5 per cent or high in FY2008-09, the demand of power for the coming years should consider a level between projections made in base case and high case. The CTG and future governments will need to do a lot in the coming years to achieve the targets and reaching the demand for electricity.

Figure 2.11: Demand-Supply Gap of Electricity



Source: Compiled from data of Ministry of Power and Energy.

Figure 2.12: Expenditure on Power Sector Projects



Source: RADP, FY2008-09.

In recent times, a number of power plants could not be in operation due to repair and maintenance works of plants and forced stoppages, and also due to shortage of gas (which caused a loss of 720 MW during April 2008). Because of frequent power outages, industries and businesses are becoming increasingly dependent on captive power in order to ensure uninterrupted power supply to factories and business premises. As a result, various types of power generators, mainly gas based power generators, are being imported at an increasingly larger numbers in recent years.

Government has allocated Tk. 3,502.94 crore for the power sector in FY2008-09 (13.7 per cent of total ADP), which is lower than the last year's original allocation Tk. 3,633.2 crore (13.7 per cent of total ADP), but marginally higher than the revised allocation of Tk. 2,989.03 crore. However, this allocation is lower than the fund opted by power division considering its request for an allocation of Tk. 4,678 crore for its development expenditure in the next fiscal, aiming to generate 10 per cent higher electricity generation and to cut system loss below 20 per cent. According to the Figure 2.12, during July-

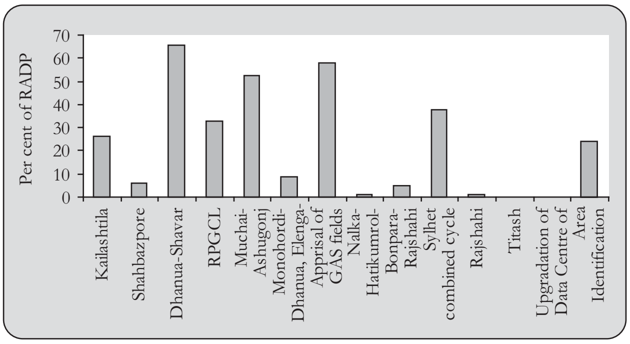
December, 2007 most of the projects under the power sector were found to be implemented at a very low level. A low level of implementation of power sector projects in FY2007-08 along with small allocation for new projects in FY2008-09 indicates a rather less optimistic scenario with regard to the power sector.

New projects which have been included in the budget FY2008-09 are mainly related to transmission efficiency improvement, rehabilitation and expansion of power distribution system in urban areas, rehabilitation of Khulna 110 MW and 60 MW power station, and rehabilitation of destroyed distribution system under Rural Electrification Board (REB) due to Sidr etc. However, these projects have not been approved and have no allocation against them. Completion of these projects, if adequate fund is allocated and implemented properly, will contribute to increased generation of electricity. Government has emphasised on strong role of the private sector in power generation. Based on stages of implementation of various projects under public and private sector, the government is projecting an additional electricity generation of 696 MW by the end of next fiscal. In view of slow pace of implementation of various ongoing projects (only one of the projects with the capacity of 80 MW has been completed so far), it is not evident how much fresh electricity will be added by the end of the next fiscal. In view of acute power shortage experienced at present times and further more in the coming years, government should take initiative for establishment of atomic power plant taking technical and financial support from the International Atomic Energy Association (IAEA) and other development partners. Use of alternative sources of electricity such as solar power plants need to be encouraged both at public and private sector levels.

Energy

Production of gas has not increased significantly in recent years - its growth rate was 7.6 per cent in 2006, which fell to 6.3 per cent in 2007. During 2008 gas production was 11,008 mmcm till February of FY2007-08, which was 61.1 per cent of the target set for FY2007-08 (18,025 mmcm). In view of increasing use of gas in industrial and business activities in recent years (29.2 per cent of total gas consumption for of industry and captive power till February FY2007-08 against 16.9 per cent in FY2002-03), more gas will be required to meet the growing demand. However, because of limited supply of gas, in recent times government has put measures to check on the usage of gas, especially in industrial units.

Figure 2.13: Expenditure on Energy Sector Projects



Source: RADP, FY2008-09.

In the budget FY2008-09, energy sector has received an allocation of Tk. 807.23 crore (3.15 per cent of total ADP) which is higher than that in FY2007-08 (Tk. 729.47 crore) and the revised ADP allocation (Tk. 459.02 crore). The higher allocation for energy sector is attributed to the inclusion of some new projects such as development of gas pipe line in Ashuganj and Elenga, building the exploration and production capacity of Bangladesh Petroleum Exploration & Production Company (BAPEX), development of Semutang gas field, development of Sundalpur oil/gas exploration site, Srikail oil/gas exploration field, etc. Government is planning to provide Tk. 3,200 crore to BAPEX to strengthen its exploration programme over the next seven years. This plan should be implemented properly and fund should be utilised efficiently. The state of implementation of gas sector related projects is mixed: some projects have been implemented at a rate of more than 40 per cent during July-December 2007, while others have been implemented at a rate of less than 10 per cent (Figure 2.13). Government should take necessary measures to set up coal-based power plants by using the coal reserves of the country. To this end, the National Coal Policy should be finalised on an urgent basis. Government decision with regard to reduction of CD on coal from 15 per cent to 7 per cent could be justified to the extent that availability of local coal has been limited because of lack of policy.

2.5.8 Capital Market

In the budget for FY2008-09, government has reduced corporate tax rate for companies listed for public trading from 30 per cent to 27.5 per cent, for non-listed publicly traded companies from 40 per cent to 37.5 per cent and keeping 45 per cent for other corporate companies. It is not clear to what extent non-listed companies will be encouraged to be listed in the capital market in order to take the benefit of 10 per cent low tax for enlistment. To encourage non-listed companies in the capital market, Securities and Exchange Commission (SEC) should identify systemic concerns of the capital market and take appropriate corrective action. It appears that announcement for introduction of "Book Building" system in the capital market in the budget FY2008-09 may induce private companies into stock market who have strong financial fundamentals. The government decision to off-load shares of 9 state-owned enterprises (SoEs) in the power sector, 10 SoEs in the industries sector and 2 public sector led telecommunication industries, is a timely decision to give more choice and competition for the investors in the stock market. In this process two SoEs namely Jamuna Oil Company Ltd. and Meghna Oil Company Ltd. have already off-loaded their shares in the capital market and the shares of Titas Gas Transmission and Distribution Company Ltd. are in the process of being off-loaded. In order to make necessary correction of the capital market some institutional measures need to be taken, one such measure would be introduction of "derivative" in the capital market.

The announcement of withdrawal of tax exemption on interest income accrued from zero coupon bonds may adversely affect businesses of non-bank financial institutions. Bangladesh Leasing and Finance Companies Association has requested the government to continue the tax exemption on interest income accrued from zero coupon bonds.

2.5.9 Transport and Communication

Budget allocation for transport sector in FY2008-09 was Tk. 3,450.39 crore, which was 4.4 per cent and 35.3 per cent higher compared to original ADP 2008 and RADP 2008. It is felt that following two floods and Sidr in FY2006-07 caused severe damage to infrastructure, ADP allocation for this sector should have been much higher in the budget FY2008-09. It is rather unexpected that allocation for roads in FY2008-09 decreased by 9.1 per cent to Tk. 2,206.69 crore compared to the original ADP of FY2007-08, though it is 12.5 per cent higher compared to the RADP of FY2007-08.

It is important to note that 1,421 km of roads were damaged due to cyclone Sidr and 26,306.26 km of roads were damaged due to the floods in 2007. In view of the substantial damage to roads and bridges, CPD had proposed to government to increase the budgetary allocation for road repairs. It is not understandable why RADP allocation for roads was reduced by 19.2 per cent. Out of the eight proposed new projects, one is directed towards Sidr affected areas. Another new road project that is unallocated and unapproved is the reconstruction and rehabilitation of the roads and highways affected by cyclone Sidr.

The allocation for railway, shipping and civil aviation rose by 42 per cent to Tk. 1,243.70 crore in FY2008-09 compared to ADP 2008. Bangladesh Biman Corporation has been converted into a public limited company and Biman has taken initiative to purchase eight aircrafts from Boeing at a high cost. In view of making Biman economically viable, a number of reforms have been initiated in recent times including strengthening of the management, rationalisation of size of employees, strengthening the operational practice, competitive pricing, etc. These should be pursued further. In budget FY2008-09, specific duty on aircraft engine, parts and spares has been decreased from 10 per cent to 3 per cent. This is likely to have positive impact on public and private sector airliners enabling them to import engines and other parts at lower cost.

Allocation made to Bangladesh Land Port Authority (BLPA) for development and extension of infrastructure at Benapole Land Port in ADP FY2007-08 was Tk. 3.31 crore (RADP remained the same), only 6.34 per cent of which was implemented in July-August 2007. Government of Bangladesh (GoB) has decided to develop and operate 12 land ports out of 13 except Benapole on a Build, Operate and Transfer (BOT) basis. BGMEA demanded that government should involve private sector more under the BOT system. It was suggested in the CPD proposal that the government should speed up the process of finalising the formalities to initiate the preliminary work for constructing "Padma Bridge." The GoB has approved the Padma Bridge construction project at a cost of Tk. 10,162 crore; the design phase is currently underway.

Allocation made to Chittagong Port Authority (CPA) for Chittagong Port Trade Facilitation Project in ADP

FY2007-08 was Tk. 96 crore, which was reduced by 11.4 per cent in the RADP. However, only 4.75 per cent of RADP allocation was implemented in July-December 2007. Allocation made to Mongla Port Authority (MPA) in ADP FY2007-08 was Tk. 9.0 crore; interestingly RADP was reduced by 99.2 per cent to Tk. 0.07 crore. However, there is no status report of the projects, namely dredging at the outer bar in the Pussar Channel and collection of cargo handling machineries for Mongla Port. CPD proposed that the government should prepare a modernisation, expansion and development plan for Mongla Sea Port. Government could place the plan for necessary funding under WTO's "Aid for Trade" (AfT) programme. ADP 2009 did make a provision for modernisation of Mongla Port through its navigational aids to Mongla port project. In the ADP, the list of projects that will probably be completed in FY2008-09 include port efficiency improvement plan by the CPA. New Mooring Container Terminal (NCT) has also been constructed and arrangement has been made to operate this terminal entirely through private management. Although capacity of Chittagong Port after the extension would be sufficient to meet the demand for some more years, however in order to meet the extended demand in the future further expansion will be needed. In this context, the idea of a deep sea port at Sonadia in Cox's Bazar has been mooted. The second phase of technical and financial feasibility study for constructing a deep sea port is in progress and needs to be completed in a speedy manner to arrive at decisions as regard techno-economic feasibility of such an initiative.

2.5.10 Real Estate and Housing Sector

Government has allocated a total of Tk. 2,218.7 crore (8.7 per cent of the ADP) for the physical planning, water supply and housing sector in FY2008-09 which is 39 per cent higher than the allocation of the previous year. A number of projects has been initiated by the government for housing of limited income people in different regions (Dhaka, Chittagong and Pabna), which will be completed by the next fiscal year. However, such initiatives should be extended for low-income people, especially for garments workers in the city. During FY2007-08 1,000 flats have been handed over to the shelterless slum dwellers and low-income families and 5,000 flats are to be handed over to the underprivileged by December 2008. These initiatives need to be continued in the future. Sri Lanka has allocated Rs. 100 million to complete housing construction activities and Rs. 100 million to develop housing facilities of shanty dwellers in ten selected districts. Pakistan government, under a low cost housing scheme will construct about 37,000 houses for the low paid employees in this fiscal year. India has increased the amount of subsidy from Rs. 25,000 to Rs. 35,000 for per unit housing in plain areas and Rs. 27,000 to Rs. 38,500 in hill areas.

In order to reduce the cost of raw materials used for housing, government has withdrawn 15 per cent VAT on importation of MS bar and rod, which will positively contribute to real estate sector. A specific SD at Tk. 1,500 per MT has been imposed in the budget FY2008-09 on raw materials for steel products used in the construction sector to stabilise our domestic market. According to Dhaka Chamber of Commerce (DCCI) reduction of import tax on MS Rod would encourage the import of fine rod rather than scrap. Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) has sought revision of duty structure for importing finished steel bars as same as import of finished rods and steel raw materials. CPD proposed that the current import duty on clinker which is Tk. 350 per ton should be reduced to Tk. 200 per ton, in order to generate competitiveness in the domestic cement industry. According to the budget FY2008-09, income generated from constructions of multistoried buildings outside the City Corporations, Cantonment Board, Municipalities of district headquarters, Municipal areas under Dhaka district has been exempted from tax for the next 10 years which might encourage the developers. Without having a proper guideline it would hamper the objectivity of the initiative.

Government should decrease high transfer registration cost to reduce propensity to evade tax and protect the current revenue intake under this head. For developing the secondary housing market, government may reduce the registration fee that charged on transfer of second-hand homes (e.g. 50 per cent of the tax charged for registration of a new apartment). Government could also think about rationalising the minimum value of flats and buildings for tax purposes reflecting current market prices and locational variations. Government may consider raising the limit for house building loan at reduced rate by enhancing individual's monthly income limit from Tk. 30,000 to Tk. 50,000.

2.5.11 Local Government and Regional Development

In Local Government, ADP allocation for FY2008-09 is Tk. 3,523.02 which is 13.76 per cent of the total ADP allocation. In FY2008-09, government has allocated 923.9 crore taka (3.6 per cent of the total ADP) in ADP for the development of local government, CHT and development of special region which is a good plan for strengthening local government. For poverty reduction and reducing regional disparity, special allocation has been made for 276 upazilas of 39 poverty stricken districts. Local institutions have received 60 per cent of the total development assistance for this purpose. To ensure balanced regional development, lagging regions received higher allocation in the ADP. Special development assistance in poverty stricken 28 districts allocation is increased from Tk. 20.6 crore in FY2007-08 to Tk. 40 crore in FY2008-09. However, implementation plans and modalities are yet to be developed. Special allocation of development projects targeting the backward regions is necessary but raising the efficacy of implementation is important. CPD research on regional inequality revealed that two-third of the total inter-region inequality is due to intra-region inequality. Proportion of landless households had a significant negative effect on income inequality at the district level. As such, government needs to take appropriate actions so that less endowed people can have greater access to new productive assets such as solar dryer, power tiller, power pump, harvester, thresher, etc. The budget has also provided longer tax holiday and greater depreciation for investment in lagged regions such as in Rajshahi, Khulna, Sylhet and Barisal divisions and three CHT districts to set up industries.

2.6 SOCIAL SECTORS AND SAFETY NET PROGRAMMES

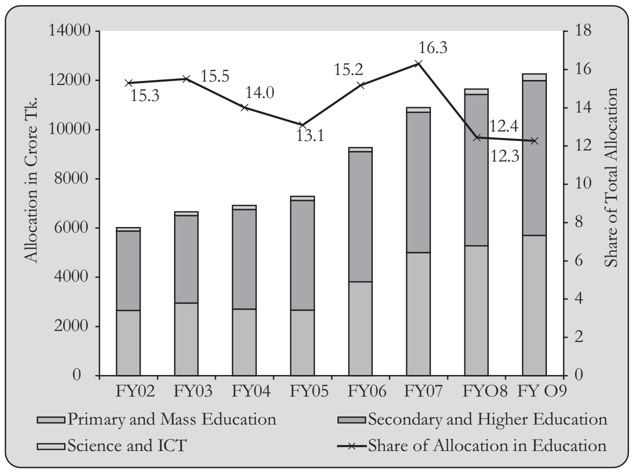
Towards sustainable economic growth and overall social development, human resource development is an important precondition. In this connection, budget FY2008-09 has given importance to the two major inputs of human resource development: health and education. In the budget of FY2008-09 an allocation of Tk. 21,112 crore has been made for human resource development, which is 21.1 per cent of the total budget. Of this 12.26 per cent has been allocated for education and 5.9 per cent for health sectors.

2.6.1 Education and Technology

In FY2008-09, a total of Tk. 12,259 crore has been allocated for education and technology (revenue: Tk. 8,764 crore, development: Tk. 3,495 crore) which is 12.3 per cent of the total budget. Allocation in FY2008-09 is 0.89 per cent lower than FY2007-08 budget and 4.94 per cent higher than revised budget of FY2007-08 (Figure 2.14). The budget mainly focused on improving the quality of education. Proposal has been made to allocate another Tk. 15 crore as educational research grant in FY2008-09 even though Tk. 10 crore allocated in FY2007-08 remains unutilised. This calls for effective modalities for implementation.

The budget announced to continue the 6-year Second Primary Education Development Programme (PEDP-II) as part of which 55 lakh primary students are receiving annual stipends. Total outlay for this programme is Tk. 1,800 crore.

Figure 2.14: Total Revenue and Development Allocation in Education Sector



Source: Budget documents.

A new "Stipend Programme for Poor Male Students" has been proposed in the budget, to be implemented in 121 upazilas. This has been done with a view to increase the rate of enrolment of male students in secondary education level. This is a pragmatic initiative which will benefit the marginalised families. Another new programme is proposed to bridge the gap between quality of education of urban and rural areas. 63 schools are primarily selected to be converted into Model High Schools. This is definitely a very good initiative, but proper training of teachers, particularly for English and Science subjects, will be required.

The budget proposed to reduce tariff on computer and computer accessories from 5 per cent to 3 per cent. This is a very good initiative to enhance computer literacy among students.

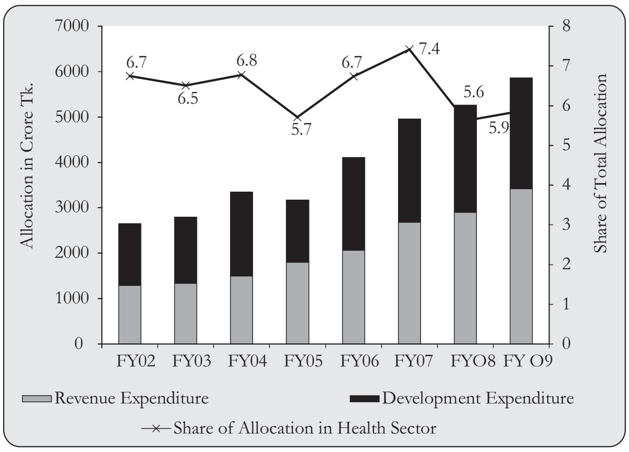
The budget has imposed 25 per cent VAT on children's picture, drawing or colouring books imported from other countries. This measure needs to be revisited as it amounts to taxing knowledge.

Concerns: There is no proposal in the budget for any specific programmes to train low or semi-skilled labours for overseas employment. The budget has recognised that remittance sent by Bangladeshi workers living abroad is very important for the economy of Bangladesh. But it failed to propose any measure which will increase their skill and capability to earn and remit more.

2.6.2 Health

Allocation for the health and family planning is Tk. 5,862 crore (revenue: Tk. 3,423 crore and development: Tk. 2,439 crore) which is 5.9 per cent of total budget in FY2008-09 (Figure 2.15). Allocation for health and family planning in FY2008-99 is 6.69 per cent higher than budget in FY2007-08 and 10.25 per cent higher than revised budget in FY2007-08. Total utilisation of the budget for health sector was only 52 per cent in FY2007-08 (July-April), which is very low considering the size of the programme. In view of this, special measures should be taken to ensure effective implementation of the budgetary allocation for heath sector.

Figure 2.15: Total Revenue and Development Allocation in Health Sector



Source: Budget documents.

The budget proposed "Maternity Allowance for the Poor Lactating Mothers" in urban areas with an allocation of Tk. 20 crore. A similar programme for rural areas was introduced in FY2007-08 with an allocation of Tk. 17 crore. Until April 2008, Tk. 16.2 crore was distributed to 45 thousand expecting mothers of 3 thousand unions.

To ensure quality health services and increase the involvement of private sector, implementation of a programme is underway to outsource the management of 342 community clinics and 132 Union Health and Family Welfare Centres (UHFWCs) and hospitals to the private sectors. This may help to improve quality of health but accessibility for the poor remains a concern.

CD is proposed to be reduced to 7 per cent from 25 per cent for Inhaler actuator and withdrawn on drugs used for Thalassemia. A proposal has been made to impose SD of 60 per cent on the raw materials for manufacturing of cigarettes and 20 per cent on the papers used in producing, packaging materials of cigarettes. Scented tobacco (jarda) and burnt tobacco (gul) are proposed to bring under the purview of VAT. These are some very good steps for the sake of public health.

2.6.3 Women Development

Gender sensitivity was highlighted as a major point of concern in this year's budget. Some commendable efforts have been made to infuse gender sensitivity in the budget by way of increasing allocation for women development programmes both in rural and urban areas. It has been mentioned in the budget that a monitoring committee titled "Women in Development" will start to work along with the National Action Plan for women development. Tables 2.16 and 2.17 highlight some of the measures proposed in the budget.

- The government has taken measures such as recruiting around a 60 per cent female teaching staff

Table 2.16: Programmes under Gender Equity and Empowerment

Measures	FY2007- 08	FY2008 -09	% Increase	Implications
Gender Equity Expenditure	23.5 per cent of total budget	26.3 per cent	12	To increase gender sensitivity
Allowance for Widowed, Deserted and Destitute Women	Tk. 217.8 Cr (70.3 per cent of total budget) Tk. 220/ month, Target: 8,25,000 women	Tk. 270 Cr, Tk. 250/ month, Target: 9,000,00 women	24	This falls short of the anticipated rise to keep up with inflationary pressures
Maternity Allowance for Poor Lactating Mothers	Tk. 17 Cr, Target: 45,000 with Tk. 300/month	Tk. 21.6 Cr, Target: 60,000	27	No change in the monthly allowance has been announced. This is however a positive step forward

Source: Budget speech of the Finance Advisor of Bangladesh, FY2008-09.

for primary schools, and ensuring the security of Bangladeshi women working overseas.

- Gender equality expenditure has increased from 23.5 per cent to 26.3 per cent of the total budget. The budget for FY2008-09 has proposed to raise the number of target beneficiaries for Allowances Programme for Widowed, Deserted and Destitute Women to 9,000,00 and the allowance has been increased from Tk. 220 per month per person to Tk. 250. Even though the increase in the number of beneficiaries is positive, this allowance should have been increased to keep up with inflationary pressures.

- The target beneficiaries for Maternity Allowance for Poor Lactating Mothers have been increased to 60,000 from 45,000, and the allocation of funds for the programme has increased from Tk. 17 crore to Tk. 21.6 crore.

Table 2.17: New Measures under Budget FY2008-09

Measures	FY 2008-09 Allocation	Implications
Allowance for Poor Lactating Mothers in Urban Areas	Tk. 20 Crore	This will ensure coverage of women in urban areas and act as an incentive for women to come into the labour force
Rural Employment and Road Maintenance Programme (RERMP)	Tk. 943 Crore	This will generate 50,000 jobs annually in 4,962 unions
Allowance for women in 8 northern districts	Tk. 400/month per person	This is good initiative in view of inflationary pressure
National Women's Entrepreneurs' Programme	Tk. 100 Crore	This will encourage women-run businesses to take more risks

Source: Budget Speech of the Finance Advisor of Bangladesh, FY2008-09.

- The government had noted that these programmes concentrated more heavily on rural female populations. In order to address gender issues in urban areas as well, the government has proposed 4 new programmes for the next fiscal year. An amount of Tk. 20 crore has been allotted for Allowance for Poor Lactating Mothers in Urban Areas.

- There will be an Allowance for Women in 8 Northern Districts at Tk. 400 per month. For Rural Employment and Road Maintenance Programme (RERMP) Tk. 943 crore has been granted. This will generate about 50,000 jobs annually in 4,926 unions.

- The National Women's Entrepreneurs' Programme will receive Tk. 100 crore so as to attract more female entrepreneurs to start their own businesses and take more risks.

- The income tax limit for women has also been raised to Tk. 1,65,000.

2.6.4 Social Safety Net

The total outlay for social safety net in FY2008-09 is proposed as Tk. 16,932 crore which is 2.8 per cent of the GDP, against Tk. 11,467 crore (or 2.1 per cent of GDP) in the revised budget of FY2008-09. Number of beneficiaries from social safety net programmes would be increased from 366.90 lakh in FY2007-08 to 534.89 lakh in FY2008-09. Thus, allocation for social safety net will be increased by 48 per cent and number of beneficiaries from such programmes will be increased by 45.8 per cent. It is planned that through these programmes employment creation would be 257.14 lakh person-months in FY2008-09, compared to 235.75 lakh person-months in FY2007-08 (that is, 9.0 per cent increase in employment generation). Social safety net programmes are designed for social protection and empowerment purposes. Four types of programme will be implemented in FY2008-09. These are: (1) Cash

Table 2.18: Social Safety Net Budget FY2008-09 (Social Protection and Social Empowerment)

Programmes	Number of Programmes	Coverage in Lakh			Budget Allocation (Crore Tk.)		
		FY2007-08	FY2008-09	Increase (%)	Revised Budget (FY2007-08)	Proposed Budget (FY2008-09)	Increase (%)
I. Cash Transfer Programmes							
Cash Transfer (Allowances) Programme							
Social Protection	15	44.43	48.49	9.14	4312.26	4871.95	13.00
Social Empowerment	2	0.24	0.24	0.00	6.80	7.80	15.00
Cash Transfer (Special) Programme							
Social Protection	1	3.70	0.00	(-)100.00	100.00	0.00	(-)100.00
Social Empowerment	2	44.34	137.18	209.38	231.00	282.35	22.00
II. Food Security Programmes							
Social Protection	7				4717.00	6868.05	46.00
III. Microcredit Programmes and Funds							
Microcredit Programmes							
Social Empowerment	10	70.13	76.75	9.44	380.66	346.37	(-)9.01
Miscellaneous Funds							
Social Empowerment	11	14.62	20.65	41.00	254.25	319.50	26.00
New Funds							
Social Protection	3				0.00	2320.00	-
IV. Development Sector Programmes							
Running Development Sector Programmes							
Social Empowerment	13	103.81	105.30	1.44	1465.42	1706.45	16.45
New Development Sector Programmes							
Social Empowerment	2	0.00	50.40	-	0.00	209.20	-
TOTAL					**11467.39**	**16931.67**	**48.00**

Source: Ministry of Finance (MoF).

Transfer Programmes, (2) Food Security Programmes, (3) Microcredit Programmes and Special Funds, and (4) Development Sector Programmes.

Cash Transfer Programmes: Two types of cash transfer programmes are in operation: allowances and special programmes. Total allocation under cash transfer programmes is increased from Tk. 4,650.06 crore in FY2007-08 to Tk. 5,162.10 crore in FY2008-09 (i.e. 11.01 per cent higher allocation). Number of beneficiaries under the cash transfer programme has been increased from 89.01 lakh in FY2007-08 to 185.91 lakh in FY2008-09 (108.80 per cent increase). A total of 15 allowance programmes are there (old age allowance; allowance for the widowed, deserted and destitute women; allowances for the financially insolvent disabled; maternity allowance programme for the poor lactating mothers; honorarium for insolvent freedom fighters; honorarium for injured freedom fighters; grants for residents in government orphanages and other institutions; capitation grants for orphan students in non-government orphanages; block allocation for disaster management; gratuitous relief (cash); general relief activities; non-Bengali rehabilitation; allowances for distressed cultural personalities/activists; allowances for beneficiaries in CHT area; and pension for retired government employees or their families). These will be implemented for social protection, and two programmes (stipend for disabled students; and grants for the schools for the disabled) will be implemented for social empowerment of the physically challenged. Under the cash transfer (special) programmes, cash for work will be implemented for social protection and housing support and agricultural rehabilitation will be implemented for social empowerment.

Monthly allowance for old age, allowance for the widowed, deserted and destitute women and allowance for the financially insolvent disabled have been increased from Tk. 220 to Tk. 250 per person. Honorarium for insolvent freedom fighters rate has been raised from Tk. 600 to Tk. 720 per person per month. Grants for residents in government orphanages and other institutions have been increased from Tk. 1,200 to Tk. 1,500 on a monthly basis. Capitation grants for orphan students in non-government orphanages has been increased from Tk. 600 to Tk. 700 per month. Monthly stipend for disabled students has been increased from Tk. 200 to Tk. 300 for disabled studying in the primary level, from Tk. 300 to Tk. 450 for secondary level, from Tk. 400 to Tk. 600 for higher secondary level, and from Tk. 600 to Tk 1,000 for university level. Tk. 300 per month is provided to the beneficiaries of the "maternity allowance for the poor lactating mother" programme. A new protection scheme for the poor lactating mothers in urban areas will be started in FY2008-09 with an allocation of Tk. 20 crore targeting 40 lakh urban low-income lactating mothers. This is a praiseworthy initiative.

Food Security Programmes: Seven food security programmes (Subsidy for OMS; Vulnerable Group Development (VGD); Vulnerable Group Feeding (VGF); Test Relief (TR): Food; Gratuitous Relief (GR): Food; Food Assistance in CHT area; and FFW) will be implemented to achieve social protection. Total allocation for food security programmes has been increased from Tk. 4,717 crore in FY2007-08 to Tk. 6,868.05 crore in FY2008-09 (46 per cent increase in allocation).

The budget has plans to procure 32 lakh metric tonnes of foodsgrains which include internal procurement and import of foodgrains, including food aid. The budget also declared 30 lakh metric tonnes of foods will be distributed through OMS at a concessional price, FFW, VGF, VGD, TR and GR programmes. CPD also suggested for such measures.

Microcredit Programmes and Special Funds: For the purpose of social empowerment, 10 microcredit programmes (Fund through PKSF; Special Fund for Employment Generation for Hard-core Poor in Sidr Area (PKSF); Social Development Foundation; NGO Foundation; Microcredit for Women Self-employment; Fund for Development of Fisheries and Livestock Sector; Freedom Fighters' Self-employment Support; Microcredit for Self-employment of Youth; Microcredit in Social Sector Service; and microcredit by BRDB will be implemented). 11 special funds (Fund for the Welfare of Acid Burnt and Disables; Fund for Garment Workers Training and Support; Fund for Assistance to the Small Farmer and Poultry Farms; Employment Generation for Hard-core poor; Support to Small Entrepreneurship; Mitigation of Risk of Natural Disaster (pre and post); Housing Loan for Homeless; Swanirvar Training Program; Jatio Pratibandhi Unnayan Foundation (JPUF); Shamaj Kallyan Parishad; Special Fund for Training and Reemployment for the Retired or Dismissed Employees/ Workers) will be implemented to achieve social empowerment. To provide social protection, three new funds (100-Days Employment Guarantee Scheme; Fund for Climate Change; and Allowances for Urban Low-Income Lactating Mothers) are proposed with a total outlay of Tk. 2,320 crore. On the other hand, allocation under existing microcredit programmes has been increased from Tk. 634.91 crore in FY2007-08 to Tk. 665.87 crore in FY2008-09 (4.8 per cent increase). Number of beneficiaries has been increased from 84.75 lakh in FY2007-08 to 97.40 lakh in FY2008-09 (14.93 per cent higher).

The budget for FY2008-09 has proposed a new programme titled "100 Days Employment Guarantee Scheme" with an allocation of Tk. 2,000 crore to generate employment for 20 crore man-days for the ultra-poor and the rural middle and lower middle class communities. It aims to create 100 days assured job, particularly during mid-October to mid-January and also during mid-March to mid-May with a daily remuneration of Tk. 100 per person. Total number of targeted beneficiaries is 20 lakh unemployed poor. This is the largest social safety net programme undertaken in Bangladesh. CPD has been recommending for such a programme for the last three years. Effective implementation of this programme would require involvement of local government which is currently weak in Bangladesh. Another concern is that Tk. 100 per day remuneration could prove to be low; this will need to match prevailing daily wage. India has been implementing a similar programme throughout the country since February 2006. Bangladesh may learn from the experience of India. Indian experience is provided in detail in Box 2.2.

Development Sector Programmes: 13 development sector programmes (11 on-going and two new) will be implemented for social empowerment. On-going development programmes implemented as part of social safety net are: Stipend for Primary Students; School Feeding Program; Stipend for Drop-out Students; Stipend for Secondary and Higher Secondary/Female Student; Stipend for Poor Boys in Secondary School; Maternal Health Voucher Scheme; Rural Employment Opportunities for Protection of Public Property; Community Nutrition Programme; Char Livelihood; Shouhardo Program; Accommodation (Poverty Alleviation and Rehabilitation) Project. Two new programmes are: Rural Employment and Rural Maintenance Programme; and VGD-Ultra Poor (8 districts in Monga area). Total allocation for safety net programmes implemented as part of development sector programmes has been increased from Tk. 1,465.42 crore in FY2007-08 to Tk. 1,915.65 crore in FY2008-09 (31 per cent higher).

Concerns and Suggestions

A current CPD study indicates that an additional 8.5 per cent people (2.5 million families) could have fallen below the poverty line in recent times (between 2005 and 2008), because of high inflation, particularly of rise in rice prices. The study added that population below the poverty level of income experienced an income erosion of 36.7 per cent during January 2007 to March 2008. Considering the realities, the Finance Advisor has come up with a larger social safety net programme, and initiated special programmes of employment creation for poor and low-income group. We do hope that these programmes will be effectively implemented.

Though the government extended its safety net programmes which is expected to help the poor and vulnerable and mitigate the food deprivation of people below the hard core poverty line, further attention is requested to be given in the per capita allowance of such programmes. It is to be noted that, PRS-II (draft) also suggests a floor to the minimum level of allowance at Tk. 400 in each of the allowance programmes. Allocations in proposed budget fall short of this. No new programme is offered for RMG workers. The government may reconsider the CPD proposal put forward earlier pertaining to setting up a Contributory Provident Fund (CPF) for RMG workers (with 50:50 contributions by the factory owners and the government). CPD has also given some additional specific proposals for physically and mentally challenged children and their family. Even though the PRS-II (draft) comes up with initiatives for elder women with no children, the proposed budget does not provide with any such programmes. Government may think again over those proposals as many of organisations and individuals demand more attention to this section of the people.

Box 2.2: India's National Rural Employment Guarantee Act (NREGA): Lessons for Bangladesh

Legal Basis: National Rural Employment Guarantee Act (NREGA) was passed by the Indian Government on 25 August 2005. The NREGA ensures a legal guarantee for 100 days of employment in every fiscal year to adult members of any rural household willing to do unskilled manual work at the statutory minimum wage. The Act guarantees unskilled manual employment, but also addresses the special need of physically challenged individuals and women. Initially only the households living under poverty line were targeted, but later on the word "poor household" was replaced by "household" for guaranteeing jobs in every household for one person.

Coverage, Eligibility and Achievements of the Programme: The scheme started with 200 districts in 2 February 2006 and now (2008) runs in all the 596 districts in FY2008-09. All adult members of a rural household can apply for employment even if any person is already employed/engaged for few months in a year, he/she has right to demand employment

(Box 2.2 contd.)

(Box 2.2 contd.)

as unskilled manual worker under this scheme. Women will get priority and one-third beneficiaries under the programme are to be women.

The adult members of every household need to submit their names, age, sex and address to the Gram Panchayat for registration and this registration will be valid for 5 years and is open for the whole year. Gram Panchayat does the verification of details submitted by household for registration. The applicant receives a job card in return. Within 15 days of submitting the application, employment is provided to the individual. If employment is not provided, then the applicant would be entitled to receive unemployment allowance. Work will be provided within 5 kilometres of the applicant's residence else a travel allowance has to be paid.

Employment provided to households	3.39 Crore
Person-days (in Crore)	
Total	143.68
Scheduled castes (SCs)	39.42 (27.44%)
Scheduled tribes (STs)	42.06 (29.27%)
Women	61.09 (42.52%)
Others	62.2 (43.29%)
Total works taken up	17.92 Lakhs
Works completed	8.24 Lakhs
Works in progress	9.69 Lakhs

The workers receive the statutory minimum wage applicable to agricultural workers in the state, unless the central government "overrides" this by notifying a different wage rate. If the central government decides, it may notify a wage rate, which will not be less than Rs. 60/- per day. Wages can be paid as daily wages or piece rates as both are permitted under the Act. If wages are paid on a piece rate basis, the schedule of rates has to be such that a person working for 7 hours would normally earn the minimum wage.

Implementing Institutions: Gram Panchayats (half of Employment Guarantee Scheme (EGS) works), other Panchayati Raj Institutions (PRIs), Line departments (Public Works Department (PWD), Forest Department), non-government organisations (NGOs) are the implementing agencies but no private contractors are allowed. Only productive works like minor irrigation, water conservation, drought proofing, desilting of tanks, flood control, land development, rural roads, etc. are permitted under the scheme.

Limitations and Problems Faced by India: Implementation of NREGA faced some problems. These are as follows: (1) Only 3.2 per cent of the registered households could avail of 100 days of employment and average employment provided under the scheme was just 18 days (2) Low skilled workers tend to move away from agricultural sector since it involved uncertainty in production; (3) Agricultural wage is going upward in some areas; (4) Even if workers are offered a higher wage, they prefer guaranteed employment because little work brings more money as there is lack of supervision. Lack of monitoring also gives rise to shirking/moral hazard/free riding problem; (5) During rainy season, it is not possible to continue ongoing projects. The programme is accused of providing untimely employment, not when it is needed the most, not in efficient projects; (6) Leakages, over payment, under payment, delayed payment without compensation, false registration, fund diversion, problem of effective targeting, etc. are causing this programme to run inefficiently; and (7) Deficient financial management and tracking system, inadequate and delayed planning of works, absence of authenticated books for records, lack of adequate administrative and technical manpower (Rediff.com (22 August 2005); Indian Express (7-10 January 2008); Down to Earth (19 April 2006, 5 July 2006)).

Measures Taken to Overcome the Limitations: To ensure transparency and accountability "Transparency and Accountability Rules" (Draft) has been formulated. It emphasises on pro-active disclosure at the worksite, Gram Panchayat office, block office, district, state and national level. Master roll, management information system (MIS) reports are available on the website of the NREGA (http://nrega.nic.in/).

2.7 CONCLUDING REMARKS

It is envisaged that the budget FY2008-09 will be implemented by two successive governments, the CTG, to be followed by a democratically elected government. It will be the responsibility of the CTG to ensure that initiatives envisaged in the present budget get off to a good start from the very beginning. CTG will need to give topmost priority to such areas as ensuring food security through a good Aman harvest, effective implementation of large scale safety net programmes, implementation of the various incentives provided in the budget, maintaining an investment friendly environment and ensuring quality and on time implementation of the ADP. It will be critically important that the CTG is able to maintain the required macroeconomic stability as the country moves towards election at the end of 2008. Implementation of the budgetary proposals will need to be monitored and put under scrutiny on a continuing basis so that necessary mid-course corrections may be undertaken in view of emerging developments, both in the domestic economy and in the global front. CTG will need to make every effort so that democratic transition takes place in an environment of economic growth and social coherence.

Chapter III

A Set of Proposals for the National Budget for FY2008-09

3.1 INTRODUCTION

This chapter contains a set of proposals prepared by the Centre for Policy Dialogue (CPD) for submission to the Ministry of Finance, Government of Bangladesh (GoB). These proposals were prepared in the context of the upcoming national budget FY2008-09 by keeping in view the need for enhanced production and economic growth, reduced inequality and interests of producers and consumers. Accordingly, the proposed measures take into cognisance the challenges of revenue generation, investment promotion, export expansion, domestic industrilisation, balanced regional development, equity and needs of the marginalised, and reforms of tax administration.

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3. 2 GENERAL FISCAL MEASURES

3.2.1 Income Tax

- Tax exemption limit may be revised upward to Tk. 200,000 from the existing Tk. 150,000 considering the current inflationary pressure in the economy. The minimum threshold could be kept at Tk. 2,000.

- In view of the recent price hike of essentials and the consequent fall in real income, particularly of fixed income groups, government may consider introducing a 30 per cent dearness allowance on basic salary of all government employees.

- In view of the rise in house rent, the ceiling of tax-free house rent allowance may be refixed at 60 per cent (currently 50 per cent or Tk. 15,000, whichever is lower) of the basic salary. However the maximum limit may remain at Tk. 15,000. Accordingly, the relevant service rule provisions should be amended.

- An employer has to submit information regarding payment of salary and tax deduction at source as per section 108 of ITO 1984 to the concerned Deputy Commissioner of Taxes (DCT) Office. Emphasis should be given to strict implementation of the provision. In this regard DCT office could prepare/update a list of organisations at the beginning of each financial year and serve notice for non-submission of return at the end of submission time.

- It needs to be stipulated that certification of tax assessment is submitted at the time of trade (or any other) license renewal.

- Current campaign needs to be continued to identify potential tax assesses and broadening tax net.

- The ambit of the large taxpayer units (LTU) needs to be expanded to enhance opportunities for tax mobilisation.

- For dividend income when reinvested, tax may be waived (currently taxed at 10 per cent at source). It may be noted that, non-resident foreign investors in export processing zone (EPZ) are already enjoying tax free reinvestment of dividend income.

- Given the current depressed investment situation, the National Board of Revenue (NBR) may like to consider for an extension of tax holiday facilities for industries by another five years. The existing tax holiday scheme is set to expire in June 2008. After five years, the decision may be revisited on the basis of a comprehensive assessment on the impact of the scheme.

- Limit of investment allowance may be enhanced to 25 per cent from the existing 20 per cent (in this case existing limit of Tk. 250,000 could be enhanced to Tk. 300,000 to encourage investment).

- Tax on not-for-profit research institutions should be waived since such taxes amount to tax on knowledge.

- 4.5 per cent value added tax (VAT) on coaching centres, English-medium schools, private medical and engineering colleges and private universities may be withdrawn. A device needs to be designed so that entrepreneurs of such services have to pay the tax, but are not able to pass the burden on to their clientele.

- Taking cognisance of the need to further curtail the population growth rate, government may device an incentive package for all government employees who have only one child. This could be considered an added advantage in case of promotion and placement.

3.2.2 Corporate Income Tax

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

- Turnover tax limit for SMEs may be revised from annual turnover of Tk. 20 lakh to Tk. 30 lakh.

- Implement a time-bound plan to ensure that all units of the corporate sector implement harmonised and international accounting standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) to ensure proper tapping of the corporate profit tax.

3.2.3 VAT

- Dedicated funds should be allocated to ensure proper implementation of earlier decision on VAT inclusive maximum retail price (MRP).

- VAT related appeals should be settled within six months instead of current limit of one year.

3.2.4 Customs Duty

- Customs duty (CD) on capital machinery and intermediate goods should be reduced considering the recent declining import trends of such items. These rates were increased to 10 per cent and 15 per cent respectively in the budget for FY2007-08.

- Withdrawal of zero duty on textile machinery, computer and computer accessories in the budget FY2007-08 may be reconsidered as this raises the import cost of these items and may not prove to be favourable to the information technology (IT) industry.

- Dispersions of duty rates needs to be reduced within 4-digit tariff heads.

3.2.5 Supplementary Duty

- Supplementary duty (SD) may be enhanced on high-value vehicles and other items generally used by the richer segments of the society.

- Abolishing the SD on raw materials and components is necessary to ensure interests of the local industries.

3.2.6 Land Price and Registration Charge

- Government should decrease high transfer registration cost to reduce propensity to evade tax and to protect the current revenue intake under this head.

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

- Simplify land registration procedure.

- Rationalise the minimum value of flats and buildings for tax purposes, reflecting current market prices and location variations.

3.3 EXPORT PROMOTION AND IMPORT SUBSTITUTION

3.3.1 Export Promotion

- All dyes, chemicals and other raw materials used in export oriented 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.

- Government should allocate fund for establishment of an Integrated Textile Park (ITP). The main purpose of introducing the ITP is to provide the entrepreneurs with world class infrastructure facilities for setting up their textile units.

- Plastic industry is emerging as a major contributing sector in our foreign earnings. The government should consider providing 10 per cent cash incentives to this industry. Similarly, in recent years export of jute goods has grown significantly and it is currently enjoying 7 per cent cash incentives. It is proposed that the 7 per cent be increased to 15 per cent.

- In order to enhance ship-building sector in the country, government should provide bonded warehouse, tax exemption on raw materials and cash incentive facility to this sector. Government should also declare this sector as a thrust sector when announcing its export policy.

- To develop and strengthen backward linkage textile industry and the country's traditional jute industry, a Technology Upgradation Fund may be established (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 agro, agro-processing and IT-related projects. It may cover other potential areas, such as light engineering, plastic, melamine, and electronics. The allocation of the EEF may be increased from the existing level.

- In view of increasing demand for maintaining better quality and standard of Bangladeshi products, government should allocate more funds for modernisation and upgradation of the facilities of Bangladesh Standards and Testing Instituition (BSTI).

3.3.2 Domestic Protection and Import Substitution

- Rationalisation of tariff rates needs to continue so that raw materials are not taxed at a higher rate compared to finished goods.

- Concessional CD may be extended to import substituting industries (e.g. locally manufactured electronic industry) for import of parts and components.

- Import of maintenance-free lead acid batteries used for assembling of import substituting rechargeable lamps and uninterrupted power supply (UPSs) may be exempted from the VAT net.

- Duty on imported stainless steel (SS) used as raw materials in making hospital beds, medical surgical or veterinary furniture, should be reduced from existing the 15 per cent.

- In order to safeguard domestic industry of manufacturing voltage stabilisers, government may impose duty over voltage stabilisers imported in finished form.

- It is proposed that the current import duty on clinker which is Tk. 350 per ton should be reduced to Tk. 200 per ton in order to generate competitiveness in the domestic cement industry.

3. 4. SOCIAL SECTOR AND SOCIAL PROTECTION SCHEMES

3.4.1 Women Development

- Government has been allocating fund for the welfare of readymade garments (RMG) women workers which have remained unused. Contributory Provident Fund (CPF) for garment workers may be made with an equal amount of contribution from government and the company. The amount paid by the company as CPF is to be declared tax free.

- Amount of money provided for destitute and widow women which is now Tk. 220/person per month is too low for the survival of a person, especially in the prevailing inflationary period. Allowance for the destitute and widow women may be raised from the current level of Tk. 220/person per month to Tk. 300/person and coverage should be increased up to 10 lakh from the current 7.5 lakh.

- For the pilot programme titled "Maternity Allowance for the Poor Lactating Mothers," allowance of the expected poor mother can be increased from Tk. 300 to Tk. 350/person per month this year.

3.4.2 Employment Generation

- The government may consider introducing a Rural Employment Guarantee Scheme for the unemployed. For a beginning, in view of regional disparity, this scheme may be introduced in three Divisions: Rajshahi, Khulna and Barisal. This scheme may seek to provide guaranteed employment to one member of every household below a threshold income level (hard core poor) for at least 100 days a year, especially in the lean (Monga) season. The minimum wage could be Tk. 150 per day.

- In the last budget, Tk. 550 crore were allocated for employment generation in rural areas outside the Ministry-based employment generation programmes, a portion of which was implemented by Palli Karma-Sahayak Foundation (PKSF) through their associate non-government organisations (NGOs). This year this amount should be increased for the disaster affected people in the southern Bangladesh.

- Government could consider creating a development fund under Ministry of Expatriates' Welfare and Overseas Employment (MEWOE) for development of skill, language course and other training facilities for workers going abroad, and also for providing loans.

3.4.3 Rehabilitation of the Disaster Affected People

- Special fund should be allocated for the rehabilitation and employment generation of the Sidr affected people in the southern districts of Bangladesh

- For the coastal areas of Bangladesh, government should allocate funds for the construction of more cyclone shelters for both human and livestock, especially in the char areas.

- In the upcoming budget, needs of the urban poor, char landers, disaster prone or monga prone people and low-income groups should receive proper budgetary allocation.

3.4.4 Rehabilitation for Senior Citizens and Uprooted People

- Considering the prevailing inflationary situation in the country, allowance for senior citizens may be increased to Tk. 300/person per month from the current Tk. 220/person per month. The coverage under the programme should be increased up to 25 lakh from current 17 lakh.

- For the rehabilitation of the slum dwellers, initiatives may be taken to lease out government khas lands to slum dwellers in various locations in the Dhaka city. Fund should be allocated to improve the physical environment of slums to provide adequate service facilities, e.g. electricity, gas, drainage, water, etc.

3.4.5 Education

- Scaling up of scholarships and incentives for disadvantaged girls and boys from very poor families would be a good initiative.

- Government may consider tax waiver on educational expenses up to Tk. 10,000 per annum.

3.4.6 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. 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 equipments for the disabled may be reduced.

- Government has allocated Tk. 10 crore fund for "Rehabilitation of the Acid Burnt Women and the Physically Handicapped" in the budget for FY2007-

08. Government may consider increasing the fund under this social safety net programme.

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

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

- Allowance for the disabled is proposed to be increased from current Tk. 220/person per month to Tk. 300/person per month and also the expansion of beneficiary coverage up to 2.5 lakh from the current 2 lakh

3.5 PRICE STABILISATION/SUPPORT

- Continue with zero-tariff on import of edible oils (crude and refined), lentils and essential food commodities including rice (proper monitoring to discourage over invoicing needed).

- Adequate allocations will need to be made to cover the difference between procurement price and OMS price.

- Higher allocation is needed for greater coverage and higher entitlement under various safety net programmes.

3.6 SECTORAL MEASURES AND REGIONAL DEVELOPMENT

3.6.1 Agriculture

Crop Sector

- Special support may be given for production of Breeder's seed of recently released varieties of rice, jute 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 label (TFL) seed to be used for cultivation by the farmers.

- Allocation should be made for procurement of quality seeds, particularly those of recently released varieties (such as BR47), suitable for cultivation in salinity prone areas during Boro season. This will increase the ability of the public sector to supply quality seed for rapid expansion of modern varieties.

- Putting in place cash incentive for insurance companies which would undertake crop insurance programme may be considered.

- Allocations will need to be made for distribution of seed 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.

- To promote hybrid rice seed production in the country, government needs to encourage public sector agencies, such as BADC, Bangladesh Rice Research Institute (BRRI), Bangladesh Institute of Nuclear Agriculture (BINA) and agricultural universities, as well as private seed companies and NGOs involved in seed production and marketing.

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

- Annual demand for fertiliser for urea, triple super phospate (TSP) and muriate of potash (MoP) in FY2008-09 need to be determined as per the production target. This would require an upward revision of the current fertiliser supply. Amount for fertiliser subsidy should be estimated accordingly and allocated.

- To encourage balanced use of fertilisers, government may consider redistribution of subsidy among the various types of fertilisers, e.g. urea, TSP and MoP.

- Duty-free import of fertilisers should continue.
- Fertiliser prices are increasing world wide, and therefore, budgetary provisions are required for increased domestic production of fertilisers which may include renovation of existing fertiliser factories and establishment of new fertiliser factories.
- 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 which has been effective 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.
- Amount, mode and time of payment for diesel subsidy need to be revisited. The budget for FY2007-08 proposed Tk. 750 crore as subsidy on diesel used in irrigation which was reduced to Tk. 250 crore at a later stage.
- In the budget of FY2007-08, 10 per cent duty on import of power pumps was introduced. This may be withdrawn.
- Government needs to undertake a special programme for establishing different types of Krishi Bazars for farmers, particularly in the higher production areas of Bangladesh.
- The government will need to make adequate allocation for procurement of Boro and Aman.

Livestock and Poultry

- Zero tariff on import of inputs and machineries to fight Bird Flu by the poultry farmers, needs to be ensured.
- Existing tax holiday for poultry farms should be extended to June 2013.
- 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. Allocations may be increased further for this purpose.
- Continue the existing policy of exemption from all duties and taxes on raw materials for dairy and poultry feed, medicine, other medical inputs an capital machineries required by the livestock sector.
- Continue existing CD (25 per cent) on poultry products (meat, eggs).

Fisheries

- Allocations for special projects for development and management of broodstock of fishes may be made for such types of fish as ruhi, katla, tilapia, etc. for facilitating quality supply of fingerlings. The current focus is rather limited in this regard.
- Appoint more fisheries officers and veterinarians in intensive fish cultivation and poultry production zones such as Gazipur, Narsingdi, Bhaluka, Savar and Daudkandi.

Others

- A fund of Tk. 100 crore has been allocated in FY2007-08 for small farmers affected by natural disasters. This should be further enhanced in view of the severe disasters of FY2007-08 and their implication on the affected farmers.
- Strengthening extension and marketing services for horticultural products is necessary through more allocation.
- Extend income tax exemption period on income from fish farming, poultry and dairy farms and poultry feed production up to 30 June 2013 (instead of 30 June 2008)
- 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 supports (provision of Breeders' seed at a subsidised rate).

3.6.2 Agro-based Industries

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

- Benefit of tax exemption and rebate for jute industries was allowed up to 30 June 2008. This benefit should be extended to June 2013.

- Allocations for sanitary and phytosanitary (SPS)-technical barriers to trade (TBT) compliance related capacity building needs to be strengthened.

3.6.3 Apparels and Textiles Sector

- To promote and support the process of up gradation 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 FY2007-08, 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 confessional loans to RMG enterprises for encouraging them to relocate RMG plants from Dhaka and Chittagong zones and into designated garment villages.

- Government should ensure adequate credit for small, medium and large enterprises in order to enhance scaling up of these enterprises. Sufficient land should be provided outside city areas to relocate and upgrade RMG factories as well as to establish state of art factories. In this context, government should develop the proposed site for garment village in Munshiganj on an urgent basis.

- 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 FY2007-08, the government may continue to provide concessional import duty on raw materials for the textile sector.

- Government should provide more support to vocational training institutes for extending activities related to fashion design and technology. Vocational training institutes should offer their programmes at an affordable expense for people of rural/peri-urban areas. A national comprehensive plan is required for effective utilisation of various technical, vocational and diploma training institutes.

- Government should develop a "Fund for R&D Development" for textile and apparel sector, under which subsidised credit could be disbursed for the establishment of research and development (R&D) units in RMG enterprises.

- Import of yarn from India through Benapol Port should have to be hassle free. In case of Chittagong port, it is important to relax the clearance procedure, as well as system of bank guarantee document submission to the port authority, etc. Besides, the existing rule of using "escort" to clear the imported yarn should be immediately withdrawn. However, necessary oversight mechanism will need to be put in place.

3.6.4 Jute Sector

- Adequate allocations need to be made for paying the arrears accruable to retrenched workers of all public sector jute mills, including four jute mills which were closed in the recent past.

- In order to encourage export of jute goods, government should increase cash incentives from 7 per cent to 15 per cent.

- Government needs to continue the current practice of 15 per cent tax on income of manufacturers of jute goods for another five years, i.e. up to June 2013.

- Import duty on stretch raping film (HH Code No. 3920-1010) which is used as raw materials for manufacturing yarn, needs to be reduced from the existing 15 per cent to 5 per cent.

- NBR should provide necessary guidelines as regards income tax waiver on company's expenditure for "workers participation fund" and "workers welfare fund," for which provisions have been made under Labour Law 2006.

3.6.5 Information and Communication Technology (ICT)

- Tax holiday facility for the ICT sector will be expired in 30 June 2008. In view of the enhancing ICT sector, government should consider extension of tax holiday facility in software and IT enabled services for another 5 years.

- Import duty on computer accessories can be lowered from their existing levels. Advance income tax at import stage for computer and computer accessories can be removed.

- Government should consider rate of depreciation of computer goods while assessing income tax of IT firms.

- To increase the use of internet for the purposes of business, education and other activities, government should take necessary initiative for lowering of charge of internet use.

- In order to develop software to cater the demand of international market, allocations should be made for establishing an integrated Software Technology Park (STP) in the country. This will promote software industry of the country. Allocation should be made in this regard.

- The current EEF in IT-related projects should include the Call Centre project. In order to facilitate the call centre business, access to credit facility needs to be ensured.

3.6.6 Small and Medium Enterprises (SMEs)

- To ensure SMEs' access to credit facilities and to provide encouragement to the banks and financial institutions, the Refinancing Scheme which was introduced in FY2006-07 should be continued.

- Corporate tax rate of banks and financial intuitions can be determined on the basis of their type of financing. In this context, a reduced corporate tax rate can be considered for the financed amount which targets the SME sector.

- In order to make SME products competitive, the difference of import duty between final products and raw materials need to be widened. In this context, import duty on raw materials used in SME enterprises can be fixed at a low level.

3.6.7 Real Estate

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

- Government may consider raising the limit for house building loan at reduced rate by enhancing individual's monthly income limit from Tk. 30,000 to Tk. 50,000.

3.6.8 Power and Energy

- In view of ensuring energy security of the country on a sustained basis, government should make necessary allocations to set up atomic power plants by taking support from various development partners.

- To ensure generation of more electricity, adequate allocations should be made for developing more transmission lines in order to ensure sufficient gas supply for all gas-based power plants.

3.6.9 Tourism

- In view of prospect of developing five star hotels in Bangladesh and subsequent export opportunities with regard to hotel catering and other services, adequate allocation should be made to Bangladesh Parjatan Corporation (BPC).

3.6.10 Infrastructure

- In view of substantial damage of roads, bridges, culverts and embankments, etc. during two consecutive floods and cyclone Sidr in the last year, government should increase budgetary allocation for necessary repair and development of those infrastructures.

- Government should speed up the process of finalising the formalities to initiate preliminary works for establishing "Padma Bridge." Necessary funds will need to be generated towards this end.

- Government should prepare a modernisation, expansion and development plan for Mongla Sea Port. Government should place the plan for necessary funding under WTO's "Aid for Trade" (AfT) programme.

- Adequate funds need to be allocated for expansion of Chittagong port.

3.6.11 SoE

- Government has initiated off-loading shares of state-owned enterprises (SoEs) in the stock exchange such as Jamuna Oil Company Ltd. and Meghna Petroleum Ltd. Government should take necessary measures to speed up the process of off-loading of shares of other SoEs, which are currently under consideration (including Bangladesh Biman).

3.6.12 Environment

- Government has withdrawn import duty from the Effluent Treatment Plants (ETPs) in the National Budget 2007-08. Industries which have not taken advantage of this facility and is still contributing to pollution should be penalised.

- Different parts of ETPs are treated as separate component and customs authorities charge duty for each item independently which increases the overall cost. It is necessary to consider all parts of ETP, whether imported together or separately from different sources as an integral part of a whole machine, and should get duty-free import facility.

- Carbon tax may be imposed on the old carbon emitting transports.

- Polluters Pay Principle (PPP) 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 ETPs are not installed within the stipulated period.

- Industries may be provided with soft loans for investment in pollution prevention and control equipments. This may be done through support from EEF.

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

3.6.13 Regional Development

- Recent evidence on poverty dynamics shows that Bangladesh notwithstanding being a relative small landmass 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. Moreover these regions are also affected by either flood or Sidr this year. Chittagong Hill Tracts (CHT) and other areas inhibited 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 infrastructure development (e.g. inter-connecting roads, electricity and gas supply).

- "Backward Region Development Fund" should be initiated by the government for the development of the backward regions of the country. A recent study on analysis of poverty incidence, measured through Head Count Ratio, in different regions (old districts) revealed that poverty has increased in eleven regions (Bogra, Dhaka, Jamalpur, Jessore, Khulna, Noakhali, Pabna, Patuakhali, Rajshahi, Rangamati and Tangail) and decreased in nine regions (Barisal, Chittagong, Comilla, Dinajpur, Faridpur, Kushtia, Mymensingh, Rangpur and Sylhet) between 1995-96 to 2005-06. Districts with increased poverty may be targeted under this fund.

3.7 RESTRUCTURING THE TAX ADMINISTRATION

- *Maintaining a Database:* NBR may maintain a computerised database of the Tax Payer's Identification Number (TIN) of each assessee for verification of the amount of tax collected from the respective TIN holder on a random basis to check tax payments and detect tax evasion.

- *Reduction of Evasion of CD:* Data on revenue collection may be passed on to the NBR monitoring cell on a regular basis if online network is developed between the customs points and the NBR.

- *Justice for the Tax Payers:* For ensuring that proper tax payers receive justice at taxes appellate tribunal, the tribunal may be reconstituted in line with the past provisions of having a judicial member.

Chapter IV

State of the Bangladesh Economy in the Run-up to the National Election 2008

Table 4.1: Revenue Growth Achieved during July-October of FY2008-09 and the Subsequent Required Growth for the Rest of the Fiscal Year

	Actual Growth FY2007-08	Growth Target FY2008-09	% Achieved (Jul-Oct FY2007-08)	% Achieved (Jul-Oct FY2008-09)	Growth (Jul-Oct FY2008-09)	Required Growth (Nov-Jun FY2008-09)
Customs Duty (CD)	17.7	13.1	27.8	27.5	11.9	13.6
Value Added Tax (VAT) (Import Stage)	34.5	12.6	26.6	31.0	31.4	5.8
Supplementary Duty (SD) (Import Stage)	46.6	20.4	31.8	35.8	35.5	13.4
Sub-Total (Import Stage)	26.7	13.5	27.6	29.8	22.3	10.2
Value Added Tax (VAT) (Local Stage)	22.9	16.4	27.6	29.3	23.6	13.6
Supplementary Duty (Local Stage)	23.8	23.6	30.6	25.3	2.4	32.9
Income Tax	34.7	11.1	22.3	22.6	12.5	10.8
Excise and Others	27.8	22.7	26.6	16.7	-22.7	39.2
Sub-Total2 (Local Stage)	8.0	15.9	26.0	25.3	13.0	16.9
Grand Total	27.4	14.9	26.7	27.2	17.0	14.1

Source: CPD-IRBD database, 2008.

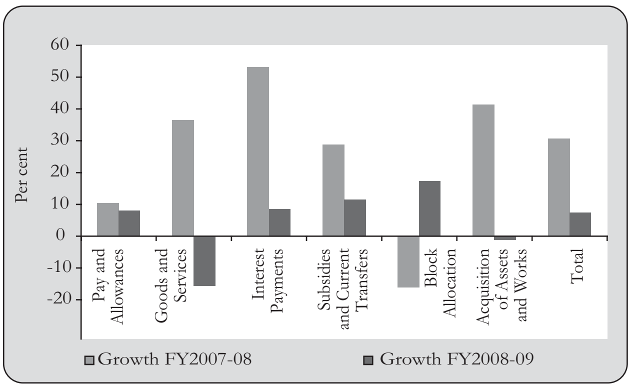
However, some cautionary note should be added here. Adverse consequences of financial crisis and volatility in commodity prices could challenge the attainment of the annual target by the end of this fiscal year. Falling international commodity prices and slowing down of imports could have a dampening effect on import related revenue. This is already evident from the October data. The month-to-month comparison reveals a negative (-)1.7 per cent fall in customs duty (CD) collection in the month of October. This may reverse the momentum that was built-up during July-August FY2008-09, keeping in mind that duties collected at the import stage constitute over 40 per cent of the total NBR revenue. Higher petroleum imports (crude petroleum 157.50 per cent and Petroleum, Oil and Lubricants (POL) 91.77 per cent) by the government during the first quarter may have boosted revenue collection at import stage (average duty on fuel ranges between 28-37 per cent.

4.2.2 Revenue Expenditure

The robust revenue collection of last fiscal year helped balance the soaring revenue expenditure, which recorded 22 per cent growth in FY2007-08, owing to the post-Sidr rehabilitation, expensive public imports due to rising international prices, particularly for food, fuel and fertiliser, and higher subsidy demand. The revenue expenditure target (Tk. 59,081.4 crore) for FY2008-09 was set to rise by 15 per cent over the actual expenditure of FY2007-08.

Actual expenditure data available for the first couple of months of FY2008-09 indicates a deceleration in expenditure growth recording a modest 7.3 per cent growth over the corresponding period of FY2007-08. All three major heads of revenue expenditure- "pay and allowances," "interest payments" and "subsidies and transfers"- exhibited a moderate growth during July-August FY2008-09, registering 8.0 per cent, 8.5 per cent and 11.5 per cent growth rates respectively (Figure 4.1). However, the final expenditure figure for the first half of FY2008-09 could be much higher owing to the pay and allowances component, on account of two festival bonuses and revenue expenditure in connection with the forthcoming National Election.

Figure 4.1: Growth in Revenue Expenditure during FY2007-08 and FY2008-09 (July-August)



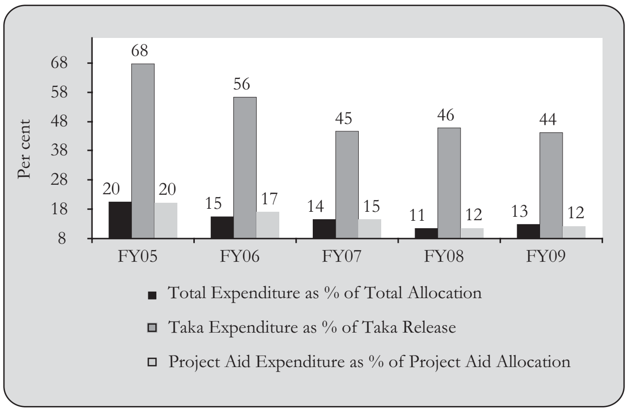
Source: CPD-IRBD database, 2008.

Budget for FY2008-09 allocated Tk. 13,641 crore for subsidies, nearly half (Tk. 6,106 crore) of which was allocated for Bangladesh Petroleum Corporation (BPC). However, as is known, crude oil price fell sharply in the international market from the record level at USD 147/barrel in July 2008 to around USD 43/barrel on 22 December 2008. This trend of low international prices may remain for some time to come, since the global slowdown is expected to result in lower demand for oil.[4] Simultaneously, prices of food and fertiliser in the international market have also been declining during last few months.[5] Hence, lower import payments on food and fertiliser, coupled with the phasing out of subsidy for BPC, may help ease the revenue expenditure pressure in the short to medium term, taking some pressure off the annual development programme (ADP) expenditure.

4.2.3 Annual Development Programme (ADP)

Implementation of about 80 per cent of the ADP has been perceived to be a tolerable achievement in recent years. Following the trend, 82 per cent of the ADP allocation could be utilised in FY2007-08. Rising revenue expenditure, in combination with rising cost of inputs that led contractors to demand a review of cost estimations, hindered ADP implementation in FY2007-08. While such adverse factors had not been seen in current fiscal year, political transition in the middle of the fiscal year could impede the full delivery of Tk. 25,600 crore ADP in FY2008-09.

Figure 4.2: ADP Implementation during July-October (FY2004-05 to FY2008-09)



Source: CPD-IRBD database, 2008.

The usual slow rate in ADP implementation remained more or less unchanged in FY2008-09. Only 13 per cent of the total allocated amount was spent during the July-October of FY2008-09, which is similar to implementation record during the corresponding periods of previous fiscal years (Figure 4.2). Although 30 per cent (Tk. 4,103 crore) of the domestically financed component has been released during the first four months, only 44 per cent (Tk. 1,810 crore) of the disbursed amount has actually been spent at the field level. At the same time, only 12 per cent of the project aid could be utilised during this period.

The mid-fiscal year transition, due to preparation for National Elections and the time required for the new government to settle down, could affect the overall ADP implementation performance in FY2008-09.

The newly elected government was also likely to prioritise some of the sectoral targets. Hence, reaching a reasonable ADP implementation level of about 80 to 85 per cent by the end of FY2008-09, both in quantitative and qualitative terms, will be a dual challenge for the new government.

4.2.4 Deficit Financing

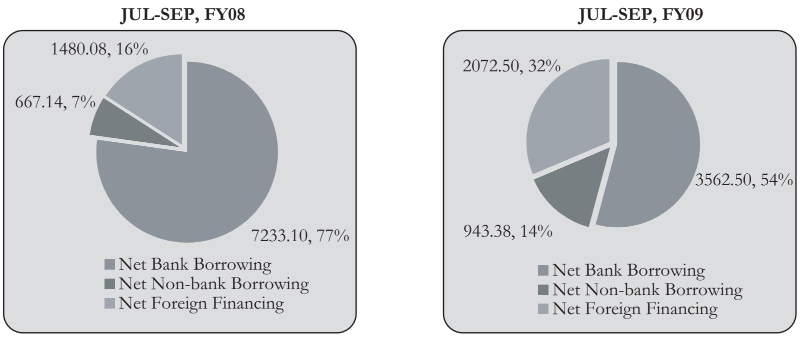
While budget deficit as a percentage of GDP remained less than 4 per cent during FY2005-06 and FY2006-07, the actual budget deficit in FY2007-08 was higher at 4.9 per cent, the highest recorded since FY2000-01. For FY2008-09, a deficit of 5 per cent of gross domestic product (GDP) (Tk. 30,580 crore) has been projected, with about USD 2.6 billion gross foreign financing requirement (about USD 2.0 billion in net terms).

According to the latest available statistics, overall deficit financing declined by 30.0 per cent during the first quarter of FY2008-09. Compositional change in deficit financing has also taken place, as the share of bank borrowing came down to 54.2 per cent during this period from 77.1 during the corresponding period of FY2007-08. Non-bank borrowing, on the other hand, is showing higher growth of 41.4 per cent, albeit over the low benchmark of FY2007-08. Higher non-bank borrowing is also associated with some of the fiscal incentives provided in the budget. This was

[4]Although, the Organization of the Petrolium Exporting Countries (OPEC) has taken a decision to reduce oil production by 2.2 million barrel/day (as of January 2009, taking total reduction to about 4.0 million barrel/day in the recent past) this is still to put a brake on the falling fuel prices in the international market.

[5]During July-November period of 2008, rice price fell by 24.5 per cent and Urea fertiliser fell by 67.6 per cent.

Figure 4.3: Deficit Financing in FY2007-08 and FY2008-09 (July-September)



likely to have some dampening effect on crowding-out of private investment as far as bank borrowing was concerned.[6] Such structural shift in government borrowing could also have implications in terms of inflationary developments.

During the first quarter of FY2008-09, the CTG had some success in mobilising foreign resources with a net foreign financing growth of 40.0 per cent. Consequently, the share of foreign resources in total deficit financing for the first quarter of the fiscal year increased from 15.8 per cent in FY2007-08 to 31.5 per cent in FY2008-09 (Figure 4.3). This is expected to increase with the recently announced World Bank support of USD 149 million to Dhaka Water Supply and Sewerage Authority (WASA) for improvement of services. The World Bank has made the highest ever aid commitment of USD 1.34 billion for FY2008-09.

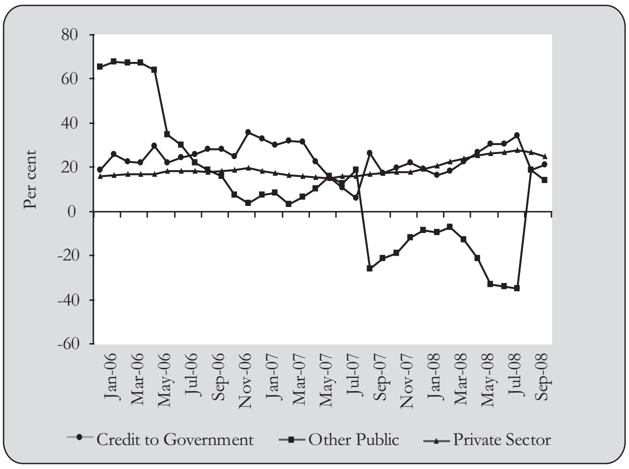
4.3 MONETARY SECTOR

4.3.1 Money Supply and Domestic Credit

Broad money supply (in terms of M2) posted a higher growth of 20.63 per cent at the end of October 2008 in the backdrop of around 17 per cent growth in previous two fiscal years. Reserve money (RM) also increased by 21.88 per cent at the end of October 2008. Scheduled banks had excess liquidity of Tk. 19,354.83 crore as of end October 2008, against Tk. 12,988.58 crore as of end June 2008.

FY2007-08 posted an impressive 20.95 per cent annual growth in domestic credit. FY2008-09 is continuing with the similar high rate of domestic credit growth which registered a 23.41 per cent growth at the end of October on a point-to-point basis over the corresponding high benchmark figure in FY2007-08. This increase has originated from expansion of domestic credit to the private sector by 24.72 per cent and growth of net credit to the government sector by 21.19 per cent. Credit to other public sector remained under control at the end of FY2007-08 registering a 14.06 per cent growth at the end of October 2008. Figure 4.4 depicts the growth trend of domestic credit. The spectacular growth of domestic credit compared to previous years has to be closely monitored as the flow of this credit towards unproductive sectors such as consumer expenditure may contribute to increased inflation.

Figure 4.4: Trend of Domestic Credit



Source: CPD-IRBD database, 2008.

FY2007-08 ended with a high government borrowing originated from the banking source while non-banking source was losing its share on a continuing basis. In the backdrop of easing fiscal deficit, government borrowing registered 13.87 per cent growth at the end of October 2008. Sale of National Savings Directorate (NSD) certificates during first four months of FY2008-09 registered a low 3.25 per cent growth over a low benchmark figure of last year. As repayment of the principal amount declined by 8.09 per cent, this led to a doubling of government's net borrowing through NSD certificates.

[6]Probably owing to the anti-corruption drive that initiated a fall in the sale of NSD certificates and resulted in a shift of public savings towards the equity market.

4.3.2 Agricultural Credit

In FY2007-08, Bangladesh Bank directed all nationalised and private commercial banks (PCBs) to increase disbursement of agricultural credit in order to boost agricultural production in view of the global food crisis, and the loss of domestic production due to flood and cyclone in FY2007-08. The result was evident, as total disbursement stood at Tk. 8,580.66 crore at the end of FY2007-08 which is 62.13 per cent higher than its low benchmark of FY2006-07 that registered a negative 3.71 per cent growth. During the same period the recovery of agricultural credit made appreciable growth of 28.39 per cent, resulting 33.7 per cent growth of net disbursement. Agricultural credit disbursement increased 27.2 per cent during July-November of FY2008-09, while recovery declined by 3.68 per cent compared to the corresponding figures of FY2007-08. The targeted growth of agricultural credit disbursement for the full fiscal year is set at 9.31 per cent.

4.3.3 Term Loan and Industrial Credit

The FY2007-08 was marked with remarkable 62.6 per cent growth in term loan disbursement in the backdrop of a moderate growth of 28.5 per cent during FY2006-07. On the other hand, recovery of industrial term loans during FY2007-08 was 50.3 per cent higher than that of FY2006-07, resulting in a 96.2 per cent growth in net disbursement. The momentum somewhat eased during the first quarter of FY2008-09, which observed a still high 30.8 per cent growth. On the other hand, recovery rate continued to remain high, registering 47.7 per cent growth which resulted in 7.5 per cent decline in net disbursement. Bearing in mind that the target for industrial sector growth is set at an average rate of 11.70 per cent annually during FY2008-09-11, further decline in term loan disbursement could dampen growth prospect in the medium term.

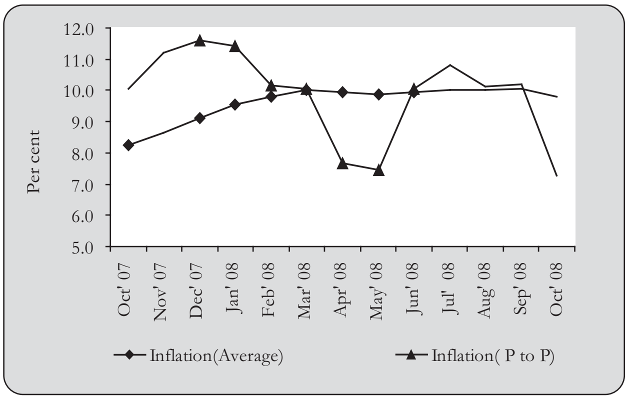
4.3.4 Classified Loan

The share of non-performing loans (NPL) has been on gradual decline over the last couple of years; this was particularly during the first quarter of FY2008-09. At the end September 2008, percentage share of classified loan to total outstanding loan declined to 12.34 per cent compared to 14.04 per cent of the corresponding period. Percentage share of net classified loan to total loan also reduced to 3.65 per cent at the end September 2008 from 5.59 per cent at the end September 2007. There is room for improving efficiency in the banking system, particularly in the state-owned commercial banks (SCBs). Though the government has corporatised three large state-owned banks with an objective to improve the quality, efficiency and performance of the institutions, the loan default scenario of these banks is yet to show any positive improvement.

4.3.5 Inflation

There has been a slight respite in terms of a declining trend of inflationary pressure during July-October 2008. Though annual average rate of inflation (12-month annual average consumer price index (CPI), 1995-96 = 100) increased to 9.8 per cent in October 2008 from 8.25 per cent in October 2007, this is a decline, marginal though, from 9.94 per cent in June 2008. The 12-month point to point inflation has declined to 7.26 per cent in October 2008 compared to 10.06 per cent in October 2007 (Figure 4.5). This rate of decline during the four months of FY2008-09 is not been fast enough to bring down the inflation rate to the government's projected rate of 9 per cent during FY2008-09. However, this target now seems to be achievable given the fast reduction of commodity prices including fuel prices in the international market.

Figure 4.5: Inflation Trends



Source: CPD-IRBD database, 2008.

Both food and non-food inflation have begun to recede, and are expected to go further down in the coming months. At the end of October, national food and non-food inflation rates on 12-month annual average basis were 12.29 per cent and 5.89 per cent respectively. On the other hand, 12-month point to point food and non-food inflation declined to 8.08 per cent and 5.95 per cent respectively in October 2008.

4.3.6 Interest Rate

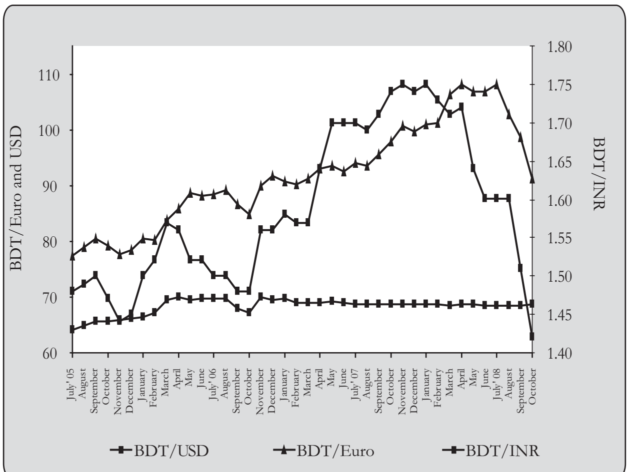
The issue of higher spread between the lending and deposit rate, a bone of contention among the business community, is also related to the overall efficiency and competitiveness of the banking system in Bangladesh. This conflict of interest has persisted for quite some time now. The Bangladesh Bank has directed the commercial banks to reduce the interest rate spread (IRS); however, the change here is not tangible. In October FY2008-09 the IRS was only marginally lower at 5.28 compared to 5.39 in October FY2007-08.

The bank rate has remained at 5 per cent since 2003. There is no plan to increase bank rate at the moment as the Bangladesh Bank has been pursuing a monetary policy in line with domestic and global realities.

4.3.7 Exchange Rate

At the global level, all major currencies have become weaker against the United States Dollar (USD) mainly due to withdrawal of USD from major markets in the face of global financial crisis. However, Bangladesh Taka (BDT) remained stable against USD and as a result against other currencies, such as Euro and British Pound (GBP) (since Euro/BDT and GBP/BDT rates are calculated from the traded rates of USD/BDT) (Figure 4.6). In view of the apprehension that export demand from Bangladesh

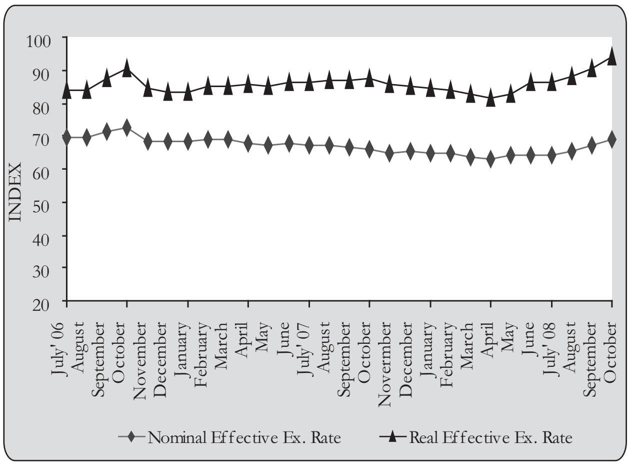
Figure 4.6: Movements of BDT against USD, Euro and INR



Source: CPD-IRBD database, 2008.

may fall and there may be a downward pressure in export price, some exporters have urged the Bangladesh Bank to depreciate BDT against USD. Their argument was reinforced by the fact of devaluation in neighbouring countries such as India, Pakistan and Vietnam which could lead to loss of competitive strength of Bangladeshi exporters. This also had implications for remittance flow.

Figure 4.7: Nominal and Real Effective Exchange Rate



Source: CPD-IRBD database, 2008.

Though Bangladesh follows floating exchange rate, the Bangladesh Bank does intervene the foreign exchange market from time to time in order to keep the USD/BDT rate stable. The exchange rate has in recent times remained stable against the USD; the depreciation of both Indian Rupee (INR) and Euro against USD resulted in appreciation of BDT by 18.39 per cent and 6.62 per cent respectively during October 2007 over October 2008. Over the last one month, the exchange rate of USD has gone up by about 35 paisa, although no perceptible shift in Bangladesh policy is discernible. But the Bangladesh Bank has helped this by not intervening aggressively in the market. This is most probably the effort of the Bangladesh Bank to make export and remittance competitive in the face of global meltdown and subsequent depreciation of exchange rate in the competing countries. During the last two years, the Bangladesh Bank intervened to make BDT mostly by buying USD to stop further appreciation of BDT.

However, the Bangladesh Bank is not in favour of depreciating BDT against USD at the moment for a number of reasons. First, Bangladesh is also a net importing country; many inputs and raw materials for its exports are imported. Therefore, depreciation of BDT could increase cost of import of raw materials leading to increase in cost of production, and thus reduction in export competitiveness. Second, increased cost of imports as a result of BDT depreciation was also likely to have negative impact on the expected decline in inflationary pressure resulting from decline in global commodity prices. Third, BDT is, in fact, an undervalued currency against USD, and has been depreciating in terms of real effective exchange rate (REER) (Figure 4.7). On such grounds the Bangladesh Bank is in favour of developing an exchange rate policy keeping in view the multidimensional interests of the economy. This will also need to be seen along with other measures and incentives for producers and exporters in the area of productivity enhancement and business environment.

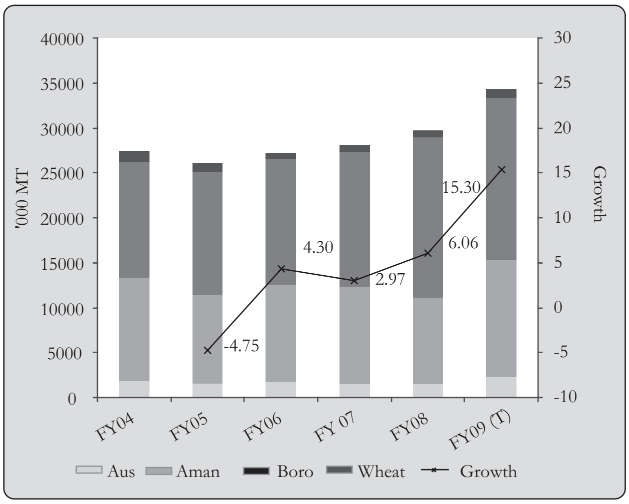
4.4 REAL SECTOR

4.1 Agriculture

Production of Foodgrains

The global food crisis of 2008 has led to a double-edged sword of high price inflation and food shortage, threatening to pull the incomes of more than 100 million people below the poverty line globally. According to a recent CPD estimate, in Bangladesh, as a consequence of high prices of foodgrains and high level of general inflation, an additional 12.1 million people (8.5 per cent of total population) became poor, between January 2005 to March 2008. A joint study of Food and Agriculture Organization (FAO) and World Food Programme (WFP) reveals that higher food prices increased the number of food-insecure population in Bangladesh by 7.5 million, and consequently, total number of food insecure population reached to 65.3 million in 2008. In a situation when food riots were breaking out in many countries, and some of the major rice exporting countries such as India, Vietnam and Cambodia imposed restrictions on rice exports, a much needed 6.13 per cent annual increase in production of total foodgrains in FY2007-08 helped Bangladesh to compensate the loss in production of foodgrains caused by two consecutive floods and Sidr and survive the first shock of this "silent tsunami."[7] Thanks to a bumper Boro production (17.76 million MT) which accounted about 60 per cent of total foodgrain production (29.78 million MT) in FY2007-08. In FY2007-08, wheat production (0.84 million MT) registered a 14.5 per cent growth, a shift from its decade-long declining trend.

Figure 4.8: Foodgrain Production Target in FY2008-09



Source: CPD-IRBD database, 2008.

The Department of Agricultural Extension (DAE) has set the operational target (revised) for foodgrains production in FY2008-09 at 34.33 million MT; if achieved, this will register a 15.30 per cent annual growth over FY2007-08 (Figure 4.8). Preliminary estimates of Aus production reveal a 25.7 per cent annual growth in FY2008-09, though the 1.90 million metric tonnes of production fell short of the production target by 18.0 per cent. Farmers are currently harvesting Aman rice; the Bangladesh Bureau of Statistics (BBS) and the DAE are yet to come up with any estimation of Aman production. Despite the fact that some areas were affected by flood in 2008, and there were reports of insect attacks in some pockets of production in Bangladesh, field level information is indicative of an overall satisfactory Aman production in FY2008-09.

The conventional wisdom which stipulates that higher food prices encourage agricultural production is at present being faced with a dilemma - higher input cost made the Aman production costly, whilst the international market is witnessing a sharp fall in rice price.

[7]The United Nations World Food Programme (WFP) termed this food crisis as the "silent tsunami" of rising food prices which threatens to push more than 100 million people worldwide into hunger (UN, 2008).

As declared, the government was planning to procure only a total of 75 thousand MT of Aman paddy and 150 thousand MT of Aman rice until the end of February 2009. The government's procurement price (Tk. 26/kg for rice and Tk. 16/kg for paddy) is an incentive to the farmers who are now selling the Aman paddy at a lower price (Tk. 13.5-14.0/kg) at the farm level.

Input Supply and Subsidy for the Crop Sector

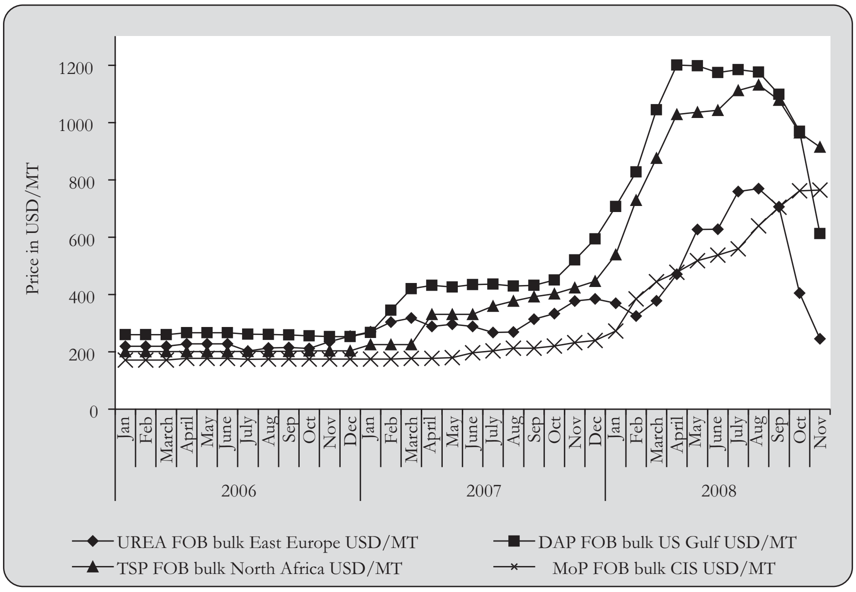
Fertiliser: Following the global price trend, farm level prices of all types of fertiliser in Bangladesh have increased significantly over the years but without any decrease in domestic price when there is a decline in international price of fertilisers. A comparison of farm level prices of fertilisers during the last seven months (May-December 2008) revealed that price of urea and triple super phosphate (TSP) fertiliser has more than doubled. In December 2008, compared to May 2008, price of urea fertiliser at the farm level increased from Tk. 6/kg to Tk. 14/kg; price of TSP from Tk. 34 to Tk. 75-80/kg, and price of muriate of potash (MoP) from Tk. 30/kg to Tk. 45-48 per kg. On the other hand, international price of all types of fertilisers except MoP has decreased substantially between August and November 2008 (Figure 4.9). Between August to November 2008, international price of Urea decreased from USD 770 to USD 246 per MT (i.e. 68 per cent decrease) while that of diammonium phosphate (DAP) decreased from USD 1,177 to USD 612 per MT (48 per cent decrease). During this period, price of TSP decreased from USD 1,132 to USD 915 per MT (around 19 per cent decrease), but price of MoP increased from USD 640 to USD 765 per MT (about 19 per cent increase). However, the recent fall of fertiliser prices in the international markets (except for MoP) is yet to get reflected in our local markets. High price of fertilisers, particularly TSP and MoP has already created imbalanced use of fertiliser and this problem might be aggravated in the Boro season.

Diesel and Electricity for Irrigation: Given that three quarter of the total irrigation in Bangladesh depends on diesel operated engines, adjustment of petroleum price has always been a contentious issue, particularly during the Boro season. While the international price of petroleum products (including diesel) is declining, the new government may have to revisit the price of petroleum (especially diesel) again before the Boro season. The degree of such revision will of course depend on trends in revenue income and overall budgetary situation. It is pertinent to mention here that irrigation cost in Bangladesh is 2 to 3 times higher than in India, Thailand and Vietnam, because Bangladeshi farmers have to use diesel for irrigation while farmers of other countries have the scope to irrigate through subsidised electricity and large scale irrigation project.

Generally, farmers experienced a shortfall in electricity supply in the Boro season. In FY2007-08, the government paid special attention to the supply of electricity to irrigation pumps during the Boro season. As a result, the consumption of electricity by irrigation pumps during November-March FY2007-08 (72.99 mkwh) was 24.6 per cent higher than the comparable months in FY2006-07.

The issue of attaining food security had been highlighted in all the political parties' manifestos and once the new government is in place, policies will need to be translated towards an action plan and effective implementation of the plan.

Figure 4.9: International Price of Fertiliser (Urea, DAP, TSP & MoP): January 2006 -November 2008



Source: CPD-IRBD database, 2008.

Food Aid and Commercial Import

In conjunction with the satisfactory domestic production, the total food availability in FY2007-08 was complemented by a 43.4 per cent annual growth in total food aid and import (32 per cent growth in commercial import). Though food aid and public commercial import also registered significant growth rates of 187.8 per cent and 144.6 per cent respectively, the external source of food supply has been mainly featured by the private sector, which imports more than 80 per cent of the total available supply. Total import of foodgrains in FY2007-08 was 3.47 million MT (rice: 2.06 million MT and wheat: 1.41 million MT), compared to 2.42 million MT (rice: 0.72 milion MT and wheat: 1.70 million MT) in FY2006-07 (Table 4.2).

Table 4.2: Import of Foodgrains by Bangladesh in FY2006-07 and FY2007-08 *(in Thousand MT)*

Category of Imports	FY2006-07			FY2007-08		
	Rice	Wheat	Total Foodgrains	Rice	Wheat	Total Foodgrains
Food Aid	25	65	90	82	177	259
Public Commercial Import	-	121	121	296	-	296
Private Import	695	1514	2209	1681	1235	2916
Total	720	1700	2420	2059	1412	3471

Source: CPD-IRBD database,

Following the prospect of a better domestic production and reducing volatility in the rice price in the international market, both food aid and commercial food import slowed down during the first five months of FY2008-09. However, commercial import by the public sector (mainly from India) increased extensively (Table 4.3) which are part of the 0.5 million metric tonnes of rice contracts for purchase from India, signed in FY2007-08.

Table 4.3: Food Import to Bangladesh in FY2008-09 (July-November) *(in Thousand MT)*

Category of Imports	FY2007-08 (July-November)			FY2008-09 (July-November)		
	Rice	Wheat	Total Foodgrains	Rice	Wheat	Total Foodgrains
Food Aid	13.0	96.6	109.6	21.0	26.7	47.7
Public Commercial Import	101.0	121.0	101.0	374.3	201.4	575.7
Private Import	518.8	825.0	1343.8	24.9	475.2	500.1
Total	632.8	921.6	1554.4	420.2	703.4	1123.5

Source: CPD-IRBD database 2008.

Opening of letter of credits (L/Cs) for rice during July - October (FY2008-09) corresponds to the decreasing rice import trend. During this period (July - October) L/Cs opened for rice was only to the tune of USD 3.51 million, a (-)99.03 per cent decrease over the corresponding period of FY2007-08. In volume terms, L/Cs opened for rice in these four months of FY2008-09 was only one thousand MT, as compared to 1,172 thousand MT in FY2007-08.

In response to the global food crisis, exporting countries have been implementing export restrictions by imposing export quotas, export duties, minimum export prices (MEP), and even imposing export bans on certain commodities. Currently, India has a ban on export of rice and wheat. Total rice and wheat production (174.80 million tonnes comprising 96.40 million tonnes of rice and 78.40 million tonnes of wheat) in India in 2007-08 was 3.33 per cent higher than that of 2006-07. India is projecting an additional production of 20 million tonnes of rice this year, which is likely to lead to a withdrawal of the ban on rice export. As rice price is also declining around the globe, private sector import of rice might increase in the coming days, raising a concern for the domestic growers.

Rice Price

Following the soaring price of rice across Asia, retail price of coarse rice in Bangladesh also observed a sharp increase from around Tk. 20.00/kg in February 2007 to Tk. 34.57/kg by April 2008. With the Boro harvest, rice price observed a brief decline from the third week of April 2008 though it started to rise again a couple of months later. However, both wholesale and retail prices of rice started to decline from July 2008 (Figure 4.10). During the first week of December 2008, the retail and wholesale prices of coarse rice stood at Tk. 27.00/kg and Tk. 24.92/kg, respectively.

Though there is an apparent correlation between retail and wholesale price, the response of the former is usually quicker to an increasing wholesale price, and conversely, slower to a

4.1 INTRODUCTION

Bangladesh is heading towards elections to the 9th National Parliament at a time of mounting challenges on several fronts. The elections are taking place following an unprecedented two-year departure from democratic governance, under the caretaker government (CTG). This period was characterised by combination of expectations and uncertainties, reform initiatives and disruptions, high levels of inflation and rising poverty levels, natural calamities and efforts to address their consequences, global financial crisis, and political tensions. The newly elected government will inherit the results of CTG's governance, both the positives and negatives, and will need to forge ahead to meet the expectations of the citizens who aspire to and deserve socioeconomic upliftment through good governance under a democratic government.

The objective of this report is to provide the Centre for Policy Dialogue's (CPD) assessment of the Bangladesh macroeconomic situation as the country moves towards the elections. As is known, CPD carries out analysis and assessment of the movement of major macroeconomic indicators on an ongoing basis, carried out under its flagship programme titled Independent Review of Bangladesh's Development (IRBD). In keeping with this tradition an interim report is prepared around the middle of the fiscal year to assess the performance of the economy during the first half of the year, and highlighting the major challenges which need to be addressed during the subsequent months to achieve major targets set out in the budget. This year the timing of this assessment was chosen a view to examine the state of the economy in the backdrop of the national elections. Indeed a close look at the election manifestos of various parties indicates an appreciation of the economic challenges that lie before the country, a concern for the need to address these and an attempt to put forward various suggestions towards this. In this regard, the present report will also take a critical look at the manifestos which articulate their respective stances as they face the electorate with their respective programmes. Based on the analysis of the economy and examination of the manifesto, the report identifies a number of challenges which the newly elected government will need to undertake on a priority basis. It is hoped that such an analysis will be of use to the newly elected government as it takes on the responsibility of managing the economy in these times of great expectations and major challenges. As is known, the budget of FY2008-09 has set a growth target of 6.5 per cent. The possibility of achieving this target has been questioned by various quarters in view of the ongoing global financial crisis and their possible consequences for the Bangladesh economy. The newly elected government will only come into the scene when the current fiscal year has crossed half way of the journey. This report also makes an assessment of whether growth targets set for FY2008-09 can be met and identifies areas which will need to get priority if these are to be met.

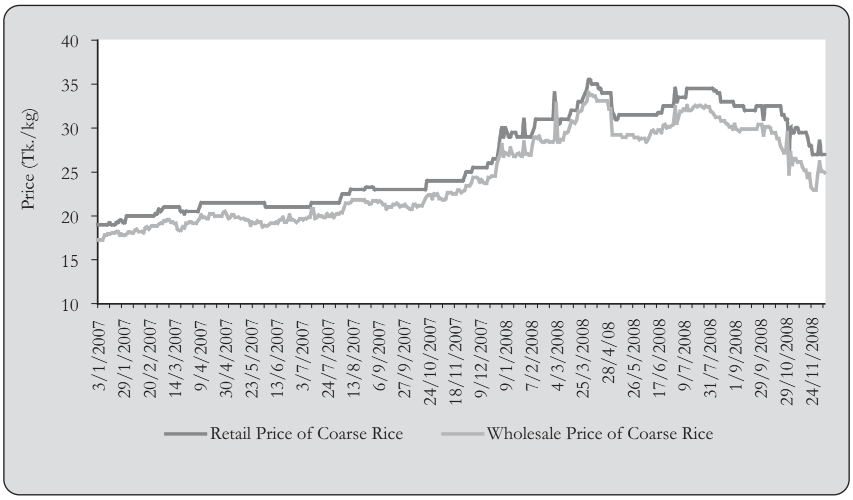
4.2 PUBLIC FINANCE

4.2.1 Revenue Receipts

In the backdrop of the modest average growth rate of 12.9 per cent that was maintained during the FY2000-01-FY2006-07 period, revenue collection recorded a quite impressive 24.3 per cent growth in FY2007-08. The 19.2 per cent growth on this high level, set for FY2008-09, was always going to be challenging. However, as of now the prospect of achieving this appears to be promising.

Total revenue collection during the first two months (July-August) of the current fiscal year experienced a significant rise of 34.2 per cent over the corresponding period of the last fiscal year, mostly owing to the impressive performance of non-tax revenue collection which posted a growth rate of 67.6 per cent (the targeted growth was set at 24.5 per cent). National Board of Revenue (NBR) and Non-NBR tax revenue collection, against their respective annual growth targets of 19.1 per cent and (-)1.0 per cent, registered 17.7 per cent and 24.8 per cent growth. Apparently on track, the NBR also registered a 17.0 per cent growth during the July-October period of FY2008-09, as a result of the 22.32 per cent growth in the import related revenue (Table 4.1).

Figure 4.10: Retail and Wholesale Price of the Coarse Rice (BR 8, BR 11, Swarna): January 2007 - December (1st Week) 2008



Source: CPD-IRBD database, 2008.

decline in price. As a result, the consumers have to pay higher price immediately when there is a price rise in the wholesale market, but they do not get the benefit to the same extent when price declines.

Livestock and Poultry

Animal farming contributes 2.8 per cent to the GDP and about 1.5 lakh farms (about 60 lakh people) are engaged in poultry production, processing and marketing. Bangladesh experienced Highly Pathogenic Avian Influenza (HPAI) outbreak since early 2007. Up to 20 December 2008, the disease was detected in 292 incident points covering 129 upazilas and 14 metropolitan thanas of 47 districts in Bangladesh. Last affected farm was detected at Singra upazila of Natore district on 19 December 2008, according to Ministry of Fisheries and Livestock (MoFL). Up to 20 December 2008, 1.65 million chickens were culled. An analysis, conducted by Bangladesh Livestock Research Institute (BLRI), showed that the poultry industry of Bangladesh had an estimated financial loss to the tune of Tk. 3,858 crore in 2007 and 2008. During the time of bird flu outbreak, prices of broiler and eggs declined by 28.0 and 26.5 percent, respectively. To combat such type of disease outbreak, some remedial measures need immediate attention. Sanctuaries for migratory birds, strengthening surveillance and monitoring activities, early detection of virus, timely sharing of information and insurance for the affected farmers need to be ensured.

Election manifestos of all political parties have mentioned about development of the poultry and livestock sector. It is thus hoped that effective implementation of existing programmes and initiation of new programmes would be undertaken for overall development of the livestock and poultry sector, particularly in view of any possible outbreak of Bird Flu and other contiguous diseases.

Fisheries

Fisheries sub-sector of Bangladesh during the last 15 years has registered 5.7 per cent annual compound rate of growth. In FY2008-09, there was flood and cyclone Rashmi which were expected to affect the production of fisheries. Fortunately, floods visited in the areas where commercial fish farms were very limited. On the other hand, during the time of the hit by cyclone Rashmi (26 October 2008), it was the off-season for shrimp culture and only 100 acres of shrimp farms of Patuakhali and Khulna districts were affected. However, fisheries sub-sector is yet to recover the loss caused by two consecutive floods and Sidr in FY2007-08. According to the Department of Fisheries (DoF), total loss of fish production due to floods in FY2007-08 was estimated as 33.56 thousand MT which was worth of Tk. 196.49 crore. On the other hand, Sidr had damaged about 799 metric tonnes of shrimp, 5.7 thousand metric tonnes of fish, and 205 lakhs fingerlings in southern districts. Aquaculture has developed in some areas substantially where fish farming is no longer a business of the rich people only. To sustain the growth in fisheries sub-sector a massive rehabilitation programme was required in FY2008-09. However, actions taken so far are not adequate to compensate the losses and revitalisation is still badly needed. Small farmers need both technical (reclamation of damaged fish pond, fish fry) and financial support in the form of loan.

Recently, a delegation from European Union (EU) has warned of imposing export restriction on shrimp imports from Bangladesh on the ground of "antibiotic residues" in shrimp. In FY2006-07 Bangladesh exported 49 per cent of its total shrimp export to the EU market. So, it is important to pay an immediate attention to the health and environmental aspects of shrimp cultivation (sanitary and phytosanitary (SPS) compliance measures) otherwise; such an important sector will face a huge threat. MoFL has prepared draft "National Shrimp Policy 2008," which is now waiting for the final approval of the Cabinet.

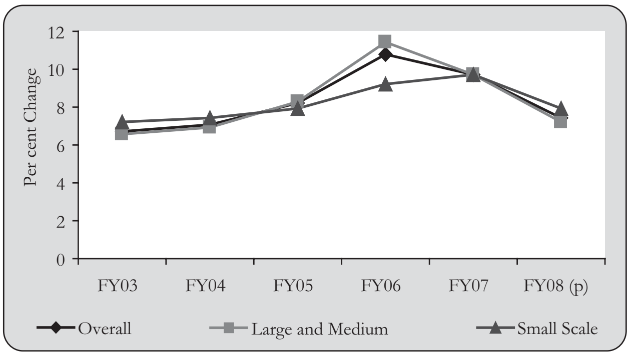
Election manifestos of all the political parties have mentioned that parties will work towards development of the fisheries sector. To this end, adoption of "National Shrimp Policy 2008" after a thorough review and necessary changes by the new government, will be required. Special project for development and management of broodstock of fishes should be undertaken for such fish as Ruhi, Katla and Tilapia for facilitating quality supply of fingerlings. The current focus is rather limited in this regard. In addition, appointment of more fisheries officers in intensive fish cultivation zones such as Bagerhat, Satkhira, Patuakhali, Faridpur, Jhalokati, Barguna, Sunamganj, Gazipur, Narsingdi, Bhaluka, and Daudkandi (Comilla) and other intensive fish cultivation areas will be needed.

4.4.2 Industry and Energy

Industrial Production

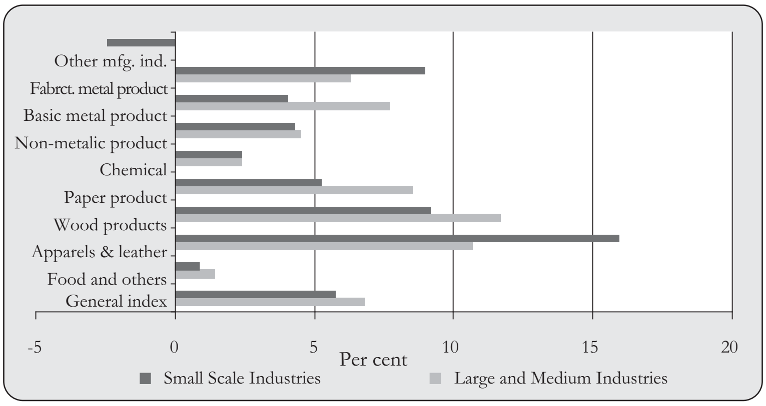
Growth of industrial sector has decelerated in recent years (Figure 4.11). Production of large and medium manufacturing industries lost its momentum in FY2007-08 registering only a 6.9 per cent growth. To compare performance during the previous years had been 11.4 per cent and 9.7 per cent in FY2005-06 and FY2006-07 over the corresponding past years. However, signs of recovery were evident at the end of FY2007-08, with high term loan disbursement and L/C opening for import of capital machineries.

Figure 4.11: Growth of Large, Medium and Small Scale Industries



Source: CPD-IRBD database, 2008.

Figure 4.12: Changes in Production in Large, Medium and Small Scale Industries

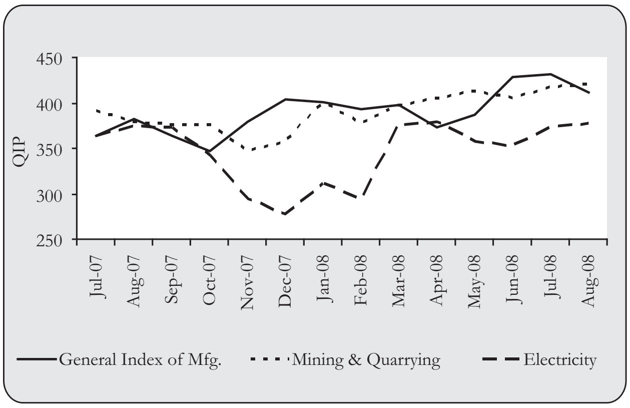


Source: CPD-IRBD database, 2008.

During the first two months of FY2008-09, production estimates based on quantum index of production (QIP) of large and medium scale manufacturing industries recorded an impressive growth of 13.2 per cent. Within the general index, Group 32 that includes jute, cotton, apparel and leather (with 38.16 per cent weight), registered a very high 23.9 per cent growth. The production performance of this particular group is reflected through the high export growth achieved during the initial months of FY2008-09. Small scale industries, on the other hand, have registered even lower level of growth during that period, though apparels and textiles and fabricated metal products performed relatively better (Figure 4.12). In most of the categories of industries (other than apparels and textiles, particularly), production has slowed down in the last quarter of FY2008 and first two months of FY2009, which is important to monitor in the following months in order to appreciate possible impact of global financial crisis. Though the QIP of electricity production increased by only 1.48 per cent during the first two months of FY2008-09, it appears to have revived from the mid-FY2007-08 drop (Figure 4.13).

With respect to the Second Poverty Reduction Strategy Paper (PRSP-II) target of 11.7 per cent annual growth in the industrial sector for FY2008-09, short-term prospects appear to be mixed with both positive and negative developments at home and abroad. High growth in terms of loan disbursement, accompanied by high L/C opening of industrial raw materials in the first quarter of FY2008-09 are indicative of some upturn in industrial sector in the near future.

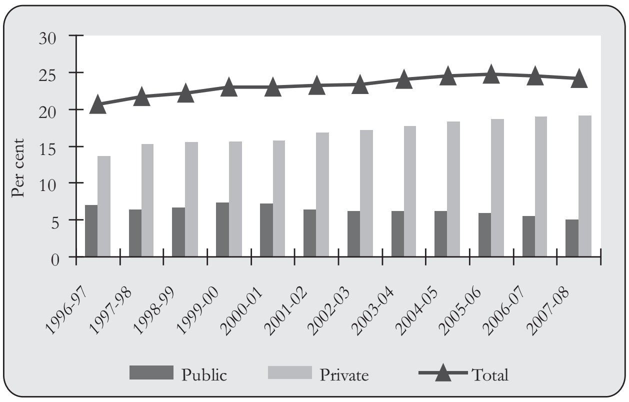
Figure 4.13: QIP of Industrial Sectors



Source: CPD-IRBD database, 2008.

A slow growth in industrial sector in last several years is related with low level of investment both by public and private sectors (Figure 4.14). Although private investment covers substantial part of total investment, it has registered a slow pace of growth in recent years (17.8 per cent of GDP in FY2004 to 19.2 per cent of GDP in FY2008), which can partly be explained by poor business environment in the country mainly because of lack of adequate infrastructural facilities, particularly supply of electricity and gas.

Figure 4.14: Investment by Public and Private Sector

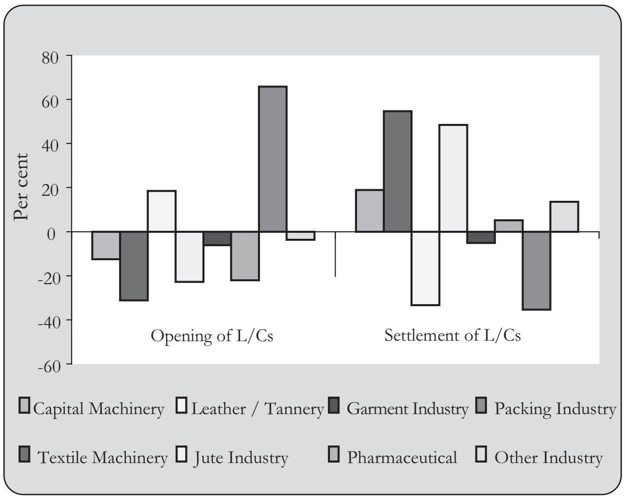


Source: CPD-IRBD database, 2008.

The positive impact of an outstanding credit growth of 40.06 per cent to the small and medium enterprise (SME) sector in FY2007-08 may become visible in FY2008-09. Commercial banks' recent focus on SMEs is mainly because of availability of low cost fund from Bangladesh Bank for lending purposes and also the requirement of lower levels of provisioning against SME loan (5 per cent) as against loans to large scale firms (20 per cent). However, fund allocated to SME foundation for "credit wholesaling" is yet to be distributed because of institutional difficulties faced by the organisation. Government has decided to separate the equity entrepreneurship fund (EEF) from Bangladesh Bank and has requested Investment Corporation of Bangladesh (ICB) to take the responsibility managing the fund. If ICB off-load shares against shares of these companies, investors would be interested to invest in those projects. If reliance on domestic demand is to be enhanced at a time of uncertainties in the global market, a renewed effort will be required to encourage and promote SME investment.

Board of Investment (BOI) has received some 1,217 local investment proposals with total investment registration amounting to Tk. 17,684 crore during January-October of 2008, against only 286 investment proposals with investment registration of Tk. 1,966 crore during the 12 months of 2007. The majority of these investment (953) proposals were made in the apparel/textile sector, of which 643 were in textile industries.

Figure 4.15: Changes in Opening and Settlement of L/Cs for Importing Capital Machineries (July-October 2008 - July-October 2007)



Source: CPD-IRBD database, 2008.

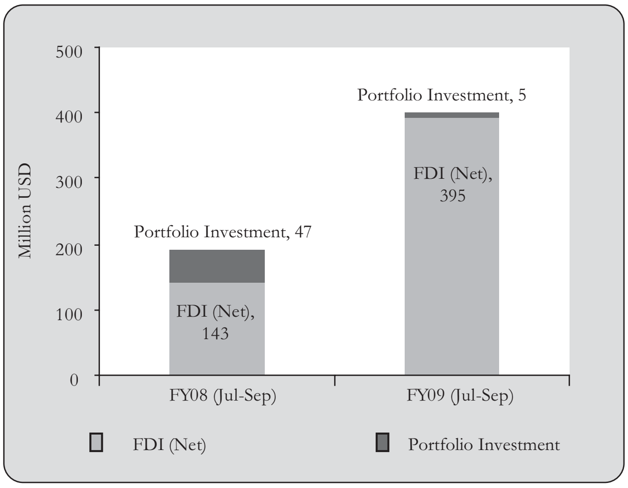
Low level of investment is going to be a major concern for achieving the required level of growth (7 per cent in FY2008-09). Moreover, the recent fall in L/C opening of capital machinery will also hinder the growth prospect in the context of a global economic recession (Figure 4.15). In the backdrop of relatively high incremental capital-output ratio (ICOR in 2008 was 3.66) even achieving the 7 per cent growth in investment will not be adequate to reach the targeted GDP growth of 7.2 per cent by the end of FY2010-11 (as set in the PRSP).

Foreign Investment

Uncertainties emerging from some of the steps taken by the CTG, shortage of power and prevailing uncertainties about political transition perhaps contributed to the weakening of investors' confidence, which resulted in a fall of foreign direct investment (FDI) by (-)22.4 per cent in FY2007-08. Domestic investment also portrayed a similar trend during the same time.

However, during July-September of FY2008-09, Bangladesh received a net amount of USD 400 million in foreign investments, indicating a 110.5 per cent growth over the inflow during the same period of FY2007-08 (USD 190 million). Of the total investment in the first quarter of FY2008-09, USD 395 million arrived as FDI, registering an impressive 176.2 per cent growth (Figure 4.16). However, as expected, only USD 5 million came as portfolio investment, against the USD 47 million invested during the corresponding period of FY2007-08. Such a decline may have its roots in the reluctance of foreign portfolio investors due to the current global financial situation.

Figure 4.16: FDI and Portfolio Investment during FY2008-09 (July-September)



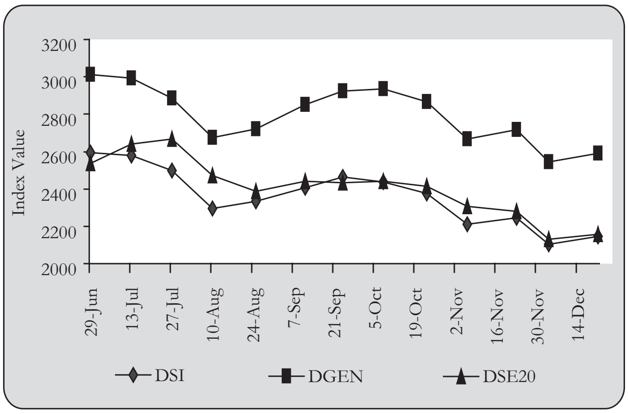
Source: CPD-IRBD database, 2008.

Capital Market

From July 2008 to 15 December 2008, the Dhaka Stock Exchange (DSE) experienced a decrease in all major share price indices. During this period, the DSE All Share Price Index (DSI) lost 529.1 points (-20.3 per cent), the DSE General Index (DGEN) lost 521.5 points (-17.2 per cent) and DSE20 index lost 501.4 (-19.4 per cent) points from their respective index values in July 2008 (Figure 4.17). The loss of share price of financial institutions, which account for a major proportion of total market capitalisation in the capital market, is the main reason for this. This is evident from DSE performance. Slackened import of some key items including foodgrains and capital machineries, compounded with general gloomy perception about the ongoing global recession and uncertainties emanating from political transition, have contributed to the falling share price of financial institutions in the capital market. Thus, the notion that the relative isolation of our capital markets from the global financial architecture is not tenable. The decline in portfolio investment during the global financial crisis may have exacerbated the market situation.

However, Bangladesh's stock markets have not suffered the fate of others, including those in neighbouring countries such India, on account of their low level of integration (only 2.48 per cent of the total market capitalisation) with the global financial market. Thus, it is realistic to assume that uncertainties emanating from political transition have contributed to market performance. Historical trends in Bangladesh stock markets suggest that a pre-election depression in the capital market is a normal pattern. During the pre-election months of 1996, 2001 and 2008 (to be held on 28 December 2008), the DSI fell by 12.65 per cent, 9.65 per cent and 13.58 per cent respectively, making such decline somewhat to be expected. It can perhaps be expected that the capital market will gradually regain buoyancy once the new government settles in.

Figure 4.17: Movement of Major Indices at DSE



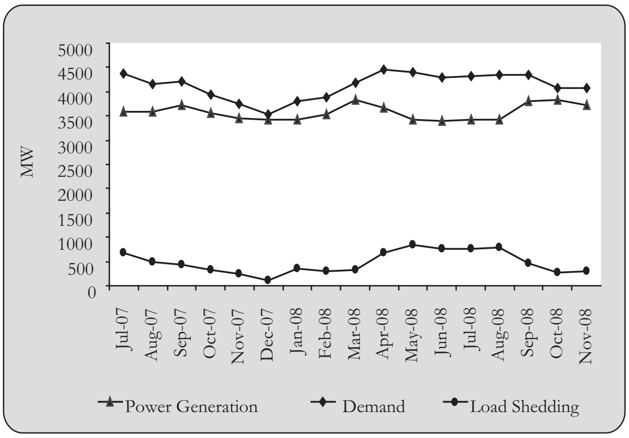
Source: CPD-IRBD Database, 2008.

Power and Energy

Energy consumption in Bangladesh is one of the lowest in the world (43 per cent of total population has access to electricity with the per capita electricity consumption being 140 kwh). Although there is a national goal of providing access to affordable and reliable electricity to all by 2020, because of lack of effective initiatives achievement of those targets appear to be rather remote under the current scenario. According to the Power Sector Master Plan (PSMP), power demand is expected to reach 9,288 mega watt (MW) in 2012 and 13,408 MW by 2015, assuming the economy grows at a rate of 8 per cent per annum. In other words, additional 1,300 MW electricity would be needed every year to reach the required level set for 2012. Under the existing scenario, achieving that target appears to be a daunting task.

Power generation marginally improved in FY2007-08 (12.1 per cent) owing to the strengthening of management and operations of major public offices affiliated with the power sector. The positive trend continued through to FY2008-09 with 10.7 per cent growth registered during July-November FY2008-09 over the comparable period of FY2007-08 (Figure 4.18). While institutional reforms generate some positive results, only 80 MW power was added in the national power grid during the last two years.

Figure 4.18: Power Generation and Load Shedding

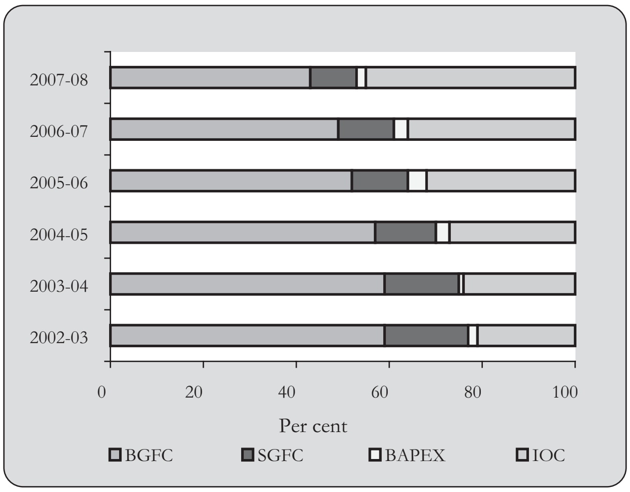


Source: CPD-IRBD database, 2008.

While load shedding has reduced somewhat from 371.2 MW in October 2007 to 278.1 MW in October 2008, the problem will be exacerbated during the upcoming summer season (May to August 2009) when demand will pick up, unless immediate steps to address the situation are taken up.

From long term energy security, various short, medium and long-term projects for power generation, transmission and distribution need to be taken on an urgent basis. The Power Division of the Ministry of Power and Energy has already adopted a "3 year Road Map for Power Sector Reform 2008-2011" which articulated activities to be accomplished, in every six months during this period. Even after acknowledging various reforms at institutional level as initiated under the plan (for example, conversion of Bangladesh Power Development Board (BPDB), into a holding company, corporatisation of Dhaka Electricity Supply Authority (DESA), preparation of generation support framework, institutional development of Rural Electrification Board (REB) implementation of financial restructuring plan, etc.), generation of additional capacities should be considered as one of the top most priorities of the new government. CTG has approved 30 small and large power plants during the last two years which are scheduled to be completed by 2012; a total of 17 power plants are now under construction and another 7 plants are in the pipeline. If all these power plants are set up in time (which appears to be rather difficult), a maximum of 5,855 MW additional power supply could be added to the national power grid. However, only one power plant has been established thus far. Others are still under construction al beit at a slow pace mainly because of lack of assurance about supply of gas to the power plants.

Figure 4.19: Gas Production by Public and Private Companies



Source: CPD-IRBD database, 2008.

To take pressure off gas resources (almost 87 per cent of the total electricity production now depends on gas), alternative inputs for electricity generation such as coal will need to be made use of. About 3,300 million tonnes of country's coal reserves could generate more than 80 trillion cubic feet (TCF) equivalent of energy. A priority for the new government, therefore, will be to come up with a "National Coal Policy" which addresses both investment and environmental concerns.

As is known, Bangladesh's gas reserves are estimated to be lower than what was earlier projected. According to some estimates, proven reserves of natural gas are about 8.3 TCF and probable reserves are another 5.5 TCF. Gas generation has increased at a rate of 6 to 8 per cent per year in the recent past. In FY2007-08 as well, 6.9 per cent growth was achieved with a total production of 17,015 million cubic feet (mmcf) (Table 4.4). However, during July-September of FY2008-09, gas production increased by 9.4 per cent, mainly because of a substantial rise in production by international oil companies (24 per cent higher over the same period of the previous year). On the other hand, production by public sector plants declined by 2 per cent.

The share of private companies in overall gas distribution has been increasing over time. In 5 years, their share has doubled from 21 per cent in FY2002-03 to 45 per cent in FY2007-08 (Figure 4.19). To consolidate domestic presence in the energy sector and ensure command over the potential benefits, strengthening Bangladesh Petroleum Exploration & Production Company (BAPEX) is critically important from the country's long term strategic perspective.

Table 4.4: Total Gas Production in Different Years

(mmcf)

	Petrobangla	IOC*	Total	Growth (%)
FY2003-04	9715.1	3106.0	12821.1	7.5
FY2004-05	10086.5	3696.9	13783.4	7.5
FY2005-06	10116.6	4804.3	14920.9	8.3
FY2006-07	10148.5	5771.7	15920.1	6.7
FY2007-08	9282.0	7732.5	17014.5	6.9
FY2007-08 (Jul-Sep)	2380.2	1847.4	4227.6	
FY2008-09 (Jul-Sep)	2332.5	2290.6	4623.1	9.4
Growth FY2008-09 (Jul-Sep)	-2.0	24.0	9.4	

Source: CPD-IRBD database, 2008.
Note:* IOC stands for International Oil Companies.

The government in the national budget has made an allocation of Tk. 3,200 crore to strengthen BAPEX over the next seven years. Along with utilisation of this resource to develop new onshore and offshore gas blocs, developing the technical and human resource capacity of Petrobangla will be necessary to strengthen its capacity to be a major player in the country's energy scenario.

4.5 EXTERNAL SECTOR

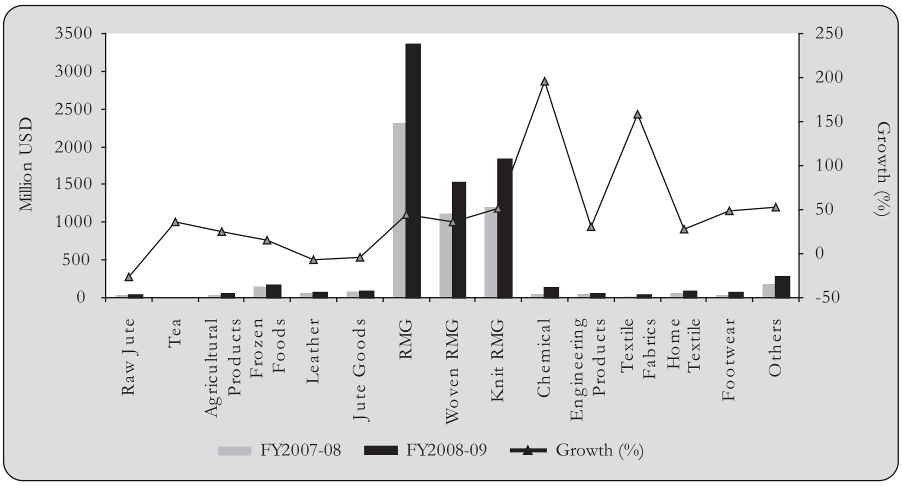
4.5.1 Export Sector

Bangladesh's total export earnings during FY2007-08 stood at USD 14.09 billion, registering a double-digit growth of 15.9 per cent over FY2006-07. The performance was all the more remarkable as it came in the backdrop of high benchmark of 24.7 per cent and 15.6 per cent growth rates attained over the previous two fiscal years.

Export earnings during the first four months of FY2008-09 stood at USD 5.25 billion registering a phenomenal 30.7 per cent growth over the corresponding period of previous fiscal year (Figure 4.20). However, the negative growth rate in October (-7.4 per cent) should transmit a cautionary signal. The October export performance mirrors the somewhat uncertainties that set in July-August 2008, when the financial crisis started to have an impact on major apparel buyers. With the export target set at USD 16.3 billion in FY2008-09, 15.5 per cent over FY2007-08, Bangladesh's exports will need to grow at 9.5 per cent over the next eight months if the targets are to be achieved. For the apparels sector the required growth rate would be 7.6 per cent.

Evidence suggests that retail and wholesale prices in the US has dropped by 1.8 per cent and 2.2 per cent respectively in November 2008. Major retailers such as Macy's Abercrombie & Fitch and GAP have reported declining sales of more than 10 per cent in November. Department store giant Macy's reported that sales dropped 13.3 per cent in November compared to the same month in 2007. Despite these drops in retail sales by the major stores, Wal-Mart continued to beat expectations with a 3.4 per cent

Figure 4.20: Bangladesh's Export of Major Commodities during FY2007-08 and FY2008-09 (July-October)



Source: CPD-IRBD database, 2008.

sales rise in November 2008.[8] Without Wal-Mart's contribution, November sales would have fallen 7.7 per cent. Even for Wal-Mart, the increase in sales is to same extent explained by the high discounts offered to its consumers. If the Christmas sales do not perform well this could lead to accumulation of inventory which in turn could lead to deferment and reduction of placement of orders.

To add to this, since United States (US) restrictions on China's readymade garments (RMG) is to be phased-out from 1 January 2009, Bangladesh might face more intense competition from her Chinese counter parts in low value-end apparels market during the second half of FY2008-09. President-elect Barack Obama's "single largest new investment" plans to create 2.5 million jobs could add steam to US domestic demand; however, much will depend on how deep the recession gets in 2009, or whether there is an early recovery. The prospect of the latter scenario, according to all major forecasts, is rather bleak. The World Bank November 2008 update showed that the global financial meltdown will hit export giants like China and contract their GDP growth to 8.5 per cent in 2009 from 11.9 per cent in 2007. Such contraction might adversely affect China's export oriented industries, including apparels. This has already been reflected in their November 2008 figures, for the first time in 7 years, exports dropped by 2.2 per cent compared to November 2007. Although China continues to perform well in EU market, export growth has significantly slowed down in the US market. Bangladesh still remains highly competitive in the lower-end of the market. Our aim should be to have higher share in the shrinking picture. The new EU rules of origin (RoO) criterion with 30 per cent value addition including dyeing for knitwear items (especially sweater), will also pose challenges for Bangladesh's RMG sector in the EU market. This will require more investment in dyeing and finishing. However, unlike the US market where global import of apparels has posted negative growth in early months of FY2008-09, in the EU import growth in the first quarter has been robust, at 10.5 per cent (Table 4.5).

Table 4.5: US and EU(27) Import of Apparels from Selected Countries: Growth between FY2007-08 and FY2008-09

(in Per cent)

	US Market			EU(27) Market		
	July - October			July - September		
	HS61	HS62	Total	HS61	HS62	Total
Bangladesh	25.83	12.39	16.40	13.94	4.39	10.85
Cambodia	-2.80	-2.47	-2.70	3.95	-6.63	2.77
China	6.74	0.92	3.79	43.88	15.67	26.95
Vietnam	28.50	10.90	19.70	23.13	16.87	18.63
Global	-0.36	-2.38	-1.30	12.35	8.75	10.46

Source: CPD-IRBD database, 2008.

Export performance of some of the other sectors has suffered owing to slump in global demand. Leather is a case in point. While FY2007-08 export data indicates a positive export growth of 6.9 per cent for Bangladesh's leather sector, export slumped dramatically during the first four months of FY2008-09 by (-)16.3 per cent. Future prospect of the leather industry appears to be bleak, dealing a blow to the

[8] US retail sales figures confirm bleak outlook for consumers. 4 December 2008. http://www.guardian.co.uk/business/2008/dec/04/useconomy-walmart

Table 4.6: Falling Purchasing Power of Exports

	Dozens of RMG			Rise (in Times) b/a	Rise (in Times) c/a	Tonnes of Jute Goods			Rise (in Times) e/d	Rise (in Times) f/d
	2006 (Avg) (a)	2008 (Jul) (b)	2008 (Nov) (c)			2006 (Avg) (d)	2008 (Jul) (e)	2008 (Nov) (f)		
1 barrel of oil (fuel)	2.34	4.70	2.13	2.0	0.9	0.11	0.23	0.10	2.1	0.9
1 ton of rice	10.97	34.51	23.73	3.1	2.2	0.52	1.70	1.14	3.3	2.2
1 ton of wheat	7.07	11.83	8.78	1.7	1.2	0.33	0.58	0.42	1.7	1.3
1 MT soybean oil	21.19	51.97	34.00	2.5	1.6	1.00	2.56	1.63	2.6	1.6

Source: CPD-IRBD database, 2008.

hides and skins traders during the Eid festival. This year 20 sq ft of cattle hide sold at Tk. 600-650 against Tk. 1300-1400 in 2007 and hides of goats were priced at Tk. 100-150 against last year's Tk. 250-300.[9] Export performance thus, will need to be put under close monitoring. A stimulus package should be designed to help the sectors to tide over these difficult times. Bangladesh's jute industry has also been experiencing a downward trend since the beginning of FY2008-09. Export of jute goods declined by around 7.5 per cent during the analysed period.

Lack of product and market diversification along with weaknesses in backward and forward linkage areas continue to remain major obstacles facing Bangladesh's export sector. Export growth, for the first two months of FY2008-09, have continued to be driven in large measure by volume growth rather than rise in prices of export items. Decomposition of growth dynamics reveals that most of the growth (about 85 per cent) was accounted for by rise in volume of exports. One disquieting concern is further fall in prices in view of the apprehended low demand. Most of the incremental earnings will have to come from rise in volumes. This also needs to be considered in relation to the significant deterioration of Bangladesh's terms of trade (ToT) experienced by Bangladesh in recent years. CPD estimate shows, if export prices of FY1999-2000 are taken as the base year, ToT declined significantly to 85.6 by FY2006-07. A CPD analysis of export prices and import prices of selected major essential items vividly illustrates the deteriorating ToT. While in 2006, to import a barrel of crude petroleum Bangladesh had to export 2.34 dozens of RMG, in 2008 (July) it increased to 4.70 dozen. By the end of November, however, thanks to falling commodity prices, this has come down to 2.13 dozens. On the contrary, to import one ton of rice in 2006, Bangladesh had to export 0.52 tonnes of jute goods; at present in 2008 (November), to import the same amount Bangladesh has to export 1.14 tonnes of jute goods (Table 4.6).

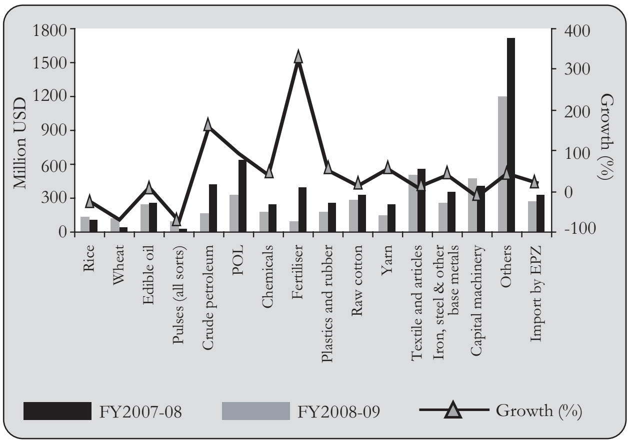
The ongoing negotiations in the World Trade Organization (WTO) also pose formidable challenges for Bangladesh. In recent months, Bangladesh has been lobbying the US for a least developed country (LDC) friendly design of the 97 per cent duty-free quota-free (DF-QF) list. Besides, the New Partnership for Development Act of 2007 (NPDA 2007) which had been tabled in the US Congress, is another potential avenue of preferential access to US market. Both these routes will need to be vigorously pursued in FY2008-09. In view of ongoing WTO negotiations on SPS, technical barriers to trade (TBT) and environmental issues, Bangladesh (and also other LDCs) is likely to be confronted with new tests in terms of complying with various standards. Agricultural exports (SPS-TBT), knitwear (affluent treatment) and other sectors will need to considerably strengthen their compliance level in view of the likely demands stemming from the current round of trade negotiations. Bangladesh's export policies and incentive structure will need to be geared towards addressing these requirements.

4.5.2 Imports Sector

Import growth has been quite impressive over the recent years. Total merchandise imports to Bangladesh during FY2007-08 amounted to USD

9 *Global Crisis Hits Local Leather Industry.* December 16. http://bdnews24.com/details.php?id=70812&cid=2

Figure 4.21: Import of Some Selected Commodities during FY2007-08 and FY2008-09 (July-September)



Source: CPD-IRBD database, 2008.

21.63 billion, registering a growth of 26.1 per cent compared to the corresponding period of FY2006-07.

This positive trend continued in the first quarter of FY2008-09. Import grew by 34.9 per cent as compared to the same period of FY2007-08. Import share of POL was the highest, recording 10.1 per cent of total import. The second highest import share (in value terms) was of textile and articles thereof, accounting for about 8.8 per cent of total import (Figure 4.21).

Import growth ranged from high to moderate for all major non-food items excluding capital machineries, which posted negative growth rate of (-)13.9 per cent. Import growth of crude petroleum (July - September FY2008-09) was high at 157.5 per cent, fuelled by the rise in global oil prices. By the end of June, crude oil price/barrel had already hit USD 133.88. During the July - September period, on average, crude oil price was USD 118.05/barrel. However by December 2008, oil price came down to USD 51/barrel - although its impact on our crude petroleum import is yet to be felt on the ground. Import of POL also posted a remarkably high growth of 91.77 per cent. The bill for this was to the tune of USD 640.50 million. Raw cotton (14.6 per cent) and particularly yarn (56.5 per cent), and also iron, steel and other base metals (39.1 per cent), also posted significant rise (Figure 4.21).

As mentioned earlier, import of capital machineries fell by (-)13.9 per cent during the first quarter of FY2008-09 compared to FY2007-08. Though settlement of L/Cs for capital machineries revealed a positive growth (18.8 per cent), opening of L/Cs for capital machineries during the first four months of FY2008-09 matches its negative import trend, with a negative growth of (-)12.6 per cent. Such decline in import of capital machineries is likely to have negative

Table 4.7: Opening and Settlement of L/Cs during FY2007-08 and FY2008-09 (July - October)

(in Million USD)

	FY2007-08		FY2008-09		Growth (%)	
	L/C Opening	L/C Settlement	L/C Opening	L/C Settlement	L/C Opening	L/C Settlement
Consumer Goods	1134.48	790.27	598.93	599.48	-47.21	-24.14
Rice	363.23	192.49	3.51	151.97	-99.03	-21.05
Wheat	341.48	194.85	288.05	88.24	-15.65	-54.71
Intermediate Goods	542.07	475.63	789.98	646.50	45.73	35.92
Industrial Raw Materials	2639.11	2323.48	3312.03	3350.45	25.50	44.20
Textile Fabrics Accessories	940.81	882.73	1093.81	1083.52	16.26	22.75
Textile Fabrics Accessories B/B L/Cs	869.02	820.67	1019.68	1013.67	17.34	23.52
Fabrics	672.13	628.78	771.87	777.49	14.84	23.65
POL	525.71	578.31	922.56	922.57	75.49	59.53
Capital Machinery	528.13	469.84	461.86	557.96	-12.55	18.76
Machinery for Misc Industries	496.50	436.64	613.11	536.64	23.49	22.90
Commercial Sector	675.04	553.13	800.73	720.53	18.62	30.26
Industrial Sector	483.76	372.23	502.88	558.93	3.95	50.16
Other L/Cs	1158.80	925.36	1303.60	1279.45	12.50	38.27
Total	7024.80	5999.53	8002.07	7893.05	13.91	31.56

Source: CPD-IRBD database, 2008.

implications for investment and could emerge as a major concern for the new government.

4.5.3 L/C Opening and Settlement

Opening and settlement of L/C registered 40.02 per cent and 27.56 per cent annual growth respectively in FY2007-08. Indeed for FY2007-08, L/Cs opened for almost all commodities registered high positive growth rates ranging from 8 to 40 per cent, excluding some critical items such as capital machinery, for which L/C settlement declined by (-)8.4 per cent. Opening of back-to-back (B/B) L/C had also registered a positive growth of 19.5 per cent over the corresponding period.

The high growth trend of opening and settlement of L/C continued in FY2008-09 as well. L/Cs opened during July-October FY2008-09 was worth USD 8.0 billion, recording a 13.9 per cent increase over the corresponding period of FY2007-08. Similarly, L/C settled during this period was 31.6 per cent higher as compared to the corresponding period of FY2007-08 (Table 4.7).

L/Cs opened for POL were exceptionally high at 75.5 per cent during the first four months of FY2008-09, in contrast with the corresponding period of FY2007-08. Despite the decreasing global price of petroleum, opening of L/Cs for POL remains high. Latest available data shows that in November 2008 alone (till November 27), L/Cs opened for POL was worth USD 139.67 million. This was perhaps because of purchase contracts negotiated earlier, and it will still require some time to get the lower prices reflected in the import figures.

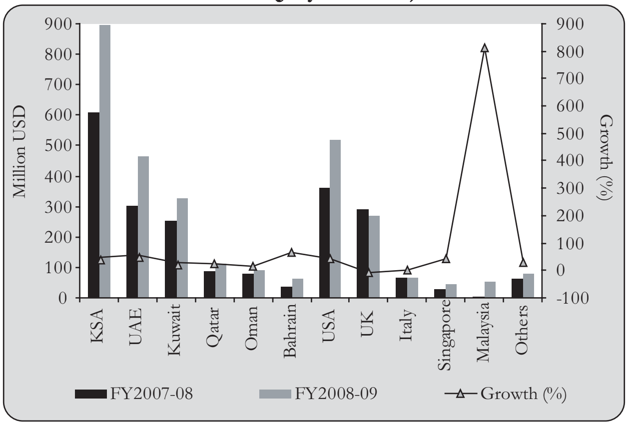
4.5.4 Remittance Flow

The ascend of remittance flow to Bangladesh has been quite phenomenal over the recent past. Remittances increased from under two billion dollars (USD 1.95 billion) in 2000 to USD 7.91 billion in FY2007-08. Indeed, the CPD estimates for FY2007-08 indicate that remittance earnings was equivalent to more than half of Bangladesh's gross export (56.2 per cent), and approximated that of net export.

During the first five months of FY2008-09, earnings from remittance was USD 3.75 billion, which was USD 947.50 million more or 33.8 per cent higher than the corresponding period of FY2007-08.

From Figure 4.22 one can deduce that Saudi Arabia continued to rank as the major source of remittance for Bangladesh, accounting for 29.9 per cent of all remittance earnings (FY2008-09, July - October), recording a growth of 46.3 per cent compared to FY2007-08. Of the other major sources, growth rates of remittance (in FY2008-09) from UAE (54.5 per cent), Kuwait (30.0 per cent) and the US (43.6 per cent) have been quite high. Significant growth of remittance earnings has been observed from countries such as Malaysia. In FY2007-08, remittance earnings from Malaysia was only USD 5.89 million, which has increased to USD 53.83 million in FY2008-09, posting an impressive growth of more than 9 times indicating broad basing of remittance source.

Figure 4.22: Country-wise Flow of Remittances during FY2007-08 and FY2008-09 (July-October)



Source: CPD-IRBD database, 2008.

In terms of remittance earnings, the US is Bangladesh's second largest income source, contributing around 17.4 per cent of Bangladesh's total remittance earnings in FY2008-09. However, given the expected slow down of the US economy, remittance could see some decline. As is known, the US economy has shed 1.9 million jobs so far this year with payrolls having now dropped for 11 straight months. Some countries such as Mexico have seen significant declines in remittance flow as a consequence.

The World Bank data indicates that the financial meltdown is not likely to hit the Middle Eastern economies as severely as their Western counterparts. The Middle East economy may experience some decline in their growth during 2009, which is expected to be around 5.3 per cent (compared to 6 per cent in 2007). Under this scenario, remittance from Middle East is unlikely to be significantly affected.

The Bangladesh Bank, in an urgent meeting on 15 December 2008, instructed all banks to take measures with a view to reduce the time and cost of transferring remittances in order to encourage flow of remittances through formal channels (by some estimates about two-fifth of all remittances continue to be transferred through informal channels). One initiative which could prove to be effective is to put in place appropriate investment opportunities for the migrant workers that are easily accessible and secured.

4.5.5 Balance of Payments (BOP)

The distressed performance of the external sector in left its mark on the trade balance, which recorded a larger deficit of USD (-)5,541 million in FY2007-08 compared to the deficit of USD (-)3,458 million in FY2006-07. In continuation of the same direction, negative trade balance during the first quarter of FY2008-09 increased to USD (-)1,356 million from the corresponding figure of USD (-)1,182 million in FY2007-08.

Table 4.8: Balance of Payment *(in Million USD)*

	FY2006-07	FY2007-08	Jul-Sep FY2007-08	Jul-Sep FY2008-09
Trade balance	-3458	-5541	-1182	-1356
Services	-1255	-1525	-408	-648
Income	-905	-1005	-109	-147
Current transfers	6554	8743	1798 2	517
Official transfers	97	127	29	5
Private transfers	6457	8616	1769	2512
of which : Workers' remittances	5979	7915	1629	2337
Current account balance	936	672	99	366
Capital account	490	576	90	64
Financial account	762	-431	34	-55
Errors and omissions	-695	-213	-20	-311
Overall balance	1493	604	203	64
Reserve assets	-1493	-604	-203	-64

Source: CPD-IRBD database, 2008.

Despite deficit in the trade balance, current account balance recorded a larger surplus of USD 366 million during July-September FY2008-09 compared to the surplus of USD 99 million in the same period of FY2007-08, due mainly to larger current transfers of USD 2,517 million. This current account balance surplus mainly originated from private transfers in the form of workers' remittances which was USD 2,337 million in FY2008-09 (July-September), posting a robust growth of 43.5 per cent against USD 1,629 million in FY2007-08. The growth of workers' remittances demonstrated strong achievements against the backdrop of prevailing global financial crisis. The financial account also registered a deficit of USD (-)55 million during July-September FY2008-09 compared to the surplus of USD 34 million during the same period of FY2007-08. Overall, the current account surplus balance had been continued in the first three month of FY2008-09 (USD 64 million), against the surplus of USD 203 million during the corresponding period of FY2007-08 (Table 4.8). Both these balances could improve if exports sustain the present performance and in view of the expected fall in import demand for cereals.

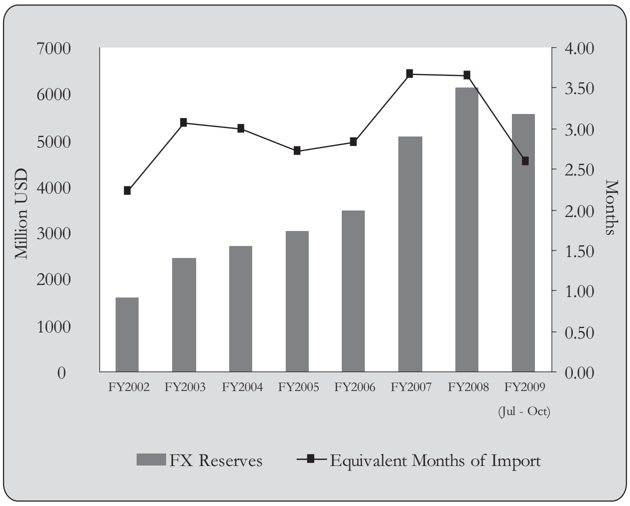
4.5.6 Foreign Exchange Reserves

In the backdrop of high export and remittance earnings, the foreign exchange (FX) reserves posted a 21.1 per cent annual growth at the end of FY2007-08 and stood at USD 6,148.82 million. At the end of the first quarter of FY2008-09 (September 2008) FX reserve was to the tune of USD 5,862.72 million. Due to Asian Clearing Union (ACU) payment of USD 582.01 million (as on 2 October 2008), FX reserve at the end of October 2008 stood at USD 5,550.70 million which is 2.6 per cent higher compared to the same period of 2007. The current FX reserve is equivalent to about 2.63 months of import payment (Figure 4.23).

In order to accommodate the apprehensions originating from the ongoing financial crisis, the Bangladesh Bank has strengthened its intervention in FX market through providing support to the commercial banks for settlement of fuel/oil import bills. The Central Bank took the move aiming to keep the country's inter-bank FX market stable.

In view of the changing dynamics in the foreign currency market, Bangladesh Bank, on a regular basis, needs to carefully monitor and change the composition of its FX reserve currency basket and take appropriate measures so that the purchasing power of reserves does not suffer.

Figure 4.23: FX Reserves and Equivalent Months of Import



Source: CPD-IRBD database, 2008.

4.5.7 Foreign Aid

Total aid disbursements during FY2007-08 were higher at USD 1,956.70 million, compared to USD 1,624.62 million during FY2006-07. Net receipts of foreign aid during FY2007-08 also stood markedly higher at USD 1,376.54 million, against USD 1,099.52 million during FY2006-07. Aid disbursements during the first quarter of FY2008-09 totalled USD 435.59 million, compared to USD 316.09 million during the same period of the previous fiscal. Net receipts of foreign aid during the same period also stood significantly high at USD 302.49 million, compared to USD 215.62 million that was received during the same month of FY2006-07. Some experts apprehend that the financial crisis may have an adverse impact on the commitment and disbursement of future foreign aid. It is worth mentioning here that following each of the recent financial crises (Japan after its real estate and stock bubble burst in 1990; Finland, Norway and Sweden after their economic crisis in 1991), donors tended to curb their aid in terms of both their commitment and disbursement. However, the World Bank has recently made commitments of aid worth USD 1.34 billion to Bangladesh, of which USD 953 million will be made available to finance seven major projects and the remaining USD 38.1 million will be released gradually during the December-June period of FY2008-09. On-time disbursement and the subsequent effective implementation of that huge aid would be a major challenge for the newly elected government. During October, the Asian Development Bank (ADB) also committed to provide a loan of USD 165 million, of which, USD 82 million is to help finance large infrastructure projects; USD 50 million to assist small and medium-sized energy projects; and, USD 33 million to promote renewable energy. The three most critical challenges currently facing the country in this regard are: (a) disbursement of the committed aid; (b) mobilisation of counterpart domestic funds; and (c) quality implementation of aid related activities (both in terms of finance and projects).

4.6 SOCIAL SECTORS

With a view to ensuring sustainable economic growth through human resource development, the FY2008-09 budget has put emphasis on health and education. Social safety net programmes were further strengthened and new programmes were initiated in support of the resource poor segments of the society. Table 4.9 summarises the ADP allocation for FY2008-09 and implimantation status till October 2008 for social sector related Ministries.

4.6.1 Health

The Ministry of Health and Family Welfare (MoHFW) registered a somewhat satisfactory result by utilising 84 per cent of its ADP allocation during FY2007-08. However, given the trend of ADP utilisation over the last four months, one may assume that the rest of FY2008-09 will be a challenge for the incoming government.

Available data show that total ADP allocation for Essential Service Delivery in the FY2008-09 budget was Tk. 346.83 crore of which only 8 per cent has been utilised until October 2008. Similarly disappointing is the utilisation of a mere 3 per cent of the total allocation for Maternal, Child and Reproductive Health Services Delivery during the first quarter of FY2008-09. Such performances will call for appropriate measures to ensure proper implementation of the project within specified timeframe.

Proactive measures are also needed to be put in place to effectively run the National Nutrition Program (NNP). Thus far only 1 per cent of the allocated Tk.

Table 4.9: Social Sector: ADP Allocation and Expenditure till October 2008

(in Crore Tk.)

Sub-Sectors	ADP Allocation	Implementation till October 2008	
		Total	% of Allocation
Health			
M/O Health and Family Welfare	2416.43	304.43	13
Education and Technology			
M/O Primary and Mass Education	2369.35	345.40	15
M/O Education	826.05	163.06	20
M/O Science, Information & Communication Technology	126.39	7.32	6
Women Advancement and Children Affairs			
M/O Women and Children Affairs	118.16	22.76	19
Social Safety Net			
M/O Social Welfare	47.70	9.45	20
M/O Food and Disaster	210.66	10.96	5
Management			
M/O Labour and Employment	89.62	14.03	16

Source: CPD-IRBD database, 2008.

133 crore has been utilised to this end. The project titled Family Planning Field Services Delivery is also progressing at a frustratingly slow pace with only 10 per cent of the allocated Tk. 236.94 crore disbursed and only 3 per cent spent during the July-October 2008 period.

The incoming government will need to design pragmatic strategies with regard to release and utilisation of the allocated funds in the health sector.

4.6.2 Education and Technology

Given the extent of ADP utilisation by Ministry of Primary and Mass Education (95.5 per cent) and Ministry of Education (91 per cent) during FY2007-08, the current rate of 15 per cent and 20 per cent by the respective Ministries during the first quarter of FY2008-09 gives rise to concern over successful completion of the projects within the timeframe.

While total outlay for Second Primary Education Development Program (PEDP-II) in FY2008-09 is Tk. 1,800 crore, about 21 per cent of this (Tk. 379 crore) has already been spent during July to November period. In addition to this, the Secondary Education Quality and Access Enhancement Project (SEQAEP) is awaiting implementation. Total anticipated cost for the project is Tk. 96 crore Government of Bangladesh (GoB) 12.5 per cent and World Bank 87.5 per cent). Half of the total allocation has already been disbursed for July to February period of FY2008-09. Currently, the programme is in the phase of identifying real poor students through Proxy Means Testing.

Allocation for education and technology in FY2008-09 is 4.94 per cent higher than the revised budget for FY2007-08. However, slow pace of ADP implementation till October 2008 gives rise to formidable challenge for the incoming government with regard to upgrading and modernisation of our education system.

4.6.3 Women Advancement and Children Affairs

Successive governments in Bangladesh have been striving towards ensuring women's and children's meaningful participation in the development process. To this end, sectoral Ministries have been bestowed with the responsibility of implementing multifaceted programmes such as strengthening human security by combating violence against women and children, increasing shelters for victims of violence, improving workplace conditions for women, facilitating women's representation at various policy and decision making levels, and education and empowerment of girl child. The Ministry of Women and Children Affairs has so far been able to utilise about 19 per cent of its ADP allocation for FY2008-09. This calls for vigorous measures to be adopted by the incoming government.

4.6.4 Social Safety Net

Line Ministries responsible for implementing development projects under social safety net need to gear up their efforts to ensure adequate utilisation of allocated funds. This is particularly important in view of the fact that ADP implementation by the relevant Ministries at the end of FY2007-08 stood at between 59 to 80 per cent. In this regard, the newly elected government will need to make sure that funds are released timely for the targeted projects.

As part of the "100 Day Employment Guarantee Scheme," government spent 123.70 crore taka in the 7

Table 4.10: Channel-wise Distribution of Foodgrains under PFDS in Bangladesh: FY2007-08 and FY2008-09

(in '000 MT)

Channel	Allocation FY2007-08	Distribution (1 July-22 November, FY2007-08)		Allocation FY2008-09	Distribution (1 July-20 November, FY2008-09)	
		Total	%		Total	%
Priced						
Essential Priorities (EP)	255.37	84.27	33.00	256.00	83.69	32.69
Other Priorities (OP)	27.00	7.15	26.48	27.00	7.64	28.30
Large Employers (LE)	18.00	5.38	29.89	12.00	3.58	29.83
Open Market Sale (OMS)	723.00	62.88	8.70	1350.00	185.56	13.75
Flour Mill (FM)	-	-	-	-	-	-
Fair Price Card (FPC)	-	-	-	-	-	-
Hill Tracts/Others	50.00	3.02	6.04	-	-	-
Sub Total	1073.37	162.70	15.16	1645.00	280.47	17.05
Non-priced						
Food for Work (FFW)*	236.00	1.03	0.44	500.00	7.38	1.48
Test Relief (TR)	150.00	0.75	0.50	200.00	17.02	8.51
Vulnerable Group Development (VGD)	200.00	99.30	49.65	265.00	103.38	39.01
Vulnerable Group Feeding (VGF)	400.00	79.25	19.81	225.00	235.63	104.72
Gratuity Relief (GR)	64.00	22.07	34.48	64.00	6.18	9.66
VGF (Relief)	-	-	-	-	31.29	-
Hill Tracts/Others	75.00	25.37	33.83	75.00	16.53	22.04
Sub Total	1125.00	227.77	20.25	1329.00	417.41	31.41
Total	2198.37	390.48	17.76	2974.00	697.88	23.47

Source: Food Planning and Monitoring Unit (FPMU), Ministry of Food and Disaster Management.

Note: * Includes direct distribution of wheat by World Vision International.
- No available data.

Monga affected districts of the northern part. This spending accounted for 15.6 per cent of the expenditure for the rest 57 districts and 13.5 per cent of the total spent amount.

On an average, the government equally distributed the amount between Monga affected districts and others regions. However, given the vulnerability of the northern districts a larger share of the allocation should have been targeted to these poverty prone areas. In this context, it needs to be seen as to how the second phase of the project (i.e. 40 days) is implemented.

The recent initiative of 5-years guaranteed employment for the destitute women of Monga prone Panchagarh and Rangpur districts is certainly praiseworthy. It is hoped that the incoming government will put in place adequate policy and institutional measures to ensure successful implementation of the programme.

Public Food Distribution System (PFDS)

Total foodgrains distribution in FY2008-09 (1 July-20 November) through PFDS was 697.89 thousand metric tonnes, which was 78.72 per cent higher than that distributed during 1 July - 22 November 2007 (390.48 thousand metric tonnes).

It is notable that allocation of foodgrains for OMS and FFW in FY2008-09 was respectively 86.72 per cent and 111.86 per cent higher than those allocated in FY2007-08. On the other hand, foodgrains allocation for VGF in FY2008-09 was reduced by 44 per cent as against FY2007-08 allocation. However, VGF distribution during 1 July-20 November of FY2008-09 was 235.63 thousand metric tonnes while the allocation for the full fiscal was 225 thousand metric tonnes. The comparable figures for FY2007-08 were 79.25 thousand metric tonnes and 400 thousand metric tonnes respectively (Table 4.10).

In view of surpassing of the allocated quantity before the halfway mark of FY2008-09, it will be interesting to see what strategies are adopted by the incoming government to continue the VGF programme for the rest of the fiscal year in support of the resource-poor people.

As the above discussion portrays, the signal that the degree of ADP implementation during the first quarter of FY2008-09 is creating for the rest of the fiscal is more of a challenge than simple designing of policy measures. While some measures under the social safety net deserve appreciation, crucial sub-sectors like health and education needs serious attention from the incoming government.

4.7 GROWTH OUTLOOK AND THE GLOBAL FINANCIAL CRISIS

GDP growth is undoubtedly the major yard stick of economic progress in Bangladesh and arguably one of the critically important avenues for poverty reduction. Since 1990's, Bangladesh's average growth performance increased from 4.4 per cent in the early 1990s to 5.4 per cent during FY2001-2005. Notwithstanding the external (high commodity price in global market) and internal shocks (Sidr and two floods), FY2007-08 recorded a 6.2 per cent growth demonstrating resilience and some growth momentum. The targeted growth rate in FY2008-09 is set at 6.5 per cent. In view of global economic slow down and domestic political transition, the debate on growth attainment is already on the table. The World Bank's recent projection indicates that growth rate could be 5.4 per cent under one scenario and could decline to as low as 4.8 per cent under worst-case scenario. Bangladesh Bank on the other hand, made forecasts of about 6.5 per cent growth. IMF has recently downgraded Bangladesh's growth projection to 5.6 per cent in 2009 from their earlier figure of 6.5 per cent.

How far the ongoing recession in the global economy will impact on Bangladesh's growth prospects during FY2008-09 is not easy to predict from the current perspective. Macroeconomic performance will depend on how the financial crisis and recession will impact on export, remittance, domestic resource mobilisation, capital market, foreign aid, FDI can be listed as the critical frontiers to face this external shock.

Firstly, export, particularly RMG export, has demonstrated certain dynamism, although the October figures should send a cautionary note. Some sectors like leather, jute, etc. have suffered negative growth. Indications are that prices could be further squeezed. Much will depend on how Christmas sales go, whether the retailers are left with large inventories or not.

Secondly, in recent years remittance has emerged not only as a cushion for the BOP for the country, but also as a critical player in maintaining growth and accelerating the pace of poverty reduction. Uncertainties about sustaining the current buoyant remittance flow from US and European countries that accounted one-third of country's remittance may unsettle the current momentum. However, moderate growth projection for Middle Eastern economies, in spite of the global recession, could help to achieve the targeted remittance flow for the rest of the year. The depth of the depression could undermine this prospect. Already some of the mega construction projects have been put on hold.

Thirdly, substantial inflow of foreign aid has provided some breathing space to deficit financing. Foreign financing in FY2008-09 is also in a comfortable situation with a large amount of aid already waiting in the pipeline from the multilateral sources. In view of low requirement for the budgetary expenditure, deficit financing will perhaps be not a major cause for concern. Fall in price of foodgrains, fertiliser and fuel was likely to provide some comfort to the BOP situation in the event of lower than expected flow of aid and remittance.

Fourthly, early signals portray some pick up in FDI. Although, investors are reluctant to venture out during economic depression, conducive investment environment and investment opportunities could also induce some of them to look for alternative opportunities. Bangladesh should be ready if and when such opportunities emerge.

Implementation of ADP has emerged as a major concern in the recent past. Lower implementation, whilst providing the government some relief in terms of resource requirement, has cost dearly in terms of overall growth performance through investments in infrastructure, development, development of agriculture and industries, and human resource development. If this also persists over the second half of FY2008-09, the possible negative consequences will be further exacerbated. A renewed effort will be required to redirect growth towards a domestic market-driven growth. Quality implementation of ADP will be important in this context.

Recent decline in import of capital machinery does not augur well for attaining the growth targets for FY2008-09 and beyond. Similar negative growth for L/C opening during first four months is also a disquieting development. Whilst credit to the private sector has been upbeat, which is a good sign, it is important to ensure that such credits go for productive sectors of the economy.

Table 4.11: Growth Outlook for Agriculture Sector

Growth in FY2007-08	PRSP Target (Avg. for 2009-11)	Development till Now	Crucial Determinants	Needed Interventions by the Newly Elected Government
3.61 per cent	3.70 per cent	Good Aus output Promising Aman outlook	Boro production Unusual disruption in other sub-sectors - livestock, fisheries and forestry Major natural calamity	Ensuring supply of agricultural inputs to the farmers in appropriate quantity and in appropriate time Adequate flow of agricultural credit

Source: BBS, GED, 2008; CPD.

Some developments should help attainment of growth. Fiscal balance is at its ease providing room for a private sector credit growth. With revenue mobilisation on track and likely reduced requirements for subsidy in food, fertiliser and fuel, fiscal stance would perhaps be less of a challenge. However, lower import duty mobilisation will likely be a concern. Private sector should find more room in the credit market and can expect to receive the higher requirement for term loan and agricultural credit.

Whether the targeted 6.5 per cent growth projections will be attainable will depend on several factors, some of which will hinge on global developments, including the depth of the recession in partner countries. However, a number of issues will have impact on this, some of which has been highlighted previously. Whilst Aus output has been good and Aman outlook is promising, much will depend on Boro production, the mainstay of agriculture. Last year, despite the natural shocks, the overall rice production was not off the target. It is expected that the newly elected government would consider reviewing the presently administered price of fertiliser and diesel to reduce the cost of forthcoming Boro production (the government has reviewed the price of petrol, octane, diesel and kerosene downward on 22 December 2008). Assuming the absence of any unusual disruption to other sub-sectors (livestock, fisheries and forestry) and major natural calamity, PRSP growth target of the agriculture sector (3.70 per cent) should be attainable. This will hinge critically on ensuring supply of agricultural inputs to the farmers in appropriate quantity and in appropriate time. Adequate flow of agricultural credit will need to be ensured towards this. Table 4.11 summarises the growth outlook for agricultural sector in FY2008-09.

It is to be noted that the targeted industrial growth of 11.70 per cent in FY2008-09 is significantly higher than the actual growth of 6.87 per cent in FY2007-08. In this backdrop, industry sector posed a mixed outlook. Whilst credit expansion and import of industrial inputs transmit favourable signals, low investment, lack of infrastructure, decline in import of capital machinery and lack of energy could put under question the expected growth rate in industrial sector GDP. Much will also hinge on export-oriented manufacturing sector (RMG in particular) and how these fare in view of globalisation. In view of low implementation of ADP, construction sector (similar to last year), an important component of industrial sector could also prove to be a drag on the sector's performance. Table 4.12 summarises the growth outlook for industry sector in FY2008-09.

Table 4.12: Growth Outlook for Industry Sector

Growth in FY2007-08	PRSP Target (Avg. for 2009-11)	Development till Now	Crucial Determinants	Needed Interventions by the Newly Elected Government
6.87 per cent	11.70 per cent	High credit expansion High import of industrial inputs Low investment Weak infrastructure Decline in import of capital machinery Low energy supply against rising demand	Export oriented manufacturing sector (RMG in particular as well as others) and how these fare in view of the ongoing global financial crisis	Ensure continuing credit flow Put ADP back on track Investment in energy Good governance

Source: BBS, GED, 2008; CPD.

The outlook analysis of Bangladesh's GDP growth becomes severely constrained since very few interim signals are generally available for service sector which accounts nearly 60 per cent of GDP. Historically service sector has performed moderately but consistently at every phase. In order for the services sector to attain 6.50 per cent growth, real estate sector and business activities including banking and insurance will need to register high growth rates. Sectors such as education and health and social works would need to register good performance that matches historical rates. It is anticipated that Public Administration and Defence would experience accelerated growth in FY2008-09 in view of the national election. Conducive business environment and good governance will be critical to ensuring performance of the services sector. Table 4.13 summarises the growth outlook for service sector in FY2008-09.

From medium term perspective the government must pay urgent attention to monitoring global economic trends and prepare for any adverse effect if the crisis lingers and depends. The rise in global commodity prices including foodgrain and oil in FY2007-08 followed by prevailing global economic crisis provides lessons about the importance of long term strategy for economic development. As Bangladesh becomes increasingly integrated with the global economy, and finds it increasingly difficult to take measures to restrain the impact of international prices on domestic prices - domestic prices of essential commodities are bound to respond quickly to international prices and their volatility. The risks of liberal, market-oriented policies are increasingly becoming evident, requiring countries like Bangladesh to pursue strategies, that minimise risks, without limiting the opportunities that trade and investment flows offer. A rethinking of the role of public sector, safety nets and risk-reducing factors in macroeconomic management and adjustments will be called for.

Table 4.13: Growth Outlook for Service Sector

Growth in FY2007-08	PRSP Target (Avg. for 2009-11)	Development till Now	Crucial Determinants	Needed Interventions by the Newly Elected Government
6.69 per cent	6.50 per cent	Low ADP utlisation Low implementation in health and education	Registering high growth rates in the real estate sector and business activities including banking and insurance Registering good performance in education and health and social works	Conducive business environment and good governance Implementation of Health, Nutrition and Population Sector Programme (HNPSP)

Source: BBS, GED, 2008; CPD.

4.8 DEVELOPMENT CHALLENGES AND THE ELECTION MANIFESTOS

In view of the upcoming national elections, major political parties (in their respective manifestos) have set out the key targets that they would like to achieve during their tenure and beyond. The Bangladesh Awami League (AL) has prioritised five of its 23-point targets; it has also set out a vision for 2021. The Bangladesh Nationalist Party (BNP), in its 36-point manifesto, has articulated its goals in view of the elections, a majority of which concerns carrying out macroeconomic and sectoral tasks. Recognition of the need for good governance, accountability and transparency is also visible in the manifestos, with emphasis on addressing corruption and ensuring better quality in terms of macroeconomic management. Whilst parties on the left, such as the Communist Party of Bangladesh (CPB), have declared their intention to bring about fundamental and structural changes in economic governance, mainstream political parities appear to support a private sector-led and market-driven system where the state and the public sector would have important roles to play.

The AL manifesto has set out a number of concrete targets for their tenure, if elected, and also for 2021. The BNP, whilst putting less emphasis on quantifiable targets, has also set out targets it would aspire to attain and initiatives it would undertake, if elected, during its tenure. However, one common absence in the manifestos of the political parties relate to the costing of the initiatives and the subsequent targets, and the modalities for mobilising the required resources to implement the measures. In view of this missing link, it is difficult to judge the feasibility aspects of some of the targets, which although needed, appears to be quite ambitious. AL manifesto mentions about setting up a number of Task Forces and BNP manifesto has mentioned about constituting Expert Committees to deal with sector specific issues, and to come up with appropriate recommendations for the government. One hopes that whichever party is elected, they will immediately get on with the task of identifying a set of actionable agendas in relevant areas, and subsequently prioritising and implementing those actions.

A number of immediate priorities identified in the manifestos of the two major political parities relate to some key concerns of the citizens. We look at some of these and analyse the statements made in their respective manifestos.

4.8.1 Poverty Alleviation and Employment Generation

Poverty alleviation and employment generation, both linked closely, are two of the many major concerns of common citizens. About two million new people enter the labour market each year, both educated and uneducated. Finding jobs for them will be a major challenge. However, this continues to remain a popular demand. Development of appropriate national employment policy and exploration of foreign markets to create employment opportunities for unemployed youths, have been highlighted in the manifestos of all major political parties.

Both AL and BNP have committed to create employment opportunities for at least one member in each family. AL has proposed a specific duration (100 days) for such employment scheme; Bangladesh Jatiya Party (JP) has vowed to extend this employment scheme to 120-day in the agriculture sector. While AL has pledged to remove discrepancy in wages by establishing a permanent wage board, CPB has promised to re-fix the minimum wages. BNP has also mentioned about establishing mechanisms to review wages.

To generate employment in Khulna and Barisal regions, BNP has pledged to set up special economic zones and establishment of "Asian Culinary College." "National Employment Project" was mentioned in their manifesto. AL has promised to bring down poverty rate from 45 per cent to 15 per cent by 2021, which will require them to achieve a 2.3 per cent annual poverty reduction rate. While this long-term target seems attainable, AL's mid-term target to reduce poverty rate to 25 per cent by 2013 appears an ambitious one. Whilst Bangladesh's historic poverty reduction rates have been 1 per cent during the 1990s and 2 per cent during 2000-2005, acquiring a 4 per cent annual poverty reduction rate during 2009-2013 will require fundamental macroeconomic adjustments and resource redistribution.

Table 4.15: Required Level of Investment to Achieve GDP Growth target of 10 Per cent in FY2020-21

	Investment-GDP Ratio (ICOR in FY2008=3.66)	Investment-GDP Ratio (if ICOR= 3.6)	Investment-GDP Ratio (if ICOR= 3.5)
FY2007-08	24.16	-	-
FY2020-21	38.90	36.0	35.0
Growth of Investment-GDP Ratio between FY2002-03 FY2007-08)		0.01	
Intertemporal Growth Rate		3.66	

Source: CPD-IRBD database, 2008.

Massive resources will be required if these targets are to be achieved. Investment plans and where and in which sectors those jobs are going to be created, needs to be articulated.

The expected changing structure of GDP will have important implications for poverty alleviation. Evidently in future, the share of agriculture in the GDP is expected to come down further from the present 20.8 per cent of GDP. This will have important implications for poverty alleviation. More employment opportunities will need to be created in non-agriculture sectors such as industries and services sectors. In view of this, the pace of growth of these sectors will need to be further accelerated. Our estimates indicate that if industrial sector is to account for 40 per cent of GDP by 2021, the sector would need to register significantly higher growth rates (10.7 per cent between now and 2021) than the current rates (6.87 per cent) (Table 4.14).

Table 4.14: Growth Required in Different Sectors to Achieve GDP Growth Target of 10 Per cent by FY2020-21

	GDP (Billion Tk.)		Share in GDP		Growth Rate in FY2007-08	Intertemporal Growth Rate
	FY 2007-08	FY 2020-21	FY 2007-08	FY 2020-21		
Agriculture	671.57	1438.40	20.87	15.00	3.61	5.86
Industry	954.42	3835.74	29.66	40.00	6.87	10.70
Service	1591.55	4315.21	49.46	45.00	6.69	7.67
Total	3217.86	9589.36	100.00	100.00	6.21	8.40

Source: CPD-IRBD database, 2008.
Note: GDP figures for FY2007-08 are at constant price.

High rates of poverty alleviation will require much higher pace of GDP growth. For example, the AL manifesto talks about taking GDP growth to 8 per cent by 2013, to 10 per cent by 2017 and sustaining this till 2021. Our estimates indicate that this will require substantially higher investment than is the prevailing case (24.16 per cent of GDP in 2008). Indeed, this will require investment-GDP ratio to be increased to about 38.9 per cent by 2021; if the ICOR can be reduced to 3.5 (from the present 3.66 in 2008) the required investment-GDP ratio would need to be increased to 35.0 per cent (Table 4.15).

4.8.2 Food Security

From the consumers' perspectives, food security entails food supply, entitlement and ability to purchase. The last two years (2007-2008) had been a period when high prices of food were a major concern for the country. The shortfall in domestic production compounded with the global food crisis, had adverse implication with regard to poverty reduction trends (from poverty leading to reversal). Consequently, food security and food prices have become major political issues for the 2008 elections. Through increased subsidy and adoption of new technology, political parties have pledged to increase agriculture production in order to bring down prices.

The AL has vowed to make Bangladesh self-sufficient in terms of food production by 2013. The BNP has also committed to ensure food security for all citizens. Crop insurance, higher subsidy for inputs and their timely delivery have been mentioned among other measures. Boosting of research and development (R&D) related activities in agriculture, by introducing new technologies, has been given priority. The JP has made a commitment to establish rural banks (providing credit at 5 per cent interest rate) in order to make "seasonal loans" available in response to the different harvesting seasons. The CPB has also committed to draft a "Food Security Law" as an immediate priority.

Targets set for accomplishing food security are in line with national aspirations for a "hunger-free" Bangladesh. However, achieving the targets in the manifestos will be a challenging task. Programmes such as "food for free" for destitute people in the BNP manifesto or reduction of percentage of poor (below the poverty line) from 45 per cent to 25 per cent by 2013 will require huge resources and massive investments in agriculture sector. The parties' emphasis on the need for agricultural development is welcome; however, more concrete estimates of resource requirement will be needed for the desired development of this sector. CPB's proposal for implementing Food Security Law appears to be a novel idea; however, what this will entail is not clear. AL's proposal for instituting dedicated loans for share-croppers and BNP's plans to set up warehouses and cold storages across the country appear to be practical and attainable targets.

The newly elected government will have to ensure a good Boro harvest, if food security is to be ensured in the immediate term. However, major parties have not dealt with the critical issue of price adjustment for diesel and fertiliser in their manifestos, although they have mentioned about establishing institutional mechanisms to monitor food prices.

4.8.3 Containing Price Inflation

Given the worldwide price hike of essential commodities in 2007 and 2008, most political parties have vowed to place curbing inflation as the number one priority in their manifestos. While the parties did not propose any direct market intervention, establishment of wholesale markets, restructuring of the concerned institutions and improvement of food production through various measures and initiatives have been highlighted in the respective manifestos of AL and BNP.

While AL's suggestion to increase domestic production and making imports easier may help stabilise the commodity price, its pledge to set up an institution for price control and consumer protection needs to be viewed cautiously as similar institutional and regulatory initiatives by the CTG have not succeeded in gripping the market price by its horns. In this regard, both Jamaat-e-Islami and CPB have underscored the need for restructuring existing government bodies such as Trading Corporation of Bangladesh (TCB), Bangladesh Agricultural Development Corporation (BADC), etc. BNP has emphasised the need for higher agricultural subsidy to bring down the production cost of essential commodities. One way of reducing the price of essentials would be to continue with fiscal incentives introduced by the CTG for imports of foodgrains from international market and to ensure that falling global commodity prices get transmitted into lower retail prices. Support to importers, broader wholesale networks and simultaneously reducing the role of market intermediaries, and on the other hand raising their efficiency, will be required on an immediate basis. What was not recognised in explicit manner was that it was unlikely that pre-2007 food price levels could be brought back, and that inflationary pressure will need to be countered through higher purchasing power and more extensive PFDS.

4.8.4 Energy Security

Lack of availability of power has been a major problem limiting growth potentials of the country. Expectedly, all political parties have mentioned about addressing the issue on a priority basis and have put forward immediate and long-term programmes in order to tackle the power crisis.

Table 4.16: Resource Requirement for Power Generation

Items	Up to 2012	Up to 2020
Additional capacity to be installed (MW)	5866	13965
Total investment required (considering USD 1.39 million in 2007-2012 & USD 0.87 million in 2012-2020 for generating 1 MW)	USD 8153.7 million	USD 15200 million

Source: CPD-IRBD database, 2008.
Note: At today's dollar value.

While AL has prioritised exploration and utilisation of new oil, gas and coals fields, BNP has also pledged to accelerate gas and coal exploration activities. The latter party has also committed to recall tender for two Power Plants (450 MW each) and also to set up a committee, within 100 days of being elected, with the objective of developing a National Power Policy. AL has also pledged to adopt a comprehensive long-term policy on electricity and energy, alongside a "Coal Policy." It has also set a target for the year 2011, when the country's electricity production will be increased to 5,000 MW, and by 2013 to 7,000 MW. CPB, in their respective manifesto, has committed to establish "Coal-Bangla," while BNP and Bangladesh Jamaat-e-Islami have assured to encourage bank financing with regard to private power plants, with a view to explore possibilities for hydro, wind and solar power generation. AL made a specific commitment for nuclear energy and pledged to establish the "Rooppur Nuclear Plant," while BNP has also promised to utilise nuclear energy as a source of electricity production.

It appears that whichever party is elected, a debate on the National Coal Policy will need to be initiated. However, while the parties have pledged to increase power generation through exploration of gas and coal resources, they did not specify what would be the relative role of IOCs and BAPEX. AL's sequential targets to increase Bangladesh's power generation capacity to 5,000 MW by 2011, and to 7,000 MW by 2013 may appear conservative when compared with the PSMP which aims at 7,000 MW power generation by 2011 and around 8,500 MW in 2013. While both the major parties favoured small power plants for initiating a swift process of power generation, no party has explicitly mentioned how the recent initiatives taken by the CTG will be carried forward.

As Table 4.16 indicates, achieving the targets for energy generation according to the PSMP will require USD 8.2 billion by 2012 and about USD 15.2 billion by 2021. These resources would need to be mobilised.

4.8.5 Institutional and Regulatory Reforms

The need for appropriate regulatory reforms to improve the business environment of the country has been a longstanding demand of the private sector. Following the establishment of the Regulatory Reforms Commission (RRC) in November 2007, the RRC had made a total number of 48 recommendations, of which 14 were implemented till October 2008. Decision on other recommendations put forward by the RRC is still pending and the newly elected government will need to take decisions on those. Besides, the Better Business Forum (BBF), established also under the CTG initiative to stimulate trade and investment, has also initiated many measures. Political parties have put forward specific measures to improve the business and regulatory environment, and the quality of governance in the country.

The AL has pledged to computerise all land records and establish a Land Reform Commission to ensure increased production and social justice in the distribution of land and water bodies. It has also made a commitment to create "a charter of citizens' rights, right to information, computerised database of official documents and decentralisation of power." The BNP has specifically highlighted making Bangladesh Energy Regulatory Commission (BERC) more effective. Making Parliament more effective has been reflected in the BNP manifesto through proposal - selection of Chairmen for important Committees of the Parliament from the opposition bench. The BNP's manifesto also endorsed the idea of independent Speakers' roles (Speaker and Deputy Speaker will have to resign from their party posts following their nomination and that the Deputy Speaker will be nominated from the opposition) and enhance participatory role of all Members of Parliament (MPs).

Manifestos talk about instituting good governance, eradicating and removing the roots of corruption, establishing transparency in public procurement, helping the Anti-corruption Commission to function independently, and raising public awareness on the issue. Some of the institutions for good governance had indeed been established during the tenure of the past democratic governments; however, these were ineffective. Citizens hope that some of the initiatives of the CTG pertaining to Rights to Information Act, Consumer Rights Act, etc. will be implemented in right earnest and in good faith by the newly elected government.

4.8.6 Global Integration through Trade

The catchphrase today is "trade, not aid." Manifestos have put emphasis on enhancing market opportunities for Bangladesh in view of the globalisation process and increasing global integration of Bangladesh economy.

The AL and the BNP have made sector specific proposals to improve the country's overall trade performance. The AL has prioritised development of information technology (IT) industry, strengthening of RMG and textile sectors and expansion of food processing, pharmaceuticals, leather, chemical products, toys, jewellery and furniture industries. In terms of services, the AL has committed to create opportunities for the Bangladeshi expatriates to take part in national reconstruction and to develop a consultant network in order to fully make use of their talents. The AL has also ensured to increase labour export and investment of remittance received from expatriate Bangladeshis in productive sectors. The BNP has prioritised establishment of an export park and special economic zones (SEZs) in different parts of the country. The party has pledged to create jobs in sub-urban and rural areas by setting up agro-based industrial units and establishing packaging industry to facilitate farmers' exports. In the area of services export, the BNP manifesto mentioned about creating employment opportunities in foreign markets through improved diplomatic relations. The JP has pledged to withdraw all taxes, levies from all imported raw materials for pharmaceutical products.

The manifestos do not elaborate on specific incentives which the exporters have been calling for such as extension of bonded warehouse facilities, depreciation of the exchange rate or support for the promising ship-building industry of the country.

4.8.7 Global Financial Crisis

Against the backdrop of the ongoing worldwide financial crisis, both the major political parties have put forward specific proposals to accommodate the country's concerns. The AL manifesto has pledged to form a task force to provide prompt advice and recommend steps for investment promotion, energy security, retaining and enhancing domestic demand, safeguarding value of money, assisting exports and continuing with export of manpower. On the same note, the BNP manifesto committed to form a high power Advisory Committee in order to address the possible adverse impacts of the global financial crisis and it also mentioned setting up of various export committees.

By all counts the crisis could deepen in 2009 and this is by the virtue of the fact that growth projections for all major developed countries have been drastically reduced. Expert committees/task forces will need to be set up on a priority basis once the new government has settled down. Immediate tasks should include exchange rate policy, incentives for exporters, possible stimulus package for investors, exploring different opportunities, etc.

4.8.8 Regional Disparity

All major political parties have made commitments to reduce regional disparity through various measures. While the Jamaat's manifesto pledged to make local government responsible for implementation of the development projects, the BNP committed to decentralise the administration system as a whole. The AL has also pledged power decentralisation, while the JP committed to establish 8 provinces in the country - Bogra and Mymensingh have been promised status of separate Divisions.

4.8.9 Infrastructure

Improvement of the country's physical networking system (roads, rails, waterways and ports) has been a longstanding demand of not only common people, but also investors. The AL manifesto has pledged to implement policies (in the immediate to long term) that would help attract entrepreneurs and expand the domestic market. The manifesto also committed to develop the software industry and IT services of the country by providing "all possible assistance" to concerned agents and have also set a vision to make Bangladesh digital by 2021. Commitment to build the Deep Sea Port has also been made along with construction of bridges. In the manifestos, pledges have been made to construct a four lane Dhaka-Chittagong highway, Padma Bridge, alongside underground rail and monorail projects. The party has committed to expand train line and modernise train services. BNP manifesto also mentioned about modernising air cargo services sector in order to enhance export and import activities of the country. The manifestos also committed towards establishment of SEZs in Khulna and Barisal. The BNP has pledged to strengthen Bangladesh Standards and Testing Institution (BSTI) and grant duty-free import of necessary medical equipments in order to make local hospital and medical centres competitive.

In view of the fact that regional disparity is emerging as a major concern, the newly elected government will need to allocate special funds, in line with the CTG, dedicated for regional development initiatives. Addressing the increasing income inequality will also need to be given high priority. Initiatives to help people in backward regions to participate in the global job market will need to be taken on an urgent basis.

All the aforesaid initiatives address real needs. However, these would require huge resources and will need to be accordingly prioritised. How the public-private partnerships will be fostered to implement many of these is yet to be seen. Initiatives such as "Aid for Trade" (AfT) will need to be brought into the picture in this context.

4.8.10 Commonalities in the Political Manifestos

A careful review of the election manifestos reveals some common weaknesses. While on one hand the manifestos have captured the aspirations of the people by setting the right tone, there is no mention about resource requirement and modalities for resource mobilisation. Some of the commonalities in the manifestos are:

- Absence of costing
- No elaboration on resource mobilisation and resource package
- Broken linkages between cross-cutting issues
- Relative role of public-private sector
- Less emphasis on rising inequality
- No reference to commitments in earlier manifestos

It is hoped that, having assumed the reins of governance, the ruling party (parties) will come up with concrete measures with respect to the above concerns. Civil society organisations (CSOs) should hold the newly elected government responsible for the commitments they have made in the manifesto by putting government decisions and actions under continuous and close monitoring.

4.9 CONCLUSION: CHALLENGES FOR THE NEW GOVERNMENT

4.9.1 Facilitating Boro Production

Ensuring a good Boro output will be one of the major initial challenges for the newly elected government. Whilst one would expect that the new government will be engaged with setting up the administration and other activities associated with transition to democratic governance, after the two-year gap, policymakers will also need to get on with the task of organising the government machinery to help farmers to come up with a good Boro harvest. December-February is the time for Boro planting. The new government will have to work on the supply of production inputs, especially fertiliser and diesel, from day one. Since there will be no time to revisit the dealership of fertiliser distribution, quick procurement and distribution of fertiliser through existing mechanisms will be the practical option.

A revision of fertiliser price, and allocation and distribution of subsidy among different types of fertilisers by the newly elected government will help Bangladeshi farmers enjoy the benefits of the global decline in fertiliser prices before the upcoming Boro season. To ensure production of Boro rice and other Rabi crops farmers will require about 15.0 lakh tonnes of urea, 3.5 lakh tonnes of TSP, 3.5 lakh tonnes of MoP and 2.5 lakh tonnes of DAP.

The downward revision of fuel and fertiliser price and continuation of last year's subsidisation of electricity for irrigation may be two most feasible actions for the new government. The government has reviewed the fuel price downward on 22 December 2008. However, there is a need for further review particularly in case of diesel and kerosene. It may reconsider adjusting the diesel price if the revenue collection scenario remains strong in the coming months. The government subsidy on account of electricity for irrigation was about Tk. 75 crore in FY2007-08. A similar support hand-in-hand with uninterrupted supply of electricity will be needed to ensure another bumper Boro production.

Public procurement of Aman is set to continue till the end of February 2009. In order to sustain farmers' enthusiasm (observed during the last Boro and Aman rice cultivation) till the upcoming Boro season, the government needs to ensure that the current political transition does not hamper its ongoing public procurement scheme. The new government may consider an upward revision of targeted procurement level for Aman rice and emphasise on procuring paddy directly from farmers rather than buying clean rice from millers. Since paddy can be preserved for a longer period of time, this will also help to build a buffer stock to carry out activities in view of any natural calamity. If required, the new government may consider an upward revision of its Aman procurement target. Fiscal incentives for imports of rice may have to be revisited if falling global prices result in a disincentive for farmers. Through these initiatives the farmers should be given the right signals so that they are encouraged to increase Boro acreage.

4.9.2 Addressing the Energy Crisis

Energy security has emerged as one of the most formidable challenges facing Bangladesh's economy. With regard to electricity generation, it is perhaps time to explore other options such as nuclear power. At the same time, exploration of new gas reserves will be a crucial factor in the medium to long run. Petrobangla's initiative in the exploration of gas in offshore blocks has not been able to attract the expected level of interest. A coordinated and strengthened effort will be needed in this regard. Resolution of territorial issues with Myanmar and India over offshore gas blocks will need to be given high priority. Overall, improving the power and energy situation will be one of the major challenges to be addressed head on, and on an immediate basis, by the newly elected government.

Manifestos of all major political parties have mentioned about steps they would like to take to address the power crisis and highlighted some of the short, medium and long-term targets. The new government will have to take a number of decisions covering: (a) decisions taken by the CTG with regard to ongoing initiatives; (b) retendering; (c) coal policy; (d) diversification of energy sources; (e) maritime boundaries resource mobilisation; and (f) strengthening BAPEX and setting up new organisations (Coal Bangla?), all of which will need to be given high priority.

The new government can achieve its agriculture and industry related promises if the right stimulus, that is the power and energy, can be ensured swiftly and effectively. The production, supply and price of agricultural products largely depend on the uninterrupted electricity supply for its irrigation and cold-storage facilities. On the other hand, the short to medium term prospects for industrial growth will largely depend on materialising entrepreneurs' interest in investment (as reflected from higher investment proposals with the BOI) through effective and energetic steps towards meeting the ongoing power shortage.

4.9.3 Taming the Consumer Price Inflation

Whilst inflationary pressure is expected to come down in response to the general trend of falling prices in the global market, and significant devaluation in major import sources (e.g. India), consumers will gain only if and when transmission mechanisms from import to the retail and consumer levels, work efficiently and effectively. Of critical importance here will be prudent exchange rate management and implementation of a pragmatic interest rate policy. Monetary policy should be geared towards the creation of effective demand, raising the level of production and productivity and encouraging investment so that purchasing power is created in the domestic economy, particularly in view of the fact that the possibility of prices returning to pre-price hike level is slim.

Also, another review of fuel prices (particularly diesel) will be required in view of falling fuel prices. These steps will likely have positive impact on the current inflationary pressure in the economy. Neighbouring countries such as India and Sri Lanka are also experiencing reduced inflationary pressure in recent times thanks to falling commodity prices.

4.9.4 Keeping Monetary Sector under Constant Vigilance

The Bangladesh Bank is pursuing an accommodative monetary policy stance. In spite of calls for some contractionary measures earlier, particularly by the International Monetary Fund (IMF), the Bangladesh Bank has decided not to pursue such a policy aggressively. In view of the possible adverse consequences of the global financial crisis, steps to stimulate domestic demand will be vital. However, the dramatic growth in credit disbursement during the first quarter of FY2008-09 will need to be closely monitored to see whether these are allocated and used for stimulating production. With falling commodity prices, credit growth could also slow down on its own.

Though reduced commodity prices will help importers to procure importables from international markets at a lower price, some of the importers perhaps incurred losses because of imports at higher prices during earlier periods. This could undermine repayment performance of bank loans. Repayment performance will also be influenced by the possible impact of the financial crisis. Both reduced commodity prices and slower export performance could hurt the liquidity situation of banks, particularly those that are relatively more exposed to trading businesses. The new government will have to monitor this very closely.

Another challenge for the next government will be to contain the growth of the money supply and to improve the composition of M2 by increasing the share of net foreign assets (NFA) and containing the growth of net domestic assets (NDA), particularly of the public sector. Though increased domestic credit flow signals robust demand and stimulated economic activities, careful monitoring of the situation will be required by the new government and Bangladesh Bank to see its implications in terms of creating inflationary pressure in the economy. However, as of now there appears to be no reason to raise the bank rate.

4.9.5 Managing the Impact of Global Financial Crisis

As evidence suggests, the ongoing global economic slowdown in FY2007-08 is at present giving indications of degenerating into economic recession in FY2008-09. The incoming government would thus need to prepare itself at its earliest to face possible adverse consequence of the global economic crisis. Recently the Bangladesh Bank has spelt out its monetary policy in view of the risk of slowing down of economic activities. Although thus far Bangladesh economy has not felt the pinch of the downturn of the global economy in any appreciable manner, thanks to higher export earnings and robust remittance flow, the depth and dimensions of the global financial crisis do call for adequate preparedness. This is particularly pertinent since the ongoing recession is likely to dampen the growth prospect of all major developed and transitional economies around the world which are also Bangladesh's partners in the area of trade, aid and investment.

Promises have been made about setting up task forces and committees of experts. During the CTG's tenure, two committees have already been set up. However, these include mainly Central Bank and government officials. The new government could think about constituting a Parliamentary Oversight Committee and a committee of experts/task force that could include representatives from Chambers, academics, labour and grassroots groups.

4.9.6 Monitoring the NBR Revenue Earnings

Till now NBR revenue collection has been good. However, revenue collection by NBR could slow down in the coming months due to the fall in international commodity prices and slowing down of imports. This may have a dampening impact on import related revenue, which is already evident from the October data. The month-to-month comparison reveals a negative (-)1.7 per cent fall in CD collection in the month of October 2008.

The price of petroleum products has not been adjusted till now even though international prices have been dropping sharply. This has provided some budgetary cushion to the government. However, these prices may once again need to be revisited with consequent impact on budgetary equation. In view of this, a greater emphasis will need to be put on domestic resource mobilisation.

As is known, individual tax return submission for the current fiscal year increased only to 0.67 million from 0.64 million in FY2007-08 (0.53 million in FY2006-07). At the same time, only Tk. 1.08 billion was received as tax from bringing the undisclosed money within the tax net, compared to Tk. 8.02 billion in FY2007-08. These factors are yet to be reflected in the revenue collection figures available for July-October period. These reemphasise the need for strengthen revenue mobilisation by the newly elected government if the revenue targets for the second half of the FY2008-09 are to be achieved. Particular emphasis needs to be placed on three sources - income tax, SD and excise duty collection.

4.9.7 Implementation of ADP

The ADP implementation scenario in the first few months has not been encouraging. Only half of the ADP implementation period will fall under the purview of the new government. The mid-fiscal year transition, due to preparation for National Elections and settling down of the newly elected government, could have adverse affect on the overall ADP implementation performance in FY2008-09. Hence, reaching a reasonable ADP implementation level, usually 80 to 85 per cent, by the end of FY2008-09, both in its quantitative and qualitative terms, will be a dual challenge for the new government.

Considering the implications of ADP implementation on employment creation, poverty reduction and meeting the rising public investment demand in order to sustain growth, the newly elected government will need to put high emphasis on ADP implementation. The government may also like to revisit and review some of the ADP priorities and undertake a mid-course restructuring, also in view of the performance during the first half of FY2008-09. If the new government would like to review the PRSP and align ADP in line with this, this should be done speedily. Otherwise, the government should take on the task of fundamentally review the PRSP and set new targets for a possible new three year period (FY2009-10-FY2012-13). Speedy preparation for the new ADP of FY2009-10 will also become a major challenge.

4.9.8 Revisiting the Budget for FY2009

When the newly elected government will take office, it will have about six months to implement the budget, both revenue and development. Based on the performance during the first six months of FY2008-09 and the priorities ahead, a review of the budget may be undertaken to ensure that major targets are achieved.

In particular, keeping in mind the slower implementation of ADP till date, the new government may have to announce a revised development budget by scaling down the ADP by 10 to 15 per cent of its original target.

4.9.9 Clearing the Political Stance on PRSP

The PRSPs virtually serve as the plan documents at present. However, PRSP preparation and implementation deserve more serious consideration than is given now. Often they have lacked political commitments. A country cannot pursue development targets without a politically vetted medium term development policy. Consequently, the new government will have to take a quick decision about the fate of PRSP-II both in terms of its revision and implementation.

Political parties have already indicated their willingness to revise the PRSP. Once the new government is in office, a thorough discussion should be undertaken in the Parliament about strategies, targets, resource mobilisation and implementation of the PRSP. A new three year medium-term PRSP may be drawn up in view of this discussion. Hence, a quick decision and actions to vet and legitimise the PRSP in the parliament will be a policy priority for the new government.

4.9.10 Rolling the Institutional and Regulatory Reforms

The CTG has initiated a number of reforms, which have had tangible positive impacts on the overall quality of governance. The political manifestos have also mentioned about taking initiatives in support of reforms and measures to improve governance. A number of decisions of RRC and BBF have been implemented. Others are pending. The new government will need to take decision on those. There are two draft Acts on table - Consumer Protection Act 2008 and Competition Act 2008. These will need to be discussed in Parliament before decision. Citizens will be interested to see whether aspirations expressed in the political manifestos in this regard are reflected in the discussions in the parliament and decisions of the elected government.

Annex I

Dialogue Report on State of the Bangladesh Economy and Budget Responses FY2008-09

THE DIALOGUE

The dialogue on *State of the Bangladesh Economy and an Analysis of the National Budget for FY2008-09* was organised by the Centre for Policy Dialogue (CPD) in keeping with its tradition, to put budget proposals under close scrutiny by civil society stakeholders. The dialogue was held on 17 June 2008 in the Ballroom of the Pan Pacific Sonargaon Hotel, Dhaka following the presentation of the national budget FY2008-09 on 9 June 2008 by the Honourable Finance Advisor.

Mr M Syeduzzaman, Member of the CPD Board of Trustees and Former Chairman of Bank Asia, moderated the dialogue as Chair. Finance Advisor *Dr A B Mirza Azizul Islam* was present at the dialogue as the Chief Guest. Former Advisor to the caretaker government (CTG) *Professor Wahiduddin Mahmud* was the Special Guest. *Professor Mustafizur Rahman,* Executive Director, CPD, presented the keynote paper at the dialogue.

A cross section of stakeholders including senior government officials and policymakers, economists, academics, civil society members, politicians, bureaucrats, business leaders and representatives of development agencies took part at the dialogue (list of participants is attached at the end of Annex 1).

Introductory Remarks by the Chair

Mr Syeduzzaman welcomed the Chief Guest *Dr A B Mirza Azizul Islam,* Special Guest *Professor Wahiduddin Mahmud* and representatives of various stakeholder groups to the CPD dialogue. He observed that organising this kind of discussion session has become an annual event hosted by the CPD and is very important from the perspective of receiving feedback from the civil society of Bangladesh.

Mr Syeduzzaman hoped that the audience would discuss the budget proposals within the broad framework of macroeconomic management and from the perspective of raising allocative efficiency and ensuring distributive justice. He felt that the budget had been placed to the nation in the context of what had been a very difficult year, when the economy of the country had to encounter a host of difficulties and challenges. Indeed, the economy is continuing to face those difficulties and challenges. He thought that it would be an extremely difficult task for any Finance Minister to appropriately address all the challenges.

He noted that the experience during the outgoing fiscal year, with regard to outcomes, had seen both positive and negative results. On the negative side, he listed the larger than planned fiscal deficit, more acute food shortages, a higher than expected rate of inflation, particularly food inflation, declining public investment and a stagnant or near-stagnant investment-GDP ratio and dismal developments in the energy sector. On the positive side, he included the emphasis on public expenditure priorities, putting agriculture back to centre stage with both financial and non-financial support to which farmers responded very positively, the maintenance of food security through adequate imports and internal procurement to the largest extent possible, the expansion of the base of the social protection system to cover as many people below the poverty line as possible, the regaining of export momentum, a robust remittance inflow, greater use of foreign aid than has been the case in recent years and the mobilisation of revenue, which exceeded the target.

Mr Syeduzzaman observed that the Finance Advisor, in presenting his budget proposals, kept in view several challenges. These include the maintenance of overall macroeconomic stability, ensuring food security at the national as well as household levels, expansion and deepening of the base of the social protection network in order to access as many people below the poverty line as possible and putting in place protection mechanisms so that more people would not fall below the poverty line. He also noted that the Advisor has made an effort to make greater use of foreign assistance in the pipeline. He felt that the Finance Advisor, in his proposed budget, has also tried to allocate resources for strengthening the country's infrastructure, particularly the power sector. The budget has also made an attempt to provide incentives through fiscal and trade policies to create a business-friendly investment climate. Terming the proposed budget as the mother of all budgets, *Mr Syeduzzaman* said that in trying to put all these ends together, the Finance Advisor has formulated a budget proposal which may be called a borrowing budget in one sense, given the deficit proposed. He, however, cautioned about the challenges that the Advisor was likely to face in implementing the budget proposal.

Following these remarks *Mr Syeduzzaman* invited *Professor Mustafizur Rahman,* Executive Director, CPD, to make his presentation.

Keynote Presentation by Professor Mustafizur Rahman, Executive Director, CPD

Professor Rahman registered his deep appreciation for the presence of such a distinguished audience. He also informed the audience that CPD's budget response was prepared by a team at the Centre, and he registered his deep gratitude to all his colleagues who had contributed to this joint effort. *Prof Rahman* reiterated what the Chair said earlier, that the dialogue was organised in keeping with the CPD's tradition, to create a platform for review and reflection on budget proposals. The dialogue is an opportunity for stakeholders to share their thoughts on the fiscal and budgetary measures proposed in the budget.

Crisis and Crisis Management

In his remarks, *Prof Rahman* stated that the Finance Advisor had termed the proposed budget for FY2008-09 as "a document for overcoming crises." The Advisor mentioned that there were three broad objectives of the budget:

- Maintaining macroeconomic stability
- Accelerating growth
- Poverty reduction

And that there were eight priorities which included:

- Maintaining the price level of essentials within a tolerable limit
- Employment generation
- Widening and deepening of social safety net programmes
- Reducing regional disparity
- Increasing agricultural production
- Ensuring food security
- Increasing power generation and
- The overall development of communication networks including information technology (IT)

Prof Rahman was of the opinion that the priorities mentioned in the budget have to be judged against the nature of the "crises." In this context, he pointed out that the interim report prepared by the CPD has tried to identify the major challenges that the Finance Advisor faced in his macro management of the economy. Those are:

- Vulnerability to global developments
- High fiscal deficit
- Continuing high inflationary trend and its consequences
- Increasing subsidy burden
- Threatened food security
- Sluggish beginning of the industrial sector
- Acute power and energy deficit
- Balance of payments under pressure and
- Continuous fall in terms of trade

These challenges emanated from developments in both global and domestic markets. In the global market, the price of foodstuffs had gone up by 70 to 80 per cent and fuel price went up by about 100 per cent over the span of a year and this threatened both the food security and energy security of the country, he explained. He noted that the economy experienced high inflationary pressure, rising to double digits, and a larger fiscal deficit than what was anticipated. Sluggish industrial growth in the first and second quarters did not help the situation. Addressing the issue of the subsidy burden, *Prof Rahman* stated that the allocation for subsidy had to be significantly increased in order to ease the inflationary pressure originating from high prices of inputs. At the same time, the country had experienced acute power shortages, which had adversely affected the production sector. The situation has been aggravated by a deteriorating balance of payment situation and falling terms of trade, which resulted in lower capacity to procure importables with the same amount of exports.

Prof Rahman made a general observation that the country is in the process of finalising the second Poverty Reduction Strategy (PRS-II) Paper for the years 2009 to 2011, and it would have been appropriate if the PRS was finalised first, after which the budget could have been prepared as part of the first year of implementation of the PRS II.

Prof Rahman emphasised that the CPD had tried to analyse the budget from the following perspectives:

- Redistribution (poverty alleviation and reduction of income and regional inequality)
- Growth (stimulating investment, promoting domestic industries, particularly SMEs, stimulating

export-oriented sectors and enhancing production and productivity)
- Macroeconomic stability (inflation, deficit management, tensions and trade-offs)

Growth, Savings, Investment and Employment

Prof Rahman argued that against the backdrop of major crop losses in FY2007-08, the growth rate of 6.21 per cent appeared to be quite a good achievement compared with the 6.43 per cent achieved in the previous year, which was a normal year. However, he was not sure whether next year, in the revised budget, the growth of 6.21 per cent would actually remain unchanged. In connection, *Prof Rahman* raised concern about the estimates of real gross domestic product (GDP) in the recent past where out of 13 years, for 10 years the provisional GDP growth rate was revised downward in the subsequent budget. The 6.21 per cent growth projected for FY2007-08 was underpinned by the recovery of agricultural growth, although the growth rate of agriculture itself had come down to 3.6 per cent from last year's 4.6 per cent; at the same time, the growth of industry also had come down to 6.9 per cent from the 8.4 per cent of the previous fiscal year. It was observed that many of the components of the industrial sector, including the energy sector and others, could not register high growth. However, overall, the data shows the service sector having registered a high growth rate of 6.7 per cent at a time when the economy was experiencing formidable difficulties in such sectors as trading, real estate and banking, he observed. Moreover, the incremental capital-output ratio (ICOR), which is very important in terms of elucidating how the GDP growth rate was attained, remained the same, changing somewhat from 3.9 in FY2006-07 to 3.8 in FY2007-08.

Referring to poverty reduction as a major concern, *Prof Rahman* observed that poverty reduction could be accelerated by creating employment opportunities for the rural poor. Since the last Labour Force Survey (LFS) was conducted in FY2005-06, no real time data is available to come to any reasonable estimate about the present employment situation. Proxy indicators for the state of employment in FY2007-08, such as the pace of annual development programme (ADP) implementation and the overall investment scenario, do not indicate a promising picture in this regard. According to the draft PRS II projections, the labour force is expected grow to 54.6 million in FY2008-09, 56.4 million in FY2009-10 and 58.3 million in FY2010-11, indicating the inclusion of an additional 5.44 million people to the labour force over the three year period. This indicates that an additional 18.1 lakh people will enter the job market each year. On the other hand, total employment was predicted to increase to 52.25 million, 53.97 million and 55.75 million in the respective years. These assumptions allude to an unemployment rate of 4.3 per cent throughout the PRS period, whereas according to the latest survey (LFS 2005-06) the unemployment rate was estimated at 4.2 per cent, he observed.

Revenue Earnings

With respect to public finance, *Prof Rahman* noted that the government has fixed a target of Tk. 69,382 crore to be mobilised as revenue earnings. This is 14.6 per cent higher than the revised figure of FY2007-08. In addition to the revenue mobilisation, revenue-GDP and tax-GDP ratios are targeted at 11.3 and 9.3 per cent respectively, which are about the same as those of the revised targets of 11.3 per cent and 9.0 per cent respectively in FY2007-08. In connection, *Prof Rahman* noted that it was an encouraging sign that the share of income tax in tax revenue is rising and is currently about 23 per cent. However, by comparison with some neighbouring countries, this is still low. For example, direct tax accounted for about 35 per cent of the total tax revenue in Pakistan, whereas this was 25 per cent in India in the same fiscal year. Due to its progressive nature, efforts should be strengthened to increase the share of the direct tax, he stressed.

Prof Rahman drew attention to the targets set for FY2008-09, which would require National Board of Revenue (NBR) tax earnings to achieve 18.6 per cent growth over the revised budget of FY2007-08, compared to the 27.1 per cent growth in the revised budget of FY2007-08 over the actual receipts of FY2006-07. This target would necessitate the NBR to contribute 78.6 per cent of the total revenue earnings in the next fiscal year, which was 75.9 per cent in FY2007-08, according to the revised estimate.

Government Expenditure

Prof Rahman dwelt briefly on the public expenditure issue. Public expenditure in the FY2008-09 budget approaches Tk. 1 lakh crore, which is 26.5 per cent higher than the revised target for the previous fiscal year. He agreed with the increase and supported the proposal of the Finance Advisor. Considering the current inflation rate of 9 per cent, the growth of public expenditure is comparable to that of the last year. The share of the ADP in the total expenditure, which was already somewhat lower in FY2007-08 compared to the previous year, got further reduced in FY2008-09, he added. Furthermore, within the total expenditure, the share of ADP and non-ADP expenditure account for 25.6 per cent and 74.4 per cent respectively, while their respective shares in FY2007-08 (revised) were 26.1 per cent and 73.9 per cent. An analysis of the structure of the revenue expenditure revealed that expenditure on account of three major categories, "salary and allowances," "interest payments" and "subsidies and transfers," accounted for 80.6 per cent of the total actual revenue expenditure. These grew by 4.7 per cent, 5.0 per cent and 21.0 per cent respectively in the budget for FY2008-09. Increased block allocation raises some concerns, because this particular type of allocation goes against the principle of transparency as applied to the budget, *Prof Rahman* felt.

Prof Rahman remarked that the ADP for FY2008-09 is lower than the original ADP of FY2007-08, for the first time in recent record. The contributions of the foreign component and local component in the ADP were 47 and 53 per cent respectively. The size of the new ADP was 3.4 per cent lower than last year's original ADP, equivalent to only 4.2 per cent of GDP, which is the lowest proportion since 1991.

Regional Balance

Prof Rahman noted that an attempt has been made in the budget to address the issue of increasing regional disparity. However, according to him it is hard to find any correlation between backwardness of a region and allocation in the budget, except in the case of Barisal. He added that this was surprising to note in a budget, which mentions reduction of regional disparity as one of the major objectives in terms of resource allocation.

Budget Deficit

Prof Rahman noted that the overall deficit would be about 5 per cent of the GDP. This is to be financed from domestic borrowings of Tk. 16,998 crore and aid resources of Tk. 13,582 crore in net terms. He added that total aid of Tk. 17,803 crore would be required during the next fiscal year, which is 2.9 per cent of GDP. This means about USD 2.6 billion gross aid inflow (USD 2.0 billion in net terms) would be required during FY2008-09. An analysis of aid inflow to Bangladesh since independence reveals that the highest amount of foreign aid was received in FY1990, which was USD 1.81 billion in gross terms. Thus, aid projections for FY2008-09 appear to be high in the historical context, and may not eventually materialise. If that is the case, the government could be forced to resort to increased domestic borrowings, possibly requiring even higher bank borrowing, *Prof Rahman* commented.

Fiscal Measures

With respect to fiscal measures, *Prof Rahman* mentioned that no change has been proposed in the budget with regard to tax slabs for personal income; however, benefits have been given to females and senior citizens. Some changes have been made with regard to corporate tax structure. The opportunity to legalise undisclosed legal income has been continued. It also includes an attempt to widen the value added tax (VAT) net and some changes in import tariff structure. With respect to personal income tax, *Prof Rahman* felt that the Tk. 150,000 threshold should be raised on account of inflation. He recalled that in India, the tax-free income level is Tk. 220,000 in Pakistan the limit is Tk. 190,000. With respect to females and citizens above 70 years, the tax exemption limit has been set at Tk. 165,000 which is a welcome gesture. However, *Prof Rahman* thought that considering life expectancy in Bangladesh, tax benefits should have been given for citizens above 65 years and not 70 years.

With respect to the incentive of tax holiday, *Prof Rahman* noted that the tax holiday has been extended to FY2010-11. There has been quite extensive and widespread misuse and abuse of the system; however, the CPD team thought that the Advisor has taken an enlightened view in this regard by introducing a multi-tiered system. The tax holiday has been extended in a manner that would provide incentives for setting up enterprises in regions outside Dhaka and Chittagong.

Prof Rahman noted that the government has made some changes in the import duty structure which would be of benefit to importers of raw materials and intermediate inputs. The existing 5 per cent, 10 per cent and 15 per cent customs duties (CD) are replaced by 3 per cent, 7 per cent and 12 per cent respectively, whilst the existing 25 per cent highest slab remains unchanged. The budget also proposes changes in supplementary duties (SD), VAT and Harmonised System (HS) Code structure. He noted that in spite of the lowering of import duties, overall revenue earnings from import duty are expected to increase by 16.8 per cent. He felt that energetic steps are required to enforce payment of appropriate duties so that revenue targets can be achieved.

Price Stabilisation Measures

Regarding rising prices, the keynote speaker noted that the price hike of essential commodities has been one of the major challenges faced by the CTG. In the proposed budget for the FY2008-09, the Finance Advisor has identified "maintaining the price level of essentials within a tolerable limit" as one of the eight priorities. To ease the problem, a number of measures (both market-based and non-market-based) have been proposed to keep prices of essential commodities at a tolerable limit, he added. These measures range from fiscal measures (e.g. continuation of zero or reduced import tariff on certain commodities) to direct market interventions (e.g. continuing open market sales (OMS) of daily essentials). To mitigate the negative impact of the high price of food, the budget has proposed broadening its coverage of safety net programmes. In addition to this, the budget has proposed employment generation programmes for the poor and the marginalised. In this context, *Prof Rahman* noted the proposal to introduce a new programme titled "100-Days Employment Guarantee Scheme," with an allocation of Tk. 2,000 crore to generate employment for 20 crore man-days for the ultra-poor and the rural middle and lower middle class communities. In addition, further allocation in terms of food worth Tk. 1,578 crore has been proposed under the Food for Work Programme, which is expected to generate another 14.4 crore person-days of employment.

Sectoral Measures

Agriculture

Increasing agricultural production is mentioned as one of the eight identified priorities of the budget, Prof Rahman noted. Accordingly, agriculture and rural development have been given the highest priority in the FY2008-09 budget. Total allocation for agriculture and rural development in FY2008-09 is 16.4 per cent of the budget against 16.7 per cent of the budget in FY2007-08. Both the price and availability of agricultural products became major causes of concern for Bangladesh in FY2007-08. To a large extent this originated from uncertainties in the global market; however, part of this was also due to domestic causes. It was recommended that there be a renewed effort to procure as much rice/paddy as possible after the *Aman* harvests, particularly because of the volatility in the international market. Agriculture has been given a lot of support in the proposed budget along with allocation for diesel subsidy. Total subsidy for agriculture (fertiliser, diesel for irrigation and electricity) in the budget is Tk. 13,648 crore; however, the amount of allocation is not specified for each of these components, he added. The private sector is coming to the agriculture credit market, and this *Prof Rahman* thought of as a positive development. An analysis of prices of fertiliser and paddy revealed that to buy one kg of urea fertiliser in FY1997-98 farmers were required to sell 0.96 kg of paddy, but they would be required to sell 0.67 kg of paddy given the new price of urea.

Special allocation of Tk. 272.35 crore is proposed in the FY2008-09 budget for agricultural development assistance and rehabilitation. *Prof Rahman* noted this with appreciation. However, allocation alone would not provide the desired result - an appropriate mechanism for allocation and implementation would be required. He recalled at this point that Tk. 350 crore allocated for agriculture research in FY2007-08 has remained unused.

The budget has waived all duties and taxes on fish feed and has allowed the duty-free import of equipment, medicine and vaccines and livestock feed. The minimum taxable income limit for agriculture has also increased from Tk. 1.9 lakh to Tk. 2.0 lakh. At the same time, the limit is further revised for women and senior citizens from Tk. 2.00 lakh to Tk. 2.15 lakh which, according to *Prof Rahman,* is a good move.

Climate Change and Environment

A fund for climate change is an innovative introduction in the budget, which demonstrates concern for the possible negative impact of climate change, *Prof Rahman* noted. Bangladesh is at risk of being the worst-hit victim of climate change in terms of sea level rise, extreme weather and frequent natural disasters. The government had withdrawn import duty from effluent treatment plants (ETP) in the budget of FY2007-08 to encourage industries to use ETPs, which according to the speaker was a welcome step.

Industry

Prof Rahman sounded pessimistic with regard to the overall performance of the industrial sector. Performance of the manufacturing sector in FY2007-08 had not been satisfactory -- growth of the sector was expected to be rather low at 7.4 per cent, which was lower compared to the past several years, which experienced growth of 9.7 per cent in FY2006-07, 10.8 per cent in FY2005-06 and 8.2 per cent in FY2004-05. Large, medium and small scale manufacturing industries experienced sluggish growth in the first and second quarters of FY2007-08; however, these gained some momentum in the latter half of FY2007-08. Slower growth of the manufacturing sector was to a large extent caused by uncertainties originating from institutional reform measures, inadequate infrastructure facilities (particularly power supply shortage), high inflation and high interest rates on borrowings from banks.

Regarding the state of existing information, the speaker emphasised the need for up to date data. He pointed out that the Census on Manufacturing Industries (CMI) data refer to 2001-02, Census on Handloom Industries to 2003 and Bangladesh Small and Cottage Industries Corporation (BSCIC) data refer to 2001. In the absence of CMI-based information that captures recent trends and the structure of the industrial sector, results emanating from analysis of various measures proposed in the budget could at best be only indicative. In this context, it is critically important that adequate funds are allocated for generating up to date data with regard to the dynamics and changes being experienced by the industrial sector.

Prof Rahman noted that the government has initiated several fiscal measures, including an extension of the tax holiday facility, in a staggered manner, for new industries to be set up between July 2008 and June 2011. However, the ship-building industry, which is considered an emerging sector in Bangladesh and IT enabled services, should have been included in this list. In the case of import of capital machineries for export-oriented industries, the indemnity bond system has been replaced by a concessionary CD (one per cent). The government has decided to extend the Pre-shipment Inspection (PSI) system for a limited period with the appointment of fresh companies; however, allegations against some of the PSIs have necessitated changes in the current system.

Development of SMEs

Although the development of small and medium enterprises (SMEs) bears critical importance for employment and income generation in the country, the sector's development has often been constrained by various budgetary measures, or lack of budgetary measures, *Prof Rahman* remarked. He stated that in the budget of FY2007-08, the government had allocated an endowment fund of Tk. 100 crore for the SME Foundation, with a view to providing credit to SMEs through private commercial banks. The government has decided to provide more funds to the Foundation in the FY2008-09 budget - an amount of Tk. 100 crore has been allocated to support SMEs. Likewise, the SME Refinancing Scheme of Bangladesh Bank has been allocated Tk. 500 crore, up from Tk. 300 crore in the previous budget.

Regarding export promotion, *Prof Rahman* stated that restructuring of the tariffs is welcome; however, incentives for some sectors such as pharmaceuticals, footwear and light engineering are inadequate. Information and communication technology (ICT) and handicrafts, though, have received some income tax incentives, he added. Some of the domestic industries have received protection and better support which are welcome. With respect to ICT, the government has allocated about Tk. 1,000 crore, which is a forward-looking budgetary allocation. Duties on many computer accessories have been lowered, but incentives should be extended to other IT enabled services, he acknowledged.

Capital Market

With respect to measures for developing the capital market, *Prof Rahman* noted that the government had reduced the corporate tax rate for companies listed for public trading from 30 per cent to 27.5 per cent, for non-listed publicly traded companies from 40 per cent to 37.5 per cent, keeping the rate at 45 per cent for other corporate companies. He felt that it was not clear to what extent non-listed companies would be encouraged to become listed in the capital market in order to take advantage of the 10 per cent tax reduction incentive. To encourage greater participation by non-listed companies in the capital market, the Securities and Exchange Commission (SEC) should identify systemic concerns that inhibit greater participation in the capital market and should undertake appropriate corrective actions, he remarked. Announcement for the introduction of a "Book Building" system in the capital market in the budget FY2008-09 could possibly induce private companies, which have strong financial fundamentals to go for stock market enlistment, *Prof Rahman* commented.

Power and Energy

Prof Rahman drew attention to the unsatisfactory situation of power and energy in the country. This is a major bottleneck as far as the country's development is concerned - lack of power severely constrains investment and business activities in the country. Furthermore, new industries and economic activities are not arising because of the absence of adequate power supply. Existing units suffer from frequent outages, leading to the damage of equipment, production disruption and cost escalation originating from more costly alternative sources. All of these factors have jacked up the cost of doing business in Bangladesh. Currently, there is a large gap between demand and supply, which was 734 mega watt (MW) in May 2008. Taking the GDP growth rate of 6.2 per cent in FY2007-08, which is expected to be 6.5 per cent or higher in FY2008-09, the demand for power for the coming years should be estimated by considering a base case and a high case. The CTG and future governments need to introduce appropriate policies for power generation in the coming years to achieve the targets and meet the demand for electricity in the country. The government has planned to provide Tk. 3,200 crore to Bangladesh Petroleum Exploration and Production Company (BAPEX) to strengthen its exploration programme over the next seven years. This plan should be implemented properly and funds should be utilised efficiently in the coming days. Government should take necessary measures to set up coal-based power plants by using the coal reserves of the country. To this end, the National Coal Policy should be finalised on an urgent basis, he stressed. Government's decision with regard to the reduction of CD on coal from 15 per cent to 7 per cent could be justified to the extent that the availability of local coal has been limited due to the lack of a national policy.

Transport and Communication

In context of the physical infrastructure, *Prof Rahman* noted that budget allocation for the transport sector in FY2008-09 is 4.4 per cent and 35.3 per cent higher compared to the original ADP 2008 and the revised ADP (RADP) 2008. It was rather unexpected that allocation for roads in FY2008-09 would decrease by 9.1 per cent, although it is 12.5 per cent higher compared to the RADP of FY2007-08. A number of reforms have been initiated in recent times including the strengthening of management, rationalisation of workforce size, strengthening of operational practice, competitive pricing and others for the Biman. Allocation to the Bangladesh Land Port Authority (BLPA) for the development and extension of infrastructure at Benapole Land Port in ADP FY2007-08 was Tk. 3.31 crore, while RADP remained the same; only 6.34 per cent of this was implemented in the July-August 2007 period. Government has decided to develop and operate 12 land ports out of 13 (except the Benapole Land Port) on a build, operate and transfer (BOT) basis. The government has approved in principle the Padma Bridge construction project at a cost of Tk. 10,162 crore; the design phase is currently underway, he added.

Real Estate and Housing

Prof Rahman noted that the government has allocated a total of Tk. 2,218.7 crore, or 8.7 per cent of the ADP, for the physical planning, water supply and housing sector in FY2008-09, which is 39 per cent higher than the allocation of the previous year. A number of projects have been initiated by the government for housing limited income people living in different regions of the country (Dhaka, Chittagong and Pabna), which will be completed by the next fiscal year. In order to reduce the cost of raw materials used for housing, the government has withdrawn 15 per cent VAT on imports of mild steel (MS) bar and rod, which is likely to positively contribute to real estate sector development. A specific SD of Tk. 1,500 per metric ton (MT) has been imposed in the budget FY2008-09 on raw materials for steel products used in the construction sector to stabilise the domestic market. *Prof Rahman* remarked that the government should decrease the high registration cost for transfer to discourage the propensity to evade taxes. This was also likely to enhance revenue intake, he felt.

Local Government and Regional Development

Focusing on local government, *Prof Rahman* noted that ADP allocation for local government is 13.76 per cent of the total ADP allocation for FY2008-09. Implementation has become a major concern, in the absence of a well-functioning local government. He observed that, for poverty reduction and reducing regional disparity, special allocation has been made for 276 upazilas of 39 poverty stricken districts. Local institutions receive 60 per cent of the total development assistance for this purpose. Allocation has been increased from Tk. 20.6 crore in FY2007-08 to Tk. 40 crore in FY2008-09 for special development assistance to 28 poverty stricken districts. However, he expressed his concern that implementation plans and appropriate modalities would have to be developed.

Social Sectors and Safety Net Programmes

Education and Technology

Prof Rahman stated that in FY2008-09, a total of Tk. 12,259 crore has been allocated for education and technology, which is 12.3 per cent of the total budget. Allocation in FY2008-09 is 0.89 per cent lower than the FY2007-08 budget and 4.94 per cent higher than the revised budget of FY2007-08. Regarding quality of education, he made the point that it has been proposed that an allocation of another Tk. 15 crore be made as an educational research grant in FY2008-09, even though Tk. 10 crore allocated in FY2007-08 has remained unutilised. He emphasised the need for high quality implementation of these allocations. The budget announces that the six-year Second Primary Education Development Programme (PEDP-II) will be continued. As part of this programme, 55 lakh primary students have been receiving stipends annually. Total outlay for this programme in FY2007-08 was Tk. 1,800 crore. He noted in a positive tone, the introduction of the Stipend Programme for Poor Male Students proposed in the budget, which was to be implemented in 121 upazilas.

Health

Allocation for the health and family planning sector is Tk. 5,862 crore which is 5.9 per cent of the total budget for FY2008-09. Allocation for health and family planning in FY2008-09 is 6.69 per cent higher than that of budget for FY2007-08 and 10.25 per cent higher than the revised budget for FY2007-08. Total utilisation of the budget for health sector was only 52 per cent in FY2007-08 (July-April), which was very low, considering the size of the programme. In view of lower utilisation, he called for special measures to ensure effective implementation of budgetary allocation in the health sector.

Women Development

Prof Rahman noted that gender sensitivity is mentioned as a major concern in the proposed budget. Some commendable efforts have been made to infuse gender sensitivity in the budget by increasing allocation for women development programmes, both in rural and urban areas. The government has taken a number of measures to ensure this including the proposal to recruite 60 per cent teaching staff for primary schools from female applicants and ensuring the security of Bangladeshi women working overseas. *Gender Equality Expenditure* has been increased from 23.5 per cent to 26.3 per cent of the total budget. The budget for FY2008-09 has proposed to raise the number of target beneficiaries for *Allowances Programme for Widowed, Deserted and Destitute Women* to 9 lakh, with the allowance being increased from Tk. 220 to Tk. 250 per month per person.

Social Safety Net

The total outlay for the social safety net in FY2008-09 is proposed to be Tk. 16,932 crore, which is 2.8 per cent of the GDP against Tk. 11,467 crore (or 2.1 per cent of GDP) in the revised budget of FY2007-08. Allocation for the social safety net has been increased by 48 per cent which is a significant increase, *Prof Rahman* noted. Also, the number of target beneficiaries of such programmes has been increased by 45.8 per cent. It was hoped that through these programmes, employment creation would be enhanced. Social safety net programmes were designed for social protection and social empowerment purposes, and it is important that these allocations are appropriately used, he added. He noted that the budget for FY2008-09 has proposed a new programme titled "100-Days Employment Guarantee Scheme" with an allocation of Tk. 2,000 crore to generate employment for 20 crore person-days for the ultra-poor and the rural middle and lower middle class communities. He appreciated this initiative and hoped that it will lead to income generation, particularly during the lean period.

Concluding Remarks

Prof Rahman concluded his presentation by emphasising four points. Firstly, from the revenue expenditure side, the budget is expansionary. This is a welfare enhancing and populist initiative in the good sense of the word. Secondly, from the perspective of revenue earnings, it can be perceived as traditional. No major break-through in terms of identifying new groups of tax payers is discernible. The country's tax net covers only 22 lakh people and of those only 6 lakh people pay tax, which is only 2 per cent of the total number of households. This is rather discouraging. Thirdly, some of the fiscal rationalisation proposals should be conducive to investment, particularly investment in SMEs. Fourthly, from the development expenditure perspective, the CPD team would like to stress that the budget is conservative. Bangladesh was ending a challenging year by registering a 6.2 per cent growth rate over the previous fiscal year. If FY2008-09 is a normal year, then setting a target of 6.5 per cent growth appears to be rather conservative. Bangladesh, with its high unemployment levels and inequalities needs higher growth rates.

Prof Rahman highlighted the need for coherence between the PRS-II, which is the medium-term plan, and the proposed budget. However, the PRS-II was yet to be finalised. The CPD team felt that the budget was to be implemented by the CTG for the first six months, and by a democratically elected government for the next six months. Maintenance of macroeconomic stability over the next six months will be important in terms of creating an environment conducive for democratic transition and for implementation of the budget during the latter half of the fiscal year, he emphasised. Macroeconomic variables would have to be kept under close scrutiny over the next six months so that the country has an election-supportive environment.

Floor Discussions

Overall Macroeconomic Condition was Uncomfortable

Dr Osman Farruk, Former Education Minister, expressed his discomfort with the current economic situation, in view of the overall macroeconomic environment. He observed that the performances of major macroeconomic indices have deteriorated over time. He felt that the benchmark for comparison of the current situation should be earlier periods when political governments were in power as he believes that the overall economic environment was much better during the time of political government.

Terming the proposed budget as overambitious *Mr M Mustafizur Rahman,* former Finance Secretary observed that, it will be difficult for the Finance Advisor to finance this huge deficit from the domestic sector, especially banking.

Mr Anwar-Ul-Alam Chowdhury, President of Bangladesh Garment Manufacturers and Exports Association (BGMEA), appreciated the Finance Advisor for the proposed budget, especially for targeting income enhancement for the lower-income group. He stated that the government has emphasised food security and provided incentives for local manufacturing industries and these measures were encouraging.

Dr Farruk thought that the projected real GDP growth for the outgoing fiscal year is lower than what was achieved in FY2005-06. Gross domestic investment has not improved, and has registered lower growth compared to FY2005-06. Furthermore, the savings-investment gap has continued to widen, which means that the investment climate did not improve over the past year, he added.

Revenue Earning is Still a Concern

Dr Farruk congratulated the NBR, because they did a better job than in the past. However, with respect to the financing of the budget, he felt it is a matter of some concern that expenditure would increase at a faster rate than revenue generation.

Dr Abdur Razzaque, Former Member of the Parliament also congratulated the NBR for enhanced revenue earnings and said that in order to narrow the deficit, NBR should continue its current move. It was a matter of serious concern that the revenue-GDP ratio in Bangladesh is low compared to that of her neighbouring countries; though the ratio has improved somewhat, much needs to be done.

Reduced ADP Allocation will Affect Many Sectors

Dr Farruk highlighted one of the major concerns with regard to the public expenditure, which is the reduction in ADP allocation. In a country such as Bangladesh where poverty alleviation is one of the top most priorities as far as macroeconomic management was concerned, the ADP should put more emphasis on quality of implementation, he added. His expectation was that under the CTG, implementation bottlenecks would have been sorted out, and the size of the ADP would be larger. He argued that achievement of developmental goals and objectives are critically dependent on ADP allocation and utilisation.

Dr Razzaque, also pointed out the negative consequences of a smaller sized development budget, which is four per cent lower compared to the original allocation in the ADP of the previous fiscal year. He thought power, roads, irrigation, embankment development and the development of infrastructure which are the major concerns in Bangladesh would be affected because of the smaller ADP size. He thought foreign direct investment (FDI) inflow is low and if the development budget is also reduced at the same time, then it will not be possible to achieve accelerated growth.

Regarding public expenditure, *Mr Mustafizur Rahman* commented that for the first time the ADP has been downsized compared to the previous year's original allocation. However, he did not see anything wrong in this. Analysis of ADPs over the last 10 to 15 years shows that whenever the size of the ADP tended to be large, it got reduced in the subsequent revised budget. According to him, GDP growth depends not only on the size of the ADP but also on the use of the existing resources and the quality of the new investment in the public and private sector.

Benefits of Subsidy Tend to Go to Rich People

Addressing the subsidy burden on account of petroleum, *Mr Rezaul Karim Chowdhury,* Convener, Equity and Justice Working Group and Executive Director, COAST Trust, pointed out that the government is being compelled to allocate a huge amount of subsidy because of rise in fuel prices in the global market. Referring to benefits that originate from the subsidy, he recalled a statement by Advisor *Mr M Tamim* that "90 per cent of benefits of the subsidy tend to go to rich people in the urban areas and only 10 per cent accrue to poor people in the rural areas." Prices are sky-rocketing, and it appears that it is a never ending process, he stated. The government ought to take some measures to reduce dependency on fuel, *Mr Chowdhury* proposed. Many countries in the world are already pursuing policies which would facilitate behavioral changes in people. For example, construction of bicycle lanes in the cities, and some regulations to encourage use of energy saving bulbs in our cities could well be considered. In this regard, he proposed that Bangladesh should advance the day time by one hour so that optimum use of the daylight time is ensured.

Mr Rashed Khan Menon, President, Workers' Party of Bangladesh, observed that the way out of the present crisis is to step up agricultural production. He said that the government did indeed provide subsidies to agriculture, although the amount is below what was required on the ground. The budget proposes a rise in fertiliser prices. This, according to him, could have a significant negative impact, since fertiliser is an important component of agricultural inputs.

Dr Razzaque noted that the diesel subsidy has more than doubled in the agricultural sector in recent times, but it is still inadequate. In the last fiscal year, farmers' expectation was that they would receive a substantial amount of subsidy as support for their fuel spending. A large number of farmers had to even sell their cattle, their wives' ornaments, etc. They had hoped for some support, however, the support they had received was inadequate compared to their needs, he argued.

Financing the Budget Deficit will be the Major Challenge

Terming deficit financing as a major concern for the government, *Dr Farruk* observed that in the outgoing FY2007-08, budget deficit as per cent of GDP was estimated to be 4.8 per cent; in the coming fiscal year, the projection has been set at 5 per cent, which he considered to be rather high for a country such as Bangladesh. He thought that budget deficits should not be allowed, and that this needs to be made constitutionally binding. This is the case in Indonesia, he noted. The economy should not fall into a trap where the government borrows today, designs a deficit budget, and leaves repayment to future generations. Bank borrowing from domestic sources could crowd out the private sector, which is supposed to be the main engine of growth. In view of the increasing budget deficit, he argued that under politically elected governments, growth. In view of the increasing budget deficit, he argued that under politically elected governments, budget deficit was kept low and that was a good sign of the efficiency of the elected governments. He thought that there should be an endeavour to keep the budget deficit low under the present circumstances as well.

Mr Jonathan Dunn, Resident Representative, International Monetary Fund (IMF), underlined the need for the rationalisation of revenue earnings and expenditure of the government. Regarding revenue earnings, he felt that many of the proposals in the budget could potentially weaken the revenue base rather than strengthen it. He observed that the addition of new industries that are eligible for tax holiday, reduction in CD and several other fiscal measures would weaken the revenue base. In the course of the upcoming fiscal year, the NBR should continue its efforts to mobilise resources as it had done during the last fiscal year. In order to ensure resource mobilisation, NBR will need to improve the efficiency of its administration. This is essential to meet the budgetary commitments on the revenue expenditure side, he emphasised. He was worried that if revenue performance can not be sustained, then the task of meeting the expenditure could face trouble. It is important that the current efforts should continue. In the future, the government should carefully consider measures with regard to rationalisation of tax exemptions, tax holiday and other fiscal measures, he observed.

Mr Abul Hasan Chowdhury, Former State Minister, thought that the government borrowing from the banking system would not crowd out the scope for general investors. For the betterment of the investment environment, government could consider borrowing from other sources, he maintained.

General Fiscal Measures

M Anis Ud Dowla, Former President, Bangladesh Employers' Federation and Chairman and Managing Director, ACI, appreciated the Finance Advisor for making the provision of income generated from agricultural sector tax free. He stated that formal sectors should be involved in the financing of agricultural business. He expressed his view that if they come in a bigger way, current poor condition of land productivity would improve.

Regarding income tax, *Mr Mustafizur Rahman* noted that the non-taxable, or free limit of Tk. 1,50,000 needed to be revised, considering the current inflationary pressure. In India, the limit is higher than Bangladesh whereas India had revised it substantially. The tax exemption limit in Pakistan is also higher than that of Bangladesh. He congratulated the Finance Advisor for being considerate towards the old age people and female tax payers in this regard.

Mr Mustafizur Rahman appreciated the Finance Advisor's revision of the tax holiday structure as well as the extension of that facility. In the earlier structure, when a new industry came, depending on the location, four to seven year provisions for the tax holiday were granted, but that was never good, he stated. He justified the introduction of the new tax slabs since industries are now required to pay tax after a two or three year period, depending on the location.

Addressing the issue of tax on capital machineries, *Mr Abdul Hai Sarker,* President, Bangladesh Textile Mills Association (BTMA), pointed out that large scale industries would be the main beneficiaries of the existing one per cent tax. If the one per cent tax was imposed on capital machineries for export oriented industries, it would create an extra burden for them. In this situation, the existing tax level should be brought down to 0.25 per cent for all textile machinery imported both for domestic and export oriented industries, he proposed.

Dr Farruk observed that the consumer price index (CPI) had gone up significantly, reflecting the rising inflationary pressure in the economy. This has affected the domestic economy quite severely. He suspected that the government would not be able to maintain the projected inflation rate of 9 per cent in FY2008-09. He would not put the blame the government since there were external forces to be considered. But if it has to be a poverty reduction oriented budget, the FY2008-09 budget should include appropriate interventions which would create opportunities for the poor people to overcome the inflationary pressure, he commented.

Mr Mustafizur Rahman thought that the most important challenge facing the economy was to keep the price level at a tolerable limit. This was also mentioned by the Finance Advisor in his budget speech, he conceded. In this regard, he stressed the need for effective policies to control the inflationary pressure.

Rationing System Suggested to be Introduced to Ease Inflationary Pressure

Mr G M Quader, Former Member of the Parliament, noted that to ease the present inflationary pressure, the CTG has taken various programmes, particularly in support of government employees and the ultra-poor. However, no concrete steps have been taken for non-government officials and workers in readymade garments (RMG) and other sectors. In this regard, he proposed that a permanent system of supplying subsidised food and other essential items through the rationing system be introduced in the country. Those supports have to be on a long-term basis and should indeed continue for four to five years since the crisis would perhaps not be limited to the short-term, and its implications could continue in the long-term as well, he argued.

Mr Abul Hasan Chowdhury endorsed the idea of the rationing system and felt that it needed to be considered on an urgent basis. He thought that such a programme could be considered not only for garments workers, but for all working people including lower-income groups. In his opinion, such a programme should continue for at least one year.

Mr Menon proposed that the government ought to introduce extensive OMS operations, covering not only workers but also low-income group. He claimed that the withdrawal of OMS of rice operated by the Bangladesh Rifles (BDR) came at a time when the budget itself has proposed a number of programmes to keep the price of essentials stable. He demanded that the government should reintroduce the OMS immediately.

Regarding dearness allowance, *Mr Menon* mentioned that the impact of inflation was particularly bad for fixed income earners, such as workers. The government had announced dearness allowance for public sector employees to provide direct support. However, workers and labourers in the private sector were not provided with any such allowance. He thought that such discriminatory policies could potentially create unrest in the industries sector. He made the observation that workers in other private sectors would also demand this kind of benefits. He complained that the government had constituted a pay commission to ease inflationary pressure for the public sector; however, there is no wage commission for workers in the private sector.

Higher Budgetary Allocation for Agriculture Suggested

Dr Farruk welcomed increased assistance for agriculture in the proposed budget through higher budgetary allocation in FY2008-09. He emphasised the need for target-oriented allocation. He recalled that an endowment fund was created in the last budget during the Awami League regime for agriculture; however, the status of this fund was unknown.

Dr Razzaque thanked the Finance Advisor for making significant allocations for agriculture sector in the budget. He argued that agriculture should be developed in a manner so that it contributes effectively to the overall economic development of the country. In the coming days, the country will need to look for rapid production enhancement to ensure her food security, he remarked.

Regarding agricultural productivity, *Dr Razzaque* observed that agriculture has experienced impressive growth in favourable areas. But in unfavourable areas, such as coastal and hilly areas, productivity has continued to remain extremely low. He thought that the government should consider ways and means to increase cultivable land for agri-production purposes, which is also necessary to ensure food security.

Ms Aroma Dutta, Executive Director, PRIP Trust observed that increased productivity during the last Boro season was achieved, thanks to right decisions at the right time. She observed that focus should be put on export oriented industries, particularly efforts to develop agro-based industries in the country.

RMG Sector Should be Provided with Facilities to be Able to Compete in the Global Market

Regarding wages, *Dr Wajedul Islam Khan,* General Secretary, Bangladesh Trade Union Kendra, noted that there is no sign of wage increase for the majority of workers who are engaged in the productive sectors. The prevailing wage that the workers are getting is very low, and workers can barely survive on this minimum wage. The real wages have gone down by more than 50 per cent and it is the duty of the government to help the working class by introducing a rationing system, he demanded. Most of the workers in the garments sector are living in tiny slum dwellings where even minimum necessities of life are absent. He recommended that the government set up dormitories and rent these out to workers on the basis of monthly payment.

Mr Abul Hasan Chowdhury mentioned that the country needs an export-friendly environment considering both short-term and long-term needs of the economy. The export sector has experienced three major weaknesses: poor infrastructure, lack of skilled manpower and high interest rates on loans, he observed. Bangladesh's competitors are enjoying substantial comparative advantages. To enable the RMG sector to compete in the global market, the sector should be provided with tax holiday facilities for 10 years, and if not, at least for five years, without any staggering, he added. *Mr Abul Hasan Chowdhury* claimed that industries in the export processing zone (EPZ) were receiving benefits in terms of tax holidays. Industries outside the EPZ should not be treated separately, he maintained. The industries located in the EPZ are also competitors of the RMG units located outside the EPZ areas. He demanded uniform policy for all RMG units, within and outside of EPZs.

Mr Abul Hasan Chowdhury emphasised the need for a system of cash incentives which he felt is necessary for the development of bigger industries, especially backward linkage industries in the RMG sector. In this regard, he felt that the cash incentives should be at least 10 per cent. Production costs in Bangladesh are very high, to a large extent because of high interest rates on loans. As a result, investment has become expensive, he added.

Regarding "garments palli," *Mr Abul Hasan Chowdhury* felt that in the budget, he did not find any reflection of the support required for relocation of garment industries. Failure to relocate garments units outside of the limits of Dhaka city will make it difficult to build Dhaka into a modern, livable city. At present, a large number of factories are situated within the city. The government should build special economic zones (SEZs) by setting up all industrial units in one area, he stressed.

Government should Focus on Generating Power on an Urgent Basic

Touching on the issue of power shortages, a major concern for the industrial sector of Bangladesh at present, *Mr Dowla* noted that it is the government's duty to provide power for the industralisation of the economy. Many industrial units have imported expensive machineries for production purposes; but later they were forced to shut down the units due to power shortage. Government should focus on generating power on an urgent basis by designing an appropriate energy policy. He lamented that at present there is no comprehensive policy with regard to the development of the electricity, gas and coal sectors of the country.

From the perspective of accelerated development, it is essential that industrial units and households are ensured adequate infrastructure for the supply of electricity, *Mr Abul Hasan Chowdhury* observed. By 2010, only 450 MW are to be added, though consumption has been increasing by more than 10 to 12 per cent per annum, he noted. He recommended that the private sector should come forward for the development of infrastructure. The government however is planning to develop infrastructure only with its own funds. In this regard, he mentioned that the government could invite the private sector to set up infrastructure projects on a BOT basis. He cited examples of Thailand and Malaysia where infrastructure was developed on a private sector BOT basis. He noted that the Bangladesh should not go to the World Bank or the IMF for credit; rather she should look for alternative options. He assured that if the required skilled manpower, good infrastructure, political stability and other necessary facilities were available, then the cost of doing business in Bangladesh would be low and the garments sector would be able to maintain a minimum growth of 20 per cent per annum.

Mr Menon argued that more attention should be paid to the power generation situation - almost all the industries of the country are affected by power shortage and outage. Generation of power is in turn being affected due to inadequate supply of gas. He said that people were blamed in the past for halting initiatives to export gas. However, given the current scenario, in retrospect, that seemed to have been a good decision for the country. Now they were being blamed for opposing coal mining by companies like Asia Energy. Why not strengthen BAPEX, he questioned. The government has provided Tk. 3,200 crore over the last seven years and BAPEX has been successfully exploiting one of the four coal reserves, the Barapukuria. In this regard, he recalled that his teacher, *Prof. Rehman Sobhan,* had proposed the release of government bonds for financing coal exploration with its own resources, instead of handing over the task to foreign multinational corporations (MNCs).

Budget Failed to Protect the Jute Sector

In terms of employment generation, agriculture accounts for the largest share, *Mr Menon* observed. He argued that the jute sector could have served as a great opportunity for significant additional employment generation. However, the jute industry has been allowed to slide into decay. The budget failed to provide any measure to protect the interest and ensure the progress of this industry, *Mr Menon* observed.

Property Registration Fees Need Revision

Engineer Tanveerul Haque Probal, President, Real Estate and Housing Association of Bangladesh (REHAB) appreciated the initiative of the Finance Advisor with regard to the tax holiday facility. However, he called for some changes in the policy. Regarding location, he said that if this incentive is applicable for remote areas where facilities like electricity are not available, it would be unrealistic to expect real estate developments to build multistoried buildings in those places.

Engineer Probal proposed a reduction of the registration cost from the existing 16.5 per cent of the asset value which includes stamp cost, gained tax and the VAT. If someone buys a property of around Tk. 1 lakh, he has to spend Tk. 16,500 for registration cost, which is rather high, he argued. To compare, in India, the total registration cost is around 7 per cent; in Pakistan, it is around 5 per cent and in Nepal, it is around 4 per cent. In Sri Lanka, the fee was fixed at zero per cent at one point in time to encourage housing, he informed the audience. *Engineer Probal* felt that if the registration cost was fixed at about 5 per cent, total revenue would increase substantially. A large number of apartments and a significant amount of land still remain unregistered. He argued that if the registration costs came down to a reasonable level, more revenue will be collected from this sector.

Regarding the secondary market for apartments, *Engineer Probal* noted that in Bangladesh, there is no secondary market to deal with this product. It is rather troublesome to buy and sell old apartments and properties. In order to buy an old apartment, buyers have to register with a 16.5 per cent fee again, which is the same as the first time registration fee. Registration fee should be about 1.5 per cent, he noted.

Flow of FDI has Slowed Down

Dr Razzaque emphasised that FDI is one of the major driving forces of economic development. Experience reveals that countries such as Vietnam, India, China and others had posted high growth with the help of FDI. However, the current flow of FDI has slowed down and the investment environment is not conducive. *Dr Razzaque* argued that by using the remittances earned by poor young countrymen abroad, the economy could achieve the growth pace.

Implementing the Employment Guarantee Scheme will be a Challenge

Mr Menon thanked the Finance Advisor for broadening the safety nets and introducing the "100-Days Employment Guarantee Scheme." However, the employment generation scheme is expected to prevent the poor from sliding back into poverty. More medium to longer term solutions were required, he felt. He also called for effective institutions and modalities to implement this scheme.

Say 'No' to Interest Groups and Ensure Support to Farmers

Dr Kamal Hossain, President, Gono Forum, called upon the government to devise innovative ways to ensure support for the poor. "Provide food to those who cannot pay for food"- he stressed. At the same time, he reminded the audience that it is not charity. The right to survive and the right to food are the fundamental human rights. *Dr Hossain* termed the proposed budget as an encouraging document in terms of social security. He felt that rationing sounds very old fashioned; the concept is that it would compensate for market deficit or market failure. He argued that government interventions are necessary because most of the people are not able to purchase necessary items at high prices. The country should think of introducing a mechanism of rationing, but needs to be cautious about the bureaucratic "rationing system."

With regard to food security, *Mr Quader* noted that the government has fixed a food procurement target of 32 lakh metric tonnes. The lion's share of this procurement will come from farmers and mill-owners. Previous experiences show that procurement has been done through the millers, and millers are generally a middleman group who purchase food grain from the farmers at a relatively low price and supply to the government at higher prices. Thus, the support that was initially aimed at farmers was eventually diverted to the middlemen. He recommended that the government should start learning to say "no" to vested interest groups.

Government should Set up a Central ETP System

Mr Abul Hasan Chowdhury observed that the government had withdrawn import duty from ETPs in the budget of FY2007-08 to encourage industrial development. But last year's experience was not very encouraging. To set up an ETP for an individual industry is very expensive. He suggested that for setting up ETPs enterprises should have access to adequate funds and with lower interest rates. At the same time, the government may consider setting up a central ETP system.

Mr Sarker, also agreed with this view and noted that the government should do this as early as possible.

Proper Implementation of Safety Net Programmes Stressed

Dr Farruk appreciated the Finance Advisor's decision to expand budgetary allocation for safety net programmes. He felt that there were a number of good measures in the budget: the proposed budget expands safety net programmes, allocates more funds for mitigating the impact of climate change, keeps funds for lowering regional disparity and makes enhanced allocation for agriculture, he observed.

Mr Dunn congratulated the Finance Advisor for some of his initiatives on the expenditure side. According to him, it was appropriate to expand the safety net programmes at a time when Bangladesh was facing formidable inflationary pressure that led to erosion of real income of particularly low income people. He, however, stressed the need for proper implementation of the programmes.

Dr Razzaque also appreciated the safety net programmes that the Finance Advisor has proposed in the budget. He however, thought these should be further widened and deepened.

MDG Target on Poverty Need to be Reflected in PRS-II

Dr Razzaque thanked the CPD for presenting an in-depth analysis of the poverty situation. He observed that recently the CPD team had conducted studies on the state of the economy. Some of those data were very revealing, he added. Referring to the CPD's analysis on poverty, he stated that the poverty level has increased by 8.5 per cent and per capita income of the general people has gone up by 41.9 per cent during the last three year period. He felt that the survival of the poor has become impossible. Regarding long-term objectives, he mentioned that during the last few years, the country has been preparing and implementing budgets in view of attaining the eight millennium development goals (MDGs). He recalled that Bangladesh has set her target to reach the MDG goal to halve the poverty level to 29.4 per cent by 2015. There was a need to reflect this aspiration in the PRS-II, he added.

More Focus on Gender Inequality Issues is Suggested Gender Discrimination

Ms Rokeya Kabir, Executive Director, Bangladesh Nari Progoti Sangstha, thought that it is important to strengthen the Ministry of Women and Child Affairs with adequate budgetary allocation so that the Ministry can perform effectively. She observed that though the allocation for the Ministry has increased in the proposed budget, it is still inadequate. More focus is also needed on gender equality issues in the PRS-II, *Ms Kabir* added.

More Allocation for Local Government Proposed

Ms Dutta, stressed the need for strengthening local government. She noted that implementation of the safety net programmes is under question. Effective planning and implementation of projects under local government could resolve many of the difficulties that Bangladesh faced for making development a reality. In this regard, *Ms Dutta* thought that there should be more allocation for safety net programmes under the aegis of the local governments.

Recovery of Undisclosed Money would Add to Revenue Earning

Regarding undisclosed income, *Dr Farruk* observed that he was pleased to see that the government recognised the economic value of addressing the issue of bringing undisclosed money within legal ambit. In this connection, he reminded the dialogue audience that the political government has also done so in the past. The extension of this provision would contribute to additional revenue mobilisation and also will encourage investment in the economy, he noted.

Implementation is a Serious Concern

Dr Hossain underscored the need for upgrading the management and project implementation capacity of the government. He felt that the country is not only in deficit, but also suffers from lack of accountability. He also urged that the government should leave a parting report for the next political government articulating what the CTG experienced during its two-year period of governance, particularly focusing on the bottlenecks and difficulties faced. In this regard, he noted that institutions that are relevant for ensuring good governance need to be strengthened on an urgent basis.

Based on his experience, *Mr Shah Abdul Hannan,* Former Secretary and Executive Director, CSPS, shared his thoughts as regards the implementation of the ADP. He recommended that the Implementation Monitoring and Evaluation Division (IMED) should be strengthened by taking proper steps, including continued monitoring of project implementation, and appointment of qualified people who would go around the country and find out the status and constraints which hamper implementation of projects and offer solutions.

Dr Razzaque, however, disagreed with the idea that low ADP implementation originated from low capacity of the government. He recalled that Bangladesh achieved self-sufficiency in rice production during FY2001-02 under *Begum Matia Chowdhury,* Former Minister for Agriculture. He felt that this was because of the right decisions taken by, *Ms Chowdhury;* she worked tirelessly and drove the concerned Ministry officials and stakeholders like a shepherdess. He drew the conclusion that good governance is needed for good implementation, including proper distribution of inputs and overall success in management of the development process.

Mr Abul Hasan Chowdhury emphasised on the need for quality implementation of the safety net programme at a time when people's representatives, for example, MPs, Chairmen and others are not there. Resources which are being allocated should be used for good quality infrastructure development which has multiplier effects on the economy, he noted. The million dollar question is how do we monitor and carry out these things in the absence of representatives, *Mr Abul Hasan Chowdhury* asked.

Appropriate Use of Land is Stressed

Addressing the issue of the diminishing size of land under cultivation, *Dr Anwara Begum* of BIDS noted that land has decreased by more than one per cent per annum in Bangladesh. Land is being used for various purposes like roads, industries, etc. By the year 2050, land will indeed become a scarce commodity, for cultivation as well as housing, she cautioned. Plans for compact villages and contained cities are needed which has actually been proposed in the PRS. Contained cities are built on vertical designs with best use of urban land and compact villages based on maximum utilisation of rural land. In this regard, she felt that infrastructure and funds could be mobilised for "haor" or "char" as well as inaccessible areas. There have been frequent demands for a "char tahabil" (char fund), because those are the areas from where one- fifth of our food grains are produced. Most of these areas are inundated for a large part of the year. The government ought to think about appropriate use of land, *Dr Begum* stressed.

Contain the Current Population Growth Rate

Addressing the role of population control, *Mr Hannan* stated that service delivery, such as family planning programmes, should be well-functioning and of the desired quality, even at the village level. Bangladesh should also take energetic steps to control and contain the current population growth rate, *Mr Hannan* thought.

Develop State of Art Laboratory

Mr Hannan recommended that the government should develop three or four state of the art laboratories, which would conduct very high quality research. In the proposed budget, allocation of yet another Tk. 15 crore has been kept for educational research grants, even though Tk. 10 crore allocated in FY2007-08 remained unutilised, he added.

Comments from the Special Guest

Professor Wadiduddin Mahmud, Former Advisor to the CTG underscored the need for a balance between short-term and long-term government measures. Regarding the comment on overcoming "crises," made by the Finance Advisor, *Prof Mahmud* observed that both the current and the previous budget were actually budgets for overcoming crises. Many commentators have argued that only short-term policy measures are highlighted in the budget, and long-term policy measures are not adequately reflected. The fact is that crises are, by definition, of short-term nature; however, the way out that is required, is both of a short-term as well as long-term nature. There is no conflict between the two; rather there should be a compromise between these two solutions. Referring to *The Economist,* he recalled the economic *tsunamis* coming from food prices and observed that in the case of Bangladesh, these have to be addressed at a critical juncture of history when very important political reforms are being undertaken.

Prof Mahmud added that as an economist, he has to believe that no country is so poor that it cannot meet the basic needs of its people. In this regard, he emphasised the need for effective safety net measures to help poor people meet their basic needs.

Prof Mahmud highlighted the issue of revenue mobilisation, and underscored that if additional revenues were used for safety net programme, income redistribution would always be justified. At the same time, economic theory would justify that. But when safety net expenditure is financed by additional borrowings, internal borrowings that are used to finance social safety nets, by curtailing public investment, directly or indirectly, then there is a trade-off between the need to cater to aggregate investment demand in the economy and additional resources that are needed for short-term measures. There is a trade-off between how we meet the short-term exigencies of human poverty arising particularly from the food crisis and maintaining a high pace of investment, both in the private and public sectors, for creating employment opportunities in the long run. He pointed out that if some of the underlying problems prevail in the longer term, including high food or fuel prices, there will need to be a balance between short run and long run measures.

Prof Mahmud remarked that the budget has been framed at a period of extreme uncertainty; these uncertainties originate not only in internal political transition but also from domestic and international economic uncertainties. Consequently, throughout its implementation period, the budget will have to be under continuous review and monitoring, and there will perhaps be a need for midway corrections, he commented. He added that one of the adjustments the country has already witnessed concerns the price of urea, since the adjusted price of urea in Bangladesh is now approximately that of neighbouring India.

Prof Mahmud raised question with regard to the higher price of rice in the domestic market in Bangladesh despite bumper Boro production. The price of essentials, especially rice, is not the usual post-harvest lower price, he noted. The traders are opting for food stocks instead of selling the rice, to attain higher profit in future. He maintained that the government will have to build adequate food stocks to sell rice and wheat at subsidised prices to the poor. If the country depends on commercial importers, prices' of food would rise, he cautioned.

Asymmetric information often leads to management problems with regard to implementation capacity of the public investment within the ADP, *Prof Mahmud* observed. He put emphasis on the implementation mechanism of the *"Employment Guarantee Scheme,"* which has been considered for the first time in the FY2008-09 budget. He cautioned that the government should be careful about *"ghost workers"* and the wastage of resources which is a common phenomenon in government administered programmes in Bangladesh.

Response from the Chief Guest

The Honourable Finance and Planning Advisor *Dr AB Mirza Azizul Islam* gave his reactions to the questions raised by the dialogue participants. He appreciated the contribution made by the keynote speaker, the Special Guest and the discussants from the floor in terms of sharing their insights and thoughts on various proposals presented in the budget for FY2008-09. He appreciated the participants for addressing a number of key issues regarding macroeconomic management at a very critical time. Terming participants' comments as valuable, he stated that he agreed with some and disagreed with others. He observed that many of the comments were right on their individual merit, but when these were put together, often they were not mutually consistent. Consequently, a judgment call was needed, after which there would be different opinions on what had been proposed. *Dr Islam* identified several points in the comments of dialogue participants which he thought to be important: i) the proposed budget had a low size of ADP; ii) social safety net programme are good but there is still need for more; iii) particularly in the area of the development programme there is a need for more allocation to various sectors, such as power, agriculture and so forth; and iv) there is a concern that the budget has proposed a high deficit.

Refuting the critics who felt that the proposed budget had proposed only short-term remedial measures, *Dr Islam* maintained that the budget did not forget about medium-term challenges. Justifying short-term measures, he stated that when a patient goes to a doctor with pain the doctor tries to minimise the pain first and then goes for a deeper diagnosis. Agriculture and rural development, energy and power, transport and communication, health and education and human resources development are among the major areas where several medium-term measures have been proposed, he argued. It is from the medium- to long-term policy perspective that the budget has structured the CD, reduced corporate tax rates and extended tax holiday with some restructuring. These are aimed at creating an investment friendly environment, he stressed. He thought that fiscal incentives, for infant industries, should not continue in the long run, and efforts should be there to help them run on a competitive footing.

Responding to the criticism of the budget being overly ambitious, the Finance and Planning Advisor argued that the financing method or modality that has been proposed in the budget is realistic. He stated that the NBR tax revenue posted 23.4 per cent growth for the period July to April FY2007-08. For the upcoming fiscal year FY2008-09, the proposed budget has targeted a growth rate of 18.6 per cent, which approximates what has been achieved. He termed the target as realistic. He observed that if real GDP growth is to be 6.5 per cent and money inflation about 9 per cent, nationally this would induce at least 15.5 per cent money income growth. In the budget, only a modest increase of 3.1 per cent has been proposed. This was by no means unrealistic or overly ambitious, he argued. He added that NBR has already taken various initiatives to mobilise additional resources and it will be able to achieve the target. At the same time, he pointed out that almost no increase has been proposed in non-tax revenue.

The Advisor defended the size of the deficit financing, to the tune of Tk. 30,580 crore and GDP growth projection of 6.5 per cent, which some participants had termed as unrealistic. He downplayed the concern that loans to the private sector may be affected in the coming FY2008-09 due to enhanced government borrowing from the banking sector. In this regard, he maintained that he did not see any serious threat or any threat at all for private sector credit being crowded out due to rise in bank borrowing by the government. Private sector credit growth was 17 per cent higher, during July-March of the outgoing fiscal year, compared to the same period of FY2006-07 despite Tk. 2,000 crore more borrowing from the banks by the government. The Finance Advisor thought that this did not justify apprehension about a possible crowding-out as far as private sector credit needs were concerned. The Finance Advisor did not see any link between government borrowing and growth of private sector loans. There was excess liquidity in the banking system as of March 2008, which amounted to more than Tk. 12,000 crore, he noted.

The Finance and Planning Advisor, however, was somewhat defensive about the concern regarding the budget deficit, arguing that it was still lower than those of other neighbouring countries including India. He also rejected the argument that increasing bank borrowing by the public sector will make loans for private sector even more costly. He conceded that the interest payment by the public sector on bank borrowing will increase, but felt that it would not have an adverse impact on the economy. He argued that the government had enough indications that net foreign borrowing would be more than what was anticipated for FY2008-09. The budget deficit is estimated at 5 per cent of GDP for FY2008-09, and was 4.8 per cent in the revised budget for the current fiscal year, the Advisor acknowledged.

The Chief Guest, however, was concerned about the poor implementation of the ADP, which was set at Tk. 25,600 crore for FY2008-09. Regarding implementation capacity, the Finance and Planning Advisor remarked that raising the quality of implementation was a challenging task and one should not expect dramatic improvements in this regard. This would require long-term investment in public sector management capacity within the government. Responding to a query on poor performance in the energy sector, he said that around Tk. 800 crore has been allocated for the sector in the FY2008-09 budget, compared to the revised figure of the FY2007-08 budget.

The Advisor did not agree with the proposal to enhance the ceiling for tax-free income, which currently stands at Tk. 150,000. He maintained that there should be a relationship between per capita income and the tax exemption limit. Some have cited the example of India, where the tax exemption limit is higher but the per capita income in India is much higher than Bangladesh, he noted.

The Finance and Planning Advisor, however, opined against additional fiscal incentive measures saying that these often do not help achieve the expected goal of higher industrial growth. It is important to raise competitive strength and lower dependence on financial support from the government, he argued. On food security, the Advisor said that the government has decided to create a stock of 32 lakh tonnes of rice for the next fiscal year to address the threat of food shortage. He was hopeful that a good government food stock, both through imports and domestic procurement, will help ensure the food security of the country.

The government has tried to make the budget more investment and production friendly, the Finance and Planning Advisor maintained. Government investment accounted for hardly 25 per cent of the total investment in the economy; consequently, even if government investment was increased by another 20 to 30 per cent, this would not make a significant difference in terms of overall investment in the country. The private sector has to come in if there is to be significantly higher investment in the economy, he noted.

The Chief Guest, in his concluding remarks, expressed his hope for better implementation of the budget in the upcoming fiscal year. He added that the government must focus on full implementation of the ADP.

The Finance and Planning Advisor informed the dialogue that whilst finalising the budget, he will carefully review and consider all the proposals made by the participants. He thanked the audience for their valuable inputs.

Closing Remarks by the Chair

Mr Syeduzzaman thanked the honourable Advisor for his comprehensive, logical and frank responses. He appreciated the Advisor for his careful consideration of the comments and sharing his thoughts with the audience.

Mr Syeduzzaman highlighted two points which he thought should be of concern to policymakers. Firstly, the size of the public investment as percentage of the GDP has fallen to about 4 per cent, which is historically at its lowest level. Secondly, total investment in the economy has also fallen substantially. As against gross national savings of about 28 to 29 per cent, overall investment, including public and private, has stagnated at around 24 to 25 per cent. This clearly demonstrates that the economy has foregone growth because of the low amount and low quality of public sector investment, high transaction costs, inadequate expenditure, weak infrastructure, etc. Private sector investment has suffered because of such a state of affairs with public sector investment. He felt that short-term measures are justified when there is concern with regard to social protection and subsidies for agricultural inputs. However, those schemes can not be sustained in significantly large sizes in the medium-term, without consequent adverse effects in terms of the availability of resources for investment.

Mr Syeduzzaman observed that everyone had expected the CTG to lay the foundations of a commercially viable energy sector. However, real progress in this regard has been rather poor. Erstwhile, elected governments have failed miserably to address and rectify the power sector problems. The general public is waiting to see what will happen in the remaining six months that the CTG will be in power, he added.

Mr Syeduzzaman felt that the Bangladesh Bank needs to receive some indications from the highest policy making level as to which policies are of the topmost priority to foster faster economic growth in the Bangladesh context. With respect to safety net programmes, *Mr Syeduzzaman* observed that service delivery would play a key role in ensuring appropriate resource allocation for the poor. Even in developed countries, administering the social welfare system is a daunting task. An effective local government system with the required political, administrative and fiscal decentralisation could play an important role in this respect, he noted.

Identifying the current CTG as the mother of all caretaker governments, with a duration of 24 months, *Mr Syeduzzaman* observed that it could have done more in the time it has been in power. He felt that the agricultural sector will not be the panacea for Bangladesh's economy. Agricultural growth, increase in productivity and diversification of agriculture are necessary, but not sufficient factors to address the multidimensional poverty problems of Bangladesh, he observed.

Mr Syeduzzaman was of the opinion that Bangladesh needs to address the emerging critical issues including those that originated from structural changes in the economy. The country is in need of diversified industrialisation, faster export expansion and strengthened global integration. The country needs to significantly enhance the efficiency and competitiveness of her industrial units, improve her infrastructure and increase her energy supply and availability by giving these tasks the top priority from the policy perspective. Along with these tasks, improvements in education, development of quality and manpower skill and expansion of the role of the ICT in all spheres of economic activities should also continue to claim priority attention if Bangladesh is to join the rank of middle-income countries in the next 10 to 12 years, *Mr Syeduzzaman* maintained.

Bringing the dialogue to its close, the Chair registered his deep appreciation to all the dialogue participants, and also the Chief Guest and the Special Guest for being present in the dialogue and for sharing their valuable insights. He hoped that whilst finalising the budget proposals, the Finance Advisor will take into consideration comments voiced at the CPD dialogue.

List of Participants

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Annex II

Chronology of Major Economic Events during July 2007 - December 2008

Date	Macroeconomic Events
2007	
July 1	❑ The government withdraws provision for imposing safeguard tax on import that was proposed earlier in the current budget (FY2007-08) to protect local industries.
July 2	❑ The caretaker government's (CTG) purchase committee approves awarding of contracts for 10 small power projects with a total production capacity of around 200 mega watts (MW).
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 Palli Karma-Sahayak Foundation (PKSF) sign a memorandum of understanding (MoU) that will facilitate 15 local non-government organisations (NGOs) to benefit from microfinance funds to improve the lives of the extreme poor.
July 13	❑ The Canadian government selects 73 Rohingya refugees from two camps in Cox's Bazaar 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	❑ International Monetary Fund (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 reestablish direct air and sea links, with Sri Lanka eyeing greater pharmaceuticals, cement, leather goods and

Date	Macroeconomic Events
2007	
	food commodities import from Bangladesh and commit themselves to increasing bilateral trade between these two countries.
July 18	❑ Bangladesh Bank introduces housing scheme to offer loans at a maximum of 10 per cent 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 organise 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 USD 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.
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 Advisor to the Government of Hainan province of China. ❑ Bangladesh and Indonesia conclude their first Joint Economic Commission (JEC) meeting, where Indonesia showed interest in importing pharmaceuticals and readymade garments (RMG), 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 Swiss Agency for Development and Cooperation (SDC) launches a technical assistance programme worth USD 3 million for Local Government Support Program (LGSP) of the government. ❑ The government signs an agreement worth USD 16 million with the International Development Association (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.

Date	Macroeconomic Events
2007	
July 30	❑ Foreign Advisor Iftekhar A Chowdhury leaves for Manila for Bangladesh's first ever participation in the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF). ❑ The second meeting of South Asian Association for Regional Cooperation (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 Government of Bangladesh (GoB) to start its journey as a PLC.
August 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. ❑ United Kingdom (UK) gives USD 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)
August 2	❑ Bangladesh signs ASEAN's Treaty of Amity and Cooperation (TAC) at the ARF in Manila for greater economic and political cooperation in the region. ❑ Bangladesh and India aim to expand security cooperation and resolving the outstanding land and border issues during the annual Home Secretary-level meeting in New Delhi.
August 5	❑ The Advisors' Committee on Purchase approves import of 50,000 metric tonnes of rice from India at a price higher than local market price.
August 6	❑ World Food Programme (WFP) urges donors and international community to continue to be generous in helping the flood-affected people of Bangladesh.
August 7	❑ GoB signs two agreements with the government of Japan at the Economic Relations Division (ERD). Japan, through its Policy and Human Resource Development (PHRD) Grant programme, will provide USD 1.6 million as grants to Bangladesh for preparing two projects on clean air and sustainable energy and water resources management.
August 8	❑ India and Bangladesh decide to exchange principles of sharing water of Tista 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).
August 12	❑ The WFP decides to distribute 2,000 tonnes of rice among flood victims as initial response to the need for emergency relief of flood affected people of Bangladesh.
August 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

Date	Macroeconomic Events
2007	
	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 USD 50 million for the flood-stricken people of Bangladesh at the instruction of King Abdullah.
	❑ Bangladesh Bank decides to monitor the activities of 9 non-banking financial institutions (NBFIs) as classified loans and provision shortfall of those went up alarmingly.
August 14	❑ The Council of Advisors at a meeting assigns Local Government Engineering Department (LGED) and Water Development Board to the task of formulating a coordinated policy for a permanent solution to the water logging problems in the Dhaka-Narayanganj-Demra (DND) embankment area.
August 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 USD 25,000 to the Chief Advisor's Relief Fund for the flood affected people.
August 18	❑ A 16-member Bangladesh media delegation led by South Asian Free Media (SAFMA) President Reazuddin Ahmed attends the Sixth Regional Conference of Association SAFMA, in Sri Lanka.
August 19	❑ The high officials of the Ministry of Finance (MoF) at a meeting with the Local Consultative Group (LCG) asks the donors for USD 150 million additional budgetary support and food aid to tackle the post-flood situation.
August 20	❑ The government declares that it will sell licenses 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.
August 21	❑ The government decides to prepare three separate papers on duty and quota-free market access, rules of origin (RoO) and binding coverage (tariff ceiling) to devise

Date	Macroeconomic Events
2007	
	Bangladesh position on these issues at an upcoming meeting at the World Trade Organization (WTO).
August 22	❑ The UK contributes about USD 500 thousand (Tk. 3.4 crore) to ICDDR,B for treatment of diarrhoea in Bangladesh.
August 23	❑ The government finalises the modality to sign MoU with the Indian government to export eight million pieces of RMG every year.
August 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.
August 27	❑ World Bank, at a workshop organised in Dhaka reports that poverty reduction rate in Bangladesh is one of the best in South Asia.
August 28	❑ Bangladesh signs MoU with India on duty-free export of eight million pieces of Bangladeshi RMG to India annually. ❑ Chaired by Chief Advisor Fakhruddin Ahmed, a meeting of the Council of Advisors approves the draft of the Bank Companies (Amendment) Ordinance 2007, updating the Bank Companies Act 1991 in order to streamline the banking sector.
August 29	❑ Foreign Secretary-level talks between Bangladesh and Pakistan take place in Dhaka for a fresh review of the entire range of bilateral affairs as well as regional and international issues of common concern.
August 30	❑ UK contributes USD 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 USD 1 billion from a paltry USD 300 million.
August 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 Advisor AB Mirza Azizul Islam and visiting IDB President Ahmed Mohamed Ali, under which IDB will provide USD 9.2 million for the development of agriculture, rural infrastructure and the power sector in Bangladesh.
September 3	❑ As part of Bangladesh Rifles' (BDR) effort to contain price hike of essentials during Ramadan, about 100 fair-price outlets begin operation in Dhaka.

Date	Macroeconomic Events
2007	
	❑ The Government of the Republic of Korea donates USD 5 lakh for the PERP project.
September 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.
September 5	❑ The National Board of Revenue (NBR) refuses an IMF proposal to introduce joint audit system for income tax and value added tax (VAT).
	❑ Acting Country Director of United Nations Development Programme (UNDP) Larry Maramis and Swedish Counsellor for Development Cooperation Ola Hällgren sign an agreement under which Sweden will provide USD 1 million for the PERP project implemented by the Election Commission.
September 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.
September 9	❑ The CTG initiates a study on the impact of signing free trade agreements (FTAs) with India, Pakistan and Sri Lanka.
	❑ Indonesia donates USD 100 thousand to the Chief Advisor's Relief Fund for the country's flood victims.
	❑ The UN Central Emergency Response Fund allocates a sum of USD 6 million for the flood affected people of Bangladesh.
September 10	❑ Defence Secretary Kamrul Hasan inaugurates a new satellite ground station of Bangladesh Space Research and Remote Sensing Organization (SPARRSO) at its auditorium in Dhaka.
	❑ The World Bank decides to provide USD 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 OMS programme across the country through 15,440 dealers.
September 14	❑ Senior officials of SAARC countries agree to meet in New Delhi in late September to discuss ways to stop terror-funding. They also agreed to operationalise the

Date	Macroeconomic Events
2007	
	proposed regional Development Fund as soon as possible and set up an expert group for the development of capital markets in South Asia.
September 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 USD 10 million to Bangladesh to assist ongoing relief and post-flood rehabilitation programmes.
September 17	❑ A United States (US)-based rights group makes a move seeking cancellation of Generalized System of Preferences (GSP) alleging the country does not allow labour rights in the export processing zones (EPZs). ❑ Norway decides to provide USD 1 million for the 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.
September 18	❑ The visiting mission of IMF agrees with the government stance of not signing the Policy Support Instrument (PSI). ❑ The NBR fixes 10 per cent flat tax on import of machinery and equipment for rental power plants (RPPs). ❑ Turkish Ambassador Ferit Ergin and Indian High Commissioner Pinak Ranjan Chakravarty hand over a donation of Tk. 10 lakh raised by diplomats and employees of 32 missions in Dhaka for the flood victims.
September 20	❑ The government decides to appoint Dr Debapriya Bhattacharya, Executive Director of the CPD, as the new Ambassador and Permanent Representative of Bangladesh to the United Nations (UN) Offices in Geneva.
September 22	❑ Chief Advisor Fakhruddin Ahmed leaves for New York to attend the 62nd session of the United Nations General Assembly (UNGA).
September 24	❑ Bangladesh hosts the 15th Trade Negotiating Committee (TNC) meeting of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) at Sonargaon Hotel, with Sri Lanka Commerce Department Director General (DG) Manel de Silva as the Chair.
September 25	❑ World Bank President Robert Zoellick assures Dhaka of their support for various development projects of Bangladesh.

Date	Macroeconomic Events
2007	
	❑ An agreement is signed between Bangladesh Export Processing Zones Authority (BEPZA) and Garisan Etika Bangladesh Ltd. under which, Garisan Etika Bangladesh Ltd. will set up a 50 MW power plant in the Adamjee EPZ to ease the power crisis of the EPZ and surrounding area.
September 26	❑ Malaysian Prime Minister Abdullah Bin Haji Ahmad Badawi assures Chief Advisor Fakhruddin Ahmed of looking into the problems the Bangladeshi workers have been facing in Malaysia. ❑ Bangladesh improves her 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 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.
September 28	❑ The World Bank approves USD 75 million IDA credit as flood assistance to Bangladesh.
October 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.
October 3	❑ The Malaysian Cabinet decides to freeze intake of Bangladeshi workers with immediate effect.
October 4	❑ The US decides to provide USD 173 million for funding health, economic growth and environmental programmes in Bangladesh under an agreement signed between the United States Agency for International Development (USAID) and Bangladesh government.
October 5	❑ Bangladesh is elected as the Chairman of the Coordination Council of Least Developed Countries (LDCs).
October 6	❑ The Council of Advisors approves a proposal to amend the Income Tax Ordinance 1984. With this approval, the ceiling of income tax deduction at 10 per cent 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.
October 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.

Date	Macroeconomic Events
2007	
October 8	❑ Bangladesh agrees in principle to offer Rohanpur in Chapainawabganj district as the rail port for the transit of goods to and from Nepal.
October 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. ❑ 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 (NRBs).
October 10	❑ Bangladesh calls upon the UN 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.
October 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 ADB Vice-President Liqun Jin pledges USD 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 200 MW.
October 12	❑ Nobel Laureate Prof Dr Muhammad Yunus raises USD 2 lakh in New York for Bangladesh's destitute children.
October 16	❑ The government fixes an ambitious export target of USD 14.5 billion for the FY2007-08 against a backdrop of falling exports in RMG sector.
October 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 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 CTG when Netherlands Ambassador BM Ten Tusscher met Foreign Advisor Iftekhar A Chowdhury at the Ministry of Foreign Affairs.

Date	Macroeconomic Events
2007	
October 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).
October 20	❑ The Board of Investment (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.
October 21	❑ Bangladesh Bank 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.
October 22	❑ An agreement signed between the BEPZA and M/s Monticore Technology Ltd. at BEPZA complex for Monticore to set up a 50 MW power generation plant in Ishwardi EPZ to solve the power crisis of the EPZ and its surrounding area. ❑ Four-days Bangladesh Trade Fair starts in Tokyo.
October 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 oil 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.
October 24	❑ The Advisors' 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.
October 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.

Date	Macroeconomic Events
2007	
	❑ 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.
October 28	❑ SAARC legal experts ask to finalise the draft of the Mutual Legal Assistance Treaty (MLAT) 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.
October 29	❑ Malaysian police arrests 39 Bangladesh nationals following a gang fight involving Bangladeshis and locals in Johor Baru of Malaysia.
October 30	❑ The government forms 17-member Regulatory Reforms Commission (RRC) headed by Former Advisor to the CTG Akbar Ali Khan. ❑ Bangladesh Bank increases the Export Development Fund (EDF) to USD 150 million from the existing USD 100 million to provide support to selected export-oriented industries.
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 USD 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 World Bank 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 World Bank 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 Ministry of Commerce, where Dhaka requests New Delhi to lift the ban on export of rice, wheat and pulses to Bangladesh from India. India requests 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 tonnes of rice worth USD 50 million for flood victims under an order given by the Saudi King Abdullah.

Date	Macroeconomic Events
2007	
November 6	❑ The two-day meeting of Bangladesh-India JWG 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 USD 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 USD 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. ❑ Government decides to suspend trading of Rupali Bank shares both in the public 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 USD 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 81,000 km network stretching from Europe to East and South-East Asia.
November 10	❑ Five development partners, World Bank, ADB, Japan government, Danish International Development Assistance (DANIDA) and the government of the Republic of Korea, agree to give Bangladesh USD 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 an MoU to set up a rating agency for small and medium enterprises (SMEs) 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.

Date	Macroeconomic Events
2007	
	❑ In a bid to bring more individuals under tax net, the 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 PLCs with the signing of separate 'vendor' agreements to this effect. ❑ Cyclone 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 200 km per hour.
November 16	❑ The government allocates funds, including Tk. 9.5 crore from the Chief Advisor's relief fund and Tk. 11 crore from Ministry of Food and Disaster Management, for providing assistance to people affected by cyclone Sidr.
November 17	❑ The government estimates a damage of at least six lakh metric tonnes of Aman crops due to cyclone Sidr. It is apprehended that this will add to the existing food problem of the country. ❑ The UN, 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 Advisors 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 USD 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 USD 142 million for the cyclone affected people. ❑ Bangladesh seeks help from the international community for its cyclone victims and 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.

Date	Macroeconomic Events
2007	
	❑ 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 cyclone that left hundreds of thousands of 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 World Bank offering the highest amount of USD 250 million. ❑ The government decides to give vulnerable group feeding (VGF) cards to 25 lakh families, beginning from the 1 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 USD 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 CTG moves to constitute a Public Accounts Committee (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 tonnes 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 tonnes. ❑ The government decides to lend Tk. 130 crore from the MoF'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.

Date	Macroeconomic Events
2007	
	❑ 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, Barguna, Patharghata, Dublarchar and other areas to provide support for the children affected by the cyclone Sidr. ❑ Youngone Corporation, Korea, contributes USD 100 thousand to the Chief Advisor's Relief and Welfare Fund 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 Advisor to the CTG and founder of Scholastica School, Yasmeen Murshed appointed as High Commissioner to Pakistan on a two-year contract. ❑ Microcredit 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 tonnes 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. ❑ USAID, as a goodwill gesture of the people of the United States, pledges more than USD 10 million worth of food assistance for the cyclone affected people of Bangladesh. ❑ The NBR 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 USD 5 million over three years for completing the electoral roll with photo and strengthening the capacity of the Election Commission to prepare for holding the upcoming 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.

Date	Macroeconomic Events
2007	
	❑ The Cabinet Committee on purchase approves a proposal to import 12 lakh metric tonnes 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 Ministry's primary assessment. ❑ The 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 Population Fund (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, D.C. along with Bangladesh Consulates in Los Angeles and New York, raise 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 Ministry of Agriculture's (MoA) final assessment shows a damage of about eight lakh metric tonnes of Aman crops worth around Tk. 2,000 crore due to cyclone Sidr.
December 3	❑ Chief Advisor Fakhruddin Ahmed asks international donors to pump in an estimated USD 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 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 World Bank, 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 one lakh ton of fertiliser from Qatar and United Arab Emirates (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.

Date	Macroeconomic Events
2007	
	❑ 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 an MLAT for cooperation against criminal activities. ❑ ADB decides to provide Cambodia and Bangladesh with USD 49 million in loans and grants to help the development efforts of the respective countries.
December 8	❑ SAARC Foreign Ministers put into operation a USD 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 Advisors 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 USD 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 Privatization Commission serves a legal notice to the Saudi Prince, asking him to deposit USD 458 million within 26 December as per the Commission's tender participation rules for taking over the Rupali Bank.
December 12	❑ RMG sector leaders at a tri-partite meeting that included garment factory owners, employees and the government, pledge to pay due salaries and allowances to their employees by 19 December to avert any unrest in the sector before the Eid-ul Azha. ❑ Members of the South Asian Telecommunications Regulators' Council (SATRC) elect Bangladesh the Chair of SATRC for the next one year term.
December 13	❑ World Bank 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.

Date	Macroeconomic Events
2007	
	❑ The EU 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 USD 3.6 million for emergency cyclone assistance and post-flood rehabilitation programmes, while South Korea donates USD 300 thousand as immediate life saving 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 Organization (FAO) of the UN 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 USD 200 million for various programmes in Bangladesh. This includes USD 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 Privatization 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 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 USD 500 from the cashier announced USD 425 per ton (subsequently reduced to USD 425 per ton for letter of credit, (L/Cs) opened before 27 December 2007).
December 29	❑ India decides to allow investment from Bangladesh.

Date	Macroeconomic Events
2007-2008	
December 31	❑ Investment Corporation of Bangladesh (ICB), responsible for off-loading 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.
January 1	❑ The 13th Dhaka International Trade Fair (DITF) begins in Dhaka.
January 3	❑ With a remarkable 139 per cent rise in market capitalisation, the contribution of securities market to the country's gross domestic product (GDP) stood at around 16 per cent at the end of 2007.
January 4	❑ The joint forces intervene in the market and starts selling rice at fair price through authorised dealers to help stabilise the situation.
January 5	❑ Dhaka identifies its products facing severe non-tariff barriers (NTBs) from SAARC nations for discussion at the regional meet on non-tariff measures beginning in Kathmandu. ❑ The Ministry of Commerce prepares a list of goods for negotiations at the two-day meeting of the Committee on Experts of South Asian Free Trade Area (SAFTA).
January 7	❑ According to the final estimate compiled by the Department of Livestock Services, livestock, farms and feeds worth more than Tk. 130 crore is destroyed in cyclone Sidr in November.
January 9	❑ The government launches its countrywide OMS of rice at the rate of Tk. 25 per kg for one month amid unprecedented hike of rice prices in the recent times. ❑ The World Bank projects Bangladesh's economic growth at 5.5 per cent for 2008, lower than domestic estimates, due to political tensions, flooding and cyclone Sidr.
January 10	❑ The inflation rate on a point-to-point basis reached 11.21 per cent in November last year, the highest in 17 years, while inflation in food items was 13.80 per cent. ❑ Inspired by the Japanese 'one village one product' movement, the government starts implementing a 'one district one product' (ODOP) scheme to decentralise and diversify export production. ❑ The Bangladesh Bank announces its new monetary policy aiming to achieve maximum growth through expansion of credit to real sectors for the current fiscal keeping inflationary pressures under control.
January 11	❑ World Bank approves IDA financing totaling USD 247 million to help Bangladesh recover from the dual shocks of the August flooding and November cyclone, which caused significant loss of life and enormous social, human and economic loss.
January 14	❑ The Ministry of Communications approves the Strategic Transport Plan (STP), a USD 5.2 billion mass transport scheme incorporating an underground railway

Date	Macroeconomic Events
2008	
	system, to ease traffic congestion and improve the communications system in Dhaka.
January 15	❑ The NBR projects Tk. 441.41 billion revenue earnings for FY2007-08, which is up by Tk. 2.91 billion from the original target set in the budget.
January 16	❑ The state-owned Bangladesh Power Development Board (BPDB) signs power purchase agreements (PPAs) with the sponsors of six RPPs having the total electricity generation capacity of 264 MW.
January 17	❑ Dhaka stock turnover crosses Tk. 3 billion mark after more than three months on the back of record trading of the newly listed Jamuna Oil Company.
January 19	❑ The Ministry of Local Government, Rural Development and Co-operatives (LGRD) is set to give Chittagong City Corporation (CCC) Tk. 40 million to build two sluice gates on the city's Chaktai and Mohesh canals in a bid to solve the ongoing water logging problem.
January 21	❑ The Advisory Committee on Economic Affairs relaxes procurement rules so that 5 lakh tonnes of rice can be purchased from India to tackle the ongoing food crisis in the country.
January 22	❑ The government takes extra precautionary measures to keep the irrigation process unharmed during the current Boro season in order to achieve 17.5 million tonnes of rice production.
January 23	❑ The government undertakes a training programme for RMG workers to improve their relationship with the owners of the garment factories.
January 24	❑ The government decides to provide Boro farmers with cash subsidy for buying diesel for irrigation in its effort to make sure that this year's Boro production target can be achieved.
January 28	❑ Western Union, an international money transferring company, teams up with Bangladesh Postal Department for delivering the money remitted by expatriate Bangladeshis to the villagers easily. ❑ Bangladesh Bank issues a guideline imposing a cap on investment in bond and debentures, issued by private companies, to avoid concentration of investment in any particular sector.
January 29	❑ The government forms a reconciliation committee comprising representatives from BB, Internal Resources Division (IRD) and Comptroller General of Accounts (CGA) to plug revenue leakage. ❑ The draft proposal on the third round bidding for offshore oil and gas blocks is stuck up, still awaiting full Advisory Council's consent. The proposal is sent back for further review to the Energy Ministry as some of the Advisors at the meeting

Date	Macroeconomic Events
2008	
	of the Advisory Council refuses to approve it saying that it would need further scrutiny.
January 30	❑ Bangladesh Bank decides to introduce a guideline for maintaining its own provision against loans given to banks, financial institutions and employees in line with the international standards on auditing. ❑ The government in its Executive Committee of National Economic Council (ECNEC) meeting allocates around Tk. 48 crore under two separate annual development programme (ADP) enlisted projects. These are to be implemented by CCC and Chittagong Development Authority (CDA), where CCC gets Tk. 23 crore for repair and development of 66 roads, while CDA gets Tk. 24.44 crore for widening of Firingee Bazar-Sadarghat road.
January 31	❑ Bangladesh Bank intensifies its open market operations by extending foreign currency support to the commercial banks aiming to meet import bills for foodgrains and fuel. ❑ The government asks all power sector entities to ensure that more than 200,000 irrigations pumps get electricity by next week for irrigating Boro crop fields. ❑ The government takes 68 schemes under a Tk. 6.35 crore embankment project to save Boro crops in Sunamganj district and the contractors concerned have been asked to complete their work by April 30.
February 1	❑ Bangladesh Telegraph and Telephone Board (BTTB) reduces internet tariff charges by 20 per cent to 40 per cent in different slabs for annual rentals for leased internet access service, installation charge and for individual internet subscribers.
February 2	❑ The Council of Advisors gives a nod to the CTG's 14-point programme for the rapid socioeconomic development of the country's northern region, especially Rangpur. The programme includes ensuring Boro production; resolving Monga problem; setting up of a full-fledged university in Rangpur; activating the airports of the region and exporting more manpower; construction and maintenance of roads, railways, bridges and embankments; making Birol, Banglaband and Sonar Hat Land Ports functional; taking steps to increase employment and expand businesses; ensuring healthcare services; and expanding inland tourism.
February 3	❑ The government borrows Tk. 9 billion through auctions of treasury bills. It will result in withdrawal of same amount of money from the market in this week. ❑ The Food Ministry asks the MoF for an additional allocation of Tk. 1,002 crore as it has doubled the target of rice import for FY2007-08. The Ministry has raised the rice import target to 8.5 lakh tonnes from the previous 4.5 lakh tonnes. ❑ Chief Advisor Fakhruddin Ahmed announces an action plan to rid the country's northern region of Monga through well-coordinated programmes of the government, NGOs and private sector that puts emphasis on the cultivation of

Date	Macroeconomic Events
2008	
	diversified food and other crops, undertake income generating projects, and export manpower.
February 4	❑ The CTG decides to monitor the prices of nine consumer items, including five core food products (rice, wheat, pulses, edible oil and powdered milk, while the rest four are salt, sugar, potato and onion), regularly to curb price hike. ❑ The IFC is set to expand its operations in Bangladesh, particularly in infrastructure and agro-processing. IFC's committed portfolio in Bangladesh stands at USD 167 million in 13 projects, ranging from financial institutions to general manufacturing, telecommunications and infrastructure. ❑ Bangladesh Bank Governor calls on the commercial banks and NBFIs to provide SMEs with loans in big volume. ❑ An agreement on a USD 190 million credit is signed between the government and the ADB for funding a project aimed at accelerating economic growth through recovery from the colossal damage done by the last floods and cyclone in the country. ❑ Malaysia provides USD 270,000 in aid for the victims of natural disasters in Bangladesh.
February 5	❑ After three months' suspension due to noise pollution, the operational activities of Port Link Logistics Limited, a private Inland Container Depot (ICD), is permitted for conditional resumption of operation after making an agreement on reduction in sound pollution to a tolerable limit within three months.
February 7	❑ DITF 2008 concludes with the country's manufacturers receiving about Tk. 30 crore spot orders for export though the target was Tk. 40 crore.
February 8	❑ The government raises licence fees and services charges after 18 years for transportation of petroleum products and oil. Fees for a joint licence for storage of petroleum products by importer and marketing company have been raised to Tk. 7,000 from Tk. 3,000 for storage of up to 250,000 litres. Vehicles that carry petroleum products by road now need to pay Tk. 800 for carrying every 5,000 litre instead of Tk. 200. Ships that carry petroleum oil need to pay Tk. 1,500 for every 400 ton or less instead of the current Tk. 500. An extra Tk. 200 has to be paid for carrying every additional 100 ton. More over, test fee for an oil tanker to make it gas-free has been raised to Tk. 300 from Tk. 100. ❑ World Bank approves an IDA credit worth USD 62.60 million to revitalise Bangladesh's agricultural technology system which will be spent for agricultural research, agricultural extension and supply chain, including strengthening of national institutions involved in agricultural research and extension.
February 9	❑ The country's second crude oil refinery company, having a capacity of refining 300,000 barrels a day and 5.1 million tonnes a year, is likely to come into operation

Date	Macroeconomic Events
2008	
	in a span of 40 months as a USD 7 billion joint venture deal between a Bangladeshi company and a Saudi big investment company is signed.
February 10	❑ The European Commission's Humanitarian Aid Office (ECHO) donated USD 3 million to WFP for its emergency operations to feed the cyclone hit people in Bangladesh.
February 11	❑ The government approves two new EPZs in Munshiganj and Feni to accommodate around 250 foreign investors.
February 12	❑ The Advisory Committee decides to purchase 5.67 lakh tonnes of rice at a cost of Tk. 1,592 crore to meet local demand amid another spell of price hike in Dhaka's retail and wholesale markets. 5 lakh tonnes are to be imported from India, while the rest 67,000 tonnes to be procured from local market.
	❑ At a meeting of Securities and Exchange Commission (SEC), decision is taken that PLCs with a paid up capital of Tk. 50 crore or more, and in commercial operations for three years will have to go for initial public offerings (IPOs) within one year. However, if the PLCs are not in commercial operations, they will have to float shares within three years after commercial operations.
	❑ The government sends back proposals for handing over management of two state-owned jute mills (Peoples Jute Mills and Qaumi Jute Mills) to private operators on lease basis due to some procedural bottlenecks in the initiative.
February 13	❑ A meeting at the Ministry of Commerce decides to adjust the price of edible oil fortnightly with the international price.
February 14	❑ Petrobangla announces the 2008 offshore oil and gas exploration bidding round inviting offers from international companies by May 7.
February 17	❑ NBR relaxes the January 31 deadline earlier set for submitting budget proposals by trade bodies and Chambers.
February 19	❑ The government gives out Tk. 1.4 crore to the owners of bird-flu affected poultry farms as compensation for culling chicken in the last eight months.
February 24	❑ Sylhet Chamber of Commerce and Industry (SCCI) selects 1,000 acres of land for setting up a special economic zone (SEZ) in order to attract investment especially from the non-resident Sylheties. The SEZ, adjacent to Fenchuganj-Tamabil Bypass Road Link, will provide land and other infrastructural facilities to the entrepreneurs to set up manufacturing and other industrial units
February 25	❑ The report "Cyclone Sidr in Bangladesh: Damage, Loss and Needs Assessment for Disaster Recovery and Reconstruction" submitted to the ERD reveals that cyclone Sidr caused losses worth of Tk. 7.59 billion to industry, commerce and tourism.
	❑ Importers and wholesalers agree to keep prices of edible oil stable until March 9. Maximum retail price (MRP) of soybean oil has been fixed at Tk. 106 per kg and

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	palm oil at Tk. 99 per kg, whereas the mill-gate price of soybean oil has been fixed at Tk. 103.50 and palm oil at Tk. 96.50 per kg.
February 26	❑ The Ministry of LGRD asks the MoF to take back Tk. 430 crore allocated for some development projects of LGED as it is unable to implement those within this fiscal year. ❑ The government forms the Seventh Wage Board with retired Judge of the High Court Division Habibur Rahman Khan as its Chairman to recommend increased wages for journalists, employees and press workers after reviewing the Sixth Wage Board Award. The wage board is to submit its recommendations to the government within two months.
February 27	❑ The Council of Advisors' Committee headed by the Finance Advisor, Mirza Azizul Islam approves import of 3.9 lakh tonnes of fuel oils (3.3 lakh tonnes of diesel, and 20,000 tonnes each of kerosene, jet fuel and octane) from the Emirates General Petroleum Corporation, known as Emarat of the UAE under an unsolicited state-to-state agreement. ❑ For the first time in history, the government awards Petrobangla a license to explore the 4,000 hectare Dighipara coal zone in a joint venture with a competent private mine developer, to be selected as the strategic partner through an open tender.
28 February	❑ The government fixes USD 788 as total fee for each Bangladeshi worker going to South Korea for work under the newly introduced EPS. ❑ Korea International Cooperation Agency (KOICA) and the ERD sign Record of Discussions for establishing a USD 1.58 million ICT project. The programme, with the technical assistance of Koica, will be implemented in two years (2008-09) in the Bangladesh Bureau of Statistics (BBS) with the Korean government's grant of USD 1.58 million. ❑ Bangladesh signs a loan agreement with IDA under which it will receive USD 62.6 million to improve agricultural productivity and farm income by revitalising the national agricultural technology system to promote generation, dissemination, adoption and use of appropriate agricultural technologies through a number of policy reforms, institutional development and investment to support agricultural research, extension and supply chain development.
March 1	❑ ECNEC approves 12 projects involving Tk. 2,524 crore, including Tk. 1,088 crore in foreign aid.
March 2	❑ The Council of Advisors approves a draft ordinance for turning the BTTB into a PLC, nearly four years after the process was initiated. ❑ 29 private commercial banks (PCBs) agree to reduce lending rates to a maximum of 14.75 per cent and the gap between deposit and lending rates to 5 per cent in line with the calls from the central bank to lower the cost of funds for borrowers.

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2008	
	❑ India removes all legal complexities to export 450,000 tonnes of rice to Bangladesh. ❑ The government forms a committee for refixing minimum wages for the tea garden workers.
March 3	❑ The Advisory Committee on Public Purchase approves a bid for the 50 MW Ashuganj Rental Power Project to be awarded to local Green Power Ltd. Now, the total number of rental power projects undertaken by the CTG stands at seven with a total generation capacity of 250 MW.
March 4	❑ The government asks millers and wholesalers of edible oils to show cause, within three days, why prices of cooking oils have crossed the levels that were pledged by them at a meeting with the authorities concerned.
March 5	❑ Bangladesh Bank decides to lift the moratorium on transaction with Oriental Bank from 1 April and decides to allow account holders to withdraw deposits from 1 June as per the reconstitution scheme for the bank drafted in 2007. ❑ UNDP and Department for International Development (DFID) jointly initiate a USD 120 million development project titled Urban Partnerships for Poverty Reduction (UPPR) to be implemented in cooperation with LGED, including the municipalities and city corporations concerned to improve the livelihoods and living conditions of 3 million urban poor and extremely poor people, especially women and girls in 30 towns, including Dhaka City Corporation (DCC). ❑ The SEC amends its mutual fund rules allowing trust fund, and registered provident and pension funds to float mutual fund.
March 6	❑ The SAARC countries agree to enhance collaborative research in the field of social science through exchange of social scientists and information on research outcomes at a meeting of the Regional Forum of the Ministers of Social Development. ❑ The Chief Advisor announces a set of development plans for southern districts to overcome the damage and losses caused by cyclonic storm Sidr that struck the region on 15 November 2007.
March 8	❑ India hikes minimum export price (MEP) by 30 per cent, making rice costlier by USD 150 per ton, from USD 500 per ton to USD 650 per ton. ❑ The Advisory Council of the CTG approves extension of the duration of the Speedy Trial Act for two years by way of endorsing an amendment to the tough law meant for dealing with serious crimes.
March 9	❑ A high level government meeting presided over by the Chief Advisor approves two proposals for the establishment of the much-talked-about National Security Council and Truth and Accountability Commission. The meeting asked the concerned officials to submit two draft Ordinances before the Council of Advisors in a month.

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2008	
March 10	❑ The Advisory Committee on Economic Affairs, chaired by Finance Advisor Mirza Azizul Islam, agrees to soften rules regarding rescheduling of loans and waiver of interests for the tannery factories to be relocated at the Savar industrial park. ❑ The Advisory Committee on Economic Affairs decides for reactivation of state-run Rupali Bank before taking any policy decision on the bank's future.
March 11	❑ Myanmar rejects a request to sell gas to Bangladesh to help the country meet its growing energy demand, as India and China are the top priorities for Myanmar. ❑ The SEC approves the IPO prospectus of a Tk. 100 crore mutual fund for NRBs titled 2nd ICB AMCL NRB Mutual Fund, the biggest-ever mutual fund.
March 13	❑ The Advisory Committee on Public Purchase approves two tender proposals for the import of 20,000 metric tonnes of non-boiled (atap) rice from Myanmar as part of the government's bid to control soaring rice prices. Each of two private firms will supply 10,000 tonnes of rice at USD 395.50 per ton.
March 17	❑ The NBR announces withdrawal of 10 per cent import duty from refined soybean and palm oils in an effort to contain the spiraling prices of edible oils in local market.
March 18	❑ In the context of an outbreak of bird flu in the country, the Bangladesh Bank decides to issue directives to commercial banks to suspend their initiatives to recover loans, disbursed to the poultry farmers, for one year.
March 19	❑ The government sets a target of purchasing 50,000 metric tonnes of wheat from the local market at Tk. 26 per kg. The Ministry of Food and Disaster Management will make the procurement from 1 April through June 2008.
March 20	❑ Bangladesh Bank asks all commercial banks and other financial institutions to open a mandatory dedicated desk for facilitating financing to small and medium women entrepreneurs under the Bangladesh Bank-launched refinance scheme.
March 22	❑ The government decides to form a new high powered core committee, headed by the Cheif Advisor, to cushion the effects of soaring food prices, as public discontent over the issue has been rising. The committee is to take several safety net measures for fixed and low-income group people, to be implemented in the upcoming months.
March 23	❑ The Council of Advisors approves the Local Government Commission Ordinance 2008, the proposed Local Government (Municipality) Ordinance 2008 and the proposed Local Government (City Corporation) Ordinance 2008 placed by the Local Government Division.
March 24	❑ The UN WFP launches an extraordinary emergency appeal to donor countries for at least USD 500 million by the end of April to meet global shortfalls, which include a USD 15 million shortage in emergency food aid to cyclone-hit areas in Bangladesh.

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2008	
	❑ The National Economic Council (NEC) approves the revised ADP (RADP) budget of Tk. 22,500 crore for FY2007-08, whereas the original ADP was Tk. 26,500 crore.
March 25	❑ The Council of Advisors meeting approves a policy allowing special privileges for Bangladeshi blue-collar workers, who send home hard-earned foreign currency to the country. The facilities include special passports for foreign wage earners, simplification of the immigration process, separate counters at the airport and special support for their families.
March 27	❑ According to the United Nations E-Government Survey 2008, published by the Department of Economic and Social Affairs (UNDESA), Bangladesh is ranked as 142nd among the member countries.
March 28	❑ A study by NBR reveals that, tax holiday facilities, introduced as incentives for business investment, to 999 industries in last two fiscal years brought positive results as production values were 30 times and export value 17 times more than the revenue losses due to the facilities. NBR recommends the government to continue the facilities considering its positive outcomes.
March 29	❑ India increases the MEP of non-basmati rice to USD 1,000 per ton from USD 650. Meanwhile, the Indian team negotiating rice price with Bangladesh officials offers the export price of per ton of rice at USD 430 at government level.
March 30	❑ The Advisory Committee on Purchase approves import of four lakh tonnes of non-basmati rice from India at Tk. 29.67 per kg through government channel. ❑ The government calls on international oil companies to invest in offshore blocks, projecting that USD 8 billion would be required to explore and develop gas fields with 24 trillion cubic feet reserves by 2025.
31 March	❑ Amid acute liquidity crisis due to under-pricing of imported petroleum products, the government approves BPC's proposal to take USD 300 million hard term loan from Standard Chartered Bank. On the other hand, the government is taking USD 220 million loan from the IMF as emergency assistance to reduce pressures on balance of payment (BOP).
April 1	❑ The Indian government bans export of non-Basmati rice and hikes the MEP of basmati rice by USD 100. It also extends the ban on export of pulses by a year and reduces customs duty (CD) on butter and ghee to 30 per cent from 40 per cent and maize to zero per cent from 15 per cent, subject to a limit of 500,000 tonnes. ❑ Bangladesh Bank decides to hold tight the present level of foreign exchange (FX) reserve as a precautionary measure to be able to meet increased import payments in the days ahead.
April 2	❑ The Executive Board of the IMF approves the Special Drawing Right (SDR) unit, 133 million (about USD 217.7 million) in emergency assistance to Bangladesh to

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	assist the government's efforts to deal with the impact of severe damage caused by cyclone Sidr.
April 3	❑ Bangladesh signs an agreement with four Indian state-owned agencies on importing the remaining 4 lakh tonnes of rice out of the 5 lakh tonnes at USD 430 per ton.
April 6	❑ The Council of Advisors approves the draft of Dhaka-Kolkata passenger train service and sent the Truth and Accountability Commission draft to the Ministry of Law for further scrutiny.
April 8	❑ The Canadian government agrees to provide Bangladesh Election Commission (EC) with around two lakh transparent ballot boxes free of cost for the upcoming Parliamentary election.
April 10	❑ The Dhaka-Kolkata passenger train service deal is signed at the Bangladesh Secretariat to resume the railway communications which remained snapped for 42 years. ❑ The government decides to provide the BPC with about Tk. 3,600 crore more in subsidy as part of the budgetary plan to help the corporation cope with soaring global prices of petroleum products. ❑ The government sets a target of procuring 30 lakh tonnes of foodgrains in the next fiscal year for building a safe food stock.
April 11	❑ The government decides to increase price of urea fertiliser to Tk. 10,700 per ton at the buffer level from Tk. 5,300 fixed in 1997. Farmers will now have to buy urea fertiliser at about Tk. 12 per kg as against Tk. 6 set in 1997.
April 14	❑ The historic resumption of Dhaka-Kolkata train service goes ahead. ❑ The government and Tata agree to restart talks over the Indian conglomerate's stalled USD 3 billion, power, steel and fertiliser investment proposal.
April 16	❑ Official procurement of Boro rice begins with the government setting target of 12 lakh tonnes to build a buffer food stock.
April 17	❑ Bangladesh Bank halts BRAC Bank's ambitious rural expansion plan in 2008. BRAC Bank seeks permission to open one hundred plus new branches this year as part of its massive expansion scheme.
April 20	❑ The government decides to extend the ban on strikes and lockouts in the country's EPZ for another two years to keep the specialised investment areas aloof from worker or management agitation.
April 23	❑ The government asks local government representatives at union parishads (UPs) to hang lists of names of farmers who have received diesel subsidy.

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2008	
April 25	❑ BTTB decides to introduce market's lowest call tariffs next month to revise falling subscription in the face of intense competition from private rivals.
April 27	❑ IMF projects that high prices of food and oil will push up Bangladesh's trade deficit for FY2007-08 to around USD 6 billion, which is around USD 2-3 billion higher compared to the previous fiscal years. ❑ A high profile European Commission (EC) anti-fraud team clears Bangladesh of forging certificates that give goods duty-free access to the EU.
April 28	❑ NBR continues tax holiday facility and reduce corporate tax rate for non-listed companies to 35 per cent in the next budget for FY2008-09.
April 30	❑ The government decides to increase salaries of its employees by around 20 per cent in the next fiscal year considering the price hike of essentials. ❑ The government selects top 10 garment units, which have developed worker-friendly production environment and ensured labour rights complying with global standards and local laws.
May 1	❑ The government of India issues a notification allowing duty-free import of eight million pieces of garments from Bangladesh. Under the new dispensation, exporters from Bangladesh will be allowed to export without restrictions on raw material sourcing. ❑ Bangladesh Bank relaxes its rules on provisioning against unclassified loans for SMEs to encourage financing in the sector. Under the new rules, banks will have to maintain one per cent general provisioning instead of two per cent against the amount of unclassified loan for the SMEs.
May 4	❑ The MoF provides Tk. 1.94 billion as equity fund for bailing out the cash-strapped Biman Bangladesh Airlines from paying its arrear fuel bills to BPC.
May 5	❑ The interim Cabinet approves an ordinance to turn BTTB into a PLC. ❑ The US provides an additional USD 40 million in food aid to help Bangladesh cope with rising food prices. ❑ NBR heads towards the online tax payment system for bringing efficiency and transparency in tax administration. The first step for the introduction of online payment of tax automation work was launched at the tax offices.
May 7	❑ The government bans export of rice for six months except aromatic varieties amid outcry over continuous shipment of the staple despite a massive shortage at home. ❑ The government decides not to give gas supply connections to new industrial units, with a view to ensuring supply of gas to power plants in the backdrop of a fast depleting gas reserves.

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May 8	❑ Agriculture Advisor and Chief of Army Staff kick-off the three-day "Bangladesh Potato Campaign 2008" for increased potato consumption with a fervent call for all to enhance the intake of the food item, now available in abundance. ❑ Bangladesh Bank starts buying back government securities aiming to inject fresh funds into the money market. ❑ The government and shrimp exporters strongly protest an American labour group claims of widespread violation of workers' rights in the country's processing plants, terming them "false" and "misleading." ❑ Dhaka Stock Exchange (DSE) demands five per cent increase in the income tax rate differential between listed and non-listed companies (other than banks, insurance companies and NBFIs).
May 9	❑ The government decides to reduce tax burden on the fast growing mobile telephone industry in the upcoming budget to help the operators penetrate deep into the countryside. ❑ NBR launches a massive drive to gear up VAT collections from the capital's top shops as part of its intensified effort to boost up revenues at the fag end of the fiscal year.
May 10	❑ Bangladesh Bank turns down an Energy Division's request for providing a USD 1 billion fund to help the cash-strapped BPC foot its growing oil import cost.
May 11	❑ The Bangladesh Telecommunication Regulatory Commission (BTRC) proposes drastic cuts in the tariffs of subscribers' identification module (SIM) cards, public switched telephone network (PSTN) handsets and telecom equipment for helping foster further growth of the local telecom sector. ❑ Ananda Shipyard and Slipways links a USD 67 million deal with a German company to supply four ships, a further evidence of the recent boom in Bangladesh's shipyards.
May 12	❑ Indian business conglomerate Tata group's USD 3.0 billion gas-intensive investments in steel and fertiliser plants faces a setback as the government said there is not enough gas to feed these projects.
May 14	❑ Bangladesh Bank decides to stop auction of 28-day tenure Treasury bill from FY2008-09 as part of the government's new debt management strategy. The government has already changed its debt management strategy, preferring long-term borrowing instead of short-term one, aiming to minimise the mismatch between assets and liabilities.
May 15	❑ PCBs agree to charge maximum interest rates of 14 per cent on term lending and working capital against the existing 16-17 per cent. The new interest rates will come into effect from the beginning of FY2008-09.

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May 20	❑ Boro production crosses the target by 2.5 million tonnes, although about 25 per cent of the crop is yet to be harvested.
May 21	❑ Indian oil company Bharat Petroleum Corporation Limited (BPCL) has suspended fuel supply to Bangladesh over the past four months on security grounds.
May 22	❑ Australia expands its aid to Bangladesh with a four year Tk. 5.20 billion donation to lift the extreme poor out of poverty and improve the health of women and children.
May 23	❑ After seven years, World Bank decides to lend Tk. 6.22 billion from the next fiscal year in research projects aimed at raising farm productivity in the country where farmland is shrinking fast.
May 27	❑ Tax holiday facility is extended by another three years (until 2011), to help local industries remain competitive in global market. ❑ India agrees to make special arrangements for supply of fuel oil to Bangladesh from its Shilghat port located in Assam. Bangladesh earlier signed a deal with the Indian state-owned fuel company BPCL, to supply diesel oil mostly to meet the demand in the northern region of Bangladesh. But the Indian company suspended the supply for the past four months on security grounds.
May 29	❑ The country's pharmaceutical sector expects a Tk. 20 billion in fresh investment as the government clears the way for the country's first hub for medicine raw materials.
June 1	❑ The government expects to finalise a new poverty reduction strategy paper (PRSP) for the next three years by 30 June, targeting 7.2 per cent GDP growth in the final year (2010-11) of its implementation ❑ Bangladesh Bank's Policy Analysis Unit (PAU) recommends introduction of a method to measure the "core" inflation (which excludes temporary noise components from consumers' price index or CPI), alongside the existing one used for measuring annual average and point-to-point inflation, in order to formulate credible monetary policies and forecast inflation.
June 2	❑ The government opens up import of iron scraps and old ships for all through an amendment made to the existing import policy in an effort to reinvigorate the construction sector.
June 3	❑ The government is set to lease around ten offshore gas blocks to the international oil companies (IOCs) for oil and gas explorations in the Bay of Bengal as the evaluation of bid documents is almost complete.
June 5	❑ SEC Chairman says an amendment will be brought to merchant bank rules making it mandatory for the merchant bankers to bring new issues in the market. ❑ Bangladesh is to have additional access to IDB's fund for financing fuel oil imports up to USD 1.5 billion annually, while the multilateral development bank will

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	examine loans at a lower rate only for the portion to be provided from its own resources.
June 7	❑ The government takes a move to fix area-wise value of land at the beginning of every year, aiming to streamline collection of revenue and check evasion of taxes through concealment of actual value. ❑ The government decides to bring changes in the existing building code making installation of solar panels on top of high-rise buildings mandatory to reduce dependency on conventional power sources. ❑ The first private International Internet Gateway (IIG) is set to start operation in Bangladesh from 25 June, an initiative led by Mango Teleservices, a unit of Dhaka-based Communication Solution Ltd., in partnership with multinational corporation Cisco Systems, Inc. ❑ BTTB prepares to operate as a PLC from 1 July.
June 8	❑ NEC approves Tk. 256 billion ADP for FY2008-09, attaching highest priority to agriculture, water resources and rural development sectors. The size of the upcoming ADP is Tk. 9 billion lower than that of the original ADP of Tk. 265 billion and Tk. 31 billion higher than that of the RADP of Tk. 225 billion of the outgoing fiscal (FY2007-08).
June 9	❑ CTG announces the national budget for FY2008-09, offering 8 new sectors for tax holiday and ICT incentives. ❑ Bangladesh Bank temporarily suspends buying back government securities following rise in current expenditures before closing of the current fiscal. ❑ CTG proposes Tk. 545 billion tax revenue target from sources coming within the purview of the NBR, incorporating a number of new fiscal measures to enhance tax-base in FY2008-09.
June 12	❑ Bangladesh Bank plans to lift suspension of financing in the agriculture sector under the Equity Entrepreneurs Fund (EEF), which had remained suspended since 9 August 2005, due to allegations of irregularities in sanctioning loans. ❑ Pressure on the FX market continues due to higher import costs of essentials and gasoline despite intervention by the Central Bank, through sale of USD 4 million dollars directly to the commercial banks aiming to keep the market stable. ❑ Bangladesh Bank provides overdraft (OD) facilities for USD 55 million to two state-owned commercial banks (SCBs) for settlement of its oil import bills.
June 14	❑ A recent survey conducted by Bangladesh Small and Cottage Industries Corporation (BSCIC) reveals that according to the enlistment of 2007, a total 490 out of 1,938 small and medium industries were closed down, while 29 out of 80

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	small and cottage industries established on Barisal BSCIC estate have become sick and other 133 plots remained unused.
	❑ BSRM Steel Ltd., the country's largest (375000 tonnes capacity) steel plant set up at Fouzdarhat in Chittagong at a cost of around Tk. 4.7 billion with technical assistance of Danieli, an Italian company, goes into commercial operation.
	❑ Bangladesh Bank is to set its FX reserve requirement at USD 6.0 billion against existing USD 5.0 billion for the new fiscal to meet higher import payment.
June 15	❑ Bangladesh Jute Spinners Association (BJSA) reveals the fall in jute yarn export because of the slump in the carpet trade across the globe hit by the US economic slide and the fuel price spiral in the international markets.
June 17	❑ Dhaka Power Distribution Company (DPDC), a newly created entity in the power sector, is to start its journey on 1 July taking over the entire operation of the existing Dhaka Electricity Supply Authority (DESA) on 30 June.
	❑ Ambassador of the Philippines expressed interest in importing pharmaceuticals and RMG from Bangladesh in bigger volumes, during a meeting with Commerce Advisor.
	❑ Bangladesh Garment Manufacturers and Exporters Association (BGMEA) is to introduce a grading system for the garment units with respect to adherence to compliance issues, supported by the South Asia Enterprise Development Facility (SEDF) under an MoU signed with the BGMEA.
June 18	❑ ADB to provide USD 50 million loan to help improve Bangladesh's technical skills training system as well as to create better wage and employment prospects.
June 19	❑ More than 75 BDR shops selling rice have been suspended until the government's on-going rice procurement programme across the country is wrapped up.
	❑ According to Bangladesh Bank's PAU, their control over reserve money is on the wane mainly due to government borrowings and movement of net foreign assets (NFA).
June 20	❑ Professor M Tamim, special aide to Chief Advisor on energy issues, reveals that Bangladesh will award its offshore oil and gas blocks to the prospective bidders despite objections raised by neighbouring India and Myanmar.
	❑ The West Zone of the Bangladesh Railway is to implement various development projects at an estimated cost of Tk. 26.70 billion (Tk. 2,670 crore) in phases, out of which, three of the projects with an estimated cost of Tk. 4.11 billion have already been approved by the CTG to be implemented during FY2008-09.
June 21	❑ Business leaders alleged that liquidity crisis in banking sector has been preventing them from investing in new projects, while the Finance Advisor dismissed the allegation saying that banks had more than Tk. 120 billion in idle funds.

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2008	
	❑ Bangladesh Bank starts disbursing underwritten commissions to the primary dealer banks and financial institutions that have traded in government-approved securities, crediting Tk. 141.60 million as commission for July-May period of this fiscal year to nine primary dealer banks.
June 22	❑ Nearly half of the IOCs that submitted offers in the bidding for offshore oil and gas exploration faces disqualification during the on-going evaluation process, due to their flawed offers and non-compliance with the concerned regulations. ❑ Communications Advisor reveals that the government is preparing an integrated multi-modal transport policy by incorporating highway, railway, inland waterway and airway into a unique system to develop a cost-effective and sustainable transportation in the country.
June 23	❑ The Bangladesh Bank Governor states that there was no liquidity crisis in the country's banks, also ruling out any possibility of demonetising currency notes of Tk. 500. ❑ A US company, "New Skies," offers Bangladesh to carry out all of its work to launch its own information technology (IT) and broadcasting satellite at a cost of USD 100 million.
June 24	❑ World Bank Vice President for Asia Pacific region assures Bangladesh of providing enhanced assistance of USD 3.9 billion equally in the next three years to meet increased budget deficit. ❑ Light engineering sub-sector takes a move to establish an exclusive industrial park to give the sector a further boost, Bangladesh Engineering Industry Owners' Association (BEIOA) sources said it had already put on the project at the meeting of SME Foundation and claimed that the foundation accepted the plan in principle in its last meeting. ❑ The government decides to finance installation of six container scanners at Chittagong Seaport after ADB refused to provide funds on the ground of a re-tendering plan. ❑ The export of recycled and processed garment wastage appears to face a serious setback and the blame for this goes to the absence of a separate Hermonised System (HS) Code.
June 25	❑ The government is likely to increase tax-free income ceiling to Tk. 165,000 for upcoming fiscal from the existing Tk. 150,000. ❑ The MoF has turned down a Bangladesh Bank proposal on rise of paid-up capital of the commercial banks saying implementation of such measure may create problem in the banking sector. ❑ The BTTB, begins a new journey as a company, Bangladesh Telephone Company

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2008	
	Ltd. (BTCL) from 1 July, with Tk. 30 billion in debts and Tk. 5.4 billion in outstanding revenues.
June 26	❑ CTG is to utilise Tk. 9 billion recovered during the anti-corruption drive for implementation of the proposed Tk. 20 billion "100-Days Employment Guarantee Scheme" in the new fiscal, while the rest of the project money is to come from government exchequer.
	❑ The country's largest chemical plant, set up at Sreepur in Gazipur jointly by Aziz Group and Chittagong Builders & Machinery Ltd. (CBM), is set to be commissioned in August next, which will produce a number of import-substitute products for local industries, particularly the textile.
	❑ Three factories of Guti (small ball) urea fertiliser have been set up in three upazilas of Jessore district recently following the commitment of Chief of Army Staff, with the financial assistance of the Bangladesh Army.
	❑ The excess liquidity with the commercial banks stands at Tk. 93.37 billion in April this year, which could be used for expansion of credit to the private sector.
June 28	❑ The government sets a target to bring 5.4 million hectares of lands for producing 13 million tonnes of Aman paddy during the current season.
	❑ The Ministry of Law refuses adoption of the "National Coal Policy" prepared by the Energy Ministry.
	❑ Bangladesh Post Office (BPO), hamstrung by manpower shortage, refuses a Tk. 21.6 million annual offer for distribution of bills of the Titas Gas Transmission and Distribution Company Ltd.
June 29	❑ Bangladesh Bank amends its guidelines relating to the liquidity support facility provided to primary dealer banks, where they will now be provided liquidity support facility against devolved treasury bills and bonds for a maximum period of one month from the date of issue of such securities.
June 30	❑ IMF projects that the country's external position in 2009 would be minus 2 per cent of the GDP for the combined shocks of fuel oils and food price hikes in the international market.
	❑ Denmark signs agreement to provide USD 100 million for a new 3-year project taken to ensure improved water supply in this densely-populated Dhaka city.
	❑ Bangladesh Bank expresses disappointment over non-allocation in the new fiscal budget for the EEF, which has been utilised for boosting agriculture and agro-processing businesses in the country.
July 1	❑ The government raises prices of petroleum products by 33.84 per cent to 50 per cent to offset the impact of overheated international oil market on the domestic economy.

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2008	
	❑ A three-day SAARC Conference on climate change starts in the city to discuss and adopt action plan to combat adverse impact of the changing climate on the South Asian nations. ❑ The government imports 375,000 tonnes of urea from three Gulf countries through state-to-state deals for meeting local demand in the FY2008-09. ❑ The government relaxes conditions and reduces procedural complexities on import of yarn through Benapole Land Port for 100 per cent export oriented knitwear industry enjoying bonded warehouse facility.
July 2	❑ The US Embassy in Dhaka announces that President Bush signed into law a supplemental funding bill that includes USD 25 million for cyclone recovery and rehabilitation in Bangladesh in 2008 with an additional USD 50 million available in 2009. ❑ Article-IV consultation between Bangladesh and the IMF begins, where the focus is to be on reform in the revenue sector and full privatisation of the SCBs. ❑ In the series of the World Bank's planned support to respond to GoB's request for rehabilitation and reconstruction assistance in the aftermath of the cyclone, it approves two new projects for Sidr victims at an amount of USD 50 million.
July 6	❑ Non-primary dealer banks and financial institutions continue to participate in the primary auction of the government securities as the Central Bank refuses to impose any restriction on their participation as requested by the Primary Dealers Association of Bangladesh (PDAB) earlier. ❑ A workshop organised by the World Bank on "Strengthening the Role of Local Governments in Disaster Risk Reduction" emphasises the need for a better capacity for reducing risks at the local government level and especially at the UPs, in the event of natural calamities as a pre-requisite for better disaster management in the country.
July 7	❑ The Chittagong Port witnesses fresh congestion after a year, mainly due to slow delivery of import cargoes and a stockpiling of empty containers in the yards.
July 8	❑ In a survey report released by the Japan External Trade Organization (JETRO), the cost of investment in Bangladesh is not getting cheaper as all the cost components have increased to 2.45 per cent in 2008 from 2.44 per cent in 2007, indicating a rise in cost of investment to a nominal extent.
July 9	❑ Bangladesh Bank agrees to examine the Bangladesh Association of Bank's (BAB) proposal to allow private banks open exchange houses in Europe to facilitate higher inflow of remittances. ❑ The first Ministerial meeting of the BIMSTEC lays emphasis on setting up of a food bank to ensure food security in the region, while also deciding to extend cooperation in protecting the impact of climate change aiming to ensure a sustainable development.

Date	Macroeconomic Events
2008	
July 10	❑ The government gradually changes its debt management strategy towards long-term borrowing from short-term to facilitate development activities. ❑ Under the new strategy, the government will increase borrowing for longer tenure by issuing different bonds instead of short-term borrowing through treasury bills (T-bills).
July 11	❑ Five mostly inoperative state-owned jute mills are set to go under private management, creating employment for about 7,000 people, as the government has completed formalities to lease them out to the private entrepreneurs.
July 12	❑ New Delhi's offer to import eight million pieces of garments from Bangladesh, aimed at reducing the trade deficit, may not be completely executed as prices being offered by many Indian buyers are quite low. ❑ Bangladesh exported nearly one million pieces of garments for the first time to India in the past two months (May and June) enjoying the zero-tariff access facility. ❑ The Cabinet approves the Representation of the People Order (RPO) 2008.
July 13	❑ The government is expected to award nine offshore blocks, nearly one-third of the total as offered, to the IOCs who have pledged to invest a total of USD 492.52 million to conduct oil and gas exploration in the Bay of Bengal.
July 14	❑ A study by Bangladesh Bank recommends appreciation of Taka against the falling USD to stave-off the soaring inflation.
July 15	❑ IMF concludes the Article IV mission in the capital, emphasising on the need to restrain credit and control the expansionary monetary policy in Bangladesh to stave-off the second round of adverse effects of inflation. ❑ Finance and Planning Advisor asks the local companies to raise their capital from the country's stock markets to lessen dependency on bank borrowing.
July 17	❑ Bangladesh Bank unveils its half-yearly monetary policy which envisaged higher economic growth through continued expansion of credit to the productive sectors while keeping inflationary pressures under control. ❑ The EU places a new RoO for the LDCs which enjoy GSP. The new RoO will be effective from January 2010 after being approved by its member nations.
July 19	❑ Petrobangla and Power Development Board (PDB) are to conduct a joint survey across the country to identify the least-efficient power plants to divert gas supply to new plant, following an instruction from the Chief Advisor to ensure an efficient and justified use of natural gas. ❑ The long-awaited alliance among the alumni of Japan International Cooperation Agency (JICA) in South Asia is going to take shape in the city today, with delegates meeting from all the eight member states of the SAARC.

Date	Macroeconomic Events
2008	
July 20	❑ The MoF approves a new regulation on public assets and budget that aims at keeping bank borrowings within 3 per cent of the country's GDP.
July 22	❑ Production cost of jute yarn goes up by 45 per cent due to fuel price hike in the domestic market which will affect the export earnings this fiscal severely.
July 23	❑ Bangladesh Bank issues a rule allowing the commercial banks to appoint two Directors from among the depositors in line with the existing Bank Companies Act.
	❑ The Board of Directors of Grameenphone approves the proposal for floating the IPO.
	❑ Bangladesh Bank signs an agreement with the National Credit and Commerce (NCC) Bank Limited to provide a loan worth USD 24 million from the World Bank supported project; and starts disbursement of fund to the power sector for financing under the Investment Promotion and Financing Facility (IPFF) Project to enhance power generation in the country.
July 24	❑ A high-powered decision making body advises the relevant agency of the Food Ministry to follow the quotation system under the existing PPR for emergency food import within 10 days.
	❑ The government finds a single bidder (from the consortium of the Powertek Berhad of Malaysia, the Siemens Project Ventures GmbH of Germany and the Korean power company Kepco) for the 450 MW Bibiyana power plant that indicates a monopolistic situation in absence of any competition in the selection process.
July 25	❑ The government might consider the certification of pre-shipment inspection (PSI) as a quality testing report instead of an approval of Bangladesh Standards and Testing Institution (BSTI) to expedite release of products from Chittagong port.
	❑ Power generation in the country decreases significantly as three power units having a total generation capacity of 340 MW goes out of operation.
July 26	❑ An inter-Ministerial meeting directs the authorities concerned to boost the government's foodgrains stock, which is required to successfully implement various social safety net programmes for the current fiscal, with the planned distribution of 850,000 tonnes of rice to be distributed under OMS.
July 27	❑ For the first time in six years, Bangladesh Road Transport Authority (BRTA) raises Motor Vehicles Tax (MVT) and other fees by 17 per cent to 25 per cent, effective from 1 July.
July 28	❑ Mutual Trust Bank Ltd. launches a linkage programme with the NGOs to expand its agro-credit schemes.
July 29	❑ The gas-starved industries in Chittagong region are to start getting gas supply from

Date	Macroeconomic Events
2008	
	September this year as the government undertakes urgent measures to produce additional gas for the port-city.
July 30	❑ The government considers a hike in electricity tariff by about 41 per cent on an average to offset the mounting losses of the state-owned power entities.
July 31	❑ Tata Group scraps its plan for USD 3 billion investment in Bangladesh, abandoning its plan after four years of endeavour to persuade Bangladesh government into ensuring a guaranteed supply of gas to its plants.
August 1	❑ World Bank approves a USD 130.7 million IDA credit to improve quality of secondary education in Bangladesh.
August 3	❑ The Colombo SAARC Summit to begin operating the SAARC Food Bank by issuing a SAARC Statement to guarantee food security in the region in view of the global food crisis and price hike of grains. ❑ Bangladesh decides to start bilateral free trade negotiations with India, Pakistan, and Sri Lanka, shelving the country's long-standing trade policy that favoured multilateral trade deals over bilateralism.
August 4	❑ Bangladesh receives USD 170 million worth of credit from the ADB for helping cope with the current soaring food prices and ensure greater access to food for the people, badly hit by recent natural disasters. ❑ AKTEL, the country's third largest mobile operator, reveals its commitment to SEC on being listed on the capital market by the year-end.
August 6	❑ The UN WFP receives USD 7.9 million contributions from the Government of Japan to provide food assistance to Bangladesh's ultra-poor living in areas prone to floods, river erosion, coastal cyclones and tidal surges. ❑ Both public and private commercial banks set the agriculture credit disbursement target at Tk. 93.79 billion for FY2008-09, marking a 13 per cent growth over that of the previous fiscal. The loans will be given to eight agro-based sub-sectors like crops, irrigation equipment, livestock, agricultural products marketing, fisheries and poverty alleviation. ❑ Country's first Bank and NBFI's Fair begins in Dhaka Sheraton Hotel.
August 8	❑ BBS-Services and Solution International (SSI) study finds that only 2 million out of 20 million ultra poor could be brought under the government's social safety net programme due to delayed disbursement of fund, lack of planning and weak surveillance and monitoring.
August 9	❑ ADB will provide USD 150 million as a part of the promise to provide USD 430 million to Bangladesh Railway over five years through a multi-tranche financing facility for Bangladesh Railways Sector Improvement Project (BRSIP).

Date	Macroeconomic Events
2008	
August 11	❑ The Dhaka Water Supply and Sewerage Authority (WASA) launches the Dhaka Water Supply and Sanitation Project with an assistance of USD 165.7 million from World Bank to improve services relating to storm-water drainage, wastewater and water services. ❑ The MoF starts performance review of the country's three SCBs, following their failure to achieve default loan recovery target. ❑ Speakers at a seminar titled "Rural Roads Maintenance and Employment" stresses on the production of mushroom, palm oil and revitalisation of jute sector for effective poverty alleviation.
August 12	❑ US asks the CTG to lift ban on trade union activities and improve labour rights in the garment factories before it holds a hearing on Bangladesh's GSP facilities in October.
August 14	❑ The government develops distaste for privatisation following a debacle over the sale of Rupali Bank as it plans to drop five loss-making state-owned enterprises (SoEs) from the divestment list. These are Daulatpur Jute Mills Ltd. in Khulna, Service Facilities Centre (SFC) in Brahmanbaria, Textile Facilities Centre (TFC) in Laxmipur, Tangail Cotton Mills Ltd. in Gorai and Magura Textile Mills Ltd. in Magura. ❑ The government signs a credit agreement worth USD 130.7 million with the IDA to improve quality and performance of secondary education and to ensure greater accountability at school level. ❑ Bangladesh Bank instructs commercial banks for doubling their paid-up capital and reserve to Tk. 4 billion from the existing Tk. 2 billion by 11 August 2011.
August 15	❑ Ryder Scott, a Houston-based energy consulting firm, reveals that the country's northeastern Bibiyana gas field has significantly larger gas reserves than estimated earlier.
August 16	❑ BDR began sales from its 210 fair price outlets across the country, including 100 in the capital, in a bid to keep the prices of essentials at tolerable level during the holy month of Ramadan, compared to the previous 65 outlets in the city.
August 18	❑ The government is to select a new base-year for GDP calculation taking into account the contribution of a number of economic activities, and the survey is being conducted by BBS.
August 19	❑ The Ministry of Communications decides to convert the Padma Multipurpose Bridge into a company and off-load its shares to finance construction work involving USD 1.8 billion.

Date	Macroeconomic Events
2008	
August 20	❑ The Council of Advisors approves the much-awaited Consumer Rights Protection Ordinance 2008 to shield people from market foul-plays and unscrupulous traders engaged in hoarding, adulteration and artificial price spikes.
August 21	❑ Border conference between Bangladesh and India begins at the BDR headquarters in Dhaka to discuss a long list of contentious issues between the two neighbours. The conference will conclude with the signing of a Joint Record of Discussion (JRD) on 25 August.
August 23	❑ The government takes a move to lift the restriction on product registration of local pharmaceutical companies having the drug market potential abroad with a view to giving the sector a further boost. It also decided to ease the procedures of sending pharmaceutical samples to any importing country.
August 25	❑ South Korea decides to allow duty-free access to 300 Bangladeshi products to its market aiming to augment bilateral trade.
August 26	❑ World Bank report reveals that four million people of the country were pushed back anew to below poverty line (raising poverty rate by around 3 per cent from the baseline poverty rate of 40 per cent in 2005) due to rising prices of foodgrains in the international market and damage caused to a major rice crop by natural calamities last year. ❑ Japan exempts debt worth Tk. 46 billion (which were given for implementation of 25 development projects) aiming to help Bangladesh pursue development activities.
August 28	❑ The government sets end of 2009 as the latest deadline to abolish PSI system as it is building its own capacity to inspect the country's soaring imports. ❑ The government promises to form a venture capital company with an initial capital of Tk. 5 billion with private partnership to provide collateral free loans to companies having potentials to emerge as trail blazers.
August 31	❑ CTG forms a National Pay Commission 2008 to raise the wages of more than one million of its employees who have been hard hit by soaring prices. ❑ The government cuts fuel bill of its Ministries and Divisions by 10 per cent and makes gas-conversion of newly procured cars mandatory in the wake of ballooning cost of the country's oil import.
September 2	❑ The Advisors' Committee on Public Purchase approves import of 150,000 tonnes of petroleum fuels (90,000 tonnes diesel, 30,000 tonnes jet fuel and 30,000 tonnes octane) from a company in the Maldives at a cost of USD 183.44 million. ❑ Bangladeshis living abroad remitted record USD 829 million in July, all time monthly high, as the amount surpassed the previous best of USD 808 million in March last. The flow of inward remittances fell by 10.69 per cent in August over the previous month, as fallout of labour unrest in two Middle Eastern countries compelled a good number of Bangladeshi workers to return home.

Date	Macroeconomic Events
2008	
September 4	❑ The UK-based Cairn Energy drops its planned exploration in new offshore structures in Magnama and Hatiya after Petrobangla showed its apathy to hike gas price or okay sale to private users.
September 6	❑ The government revives plan to dismantle the state-run Titas into three separate companies to increase efficiency and dynamism in the country's gas marketing and distribution system, and the plan is now awaiting approval from the Energy Ministry.
September 7	❑ Tk. 12 billion export infrastructure development project is approved to reduce growing pressure of exports and imports on the Chittagong Sea Port.
September 14	❑ The government sets a target of providing over 2.6 million new electricity connections by installing 50,000 kilometres of distribution lines throughout the country in three years despite substantial shortfall in the existing generation level.
September 15	❑ The "100-Day Employment Guarantee Scheme" programme for the hardcore poor, seasonal unemployed people and marginalised farmers gets off across the country to help them out of their lean-time penury. ❑ The country's youngest steel manufacturer becomes the country's first company to export billet worth USD 2.5 million amid high demand for its products in the Gulf nations and South East Asia.
September 16	❑ ADB suggests that Bangladesh increase bank interest rate and take a tight monetary policy to tame the inflationary pressure on the economy.
September 18	❑ Bangladesh Bank increases its interest rate after more than three years, aiming to curb inflationary pressures on economy, following the suggestion by ADB.
September 19	❑ GoB concludes negotiations with World Bank for a loan of USD 350 million to finance the Siddhirganj Peaking Power Project (SPPP), which will attempt to contribute 300 MW of power generation capacity to help address the country's shortage of power.
September 21	❑ China agrees to bear the construction cost of a large part of the trans-international highway connecting the port city Chittagong with the Chinese growing business hub Kunming through Myanmar, estimated at USD 128 million.
September 22	❑ Interest rates on two T-bills have been increased by 0.51 per cent following the latest upward adjustment of the interest rate. ❑ The MoF expresses disapproval over the creation of a revolving fund for speedy disposal of cash incentives to the country's export sectors as suggested by the Better Business Forum (BBF).
September 23	❑ TI ranks Bangladesh world's 10th most corrupt nation.

Date	Macroeconomic Events
2008	
	❑ USAID and EC initiate a move to support the frozen food industry to help them address labour rights and food safety issues raised by the international buyers.
September 28	❑ Chief Advisor urges the world to consider the possibility of creating a Global Food Bank and stressed on food security, democracy and development for LDCs.
September 30	❑ Bangladesh Bank Directives ask all scheduled banks to rationalise its charges, fees and commissions, which businessmen say are too high. The Central Bank lifted charges on foreign correspondence (local part) and cancellation or expiration of L/Cs. ❑ Bangladesh Bank makes it mandatory for all local and foreign commercial banks to disburse agriculture credit from this fiscal to ensure food security. ❑ Average bulk power tariff increases by 16 per cent to Tk. 2.37 per kilo watt (KW) (from Tk. 2.04), to be effective from 1 October 2008. The latest power tariff adjustment is the first by Bangladesh Energy Regulatory Commission (BERC) since its formation.
October 1	❑ The government doubles the rate of fees for mutation of record, separation of holding and consolidation of holding in land registration and simplified such procedures.
October 4	❑ Bangladesh makes a big impact in the world's biggest ship-building fair in Hamburg, bagging export orders worth USD 250 million.
October 6	❑ The automation project of the Chittagong Customs House (CCH) goes into its full operation. Chief Advisor to the CTG launched the project at a ceremony in Dhaka. ❑ The Bangladesh Council of Scientific and Industrial Research (BCSIR) reconfirms the traces of industrial chemical melamine in Chinese infant milk formula. ❑ CTG decides to sell three state-owned factories for Tk. 94.74 crore: Satraong Textile Mills at Gazipur at Tk. 17.13 crore, Karnaphuli Rayon and Chemical Mills at Chittagong at Tk. 51.11 crore and Particles and Veneer Board at Chittagong at Tk. 26.5 crore. The meeting also decides to import refined fuel from the Malaysian state-owned Petronas Trading Corporation (PETCO), as an attempt to ensure a smooth supply of petroleum by diversifying sources. ❑ The site selected for the country's first ever SEZ in Sylhet is found to be not viable due to potential delay in land acquisition and higher capital costs, according to the World Bank's private sector arm, IFC.
October 7	❑ The Council of Advisors on Government Purchase asks the Power Ministry to reevaluate proposals of the lone bidder Powertek for installation of Bibiana 450 MW power plant in the country's northern region.
October 8	❑ Bangladesh's hope for importing gas from Myanmar gets dashed as the latter said

Date	Macroeconomic Events
2008	
	that it did not have enough gas for export, having already sold out the production from two gas fields to China and Thailand.
	❑ The government fixes the country's merchandise export target at USD 16.298 billion for the current fiscal year, projecting a 15.50 per cent growth over the last fiscal year's earnings.
	❑ Bangladesh Bank provides OD facilities for USD 68 million more to a SCB for settlement of its oil import bills.
	❑ Siemens Bangladesh Ltd. (SBL) signs a contract with Chittagong Port Authority (CPA) for setting up a power sub-station.
October 11	❑ Bangladesh Bank analysis depicts the country's unemployment rate will drop to 3.76 per cent in FY2008-09 from 4.18 per cent in FY2005-06.
October 14	❑ Chinese importers sign several contracts today to import Bangladeshi products worth USD 80 million to reduce the huge trade imbalance against Dhaka.
	❑ IFC assures Bangladesh of scaling up its support to the SMEs and to the financial institutions engaged in SME lending.
October 15	❑ CTG undertakes a three-year Strategic Restructuring Plan to revamp the BOI in the wake of falling foreign direct investment (FDI).
October 18	❑ A government plan to initiate supply of gas to new industries in the fuel-starved Chittagong falls flat as production from Sangu gas field dropped by one-third this month.
October 19	❑ IMF study reveals that Bangladesh will maintain its strong position in global garment trade despite some risks and intense competition from South East Asian countries.
	❑ The UK will provide Bangladesh with an additional grant of 70 million pounds, equivalent to Tk. 9 billion (900 crore), for implementing an extended phase of the CLP, in aid to poor people living in riverside areas.
October 20	❑ The government has taken up a scheme to cultivate BRRI Dhan-33, a short duration variety of Aman paddy, in five districts of a total of 40,000 hectares of land to generate job opportunities for the Monga-stricken people of northern region during off-season.
	❑ GoB successfully concluded negotiations with World Bank for USD 350 million SPPP.
	❑ Chittagong Customs Authority issues show-cause notice to Bureau Veritas for tax evasion equivalent to Tk. 4.5 crore.

Date	Macroeconomic Events
2008	
October 21	❑ Bangladesh and ADB signs a loan agreement for Public-Private Infrastructure Development Facility (PPIDF) worth USD 165 million to help Bangladesh boost private investment in infrastructure, mainly in the energy sector. ❑ Bangladesh Bank relaxes its credit policy under which, share-croppers and landless farmers will be entitled to receive agriculture loans.
October 25	❑ The government decides to give fuel subsidy not exceeding Tk. 40 billion annually to the state-owned BPC to keep domestic fuel price lower than that in the international market.
October 26	❑ The government reduces prices of fuel oils by nearly 11.73 per cent on an average in the backdrop of a substantial fall in petroleum prices in the international market.
October 28	❑ Bangladesh Bank recommends changes in the government's debt management strategy to facilitate proper implementation of the monetary policy, as the government has gradually changed its debt management strategy towards long-term borrowing from short-term to facilitate development activities.
October 29	❑ World Bank provides USD 130 million as credit to Bangladesh to assist poor families affected by high food prices. It approved the Food Crisis Development Support Credit Project as a part of the World Bank's fast-track Global Food Response Programme (GFRP). ❑ Grameenphone decides to launch a "private" bond by November in an attempt to raise an estimated USD 60 million from the market; but it has decided to defer the floatation of IPO, citing global financial crisis as the major reason.
October 30	❑ Shipping companies operating in the country cuts freight rates by at least 30 per cent in the past few weeks amid cooling oil prices and fears of recession in major economies. ❑ Bangladesh Bank Governor dismisses the possibility of immediate depreciation of Taka in the backdrop of the ongoing global financial meltdown, ruling out any major impact of the financial market turmoil on Bangladesh economy. Explaining the major reasons for Bangladesh remaining immune to outside troubles, he says - the size of the foreign portfolio investment in the stock market has been as low as 2.5 per cent and the Central Bank has not allowed any short-term foreign fund flow into the country.
October 31	❑ A new peaking power plant having the electricity generation capacity of 240 MW is set to initiate power generation at Shiddhirganj, some 20 kilometres off the capital, from next April 2009.
November 1	❑ Indian State Minister for Power seeks power grid connectivity and transit facilities through Bangladesh to ensure smooth flow of electricity between the two countries.

Date	Macroeconomic Events
2008	
November 2	❑ The rate of cancellation of L/Cs for import of essential items significantly increases due to substantial erosion in prices of the commodities in the global market. ❑ Bangladesh Bank predicts an economic growth rate between 6.2 per cent and 6.5 per cent in the current fiscal and easing of inflationary pressure in the coming months, on releasing the Bangladesh Bank quarterly for July-September 2008. ❑ Bangladesh lodges a strong protest with the Government of Myanmar for entry of its vessels for oil and gas exploration activities in the disputed waters of the Bay of Bengal. ❑ International Trade Centre (ITC) and Export Promotion Bureau (EPB) jointly launch a support programme for five export sectors to improve their management quality. The sectors are horticulture, agro-processed foods, herbal medicines, light engineering and IT. The EU is also supporting the programme titled Bangladesh Quality Support Programme (BQSP).
November 4	❑ ADB and GoB signs a loan agreement of USD 87 million to improve basic services and infrastructure in municipal towns of Bangladesh. ❑ Grameenphone announces that it would raise USD 125 million of which USD 75 million will be hauled through IPO and USD 50 million via a private placement, with the hope that the company would hit the stock markets in the first quarter of 2009.
November 6	❑ World Bank approves USD 109 million IDA credit to Bangladesh, which will support the government's efforts to repair infrastructure and restore the livelihoods for thousands of families affected by last year's cyclone Sidr.
November 7	❑ British Airways decides to suspend its Dhaka-London passenger flights from 28 March 2009, citing commercial reasons.
November 8	❑ The power division begins works on setting up a 300 MW peaking power plant at Siddhirganj in Narayanganj after getting confirmation of funding of USD 350 million loan from the World Bank, which also includes installation of a gas pipeline and a power transmission line. ❑ Local garment manufacturers have received spot orders worth around USD 55.45 million from international buyers at the three-day Bangladesh Apparel and Textile Exposition (BATEXPO), the annual event of local apparel sector. The amount is USD 5.45 million higher compared with that of the previous year. ❑ A proposal for allocating Tk. 5.60 billion for introducing machine readable passports (MRPs) is likely to get clearance from the Planning Commission soon. As per the decision of the International Civil Aviation Organization (ICAO), all countries, including Bangladesh, must replace their manually processed passports with MRPs by April 2010. Manually processed passports will become obsolete after

Date		Macroeconomic Events
2008		
		2010 and such passports would no more be acceptable to immigration authorities across the world.
November 9	❑	Collection of income tax of the present year exceeds that of last year by Tk. 60 million with three more days remaining for submission of returns. NBR received nearly Tk. 8 billion tax against 0.62 million individual tax returns compared to last year figures of Tk. 7.39 billion tax from 0.64 million tax returns.
	❑	Production of electricity in the 34.5 MW rental power plant in Bhola is expected to begin from December 2008 to fulfill the demand in the district.
	❑	The government makes a move to off-load 20 per cent of its stake in Unilever Bangladesh through the stock exchanges under direct listing, in an attempt to strengthen the stock market. The Ministry of Industries has sought MoF's approval for off-loading and sale of its stakes in Unilever.
November 10	❑	DSE General Index (DGEN), the benchmark index of DSE, deviates from its sinking-trend and rose nearly 33 points for the second time in more than a week's time.
November 12	❑	Brummer & Partners, a Swedish hedge fund manager, chooses Bangladesh as a safer place for investment in the prevailing global financial downturn as it expects the region to ride out the global economic recession.
	❑	IMF suggests Bangladesh to closely monitor any impact arising from the current global financial crisis on the country's exports, particularly RMG, and inflow of remittances.
	❑	BTRC sends a green signal after Bangladesh Bank sought its opinion on introduction of mobile banking in the country, as a result of Grameenphone initiative.
November 13	❑	Indian Prime Minister assures Bangladesh of reducing trade gap between the two neighbouring countries and said steps would be taken to maintain a balance of trade by importing more from Bangladesh and removing NTBs further.
November 15	❑	Non-listed insurance companies are to pay nearly Tk. 20 million as financial penalty during renewal of their operating licenses for their delay in floatation of IPOs.
	❑	Visiting members of Bangladesh-British Chamber of Commerce (BBCC) plan on investing USD 50 million in hotel and tourism, real estate and fisheries sectors in the country.
November 17	❑	Bangladesh Bank relaxes its rules on import financing aiming for edible oil, wheat and pulses, to encourage importers to continue their businesses through additional support from the commercial banks.
	❑	A three-year "strategic plan" is approved in principle to enhance the BOI's

Date		Macroeconomic Events
2008		
		organisational capacity and efficiency, investment development, disciplined and easier approval process, and post-investment services.
November 18	❑	The government imposes export ban of all varieties of rice for a period of six months to boost the supply of the staple in the local market.
November 19	❑	EU inspection team expresses satisfaction over significant improvement in food safety measures after visiting the shrimp processing plants across the country. The EU decides not to impose ban on export of frozen foods, but it has advised both the government and exporters to comply with the EC food safety standard by next three months with due priority.
	❑	World Bank suggests that the government should corporatise the largely state-owned Rupali Bank instead of its full privatisation.
	❑	A Dutch-Bangla joint venture group begins to set up a private ICD at Sitakunda budgeted at USD 21 million, in a move to bank on the burgeoning port logistics trade.
November 21	❑	The 1st International Compressed Natural Gas (CNG) Exhibition 2008 begins in Dhaka. The objective of the fair is to provide the Bangladesh CNG industry a platform to develop new alternate sources of supplies, make new contacts and to discover and capitalise on the new opportunities.
November 23	❑	Janata Bank plans to go public by the second half of next year in a bid to increase its paid-up capital. The proposed size of its IPOs is Tk. 1 billion. The existing paid-up capital of the bank is Tk. 2.60 billion.
	❑	Private jute millers submit a 10-point suggestion, including creation of a "crisis fund," to a high-profile government committee for helping protect exports of local jute goods against the adversity of the global financial meltdown.
	❑	Bangladesh is to receive USD 109 million from World Bank to implement Emergency 2007 Cyclone Recovery and Restoration Project (ECRRAP).
November 24	❑	EU decides to block the entry of all shrimp consignments shipped from Bangladesh into EU territory after 5 November, if the required chemical test certificates are not provided along with the shipping documents.
	❑	BGMEA and Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA) take opposite stands on the proposed new RoO of the EU in which the local value addition threshold will be lowered to 30 per cent. Officials of the BKMEA claims that the knitwear sector, having sufficient backward linkages, will be largely affected by the proposed RoO, while BGMEA officials says the new RoO will create opportunities to boost the country's export to EU market.
November 25	❑	The country's tea production has dropped this year primarily due to unfavourable weather conditions and fertiliser crisis during April-May period.

Date	Macroeconomic Events
2008	
	❑ Government starts Aman rice procurement from the farmers. The target of this drive is to procure some 0.15 million tonnes of Aman rice and 75 thousand tonnes of Aman paddy from the farmers. ❑ Dhaka stocks slumped for a second day, driven mainly by a persistent lack of confidence among investors. A mix of reasons, including the national election, hajj, Eid-ul-Azha and book closures of most financial institutions by the year-end dampened investor spirits.
November 26	❑ Sales of CNG station equipment have dipped over the past few months, as businessmen are slow to invest in new projects largely because of rising investment costs and declining returns. ❑ The overall inflation rate on a point-to-point basis drops by 2.93 percentage point to 7.26 per cent in October as prices of both food and non-food items fell. ❑ World Bank drastically lowered the Bangladesh's economic growth projection for the current fiscal year, between 4.8 per cent and 5.4 per cent, due to the global financial meltdown impact.
November 27	❑ Industrial credit disbursement recorded a significant rise by over 30 per cent in the first quarter of the current fiscal compared to the corresponding period of the last fiscal. ❑ The apex trade body for the RMG sector is upbeat on Bangladesh's growth in exports despite global financial meltdown, turning down the World Bank prediction of a fall.
November 28	❑ EPB estimates the growth of country's knitwear export in the first quarter (July-September) of FY2008-09 at 42 per cent.
November 29	❑ Number of tax related disputes pending with the Taxes Appellate Tribunal (TAT) marked a significant rise in the recent months due to slow rate of disposal.
November 30	❑ The Ministry of Commerce has suggested formation of a separate company under public sector to introduce crop insurance in the country. ❑ BERC has announced that gas price will not be hiked for the time being.
December 1	❑ The revenue earning from imports has gone down in recent months. ❑ The government has started the process of constituting an Insurance Control Authority (ICA), in line with the Ordinance framed recently by the government.
December 2	❑ The Power Division has ordered retenders for two proposed 450 MW power plants in Bibiana and Sirajganj. ❑ Under the just-approved Economic Zones Ordinance, the government will allow

Date	Macroeconomic Events
2008	
	setting up of different types of economic zones - some will be privately-owned, some will be on public-private partnership basis, while others will be specialised.
	❑ Oil prices slumped to just above USD 46 reaching the lowest point in almost four years, as global energy demand weakened amid a widespread economic slowdown.
	❑ BKMEA signed an MoU with World Bank's arm IFC, "Bangladesh Investment Climate Fund (BICF)," to get technical assistance for setting up knit villages countrywide to manufacture high value added items.
December 3	❑ World Bank approves USD 149 million IDA credit to Bangladesh to support improvement of water supply and sanitation services in the capital.
December 4	❑ In continuation of last fiscal year's slow progress, only 13 per cent of the ADP has been implemented in the first four months of the current fiscal year.
	❑ Interest payment is growing larger in the national budget throwing the economy into a "long-term loan trap" and creating an imbalance in overall fiscal management.
December 5	❑ Remittance inflows have recorded a 34 per cent rise in the first five months of the current fiscal year, which runs counter to the World Bank's gloomy forecast about the money to be remitted by Bangladeshi workers abroad.
December 6	❑ The government takes measures to maintain a buffer stock of urea fertiliser to ensure its uninterrupted supply to the farmers during the current Boro cultivation season for the sake of achieving the target of producing 1.8 million tonnes of rice.
	❑ UN will help to improve the nutrition status of a million under-nourished children and mothers under a new USD 5 million programme.
	❑ Bangladesh Bank attached priority to ensuring the quality of loans as credit flow to the private sector went up by 26.55 per cent in September over the same period of the previous year.
December 7	❑ Revenue earnings by BTCL increased by Tk. 696.60 million in the first quarter of FY2008-09 over the matching period of last fiscal despite a significant fall in the number of its subscribers.
	❑ State-owned Banks (SoBs) are giving 18 per cent less loan to leather sector this Eid-ul-Azha season compared to that of last season as previous loans to this sector were not repaid and prices of leather goods have slumped in the global market.
	❑ President Iajuddin Ahmed urged the Malaysian government to recruit more skilled Bangladeshi workers and take effective measures for reducing the existing trade gap between the two countries.

Date	Macroeconomic Events
2008	
December 8	❑ Seven commercial banks and at least one NBFI have applied for licenses to the stock market regulator to act as merchant bank.
December 11	❑ The inter-bank call money rate rose to 20 per cent from 12 per cent of the previous working day despite injection of fresh fund by the Central Bank. ❑ Bangladesh faces difficulty in mobilising funds to import fuel from the falling international oil market, as the conventional lenders are pushing hard to raise interest rates or showing apathy to lending. ❑ The Jeddah-based IDB, the main fund provider for fuel import, has already increased the mark-up rate against the loan it provides to the state-owned BPC.
December 12	❑ Prices of various types of vegetables dropped sharply in the city markets because of less demand immediately after Eid-ul-Azha.
December 13	❑ The country's imports grew by 31.66 per cent during the first four months of the current fiscal over that of the corresponding period of the previous fiscal. ❑ The WTO is crying off from convening a Ministerial level meeting in December aimed at thrashing out an outline in the troubled global trade talks which has been running for past seven years with no end in sight.
December 14	❑ The non-payment of large amount of arrear debts by the SoEs has put the government into difficulty in the matters of fiscal management. ❑ The country's overall BOP continued to maintain a surplus position during the first quarter of the current fiscal mainly due to higher surplus in current account balance. ❑ According to Bangladesh Bank data, import of industrial raw materials is increasing at an amazing 30 per cent rate this fiscal year. ❑ L/C opened for import of industrial raw materials stood at USD 3,313.68 million during the first four months (till October) of the current fiscal year from USD 2,639.11 million in the same period of FY2007-08.
December 15	❑ Dhaka stocks dropped with the turnover hitting the lowest level since 6 January 2008. ❑ Bangladesh Bank has strengthened its intervention in FX market through providing support to the commercial banks for settlement of fuel oil import bills. ❑ Bangladesh Bank instructs banks to take measures to reduce the time and cost of transferring remittances.
December 17	❑ Bangladesh Bank is going to make mandatory the inclusion of national identity (ID) card number with the particulars of loan applicant to stop cheating by loan defaulters.

Date	Macroeconomic Events
2008	
	❑ More than Tk. 1 billion will be spent only for law enforcing agencies to maintain law and order during the 9th Parliamentary Election to be held on 29 December in a bid to transition to democracy. ❑ World Bank will provide USD 149 million loan to Bangladesh to improve water and sanitation services in Dhaka city. ❑ The Netherlands government will give 30 million Euro (Tk. 287 crores) to Friends in Village Development Bangladesh (FIVDB) under a five-year agreement to implement Jonoshilon (Popular Education).
December 18	❑ Cards with special status would be given to expatriate workers, who will annually send home money equivalent to USD 5,000 each through legal channel. ❑ Bangladesh Machine Tools Factory Ltd. (BMTF), a commercial venture operated by Bangladesh Army, launched a project to make eco-parking machine jointly with a Japanese firm. ❑ The Barapukuria Coal Mining Company Ltd. (BCMCL) signed an MoU with the China National Machinery Import and Export Corporation (CMC) for completion of the construction of its mines as well as for its future development.
December 19	❑ Prices of potato and other vegetables dropped further in city markets because of huge supply while tonnes of old potatoes remained unsold.
December 20	❑ The government has rejected an IMF suggestion on complete redrafting of VAT law for streamlining collection of consumption tax. ❑ The government's net borrowing from the savings instruments marked a sharp rise in the past few months, enhancing its liability on account of servicing internal debt. ❑ Falling prices of rice in international and local markets might discourage farmers in their bid to bring more areas under Boro cultivation, which could lead to production target shortfall in the current season.
December 21	❑ The MoF has set targets for the highly paid Chief Executive Officers (CEOs)of three recently corporatised SoBs for the evaluation of their performances quarterly. ❑ The Power Cell of the Power Ministry signed a deal on the 50 MW Sikalbaha, Chittagong rental power project with a joint venture led by Royce Power Engineering Ltd. of Hong Kong and two local companies for a three-year term.
December 22	❑ The country's overall exports declined by over 41 per cent in October over that of September of the current fiscal. ❑ The government has published a gazette notification regarding mutual fund rules, allowing trusts, registered provident and pension funds to float mutual funds in the stock markets.

Date	Macroeconomic Events
2008	
	❑ The point-to-point inflation dipped 22-month low at 6.12 per cent in November last, thanks to falling prices of commodity items in international and local market. ❑ A sample survey by the NBR showed that 35.3 per cent Taxpayer's Identification Numbers (TINs) are fake.
December 23	❑ The government has taken a fresh move to off-load its stake in the Rupali Bank Ltd., after failing in its first bid to sell the same to a Saudi buyer. ❑ Bangladesh Bank allows settlement of import payments in Euro alongside USD among the Asian Clearing Union (ACU) member countries.
December 24	❑ The government is going to turn the state-owned Trading Corporation of Bangladesh (TCB) into a PLC for an effective market intervention to arrest price spiral of essentials in the local market. ❑ Finance and Planning Advisor identifies 16 challenges for the next government in the context of present global situation.
December 25	❑ Transport and communication sector recorded the highest growth in receiving banks' advances (loans) in FY2007-08.
December 26	❑ Bangladesh will start final negotiations with two international companies - Moody's Singapore and Standard & Poor's International, early next month for signing agreements with the companies to prepare the country's credit rating. ❑ The NBR has moved to devise strategies for off setting the revenue loss in the current fiscal, as the global financial crisis has caused a significant decline in import of major items including petroleum, edible oil and sugar.
December 27	❑ The net enrolment rate (NER) in the country's primary education increased from 87.2 per cent in 2005 to 91.9 per cent in 2007, showing a 4.5 per cent improvement. ❑ IDB has sought an increase of premium by 3.25 per cent for providing BPC around USD 1 billion to import fuel from international market.
December 28	❑ NBR is collecting lists of all foreign workers from the BEPZA, BOI, multinational and international organisations to have an assessment on tax collection from them. ❑ ECNEC approved two development projects. The projects are: Integrated Development Project (Amendment) and EC-assisted School Feeding Programme under Ministry of Primary and Mass Education. ❑ Bangladesh Agriculture Development Corporation (BADC) and the Department of Agricultural Extension (DAE) are distributing high yielding and hybrid seeds among farmers, under a comprehensive programme in 16 northern districts under Rajshahi division.

Date		Macroeconomic Events
2008		
December 29	❑	Agricultural credit disbursement recorded a robust growth of 27.22 per cent in the first five months of the current fiscal year.
December 30	❑	Gas Transmission Company Ltd. (GTCL) earned Tk. 2.73 billion as pre-tax profit in FY2007-08.
	❑	BPC will pay less premium to Malaysian state-owned PETCO to import refined oil compared to existing premium rate of the Kuwait Petroleum Corporation (KPC).
December 31	❑	Credit flow to the housing sector continued an upward trend in recent years. Housing loans rose by over 14 per cent in FY2007-08.

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