Bangladesh Economy in FY2013-14

Third Interim Review of Macroeconomic Performance

A report prepared under CPD's programme on Independent Review of Bangladesh's Development (IRBD)

Centre for Policy Dialogue (CPD)

June 2014

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The views expressed in this volume are those of the CPD IRBD 2014 Team members and do not necessarily reflect the views of the CPD.

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The CPD IRBD 2014 Team would like to register its sincere gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this volume.

As part of the CPD IRBD tradition, CPD organised an Expert Group Consultation on 29 May 2014 at The Westin Dhaka. The working document on the *Analytical Review of Bangladesh's Macroeconomic Performance in FY2013-14 (Third Reading)* prepared by the CPD IRBD 2014 Team was shared at this meeting with a distinguished group of policymakers, academics and professionals. The CPD Team is grateful to all of those present at the consultation for sharing their views, insights and comments on the draft report. A list of the participants of the meeting is provided below (in alphabetical order):

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The CPD IRBD 2014 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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Acronyms

ADB	Asian Development Bank
ADP	Annual Development Programme
AIT	Advance Income Tax
BARC	Bangladesh Agricultural Research Council
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BJMC	Bangladesh Jute Mills Corporation
BOP	Balance of Payments
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
BSTI	Bangladesh Standards and Testing Institution
BUET	Bangladesh University of Engineering and Technology
BoI	Board of Investment
CETP	Central Effluent Treatment Plant
CHT	Chittagong Hill Tracts
CNG	Compressed Natural Gas
CPD	Centre for Policy Dialogue
DAE	Department of Agricultural Extension
DAM	Department of Agricultural Marketing
DAP	Diammonium Phosphate
DSL	Debt Service Liability
ECF	Extended Credit Facility
ECNEC	Executive Committee of National Economic Council
EGPP	Employment Generation Programme for the Poor
EPB	Export Promotion Bureau
ETP	Effluent Treatment Plant
EU	European Union
FDI	Foreign Direct Investment
FFW	Food for Work
f.o.b	Free-on-Board
GDP	Gross Domestic Product
GNI	Gross National Income
GR	Gratuitous Relief
GoB	Government of Bangladesh

HFO	Heavy Fuel Oil
HS	Harmonized Commodity Description and Coding System
HSD	High Speed Diesel
ICT	Information and Communication Technology
IDCOL	Infrastructure Development Company Limited
IIFC	Infrastructure Investment Facilitation Company
ILO	International Labour Organization
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
IOM	International Organization for Migration
IPFF	Investment Promotion and Financing Facility
IPP	Independent Power Producer
IRBD	Independent Review of Bangladesh's Development
kWh	Kilowatt Hour
LDC	Least Developed Country
LGRD	Local Government and Rural Division
LNG	Liquefied Natural Gas
L/C	Letter of Credit
MDG	Millennium Development Goal
MIS	Management Information System
MPS	Monetary Policy Statement
MT	Metric Ton
MTBF	Medium Term Budgetary Framework
MTMF	Medium Term Macroeconomic Framework
MW	Mega Watt
MoF	Ministry of Finance
MoP	Muriate of Potash
NAP	National Action Plan
NBR	National Board of Revenue
NSD	National Savings Bond
OECD	Organisation for Economic Co-operation and Development
OMS	Open Market Sales
PMBP	Padma Multipurpose Bridge Project
PPP	Public-Private Partnership
RADP	Revised ADP
REB	Rural Electrification Board
RMG	Readymade Garments
SCB	State-Owned Commercial Bank
SD	Supplementary Duty
SEIP	Skills for Employment Investment Programme
SEZ	Special Economic Zone
SFYP	Sixth Five Year Plan
SHS	Solar Home System
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary
SSNP	Social Safety Net Programme
SoE	State-Owned Enterprise
TCB	Trading Corporation of Bangladesh
TR	Test Relief
TSP	Triple Super Phosphate

tcf	Trillion Cubic Feet
UAE	United Arab Emirates
US	United States
USD	United States Dollar
USITC	United States International Trade Commission
VAT	Value Added Tax
VGD	Vulnerable Group Development
VGF	Vulnerable Group Feeding
WDI	World Development Indicator

Chapter 1

Analytical Review of Bangladesh's Macroeconomic Performance in FY2013-14

(Third Reading)

This report was released to the media by the Centre for Policy Dialogue (CPD) on 1 June 2014.

1.1 INTRODUCTION

Bangladesh's macroeconomic performance has experienced formidable challenges in the course of the ongoing FY2013-14. During the first half, the economy was confronted with severe disruption in production, transport and service delivery that afflicted both domestic and export-oriented activities. In the second half, in the backdrop of the political uncertainties, a deceleration in the investment growth, particularly that of private sector investment, constrained efforts to translate the relative macroeconomic stability into higher economic growth. In the context of these twin developments, reinvigorating the investment environment to regain the lost momentum of accelerated gross domestic product (GDP) growth has emerged as a major concern from the perspective of macroeconomic management in FY2013-14, and in view of the upcoming Budget for FY2014-15.

This report, the third interim one, on the performance of the Bangladesh economy in FY2013-14 under the Independent Review of Bangladesh's Development (IRBD) exercise of the Centre for Policy Dialogue (CPD), has made an attempt to present CPD's assessment of the emerging economic scenario in Bangladesh based on the latest available data and information. Four thematic areas have also been taken up for closer scrutiny which include an analysis of allocation patterns, prioritisation and efficacy of public expenditure, an assessment of financing of the public expenditure, an evaluation of the evolving power sector scenario and an analysis of the export sector performance from the perspective of product composition and market destination.

Thus, the report presented in the chapter has five core sections following this introduction:

- Macroeconomic Scenario
- Public Expenditure: Issues and Concerns
- Financing Public Expenditure: A Smart Mix Needed
- Sustainable Power Sector Development: Whether in Right Direction?
- Export Sector Performance: Fluctuating Fortunes

The report ends with some concluding remarks.

1.2 THE MACROECONOMIC SCENARIO: A TALE OF TWO WOES

1.2.1 Economic Growth, Investment and Savings

Bangladesh Bureau of Statistics (BBS) has recently come up with the provisional estimate of 6.1 per cent for the GDP growth in FY2013-14 (Figure 1.1). This was 1.1 percentage point lower than the target of 7.2 per cent set in the FY2013-14 Budget.[1] It needs to be recalled that many analysts including the World Bank and Asian Development Bank (ADB) expected the economic growth in FY2013-14 to be between 5.5-6.0 per cent in view of political unrest in the first half of the fiscal year and the trends of associated macroeconomic correlates (see World Bank (2014) and ADB (2014)). CPD in January 2014 also predicted that GDP growth rate in FY2013-14 would be in the range of 5.6-5.8 per cent (CPD 2014a).

In FY2013-14, per capita gross national income (GNI) of Bangladesh has been estimated to be about USD 1,190, which is USD 136 more than that of the preceding year (12.9 per cent growth). However, in real terms, per capita GNI has increased to USD 682 in FY2013-14 from USD 642 in FY2012-13 (6.3 per cent). On the other hand, per capita GDP increased to USD 1,115 in FY2013-14 from USD 976 in FY2012-13, i.e.

[1]The estimates of national accounts are prepared upon the new base year of 2005-06. It is however unclear as to whether the targeting of GDP growth considered the new base year.

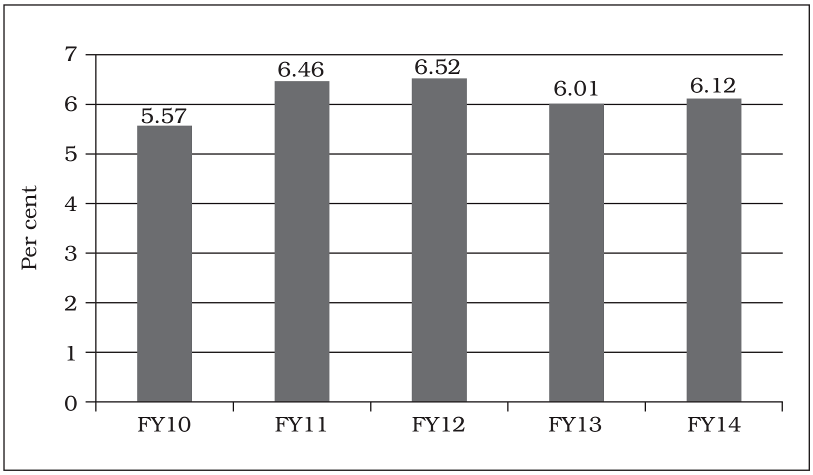


Figure 1.1
GDP Growth Rate

Source: Bangladesh Bureau of Statistics (BBS) data.

USD 139 increase (14.2 per cent growth; 7.6 per cent in real terms). Following the revision and rebasing of national accounting systems which included new economic activities and information, the per capita income of Bangladesh experienced a 13.6 per cent growth in FY2011-12.[2] The new GDP, and hence per capita GNI estimates indeed has increased the likelihood of Bangladesh graduating to a lower-middle income country in near future. The threshold of inclusion as a lower-middle income country was USD 1,036 (calculated following World Bank's Atlas Method[3]) in 2012. As is the case, the threshold for middle-income country status is revised annually. Indeed, over the last ten years (2004-2013), on an average, the threshold has increased by 3.4 per cent every year. Thus, Bangladesh will need to wait for the new estimates of The World Bank (which is released on 1 July of each year) to learn as to where it stands in this regard. However, in all likelihood Bangladesh will become a lower-middle income country in the next few years. In view of this possible scenario Bangladesh will need to prepare itself to face new challenges. One of the major implications of no longer being a low-income country would be that Bangladesh may not be considered for concessional credit lines. It implies that development financing from foreign aid could become costlier for Bangladesh in future. However, it is also conceivable that Bangladesh will still remain a least developed country (LDC) for some years since the thresholds for graduation from the LDC status relate to other specific criteria which include both income and non-income indicators.

According to BBS statistics, industries sector remains a key driver of the estimated economic growth rate for FY2013-14. However, the growth rate of industries sector was estimated to come down from 9.6 per cent in FY2012-13 to 8.4 per cent in FY2013-14 (Table 1.1). Within the industries sector, growth of manufacturing sector is estimated to slip to 8.7 per cent in FY2012-13 which was the lowest since FY2009-10. On the other hand, construction sector is expected to register a growth rate of 8.6 per cent which is the highest in the last five years. At the same time, agriculture sector is projected to achieve a much improved performance with a growth rate of 3.4 per cent which was only 2.5 per cent during the previous year.

The services sector's growth rate of 5.8 per cent in FY2013-14 has been a surprise. Indeed, all the nine sub-sectors under the services sector is expected to attain higher growth in the current fiscal year, compared to last year (Figure 1.2). The growth of education sector is expected to increase by 1.9 percentage points compared to last year. It was anticipated that in view of the political turmoil, the services sector was significantly affected. The BBS estimate has shown an improved performance for all the sectors which were relatively more adversely affected during the political violence, e.g. land transport, wholesale and retail

[2]FY2011-12 is the last fiscal year for which final estimates are available for both accounting systems.

[3]The Atlas Method considers a conversion factor to reduce the impact of exchange rate and inflation rate fluctuations in the cross-country comparison of national incomes. In 2012, according to the Atlas Method, per capita GNI of Bangladesh was USD 840. For details on World Bank's Atlas Method, see: http://data.worldbank.org/about/country-classifications/world-bank-atlas-method

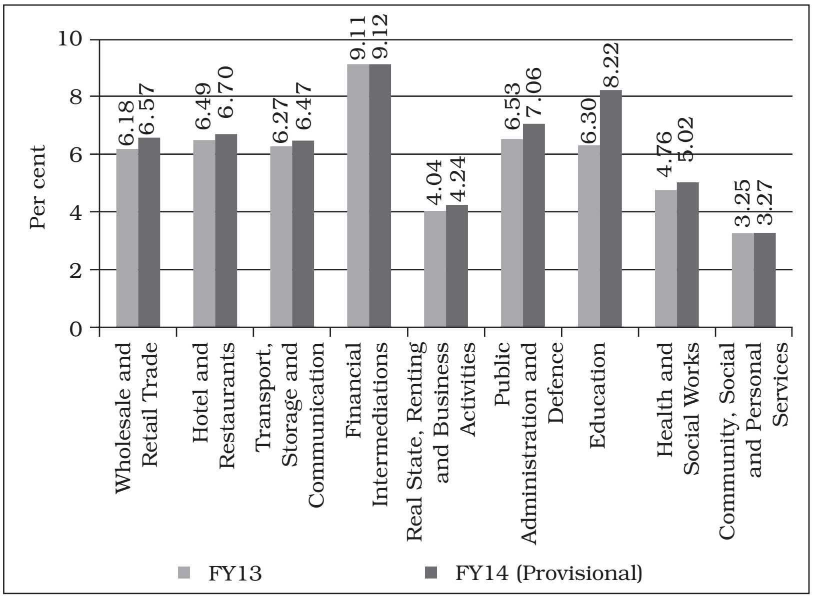
Table 1.1
GDP Growth

(in Per cent)

Sector	FY12	FY13	FY14 (Provisional)
Agriculture	3.0	2.5	3.4
Crop	*1.8*	*0.6*	*1.9*
Industries	9.4	9.6	8.4
Manufacturing	*10.0*	*10.3*	*8.7*
Construction	*8.4*	*8.0*	*8.6*
Services	6.6	5.5	5.8
GDP	**6.5**	**6.0**	**6.1**

Source: Bangladesh Bureau of Statistics (BBS) data.

Figure 1.2
GDP Growth Rates of Sub-Sectors under Services Sector



Source: Bangladesh Bureau of Statistics (BBS) data.

trade, hotel and restaurant, and real estate, renting and business activities. Growth of 'tax-less subsidy' is also expected to attain a higher growth rate of 5.1 per cent which was 3.1 per cent in FY2012-13.[4]

To ascertain the sources of incremental increase in GDP growth rate, a comparative decomposition exercise of the GDP growth rates of FY2012-13 and FY2013-14 was undertaken (Table 1.2). Such a scrutiny reveals that the fall in industries sector's contribution to GDP growth corresponds to the overall increase in the combined contribution of agriculture and services sectors. The 'tax-less subsidy' component, on the other hand, is responsible for some rise, albeit not significant, in GDP growth.

The provisional estimate of GDP for FY2013-14 is expected to be revised at a later the date based on the data for the full fiscal year. As would be recalled, in the last 10 years, final GDP growth estimates were lower than provisional estimates six times (including for FY2012-13, when the figures were 6.18 per cent and 6.01 per cent respectively). Indeed, a number of adjustments will need to be made in finalising the GDP estimate for FY2013-14. The provisional estimate of growth rate for crop sector will need to take into account the production of Boro, the most important crop. It is also likely that estimates of construction and services sectors and 'tax-less subsidy' may require downward adjustments to bring these closer to reality.

[4]The share of 'tax-less subsidy' is about 4.1 per cent in GDP.

Table 1.2
Contribution to Growth

(in Per cent)

Sector	FY13	FY14	Difference (FY13 and FY14)
Agriculture	0.41	0.54	0.13
Industries	2.59	2.33	-0.26
Services	2.88	3.03	0.15
Tax-less Subsidy	0.13	0.21	0.08
GDP	**6.01**	**6.12**	**0.10**

Source: Estimated from the Bangladesh Bureau of Statistics (BBS) data.
Note: The difference between growth rates of FY2012-13 and FY2013-14 appeared 0.10 due to round-off error.

From the expenditure side, private consumption as a share of GDP declined by about (-) 1.5 percentage points (Table 1.3). The provisional figure for GDP for FY2013-14 projects an improved public investment performance with a distinctive fall in private investment's share in the GDP. It is to be noted that the provisional GDP estimate has considered planned public investment figure. As is most likely, development expenditure will fall short of its target which will call for the figure of public expenditure to be adjusted downward. The deficit in external resource balance (export minus import) in FY2013-14 has also seen notable contraction.

Table 1.3
Share of GDP Components by Expenditure Method

(in Per cent)

Industrial Origin Sector	Share		Difference in Share
	FY13	FY14	
Domestic demand	106.4	105.3	-1.1
Consumption	78.0	76.6	-1.4
Private	*72.8*	*71.4*	*-1.5*
General Government	*5.1*	*5.2*	*0.1*
Investment	28.4	28.7	0.3
Private	*21.7*	*21.4*	*-0.4*
Public	*6.6*	*7.3*	*0.7*
Resource balance	-7.2	-5.5	1.7
Exports	*19.5*	*19.8*	*0.2*
Imports	*26.8*	*25.2*	*-1.5*
Gross Domestic Expenditure at Market Price	99.1	99.8	0.7
GDP at Market Price	100.0	100.0	N/A
Statistical Discrepancy	0.9	0.2	-0.7
Gross Domestic Savings	22.0	23.4	1.4
Gross National Savings	30.5	30.5	0.0

Source: Calculated from the Bangladesh Bureau of Statistics (BBS) data.
Note: N/A denotes not applicable.

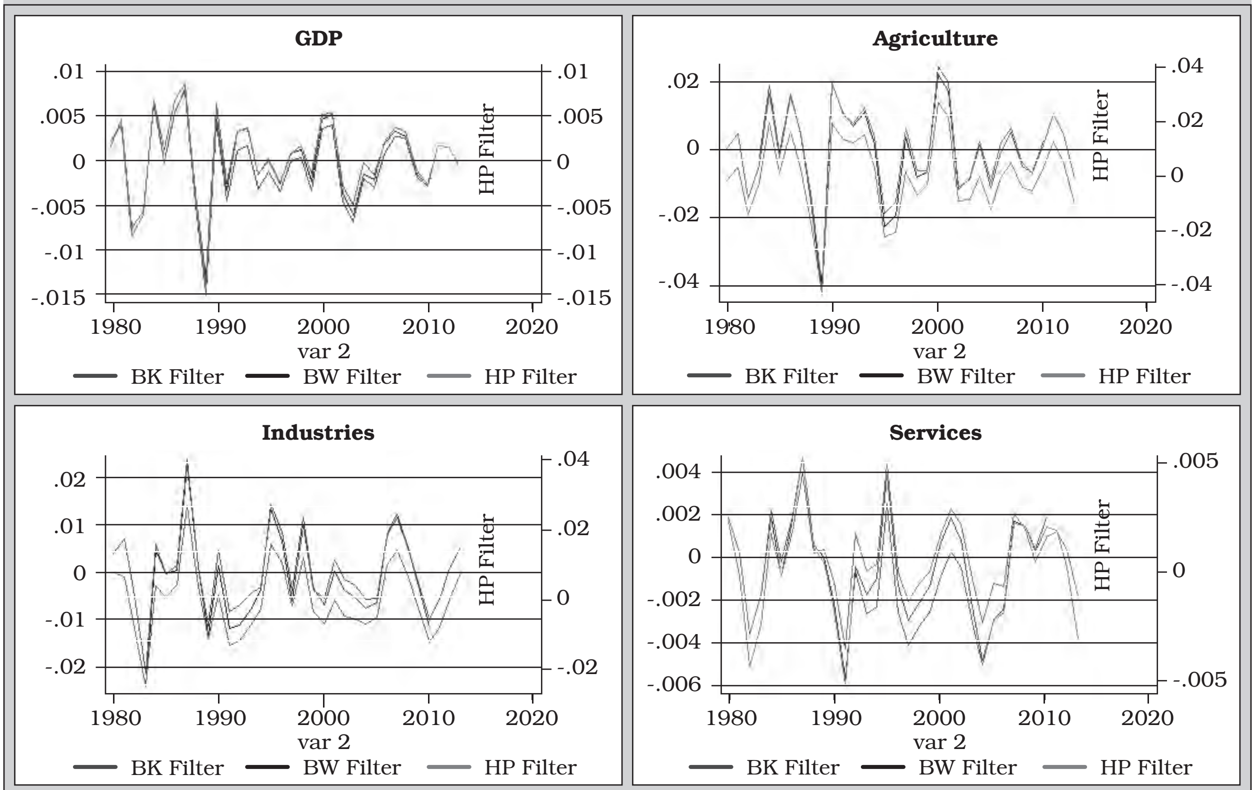
In FY2013-14 domestic savings as a share of GDP experienced a significant increase – from 22 per cent in FY2012-13 to 23.4 per cent, i.e. by 1.4 percentage points. Indeed, the rising trend of domestic savings, as reported by the new GDP estimates, has continued since FY2010-11. What is not immediately evident from the aggregate figure is to what extent this rise in domestic savings is driven by changes in government savings, private corporate savings and household savings. Indeed, as is known, at present the banking sector is flushed with excess liquidity to the tune of Tk. 135,000 crore (end February 2014). At the same time, it is curious to observe that this trend is a quite different one when juxtaposed to the old national accounts estimates. National savings on the other hand has stagnated at 30.5 per cent in the backdrop of the decline in remittance inflows. It is hoped that BBS will come up with satisfying answers to these queries.

An Attempt to Discern the Trend of Bangladeshi GDP

While there is an ongoing conjecture regarding the growth rate of GDP and its components, an attempt to decompose GDP is deliberated as part of the present study. Potential GDP is an unobserved variable, which represents the total GDP that could be produced if all the resources in the economy were fully employed under conditions of stable inflation. The Hodrick-Prescott (HP) high-pass filter has been employed together with the Baxter-King (BK) band-pass filter and the Butterworth (BW) high-pass filter.[5] These techniques used time series data (1980-2013) to decompose total GDP and those of the three major sectors – agriculture, industries and services sectors of a year[6] into its growth (trend) and cyclical components.[7] Output gaps[8] are measured using the HP technique. Figure 1.3 which employed three techniques mentioned above established that the results of the HP filter are robust.

Figure 1.3

Output Gap as Measured by the HP, BK and BW Filters



Source: Calculated by the CPD IRBD Team.

[5] For detailed methodologies of the filters, please refer to Cerra and Saxena (2000), Alter *et al.* (2010), Brouwer (1998), Razzak and Dennis (1999), European Communities (2003), Nguyen (2014) and Bordoloi *et al.* (2009). Multiple methodologies are used to check the robustness.

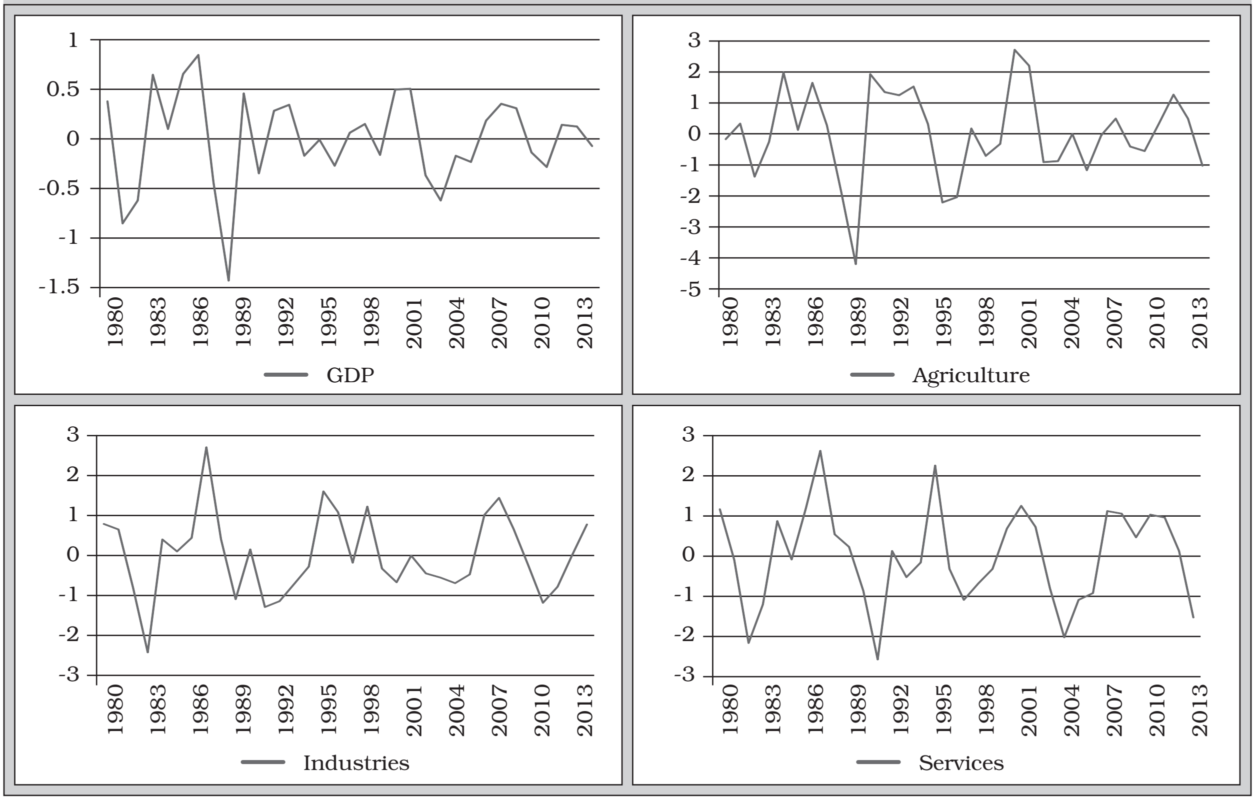
[6] GDP data with 1995-96 base has been used. From FY2013-14 GDP is estimated using base year 2005-06.

[7] The cyclical component is inclusive of the other irregular components.

[8] Output gap represented in terms of percentage change is defined as actual output minus potential output relative to potential output.

Figure 1.4

Output Gap Percentage of GDP Measured by the HP Filter



Source: Calculated by the CPD IRBD Team.

Following HP filter, output gaps (as a percentage of potential value added) of overall GDP and its three major constituents have been estimated for this report (Figure 1.4). From the analysis, a number of observations may be made. *First*, it is observed that GDP has had breakthrough in each of the past three decades. At the same time, volatility was reduced by a significant margin. GDP remained below the potential level in FY2008-09 and FY2009-10, which could be attributed to the global financial crisis. Actual GDP performance went below its potential ((-) 0.07 per cent) in FY2012-13, which can be attributed to the political turmoil. *Second*, as regards value added in agriculture sector, output gap remained negative (realised output being less than potential output) for the majority of the fiscal years during the last decade. In FY2012-13, the output gap was (-) 1.02 per cent of the potential GDP in the agriculture sector. *Third*, in contrast to the agriculture sector, value added from the industries sector experienced lower troughs but higher peaks during the course of the last decade, which helped the sector to move to a higher growth trajectory. For instance, industries sector's actual output remained 0.78 per cent higher than its potential in FY2012-13. *Fourth*, changes in output gap in services have been the most volatile. The services sector performed above potential between FY2006-07 and FY2011-12. However, the potential output of the services sector remained (-) 0.31 per cent lower compared to the potential GDP from this sector.

From the above-reported decomposition exercise, it can be inferred that the Bangladeshi GDP could not elevate to a higher potential during the early years of this decade (2010s). World Bank (2012) indicated that enhancing labour productivity was the key to reach a higher growth trajectory. To attain this, it was critically important to go for capital deepening, and higher total factor productivity by way of skills development and capital and labour productivity enhancement. Following the 'Growth Diagnostics Framework', Rahman and Yusuf (2010) concluded that for Bangladesh, "low levels of human capital, poor infrastructure, market failures relating to some key industries, missed opportunities in international trade, corruption and cumbersome regulations" are impeding economic growth prospect of the country. The study pointed to the need for addressing infrastructure bottlenecks, market and product diversification, and regulatory reforms as urgent priorities facing the policymakers over the short to medium terms.

1.2.2 Public Finance

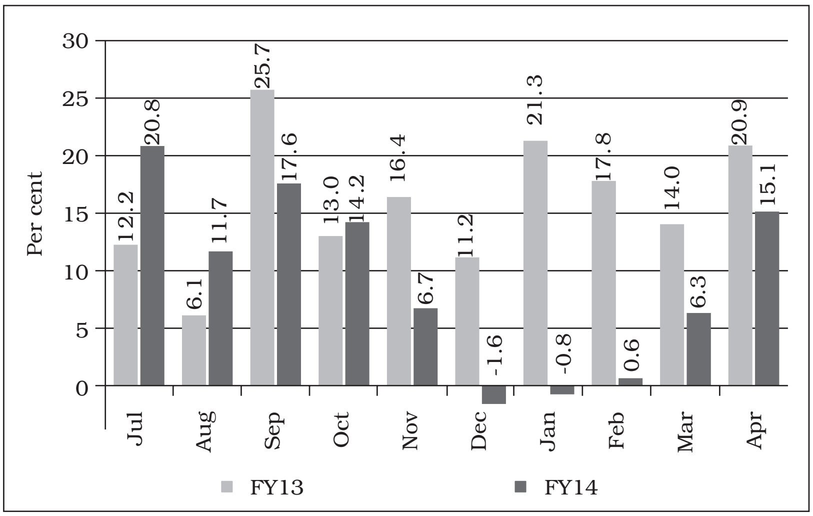
Revenue Earnings

Having been able to surpass budgetary targets for three years in a row, the National Board of Revenue (NBR) faced a revenue shortfall in FY2012-13 when compared to the target set out in the Budget. Revenue collection by the NBR continued to struggle for the second consecutive year in FY2013-14. During the first ten months of FY2013-14, NBR attained 9.2 per cent growth over the same period of FY2012-13 against the annual target of 25.3 per cent. As a result, NBR targets have been revised downward for the first time since FY2008-09 (by Tk. 11,090 crore). To achieve the revised annual target of 15.1 per cent growth, NBR collection will need to grow at 34.4 per cent in the last two months of FY2013-14. This will be difficult.

One may note the following trends in the revenue collection effort demonstrated by NBR in FY2013-14. *First*, revenue collection by NBR experienced relatively low growth since November 2013; the poorest trend observed in the last five years. *Second*, for two consecutive months, in December 2013 and January 2014, revenue mobilisation by NBR failed to attain positive growth figures ((-) 1.6 per cent and (-) 0.8 per cent respectively) on month-on-month basis (Figure 1.5). However, collection has gained some momentum in the last two months for which data is available. In March and April of FY2013-14 NBR revenue collection registered 6.3 per cent and 15.1 per cent growth respectively compared to corresponding figures for FY2012-13. *Third*, tax collection at import stage struggled to generate revenue in the first half of FY2013-14 in the backdrop of sluggish import trends. *Fourth*, while chasing the ambitious targets set by the Budget, both direct and indirect tax collection at domestic level lost momentum in the middle of FY2013-14 when business activities as well as revenue collection mechanism were significantly undermined due to violent political activities.[9]

Figure 1.5

Month-on-Month Growth of NBR Revenue Collection



Source: Estimated from the National Board of Revenue (NBR) data.

[9]Indirect taxes from local level sources registered 13.5 per cent growth in the first ten months of FY2013-14 against a revised target of 19.7 per cent. Collection of direct taxes increased by 12.2 per cent during this period over the matched period of previous fiscal year. The annual growth target for direct tax was 21.9 per cent.

Efforts from non-NBR and non-tax sources have also lagged behind the target growth in FY2013-14. During the first three quarters of FY2013-14, non-NBR tax sources attained 8 per cent growth against the annual target of 24.5 per cent. Non-tax revenue sources registered a 10.6 per cent growth (July-March, FY2013-14) when compared to the annual target of 26.9 per cent.

NBR's revenue collection faced a shortfall of Tk. 8,000 crore (after three quarters of FY2013-14) against the lower revised target. At the same time the lower growth incurred by 'other than NBR' sources also signal a shortfall. In view of the present context, one may recall that CPD in its early review in October 2013 suggested that, it was critically important to readjust the fiscal parameters; CPD also highlighted the urgent need to maintain fiscal discipline in FY2013-14 (CPD 2014b). Indeed, FY2013-14 may be the first year in the last five years when tax-GDP ratio will decline compared to the previous fiscal year.

In response to the emerging scenario of the likely shortfall, the tax-revenue authority expressed its intention to boost tax collection in the remaining months of FY2013-14. The drive focused on collection of unpaid taxes by targeting tax-dodgers, and through resolution of pending tax-related disputes in a speedy manner. Higher duty earnings from restored import payments in recent months also somewhat boosted tax collection by NBR. In spite of these measures, one may still expect a shortfall of about Tk. 4,000-5,000 crore from the revised target for the NBR.

Public Expenditure

According to data available for the first three quarters of FY2013-14, public expenditure (including both development and non-development expenditures) recorded 18.8 per cent growth, while the annual target was set to increase by 28.4 per cent. The sluggish growth was attributed mainly by low implementation of the Annual Development Programme (ADP) and limited subsidy requirements. A detailed analysis of public sector expenditure is presented in Section 1.3.

Net non-development revenue expenditure[10] in the first three quarters of FY2013-14 increased by 10.1 per cent, while the annual target was set at 15.1 per cent (Figure 1.6). Domestic interest payments accounted for a significant incremental share (about 24.4 per cent) in this growth. Expenditure under 'Pay and

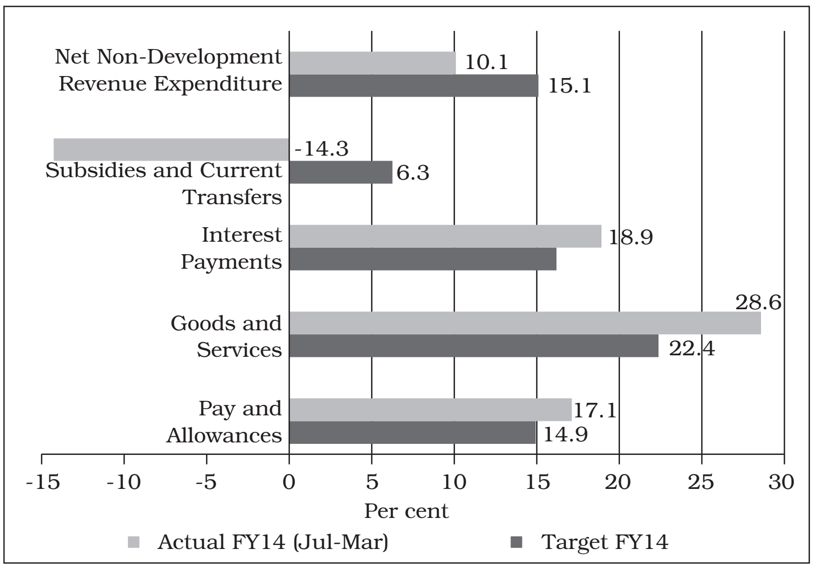


Figure 1.6

Growth of Net Non-Development Revenue Expenditure

Source: Calculated from the Ministry of Finance (MoF) data.

[10]Net non-development revenue expenditure takes into account all public expenditures except capital expenditure, development expenditure financed from non-development budget, ADP programme, loan and advances, and net food account operations. Net non-development revenue expenditure has an annual target spending worth Tk. 113,470 crore in FY2013-14.

Allowances' and 'Goods and Services' accounts also experienced higher than envisaged growth during the above mentioned period. However, high negative growth for 'Subsidies and Current Transfer'[11] head (by (-) 14.3 per cent) compared to the corresponding period of FY2012-13 kept the overall non-development expenditure growth in check. Besides net non-development expenditure, disbursement of Tk. 4,168 crore for recapitalisation of the state-owned commercial banks (SCBs) constituted a major expenditure item.

Progress as regards implementation of ADP was rather slow in FY2013-14. About 49.8 per cent ADP allocation was spent during the July-April period of FY2013-14, while the matched figure for FY2012-13 was 56.3 per cent. In nominal terms, only Tk. 1,838 crore additional ADP has been utilised during the mentioned period of FY2013-14 against the corresponding months of previous fiscal. No major breakthrough could be achieved in this regard which resulted in both the local (GoB [Government of Bangladesh] component) and project aid (PA) components of ADP remaining underutilised.[12]

As a result the ADP has been slashed by 8.9 percentage points (or Tk. 5,872 crore) to Tk. 60,000 crore. An amount of about Tk. 4,500 crore was reduced from the allocation reserved for Padma Multipurpose Bridge Project (PMBP) in FY2013-14. However, the Revised ADP (RADP) has included about 200 new projects.

Budget Deficit and its Financing

At the end of the first three quarters of FY2013-14, amount of deficit remained at only 1.4 per cent of planned GDP.[13] About 30.3 per cent of overall deficit (excluding grants) planned for FY2013-14 was incurred in this period (the target budget deficit was 4.4 per cent of GDP). The margin of deficit was large compared to the same period of FY2012-13 (Table 1.4).[14] The surge was evident in the backdrop of falling revenue

Table 1.4

Fiscal Framework during FY2012-13 and FY2013-14 (July-March)

Description	FY13 (B)	FY14 (B)	Implementation Rate as % of Budget	
	Crore Tk.		Up to FY13 (Mar)	Up to FY14 (Mar)
Revenue Collection	139,670	167,459	65.6	58.8
Total Expenditure	191,731	222,491	50.6	51.8
ADP	*55,000*	*65,870*	*36.3*	*37.6*
Non-ADP	*136,731*	*156,621*	*56.3*	*57.7*
Overall Deficit (excl. Grants):	***-52,061***	***-55,032***	***10.2***	***30.3***
Foreign Grants	6,044	6,670	15.1	12.0
Foreign Borrowing (Net)	12,541	14,398	2.6	4.2
Foreign Loan	*20,398*	*23,729*	*33.3*	*32.1*
Amortisation	*-7,858*	*-9,331*	*82.4*	*75.0*
Domestic Borrowing	33,484	33,964	11.9	44.8
Bank Borrowing (Net)	*23,000*	*25,993*	*46.8*	*50.9*
Non-Bank Borrowing (Net)	*10,484*	*7,971*	*-64.7*	*25.1*
National Savings Schemes (Net)	*7,400*	*4,971*	*9.9*	*150.8*
Others	*3,084*	*3,000*	*-243.8*	*-183.4*
Total Financing	***52,069***	***55,032***	***10.0***	***30.2***

Source: Estimated from the Ministry of Finance (MoF) data.

[11]'Subsidies and Current Transfer' head does not capture whole subsidy requirements of the government.
[12]In July-April period of FY2013-14 spending under GoB and PA components were 50.3 per cent and 48.9 per cent respectively.
[13]Indeed, annual budget deficit did not reach the threshold of 5 per cent (of GDP) since FY2007-08.
[14]Budget deficit during the first nine months of FY2013-14 remained at Tk. 16,648 crore while the amount was only Tk. 5,330 crore during the same period of FY2012-13.

performance in FY2013-14. According to the Ministry of Finance (MoF) data, revenue mobilisation as share of annual target fell by 6.8 percentage points[15] compared to the matched figures of FY2012-13. However, expenditure structure envisaged in the budget remained almost unchanged in line with previous year's trend.[16] Overall, the size of the budget deficit in FY2013-14 was likely to be within the budgetary target.

As regards financing of the budget deficit, the utilisation of foreign finances (in terms of both foreign grants and foreign net borrowing[17]) was offset by robust earnings from sale of National Savings Bonds (NSD). Indeed, during first nine months of FY2013-14, 91.6 per cent of the total deficit was financed from domestic sources. Net sale of NSD certificates already surpassed the budget target by a significant margin (1.5 times higher net sale was reported when compared to the annual budget target). As a result, on the one hand, government borrowing from banking sources remained within the limit (only 50.9 per cent of planned target amount was borrowed), while on the other hand, the government managed to repay its short-term loans under 'other non-bank sources' (non-bank borrowing sources other than National Savings Schemes).

'Within-limit' budget deficit was envisaged in the backdrop of subdued subsidy requirements for FY2013-14. As has been mentioned, ADP implementation also experienced a setback in FY2013-14. Government has already made downward adjustment to the ADP allocation, full utilisation of which is also unlikely. On the other hand, NBR had slashed its revenue targets. Under the not-so-encouraging investment scenario, the demand for private sector credit remained lacklustre. In view of this emerging scenario, borrowing from bank sources should not be a major challenge for the government as FY2013-14 moves towards the finishing line. In view of interest payments emerging as one of the major sources of non-development expenditures, it will be advisable to keep the high cost domestic borrowing within the manageable limit.

1.2.3 Monetary Sector

Inflation

Annual food inflation posted a rise since February 2013 while non-food inflation has commenced to decline (Figure 1.7). Both these trends were linked very closely to the political turmoil experienced in the first half of FY2013-14. The food supply chain was severely disrupted due to nation-wide and regional strikes (*hartals*) and blockades. At the same time non-food inflation declined in the face of lower domestic demand. Additionally, exchange rate of Taka was stable; growth of broad money supply declined in this period. Annual average non-food inflation declined sharply to 5.9 per cent in April 2014 (from 9.2 per cent in June 2013). In contrast, food inflation increased to 8.5 per cent (from 5.5 per cent in June 2013). The rising trend of food inflation in recent months is largely explained by the higher rice price at the retail level. Indeed, during the ongoing harvest season of Boro, rice prices at retail level were found to be significantly higher than those similar periods in the previous year.[18] Nonetheless, inflation appears to have stabilised at about 7.5 per cent. In spite of the declining trend, reining-in average annual inflation rate to between 6.0-6.5 per cent in FY2013-14 was likely to remain an unattained target. On the other hand, the Central Bank should not be too preoccupied with containing inflation through demand side management. Rather, the task is to search for ways to stimulate investment demand.

A decomposition of inflation figures for June 2013 and April 2014 reveals that, of the 6.8 per cent inflation in June 2013, 3.3 per cent originated in rise in food prices, while the rest 3.5 per cent came from non-

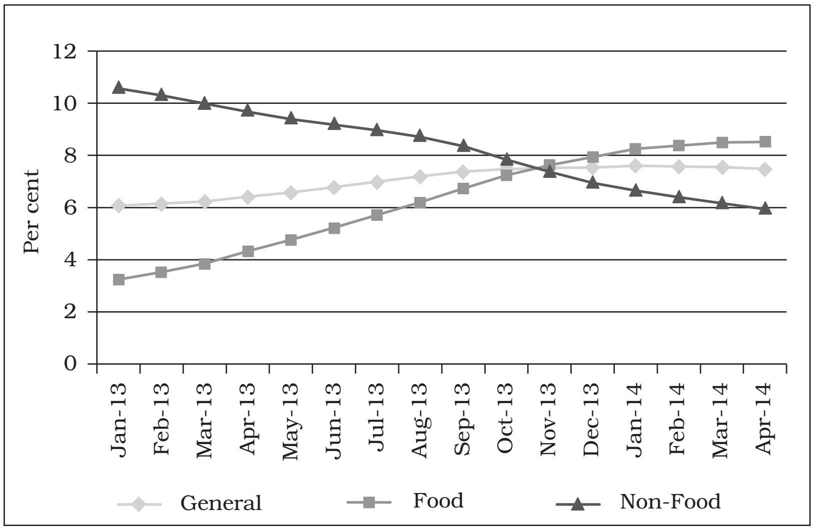
[15]About 58.8 per cent of budgetary target as regards revenue mobilisation was met during the first three quarters.

[16]Total expenditure hovers around half way mark of the planned expenditure after nine months with similar ADP and non-ADP budget implementation structure of FY2012-13.

[17]12 per cent of planned foreign grants and 4.2 per cent of planned net foreign borrowing were utilised during the first nine months of FY2013-14.

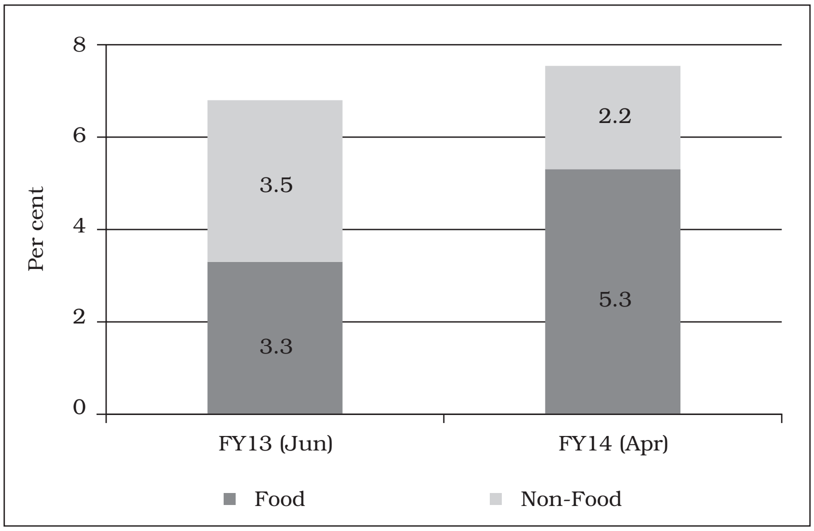
[18]According to the data from Trading Corporation of Bangladesh (TCB), on 26 May, retail prices of rice were about 8-17 per cent higher compared to the same for the previous year. Curiously, rice price at the international market at present is lower than last year.

Figure 1.7
Annual Average Inflation Rate



Source: Estimated from the Bangladesh Bureau of Statistics (BBS) data.

Figure 1.8
Sources of Annual Average Inflation



Source: Estimated from the Bangladesh Bureau of Statistics (BBS) data.

food inflation (Figure 1.8). Of the 7.5 per cent inflation in April 2014, 5.3 per cent was contributed by food inflation and 2.2 per cent was account for by non-food inflation. Hence, contribution of food commodity prices (about 2 percentage points) was higher than the incremental inflation between the two periods (by 1.2 percentage points).

Monetary Aggregates

Growth of money supply at the end of March 2014 (15.3 per cent) remained below the target of 17 per cent for the end of June 2014 (Table 1.5). Indeed, much of this growth is explained by the high growth of net foreign assets which stood at 36.1 per cent as of March 2014. In contrast, growth rates of domestic credit remained at subdued level. Domestic credit was only 11.3 per cent as of March 2014; the target for this was 17.8 per cent for end of June 2014. Growth of government bank borrowing was 16.4 per cent at the end of March 2014 as a result of the lower demand.

The growth of private sector credit was at 11.5 per cent at end of March FY2013-14; this was 10.8 per cent at the end of June FY2012-13 (Figure 1.9). However, private sector credit growth remained well

Table 1.5
Growth of Monetary Indicators

(in Per cent)

Indicator	Target FY13	2013 (Jun)	Target FY14	2014 (Mar)
Broad Money	17.7	16.7	17.0	15.3
Net Foreign Assets	14.0	43.9	10.0	36.1
Domestic Credit	18.9	11.0	17.8	11.3
Credit to Public Sector	20.3	11.7	22.9	10.8
Net Credit to the Govt. Sector	*N/A*	*20.1*	*N/A*	*16.4*
Credit to the Other Public Sectors	*N/A*	*-38.4*	*N/A*	*-21.9*
Credit to the Private Sector	18.5	10.8	16.5	11.5

Source: Bangladesh Bank data from Monthly Economic Trends, May 2014 and Monetary Policy Statement (MPS).

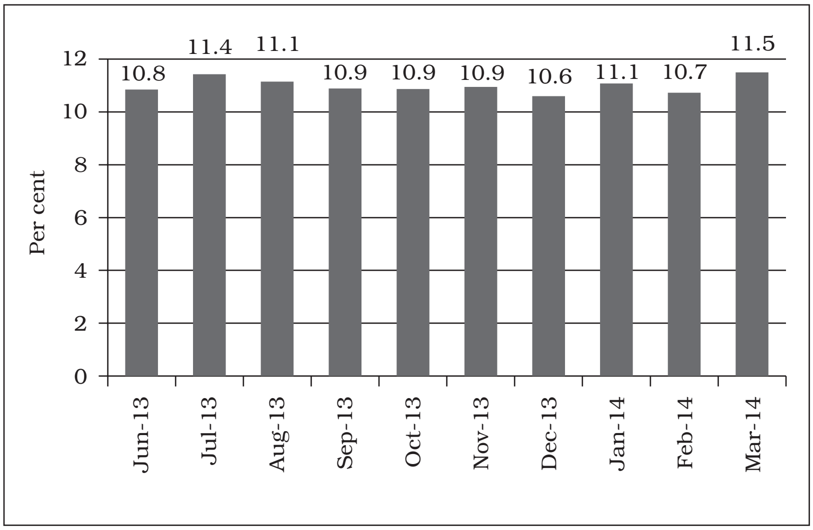


Figure 1.9
Private Sector Credit Growth

Source: Estimated from the Bangladesh Bank data.

below the FY2013-14 target of 16.5 per cent. The figure for end-March is the highest since end-April FY2012-13 when private sector credit registered a growth of 12.7 per cent. The trends in the data on credit to private sector suggest that possibility of any significant turnaround in credit uptake and investment is somewhat uncertain in the near term future. Indeed, the lack of credit demand for new investment is also demonstrated by the lower disbursement of industrial term loan. During the first half of the fiscal year, term loan disbursement declined by (-) 1.8 per cent. Lack of demand for private sector credit also resulted in significant excess liquidity in the banking system. At the end of February 2014, excess liquidity in the banking system reached to Tk. 135.4 thousand crore. Much of these liquid assets are kept in the form of low interest bearing 'unencumbered approved securities'. Indeed, in recent months the auction of government bills has experienced significant oversubscription.

Monetary Policy Stance

Whilst inflation has been somewhat tamed, pick up in the investment demand is yet to be seen. A number of long standing issues also remain unresolved. *First*, despite having a low appetite for credit and availability of significant amount of excess liquidity with the banking system, interest spread has continued to remain high at 5.1 percentage points (in February 2014, which was the same in June 2013). Government has allowed the private sector to go for significant amounts of commercial borrowing from foreign sources (CPD 2014a). Higher lending rate in the domestic financial market was an important consideration in this regard.

It was also felt that this would infuse more competition in the domestic financial market. At the same time nine commercial banks have come into operation. However, these developments did not have favourable impact on the interest rate spread. Whilst private sector borrowing from foreign sources was not bad per se, at a time of high excess liquidity in the banking system and high forex reserves, the rationale of this policy may need to be revisited. CPD has earlier suggested that private sector's commercial lending from overseas should be allowed on a limited scale and to foreign exchange earning industries only (CPD 2014a). In this context, possible currency and maturity mismatches need to be considered. The risk of possible illicit financial outflow also needs to be assessed.[19]

Second, as is known, the large amount of classified loans is hurting the banking system. In view of the loss of business emerging from political violence in the first half of FY2013-14, the Central Bank allowed relaxation of loan provisioning for six months. As a result, share of classified loan to total outstanding loan had declined from 12.8 per cent as of September 2013 to 8.9 per cent at the end of December FY2013-14. One may recall that, in October 2012 a new loan provisioning guideline was issued following the implementation plan of Basel III. Share of classified loan to total outstanding loan registered another rise at the end of March FY2013-14 when it increased to 10.5 per cent. High level of classified loan was also a major reason behind the persistently high interest rate spread. Following the Hall-Mark Group scam, and the more recent Basic Bank scam, state of governance in the banking sector has once again been put under scrutiny. One may recall that weak governance in the banking sector, particularly in managing the state-owned commercial and specialised banks, has cost about Tk. 4,100 crore of taxpayers' money in FY2013-14 in the form of recapitalisation of state-owned banks. It is also reported in the media that an additional Tk. 6,000 crore has been sought for the same purpose. One should not forget that this type of measures have important trade-off effect particularly in the context of unmet resource availability for social sectors and social safety net programmes (SSNPs) for which share of resources has been on decline in recent years (for details, see Chapter 2).

Third, the Central Bank has rightly maintained the stability of exchange rate of Bangladeshi Taka (BDT) against the United States Dollar (USD) by augmenting foreign exchange reserves. Throughout FY2013-14, through a number of measures[20], the Central Bank introduced a more liberal foreign exchange policy. However, with mega projects such as the PMBP to be implemented in the coming days, the Central Bank will need to examine the likely pressure on foreign exchange carefully to maintain the exchange rate stability.

Fourth, on 31 March 2014, the Central Bank issued a circular with regard to implementation of Basel III. The action plan/roadmap of Bangladesh Bank envisaged that following the issuance of the detailed guideline in June 2014, a capacity building programme will be undertaken for commercial banks during June-December 2014. Commencement of Basel III implementation process will take place from July 2014 whilst full implementation is expected to be completed by January 2019. During this process, the commercial banks will have to raise their Capital Conservation Buffer, Minimum Common Equity Tier-1 (CET-1) Capital Ratio, and Minimum T-1 Capital Ratio. The implications of Basel III requirements will be significant, and the Central Bank will need to put in place the appropriate measures in view of this.

1.2.4 External Sector

Export Earnings

Export earning is one of the few macroeconomic correlates where actual performance was on target as envisaged for FY2013-14. Export earnings registered 13.2 per cent growth during July-April of

[19]According to the estimates of Global Financial Integrity, on an average, annual illicit financial outflow from Bangladesh over the past 10 years was to the tune of USD 1.4 billion (Kar and LeBlanc 2013). Moreover, the trend of illicit financial outflow was on the rise.

[20]Including release of foreign exchange for private travel abroad, release of foreign exchange on account of transit expenses to students proceeding abroad for study, foreign exchange quota for exporters, importers and producers for the local market while traveling abroad, etc.

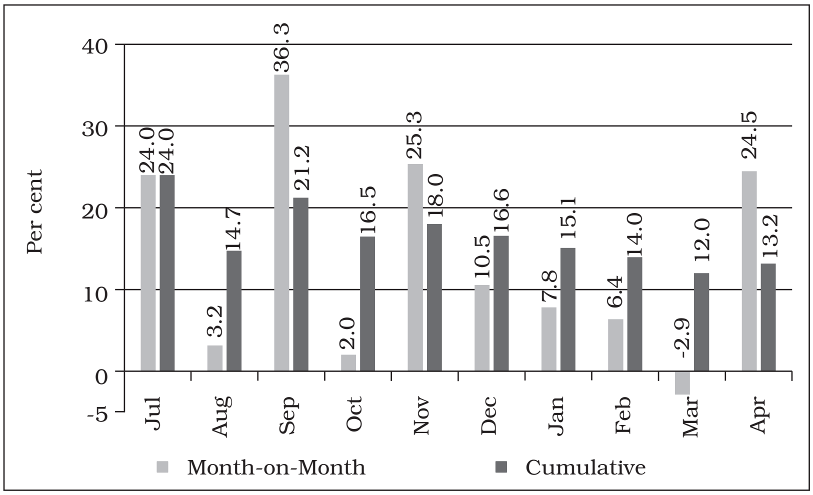


Figure 1.10

Month-on-Month and Cumulative Growth of Export Earnings in FY2013-14

Source: Calculated from the Export Promotion Bureau (EPB) data.

FY2013-14 over corresponding months of previous fiscal against the annual growth target of 12.9 per cent (Figure 1.10). Export sector dynamics of FY2013-14 will be explored in more detail in Section 1.6. However, the following trends are important to note. *First*, export growth experienced considerable volatility in FY2013-14 particularly in the early months of 2014. After relatively weak performance in the third quarter of FY2013-14, export earnings bounced back again in April 2014 with a spectacular growth of 24.5 per cent (Figure 1.10). This recovery has indeed helped keep export outlook for FY2013-14 more optimistic. *Second*, readymade garments (RMG) exports led the overall export growth as the share of RMG products (HS 61 and 62) increased to 81 per cent during July-April of FY2013-14 from 79.5 per cent during the same period of FY2012-13. *Third*, among the two major traditional markets of the United States (US) and the European Union (EU), accelerated growth of RMG products in the early months (particularly in the first quarter) was sustained in the EU market to reach 18.6 per cent during the July-April FY2013-14 period. However, non-RMG exports have gradually slowed down in the EU. In case of the US market, early robust performance of RMG exports in FY2013-14 did not sustain. Exports of RMG products in the US market increased by 18 per cent and 8.4 per cent during the first and second quarters respectively over the corresponding periods of FY2012-13. However, during the January-April period of FY2013-14, exports declined by (-) 5.6 per cent. Particularly, export of woven garments experienced significant setback in the US market (3.6 per cent).[21] *Fourth*, growth in major non-traditional markets[22] (19.6 per cent) continued to be higher compared to traditional market[23] (13.9 per cent); this augurs good in terms of enhanced market diversification. However, RMG-led growth was also evident in both market groups mentioned above. Indeed, RMG export growth in the above mentioned non-traditional markets remained resilient (26.8 per cent), although the growth rate somewhat declined during January-April, FY2013-14 (13 per cent).[24]

Import Payments

Import growth was sluggish in the early months of FY2013-14, with growth reaching (-) 0.1 per cent during the first six months. In the second half import growth started to move into positive terrain, and in July-February of FY2013-14 import (recorded by Customs and reported by Bangladesh Bank) registered 6.2 per cent growth over corresponding months of FY2012-13. In March FY2013-14, the situation changed

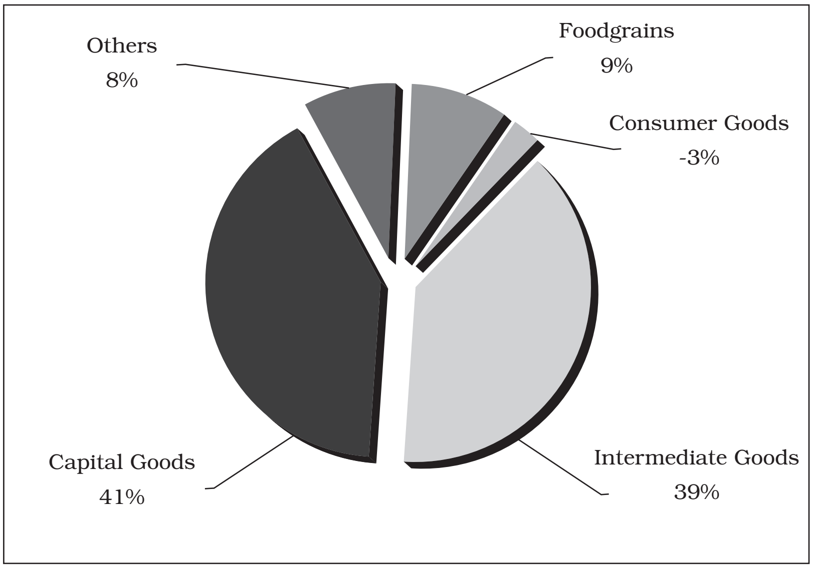
[21]Indeed, woven exports in the US market declined by (-) 8 per cent during January-April, FY2013-14. The growth figure was 12.8 per cent for the first half.

[22]Includes Australia, Brazil, Chile, China, India, Japan, South Korea, Mexico, Russia, South Africa and Turkey; these countries contribute about 15 per cent of overall export of Bangladesh.

[23]Includes the US, Canada and EU (27) countries. Traditional and emerging non-traditional markets in 11 countries mentioned above, cover more than 90 per cent export.

[24]RMG export growth to Indian, Japanese and Turkish markets fell by a significant margin.

Figure 1.11
Incremental Contribution to Import Growth during FY2013-14 (July-March)



Source: Estimated from the Bangladesh Bank data.

drastically, and import shipment figures recorded a historically high of 54.5 per cent growth in a single month which pushed the import growth figure to 11.1 per cent in the first nine months of FY2013-14.[25] It is seen that the higher import of intermediate goods and capital goods significantly contributed to this growth (39 per cent and 41 per cent respectively) (Figure 1.11). Capital machinery import was USD 731 million in a single month of March 2014, which was five times higher than the amount of import in March of FY2012-13.

To investigate the sources of the recent rise in import at a more disaggregated level, CPD examined the detailed import shipment data for the July-March period. It was identified that 17 import items (at HS 8 digit level)[26] accounted for about 40 per cent of total import and 93.5 per cent of incremental growth during July-March of FY2013-14.[27] More precisely, three of the items which include tanks, casks, drums, cans, made of steel or iron (50-300 litre), different types of cranes and aeroplanes and other aircrafts (unladen weight =<2000kg) (i.e. HS code 73101000, 84261900, 88022000 respectively), contributed about 73.4 per cent of the incremental growth in imports during the aforementioned period.[28] Data received from the Bangladesh Bank shows that these crane items were imported from France in the month of March 2014, which amounted for about USD 433 million. Import of such a large amount of cranes in a single month warrants a double check. Such exception pattern of import figures will call for appropriate scrutiny on the part of the NBR. It is perhaps worth mentioning that customs duty on crane product was only 2 per cent; on aeroplanes and other aircrafts it was zero.

Remittances

Remittances experienced negative growth of (-) 4.8 per cent during the first ten months of FY2013-14. Decline in overall remittance inflow was underwritten by a fall in remittances originating from the major sources. Indeed, remittance inflow from six major Middle East countries[29], which accounted for about two-thirds of

[25]On the other hand, import payments statistics of Bangladesh Bank showed 17.5 per cent growth during the same period.

[26]These items had at least USD 200 million worth import during the aforementioned period. Details of the 17 items are provided in the Annex Table 1.1.

[27]These estimates are based on data received from the NBR. It is to be noted that import data of NBR excludes bond, baggage and back-to-back imports.

[28]Combined share of these three products in total import during July-March of FY2013-14 was 5.5 per cent.

[29]The major Middle East markets for Bangladeshi workers include Saudi Arab, United Arab Emirates (UAE), Kuwait, Qatar, Oman and Bahrain.

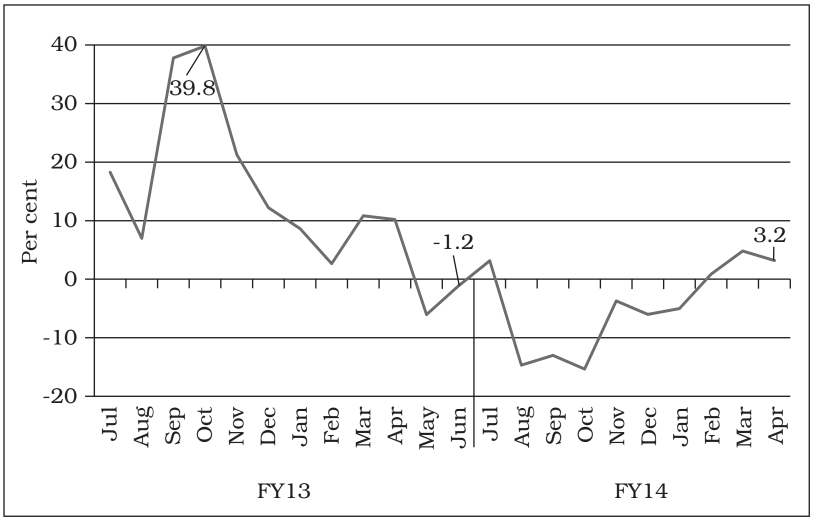


Figure 1.12

Month-on-Month Growth of Remittances in FY2012-13 and FY2013-14

Source: Estimated from the Bangladesh Bank data.

total remittance inflow, declined by 16.2 per cent compared to the previous year. For the six consecutive months between August-January of FY2013-14, the (month-on-month) growth rate remained in the negative terrain (Figure 1.12). Sustained growth of remittances inflow has been a life-line for Bangladesh over the last several years, particularly from the perspectives of maintaining stability of the balance of payments (BOP) position. It is possibly right that the current fall in inflow of remittances will not put the comfortable situation of BOP in any risk; however, it has a number of other important implications. *First*, a decline in remittances implies a lower domestic demand, particularly in rural Bangladesh. It may be also recalled that remittances from abroad has had a significant role in the poverty reduction of Bangladesh during the past decade (2000-2010). Indeed, during July-April period of FY2013-14, the decline in remittances inflow was higher in Taka terms ((-) 7.9 per cent) than in USD terms ((-) 4.8 per cent). *Second*, high growth of remittances helped the per capita GNI to grow faster than that of per capita GDP.[30] As has been mentioned above, with a decline in remittances inflow, it will take Bangladesh longer to reach its development goals.

The fall in the remittance figure is partly explained by the decline in manpower export.[31] One may recall that outflow of migrant workers from Bangladesh in FY2012-13 declined by (-) 36.2 per cent. This trend continued in FY2013-14. During the first ten months of FY2013-14, outflow of migrant workers from Bangladesh declined by (-) 10.5 per cent. As a matter of fact, every month (on an average) about 57.6 thousand people went abroad for work during FY2011-12. This figure came down to 36.8 thousand in FY2012-13, and 33.4 thousand during the first ten months of FY2013-14. This would imply that more than 20 thousand additional labour force in Bangladesh are having to search for jobs now within the domestic economy compared to what the scenario was couple of years ago. Whether the stable exchange rate, with some fall in take earnings, has discouraged flow of remittances through formal channels, is something which may need to be closely examined.

Balance of Payments (BOP)

Balance of payments in July-March FY2013-14 experienced favourable situation because of sustained export performance. This has helped offset the decline in remittance inflow. Slower growth of imports also

[30]Skill upgradation of the migrant workers is one of the key determinants in this regards. A survey by the International Organization for Migration (IOM) found that annual remittance per migrant worker was only USD 1,672 for Bangladesh, whilst the figures for India, China and Philippines were USD 4,843, USD 6,112 and USD 4,982 respectively (IOM 2010).

[31]It is also argued that due to somewhat appreciation of Taka against major currencies, the remitters found sending money through informal channels such as *hundi* more profitable. Due to the costs associated with renewals of work permits in a number of countries including Saudi Arab, the remitters could manage save a lower amount of their income.

contributed to good BOP position and maintenance of healthy current account surplus. Current account balance was USD 1,517 million during July-March of FY2013-14. However, this was higher at USD 2,606 million for the corresponding months of FY2012-13. Overall, BOP enjoyed a surplus balance of USD 3,885 million in July-March FY2013-14; this was USD 3,948 million for the corresponding periods of FY2012-13.[32] The large surplus in BOP pushed the foreign exchange reserve to newer heights. Foreign exchange reserve on 27 May 2014 was USD 20.2 billion, which was USD 15.3 billion at the end of FY2012-13. The Central Bank rightly maintained the stability of exchange rate of BDT against USD by augmenting foreign exchange reserves. The outlook of external balance suggests that the recent pick-up of import payments may be maintained during the remaining months of FY2013-14. The present trends in remittance inflow, foreign aid disbursement and foreign direct investment (FDI) are likely to be maintained. Under such a scenario, the Central Bank should continue its current policy stance of keeping exchange rate stable and allow foreign exchange reserves to adjust accordingly.

The macroeconomic performance of Bangladesh in FY2013-14 was largely impacted by the prolonged and violent political impasse during the first half of FY2013-14. The aforesaid analyses and scenarios as regards Bangladesh's recent macroeconomic developments reflect a mixed signal. The economic growth in FY2013-14, as provisionally estimated by BBS, exceeded all expectations despite the private sector investment declining as a share of GDP for the second consecutive year. On a welcome note, it was observed that a number of other macroeconomic correlates including export earnings and BOP were able to maintain past resilience. Indeed, some of the correlates including import payments have started to demonstrate signs of recovery. At the same time, performance of a number of macroeconomic indicators continued to remain unfavourable including high level of food inflation, lower utilisation of ADP allocation, declining remittance inflow and low intake of foreign aid. Although macroeconomic stability has been largely maintained, economic growth was yet to regain the lost momentum as the economy approached the finishing line of the ongoing FY2013-14.

1.3 PUBLIC EXPENDITURE: ISSUES AND CONCERNS

Public expenditure in Bangladesh has increased significantly over the last five years. This rise in expenditure can be analysed from a number of perspectives including allocative efficiency, its nature and extent of maintaining aggregate fiscal prioritisation in resource allocation and achievement of the intended outcomes. This section will highlight public expenditure management from three broad aspects of efficiency angle: a) aggregate fiscal discipline; b) resource allocation based on strategic priorities; and c) efficiency of operational performance.

1.3.1 Total Expenditure: Aggregate Efficiency

Public expenditure has registered considerable growth during FY2007-08 and FY2012-13 both in nominal and constant terms – about 91 per cent and 36 per cent respectively (Table 1.6).[33] This accounts for a rise in expenditure-GDP ratio by one percentage point.[34] During FY2013-14, total expenditure has further increased (during July-March, FY2013-14 total expenditure in nominal term was Tk. 1,15,180 crore) although its share in GDP according to the new base year (2005-06) is likely to come down. This increased public expenditure was attained by keeping to a moderate level of budget deficit (5-6 per cent of the GDP); but the deficit is increasingly being financed by domestic borrowing from commercial banks at a relatively high cost, leading to increasingly growing domestic debt, which will be equivalent to 21.5 per cent of GDP in FY2013-14 (projected) (IMF 2013).

[32]Another contributing element of the higher BOP surplus emanated from the commercial borrowing of private sector from foreign sources.

[33]Please also see Annex Table 1.2 for fiscal trends in constant term during FY2007-08 to FY2012-13.

[34]Expenditure-GDP ratio has changed from 17.6 per cent in FY2011-12 to 18.2 per cent in FY2012-13. Total expenditure-GDP ratio in India in 2013-14 is 15.87 per cent. However, expenditure on interest payments, defense, subsidies, plan expenditure and other capital expenditures appear to be excluded from the calculation of total expenditure.

Table 1.6
Fiscal Trends

Indicator	FY08	FY09	FY10	FY11	FY12	FY13
	Crore Tk.					
Public Expenditure	90,696	89,316	1,01,521	1,28,286	1,52,428	1,73,340
Non-Development Expenditure	*57,690*	*65,623*	*73,168*	*82,878*	*96,463*	*1,04,231*
Development Expenditure	*19,827*	*21,684*	*28,115*	*35,734*	*40,672*	*52,584*
Others	*13,178*	*2,009*	*238*	*9,674*	*15,293*	*16,523*
	As Percentage of GDP					
Total Revenue	11.1	11.3	11.4	11.9	12.5	13.5
Total Expenditure	17.3	15.3	15.9	16.3	17.6	18.2
Budget Deficit (excl. Grants)	6.2	4.1	4.5	4.4	5.0	4.8
Deficit Financing	4.4	4.1	4.5	4.4	5.0	4.8
Net Foreign Financing	*1.8*	*1.8*	*2.0*	*1.3*	*1.3*	*1.7*
Net Domestic Financing	*2.6*	*2.3*	*2.5*	*3.1*	*3.8*	*3.1*
Credit from Commercial Banks	*2.0*	*1.7*	*1.2*	*2.3*	*3.2*	*2.7*

Source: Ministry of Finance (MoF) data.

Table 1.7
Medium Term Fiscal Framework Projected/Revised for FY2012-13

(in Per cent)

Component	Target FY13			Actual in FY13
	MTBF (FY11)	MTBF (FY12)	MTBF (FY13)	
Total Revenue	13.1	13.4	13.4	13.4
Tax Revenue	*10.8*	*11.2*	*11.2*	*11.2*
Non-Tax Revenue	*2.3*	*2.2*	*2.2*	*2.2*
Total Expenditure	17.4	18.4	18.4	18.2
Revenue Expenditure	*11.8*	*13.1*	*13.1*	*13.2*
ADP	*5.6*	*5.3*	*5.3*	*5.0*
Overall Balance	-4.3	-5.0	-5.0	-4.8
Financing	4.3	5.0	5.0	4.8
Domestic Borrowing	*2.3*	*3.0*	*3.2*	*3.1*
Banking System	*1.7*	*N/A*	*N/A*	*2.7*
Non-Bank	*0.6*	*N/A*	*N/A*	*0.4*
External Financing	*2.1*	*2.0*	*1.8*	*1.7*

Source: Ministry of Finance (MoF) data.

Over the last five years, government has tried to improve public expenditure management through Medium Term Budgetary Framework (MTBF). However, the targets set for various components of development expenditure in the MTBF 2009 have been revised a number of times (Table 1.7). More importantly, the actual expenditure varied significantly from the revised targets set for a number of components in the latest revision of the MTBF. Indeed, the frequent revisions of targets in the medium term budgetary strategies have rather weakened the efficacy of public expenditure management.

Over the past years, the composition of public expenditure has undergone changes along with the change in size. Both non-development and development expenditures have registered considerable rise both in nominal and constant terms – average yearly change between FY2007-08 and FY2012-13 was 16.1 per cent and 33 per cent in nominal terms, and 5.6 per cent and 17.6 per cent in constant terms. Although the share of non-development expenditure has declined over time (from 61.4 per cent in FY2008-09 to 54.4 per cent in FY2012-13) this still constitutes the major share in public expenditure.[35] Development expenditure, on the other hand, has experienced a rise over the years (nominal and constant terms) (share of ADP has increased from 24 per cent of total expenditure to 27.7 per cent during the same time) because of higher growth of public investment.[36] In recent years, expenditures on net outlay for food account operation and net loans and advances, particularly for subsidies and allocations for state-owned enterprises (SoEs), have significantly increased. There has not been any rigorous assessment to measure allocative efficiency and returns on subsidy expenditure. Without any visible progress in overall performance of the SoEs (e.g. operating profitably), rise in subsidy expenditure on this account remains questionable. The significant rise in non-development expenditure for share and equity investment in recent years (from Tk. 1,981 crore in FY2007-08 to Tk. 4,797 crore in FY2012-13 (budget) has given rise to concerns about quality of the public stake in the SoEs.

Compared to the previous years, growth of development expenditure was higher in July-March, 2014 as against that of non-development expenditure over the same period of FY2012-13 (26.1 per cent vis-à-vis 16.2 per cent (nominal and constant)) (Table 1.8). Among the components of non-development expenditure, net outlay for food account exceeded the budget allocation by about 20 times during July-March of FY2013-14 due to rise in import of foodgrains to meet the shortfall in domestic market availability. On a positive note, net loans and advances which include subsidy has declined during the mentioned period due to reduced international prices of petroleum and fertiliser where subsidy is provided on import to maintain the administered prices. But non-ADP projects and development programmes financed from revenue budget have shown an upsurge (303.4 per cent and 61.8 per cent respectively) during the aforesaid period. However, budget deficit as a share of GDP remained within the 5 per cent of GDP threshold.

Table 1.8

Public Expenditure during FY2012-13 and FY2013-14

Description	**Actual FY13 (Jul-Mar) (Crore Tk.)**	**Actual FY14 (Jul-Mar) (Crore Tk.)**	**Growth over FY13 (Jul-Mar) (%)**	**Actual Expenditure in FY14 (Jul-Mar) as % of Budget FY14**
Non-Development Expenditure	68,073.2	79,071.7	16.2	58.8
Net Outlay for Food Account	*3,132.1*	*5,665*	*80.9*	*2157.3*
Loans & Advances (Net)	*5,401.5*	*4,801.8*	*-11.1*	*31.0*
Development Expenditure	20,330.8	25,641.7	26.1	35.5
Development Programmes Financed from Revenue Budget	*219.3*	*354.9*	*61.8*	*18.4*
Non-ADP Projects	*136.8*	*551.8*	*303.4*	*18.3*
ADP	*19,974.7*	*24,734.9*	*23.8*	*36.7*
Non-ADP FFW and Transfer	*0.0*	*0.1*	*-*	*0.0*
Total Expenditure	**96,937.5**	**1,15,180.2**	**18.8**	**51.8**

Source: Ministry of Finance (MoF) data.

[35]Non-development expenditure includes revenue expenditure, net outlay for food account operation, and loans & advances (net), whereas development expenditure includes ADP, development programmes financed from revenue budget, non-ADP projects, non-ADP Food for Work (FFW) and transfer.

[36]Government's spending on development expenditure has registered a higher growth (21.8 per cent average annual) compared to that of non-development expenditure (12.6 per cent annual average). Shares of other development expenditures have increased from 14.6 per cent to 17.9 per cent over the same period.

1.3.2 Non-Development Expenditure

Priorities in Resource Allocation

Over the past years, non-development expenditure has registered significant rise – from Tk. 66,371 crore (actual) in FY2008-09 to Tk. 1,36,382 crore (budget) in FY2013-14. However, its share in GDP has remained within 11-13 per cent for over the last several years.[37] Although sectoral priorities in the allocation especially for top five sectors has more or less remained the same, total share has increased further (from 59.4 per cent of total non-development expenditure to 66 per cent during the same period). The top five priority sectors in terms of allocation are interest payments, education and technology, defense, general public services and agriculture. Other than interest payments, allocations for all other sectors have increased between FY2008-09 and FY2013-14. It is important to examine the implications of this rise on allocations for other sectors. Given the fact of the structural rigidities which tend to leave only limited scope for understanding the required changes in the composition of public spending in the short-run, inter-sectoral allocation with attendant better 'degrees of freedom', should reflect required changes in allocation over medium to long-term.

Allocations according to broad sectoral classification indicate that rise in expenditures on account of administration, interest payments and agriculture may have involved significant trade-offs (Figure 1.13). For example, the share of allocation for social infrastructure has come down over the years. In fact, other than education, allocations for other social infrastructure (such as health, social welfare and others) have come down significantly over the years. During July-March, 2014, allocation for social sectors was 0.4 per cent less compared to that of the previous year. Allocation for physical infrastructure has remained at low level which needs to be examined from the point of view of the need for providing necessary public services in the backdrop of increasing demand.

According to broad economic classification, priorities in non-development expenditure (according to FY2012-13 budget) were pay and allowances (24.2 per cent), interest payments (24.5 per cent) and subsidy payment (28.4 per cent) (Figure 1.14). However, composition of the priority sectors has changed in FY2013-14 as allocation for pay and allowances has increased in FY2013-14 particularly on account of *dearness allowance* to public sector employees (20 per cent). Rise in domestic borrowing for deficit financing

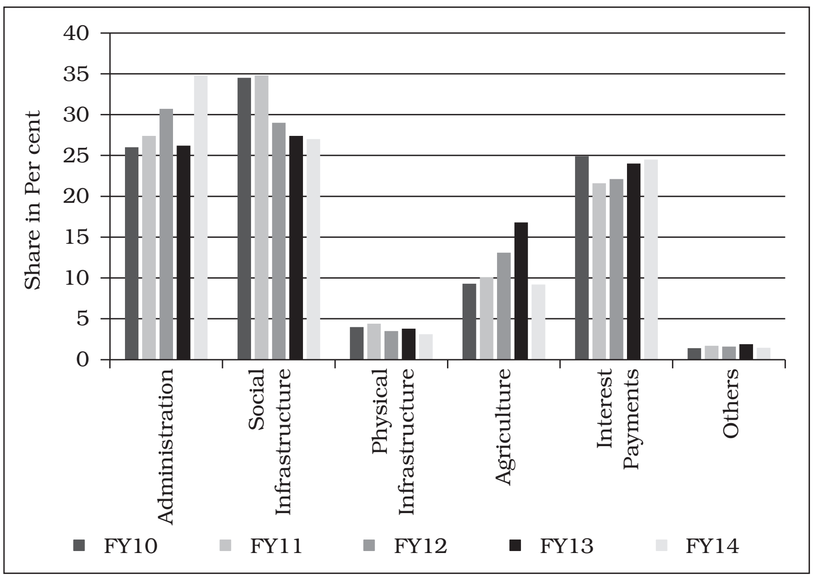


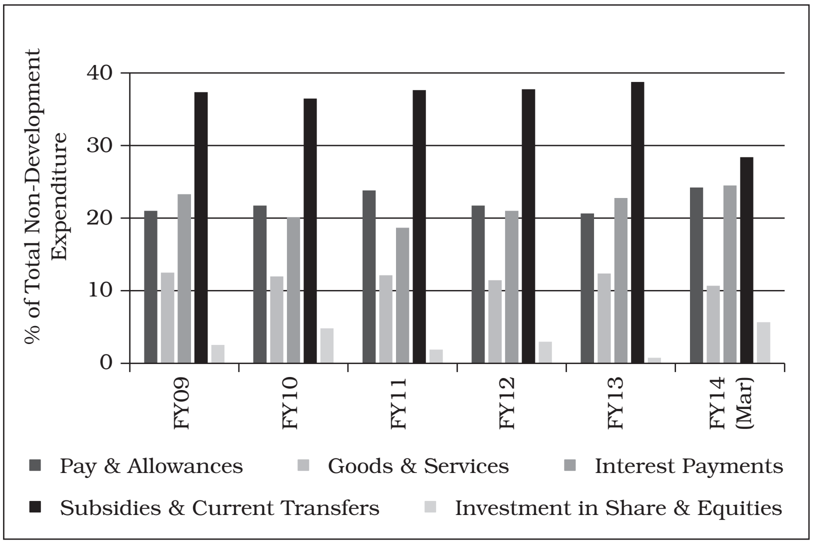
Figure 1.13

Sectoral Share in Actual Non-Development Public Expenditure

Source: Ministry of Finance (MoF) data.

[37] It will decline in the GDP of new base year (2005-06).

Figure 1.14
Public Expenditure by Economic Classification



Source: Ministry of Finance (MoF) data.

led to higher share in the allocation for interest payments. Till March FY2013-14 interest payments for domestic borrowing was Tk. 18,169 crore; to contrast, interest payments for foreign sources was very low (Tk. 1,274.8 crore). With the rise in domestic borrowing in recent years, the gap between the two will further widen in future. This change in sourcing strategies for debt financing contradicted with the Medium Term Debt Strategy which had put more emphasis on borrowings from the external sources (MoF 2013).

Rise in expenditure for subsidy payments was a key concern as regards non-development expenditure. In recent years, subsidy was provided for three sectors: agriculture, fuel and electricity. In order to address the policy priorities of the government, expenditure for subsidy has increased over time – from 16.1 per cent of non-development expenditure in FY2008-09 to 39.9 per cent in FY2012-13. However, its share in FY2013-14 has decreased by 15.9 per cent during July-March of FY2013-14 from the corresponding period of FY2012-13. The rise in expenditure has, however, been accompanied by changes in the share of different components. The subsidy allocation for electricity and fuel has increased over the years followed by allocation for agriculture. Till February 2014, subsidy expenditure for energy and fuel was much below the allocation target for FY2013-14 (about Tk. 800 crore during July-February, 2014 against the budgetary allocation of Tk. 16,911 crore). After the payment of large amount dues of the Bangladesh Petroleum Corporation (BPC) in late June 2014, a large part of this gap will be diminished. A major reason behind the yawning gap is fall in prices of crude petroleum and fertiliser in the international market which caused reduction in agricultural subsidy by 25 per cent.[38] There has been a rise in allocation for SoEs, particularly for the Bangladesh Jute Mills Corporation (BJMC). Information is not available as regards the considerations and the basis which have informed this decision. As of 30 June 2012, there is a significant amount of dues of debt service liabilities (DSL) to the government incurred by 104 different public sector entities which amounted to Tk. 1,20,68,771 crore; the highest amount of DSL was with the Power Division (42.4 per cent of total DSL), followed by BPC (11 per cent) and Petrobangla (8.4 per cent). A large amount of these dues have already expired the timeline (24 per cent of total principal loan) which was even as high as 100 per cent in selected organisations (MoF 2014). A transparent and accountable mechanism was needed to be developed for repayment of the due DSL of various public sector organisations to ensure appropriate financial management.

The changes in the composition of allocation as well as rise in the share of allocation in selected sectors over the last five years may be considered as indicative of government's policy perspective and priorities

[38]However, subsidy allocation to the power sector has been increased in the Revised Budget for FY2013-14 by Tk. 500 crore, which has been done to reduce the burden of price hike on targeted consumer groups at retail level.

regarding public expenditure (subsidy for fuel and energy, underwriting loss-making SoEs), and also in-built demands (interest payments). There is, however, a need to examine closely this shifting dynamics from the perspective of development strategy, implications and efficiency.

Operational Performance: Efficiency and Effectiveness

The prevailing high share of non-development expenditure, particularly for pay and allowances, is likely to be continued in the coming years. The new pay scale for public sector employees to be implemented in FY2014-15 will cause additional fiscal burden which will need to be addressed both by raising additional revenue and by measuring against expected improvements in productivity and efficiency of public services. It will be important to see how public service efficiency issues are dealt with at a time when the pay scale is revised. Defense expenditure has increased over the years; however its share in total public expenditure was lower than most of the South Asian countries and also other low-income countries (WDI 2013). However, there was a need to bring greater transparency in defense expenditure.

Declining share of social infrastructure (other than education) has emerged as a cause for concern. One understands that, with limited resources available at the disposal of the government of a developing country such as Bangladesh, it is difficult to balance the urgent needs and medium to long-term needs concerning social priorities. Hence important trade-offs are involved. On the other hand, current priorities in the non-development expenditure need to be examined from the point of view of 'efficiency' and 'effectiveness'.

A significant rise in expenditure on 'recapitalisation' under the category of investment in shares and equities has raised concern in recent times. During July-March of FY2013-14, expenditure on recapitalisation for the SCBs was Tk. 4,167.5 crore against Tk. 541 crore for the corresponding period of the previous year (revised budget). The initiative of the government to recapitalise the SCBs with a view to meet the shortfall of capital and to make their operation viable has been carried out as part of the understanding with the International Monetary Fund (IMF) in its Extended Credit Facility (ECF)-supported programme. However, without addressing the core weaknesses of the SCBs including malgovernance, insider lending, undue interference of the Board, political pressure, corruption, lack of transparency and accountability, and low productivity mere injection of capital will hardly make any change in the sorrow state of affairs that afflict the SCBs. The public has a right to know why taxpayers' money is being spent when corrective measures are not being put in place and not enforced.[39]

Issues related to allocational and operational efficiency of the non-development expenditure needs to be closely aligned with those of the development expenditure. The rise in expenditure for administration, particularly for payment and allowances, subsidies and interest payments needs to be aligned with necessary allocation to be made for development expenditure in respective sectors. Similarly, sectoral priorities in the allocation of development expenditure need to be aligned with those of non-development expenditure. Lack of coherence between the small share of non-development expenditure for physical infrastructure and high priority given to the same sector in the development expenditure could pose serious problems when viewed from the perspective of sustainability of investment.

1.3.3 Development Expenditure

Priorities in Resource Allocation

Allocation for development expenditure in nominal terms has increased over the years – from Tk. 19,050 crore (actual) in FY2007-08 to Tk. 67,327 crore (budget) in FY2013-14. However, its share in GDP has

[39]Recently, the Central Bank has fired the Managing Director of Basic Bank, one of the troubled SCBs, as part of measures to bring changes in the management of the Bank. The Central Bank has requested the MoF to initiate steps against the Board of the Basic Bank to restore discipline in the bank.

Table 1.9

Development Expenditure from FY2007-08 to FY2013-14

(Crore Tk.)

Year	Budget	Actual	Actual as % of Budget	Annual % Change of Actual Expenditure
FY2008	26,964	19,050	70.6	-
FY2009	27,379	20,733	75.7	8.8
FY2010	31,639	26,480	83.7	27.7
FY2011	39,694	34,002	85.7	28.4
FY2012	47,276	38,648	81.7	13.7
FY2013	56,439	52,584	89.6	36.1
FY2014 (up to March)	67,327	24,735	36.7	-

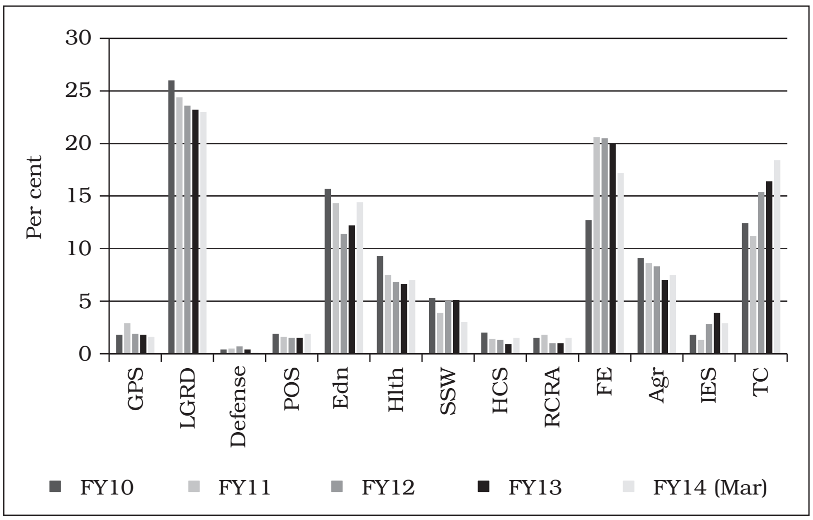
Source: Ministry of Finance (MoF) data.

remained within 4-5 per cent level.[40] A major weakness is revealed by the persistent gap between budgetary allocation and actual utilisation (Table 1.9). This gap has, however, narrowed over the past years, thanks to various measures including introduction of the MTBF and gradually bringing all sectors under its coverage, some improvements in development administration, and changes in the procurement rules and regulations. Quality of expenditure and implementation, however, remain the major concern.

With the rise in expenditure, composition of allocation has also changed (Figure 1.15). Top ten ministries received about 77 per cent of total allocation of the development budget in FY2013-14 which was 84 per cent in FY2008-09 (budget). This is indicative of some changes in allocative priorities from the core ministries to other ministries. As is known, the Local Government and Rural Division (LGRD) has been receiving the highest allocation over the past years (23 per cent of actual expenditure up to March, FY2013-14) although its share has declined. The allocational priorities have changed for other key sectors – transport and communication and fuel and energy have become key sectors in ADP allocation although the share of

Figure 1.15

Sector-wise Actual Development Expenditure as % of Total Development Expenditure



Source: Ministry of Finance (MoF) data.

Note: GPS: General Public Services; LGRD: Local Government Development, Rural Development and Cooperatives, Chittagong Hill Tracts (CHT); POS: Public Order and Safety; Edu: Education and Technology; Hlth: Health; SSW: Social Security and Welfare; HCS: Housing; RCRA: Recreation, Culture and Religious Affairs; Agri: Agriculture, Fisheries and Livestock, Land, Water Resources and Food; FE: Fuel and Energy; IES: Industries, Jute, Textiles, Commerce, Labour and Overseas; TC: Transport and Communication.

[40] Under new base (2005-06), the share is 4.98 per cent of GDP in FY2013-14 (budget).

fuel and energy has decelerated over time. Such allocative priorities are by and large consistent with the medium to long-term needs of an emerging economy; indeed, enhanced allocations for public investment in those sectors have assumed greater urgency in the emerging context. In fact, the allocated and realised amount for infrastructure development continues to lag far behind the required amount. According to the Andrés *et al.* (2013), Bangladesh needs an annual investment of USD 7.4 billion to USD 10 billion until 2020 to bring its power grids, roads and water supplies up to the standard needed to serve its growing demand. The current expenditure for infrastructure sector (both non-development and development) needs to be increased from 6 per cent to 7.4 per cent of the GDP. Given the limited resources available, allocative efficiency ought to receive highest priority to generate the optimum outcomes and results.

A number of sectors have experienced decline in allocation during FY2008-09 to FY2012-13; of these a few sectors have experienced a rise in FY2013-14 – agriculture, health, housing and social security. Allocation for education sector has increased over the last two years. Priority given to the development of transport and communication and energy and fuel sectors is justified, but important trade-offs are involved. Allocation for social infrastructure sector remains low both in non-development and development expenditure which is a concern. Overall, Bangladesh remains behind the level of South Asia and low-income countries in terms of health expenditure in the budget, although it is above the South Asian level in terms of expenditure in education.

The large number of projects often undermines the quality of implementation as they create pressure on development administration. A large part of the problem here originates from the burden of carry on projects, cost overrun, timelines of resource availability, etc. According to the IMED (2012), the number of unapproved projects has risen significantly in recent years – from 144 (14 per cent of total revised projects) in FY2008-09 to 662 (63.2 per cent) in FY2013-14. The logic put forward in including unapproved but allocated projects is that time is needed to identify emerging needs and prepare project proposals for placing before the Executive Committee of National Economic Council (ECNEC). However, a large number of unapproved projects are included without allocation. Inclusion of unapproved and unallocated projects seriously undermines the overall allocative efficiency of the development budget.

With a view to addressing the scarcity of resources, particularly for undertaking large-scale projects, public-private partnership (PPP) programme was introduced in 2009.[41] After adoption of the PPP Act, budgetary allocations are being made in successive budgets since 2009 (Tk. 1.28 crore in FY2012-13 and Tk. 2.45 crore in FY2013-14). So far a total of 27 projects under the Infrastructure Development Company Ltd. (IDCOL) and the Investment Promotion and Financing Facility (IPFF) have been either financed or are at various stages of implementation with a total investment of Tk. 12,585.5 crore. However, progress here, as is known, has been rather slow due to various reasons including problems in setting up the pricing formula, lack of proper mechanism for risk sharing, debate as regards sectoral priorities, and the unresolved issue relating to the scope of using foreign commercial loans. Without making necessary changes, it will be difficult to achieve the target set in the MTBF for investment under the PPP for the period of 2015-2018.

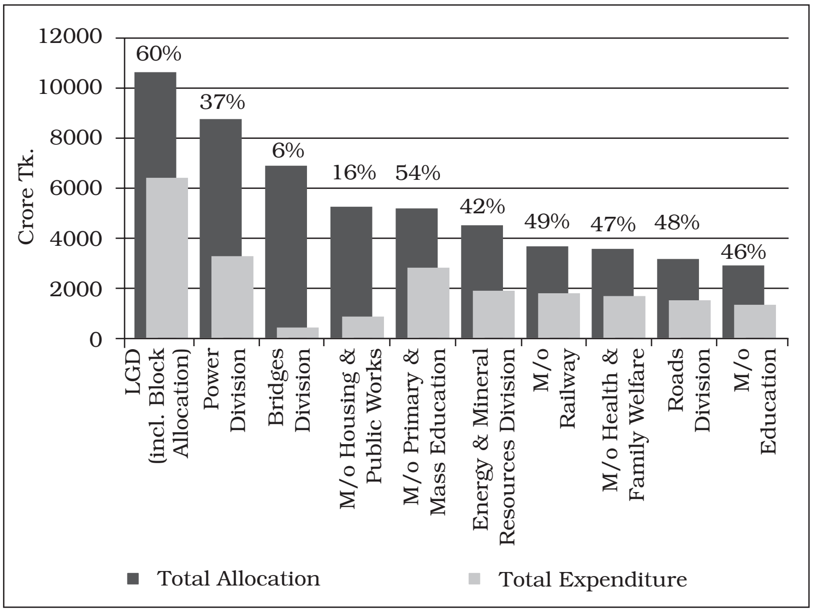
Operational Performance: Efficiency and Effectiveness

It is well-known that the utilisation of ADP of Bangladesh lags behind the target set in the budget. However, the rate of implementation of ADP projects has improved in recent years. In FY2013-14, ADP implementation has been sluggish due to various internal and external reasons (Figure 1.16). During July-March, FY2013-14, about 43 per cent of total allocation has been implemented compared to 48 per cent in

[41]In fact, Infrastructure Investment Facilitation Company (IIFC) and IPFF of Bangladesh Bank have been involved in PPP-related activities since early 2000s in terms of preparing proposals, screening, creating opportunities for financing and policy formulation, etc.

Figure 1.16

ADP Implementation Status of Top 10 Ministries/Divisions with Large Allocation: FY2013-14 (July-March)



Source: Implementation Monitoring and Evaluation Division (IMED) data.
Note: Percentage values in the Figure denote the expenditure % of total allocation.

the same period of the previous year.[42] Out of the total of 54 ministries, rate of implementation was above the average in case of 29 ministries while the implementation record of rest of the ministries was below the average. Even after allowing that 75 per cent of funds of approved projects may be released upfront, to address the constraints of availability of funds, pace of implementation could not be enhanced because of other bottlenecks.

As was noted earlier, ADP is increasingly being financed by domestic resources – from 42 per cent in FY2008-09 to 67 per cent in FY2013-14. This does not necessarily portray an increased capacity to implement development projects using domestic resources. The choice of using domestic resources is not always the 'first-best' option since a large part of this financing is undertaken through borrowing from commercial banks at high interest rate. More importantly, greater reliance on local financing was not due to lack of availability of low-cost funding from foreign aid; in fact, about USD 16.6 billion worth of foreign aid remained in the pipeline as of 1 July 2013. Monitoring and evaluation of projects financed by foreign aid usually follow standard international norms and practices which is often found to be onerous. Other options (e.g. local funding) where monitoring and evaluation mechanisms are more relaxed are thus preferred. More importantly, quality of project implementation continues to remain a nagging concern.

Operational efficiency of ADP projects depends not only on achieving allocation target, but also on completion of project on time and maintaining the needed quality of project. According to IMED (2011), backlog in project implementation causes significant delays in implementation of projects and results in overrunning of time and cost. In FY2011-12, out of 199 completed projects, only 19 per cent were completed within the stipulated time and allocation; 7 per cent projects completed on time but with increased allocation; about 40 per cent projects were completed with increased timeline and stipulated allocation; whilst 35 per cent projects were completed with both increased time and allocation.[43] According to the Implementation Monitorng and Evaluation Division (IMED), based on the assessment of the ADP 2010, average amount of cost-overrun for projects was 9 to 227 per cent and time overrun was to the tune of 40 to 266 per cent for projects completed under top ministries in FY2009-10. This created pressure on resources available in the

[42]Total allocation for the ADP was Tk. 65,872 crore which has been reduced to about Tk. 60,000 crore in the RADP for FY2013-14. ADP implementation for first ten months is 55 per cent of total allocation for FY2013-14.
[43]IMED (2012).

Table 1.10
IMED Assessment on Projects Completed in FY2009-10 under Selected Ministries

Ministry/ Division	No. of Projects Completed	No. of Projects with Extended Time	No. of Projects with Extended Budget	Reasons for Extension of Budget/Time
Ministry of Communications	23	23 (extended by 40% to 266%)	14 (extended by 9% to 227%)	1. Lack of proper feasibility test 2. Inefficient budgeting 3. Lack of proper planning and project management 4. Hiring inexperienced contractor 5. Poor fund disbursement
Local Government Division	29	22 (extended by 10% to 266%)	12 (extended by 1% to 40%)	1. Lack of proper planning and project management 2. Salary/wage increase during the project period 3. Increase of land price for acquisition 4. Time consumed during purchase
Power Division	14	11 (extended by 20% to 275%)	3 (extended by 20% to 99%)	1. Price increase of machineries/construction materials during purchase 2. Increase of land price for acquisition
Ministry of Education	10	4 (extended by 320% for 1 project)	7	1. Inadequate allocation in ADP 2. Without assessing future demand of the project 3. Revising projects multiple times
Energy and Mineral Resources Division	3	2 (extended by 75% to 300%)	0	1. Re-tendering 2. Inefficient contracting 3. Inefficient monitoring of implementation 4. Delayed purchasing of materials

Source: Implementation Monitoring and Evaluation Division (IMED).

ADP. As a matter of fact, time and cost overruns, deferral of project benefits long into the future, and declining returns on investment have historically been associated with poor management of the development budget in Bangladesh (World Bank 2010). Major reasons behind the low implementations as identified by the IMED are lack of proper feasibility study, lack of proper planning, weak budgeting, inefficient monitoring, unsynchronised and poor disbursement of funds (Table 1.10). As is the case, assessment reports prepared by the IMED are not reviewed and examined in the ECNEC meetings for undertaking corrective measures. Operational inefficiencies lead to significant wastage and pilferage of public money, and causes inordinate delay in getting the expected return from development projects.

A major limitation as regards the current practice of assessment of operational efficiency of the ADP projects concerned the narrow focus put in on financial auditing of the respective projects where the rate of implementation is assessed only from allocation and disbursement points of view. This type of financial auditing does not tell much about quality of the projects, achievement of objectives and targets, and not to speak of outcome of the projects. Time has come for the IMED to put the spotlight on performance-based auditing along with financial auditing.[44] Overall, monitoring and assessment processes should be geared towards guaranteeing ‘value for money’ as regards completed projects. This will ensure that actual returns are commensurate with those in the project proposal.

Two key ministries – Ministry of Finance and Ministry of Planning play the lead role in public expenditure management. Work efficiency of these two ministries has direct implications for improving both fiscal and development management. In order to improve the operational efficiency at the institutional level, a number

[44]A number of countries follow performance-based auditing system for different public sector activities such as India, Pakistan, Thailand and Malaysia.

of initiatives have been undertaken over the years which have resulted in some improvement in management practices. As the above analysis has shown, there is a need to synchronise developmental and non-developmental expenditures and to follow through the strategies in the MTBF. Development administration should be equipped with the adequate human resources and be innovative enough to address the loopholes and bottlenecks that impede project implementation. Reforms currently being pursued by the IMED are commendable. However much more needs to be done in all key areas of implementation, human resources development, quality assurance, involving local government and good governance.

1.4 FINANCING PUBLIC EXPENDITURE: A SMART MIX NEEDED

With increased public expenditure, efforts have been put in place to generate higher resources, with mixed success. The nature and composition of resource mobilisation efforts indicate some changes in recent years. Over the past years, revenue collection has been on the rise, but the pace has varied, with significant slowdown in FY2012-13 and FY2013-14. The gap between the targeted and achieved revenue collection is widening. In order to offset the budget defict the governmnet is resorting to increasing domestic borrowing, particualry from the banking system.

1.4.1 Revenue Collection Grows at a Lower Rate

Till April 2014, achievement in NBR collection was 72.2 per cent of the Revised Budget while the growth of NBR revenue was about 9.2 per cent during July-April of FY2013-14 as opposed to 16.1 per cent during the same period in the previous year. A comparison among various components of NBR revenue collection indicates that all components of tax revenue except for import duty and local supplementary duty (SD) have experienced a lower growth rate in FY2013-14 (up to April) compared to the same period in FY2012-13 (Table 1.11).

Lower than targeted revenue collection during the first ten months of FY2013-14 was a reflection of the decline in economic activities. To a large extent, political turmoil during the first half of FY2013-14 was the main cause. A medium term trend in revenue collection effort also reveals that, actual growth rate has decelerated by a significant margin from FY2011-12 and continuing in FY2013-14.

Table 1.11
Growth Composition of NBR Sourced Taxes

(in Per cent)

Particular	Actual Growth FY13	Original Growth Target FY14	Revised Growth Target FY14	Achieved Growth FY13 (Jul-Apr)	Achieved Growth FY14 (Jul-Apr)	Required Growth FY14 (May-Jun)
External Total	3.2	10.7	1.6	4.4	1.1	3.8
Import Duty	1.2	9.9	1.0	-1.9	0.1	4.8
VAT Import	*7.3*	*8.9*	*0.1*	*12.3*	*2.9*	*-12.0*
SD Import	*-3.8*	*18.8*	*9.1*	*0.6*	*-1.3*	*63.7*
Local Total	13.2	30.3	19.7	12.9	13.5	41.3
VAT Local	*19.9*	*23.6*	*13.6*	*17.7*	*13.3*	*14.5*
SD Local	*0.5*	*47.2*	*35.2*	*3.9*	*14.4*	*126.5*
Total Direct Tax	27.5	32.7	21.9	35.8	13.5	45.8
Income Tax	*27.6*	*32.1*	*21.3*	*36.0*	*12.5*	*42.9*
Grand Total	**14.3**	**25.3**	**15.1**	**16.1**	**9.2**	**34.4**

Source: Compiled from the National Board of Revenue (NBR) data.
Note: VAT: Value added tax.

1.4.2 New Tax Measures Require Institutional Strengthening

In spite of the success in generating higher revenue, tax-GDP ratio continues to remain a concern as it is yet to pick up to the targeted level (Figure 1.17). Various reform measures have been undertaken in recent years to enhance revenue generation through tax collection. Targeted efforts have been undertaken to raise the share of direct taxes in total tax. Additionally, the new value added tax (VAT) law which is expected to enter into effect on 1 July 2015 will hopefully broaden the tax base. Under the new VAT law, all economic sectors namely import, manufacturing, services and distribution will be brought within the ambit of the VAT. However, mobilising resources through the new VAT act will require significant strengthening of institutions such as the NBR, redesigning of the VAT administration processes, automation of NBR, and recruitment and capacity building of new staff. Efforts should be taken to raise awareness of taxpayers, tax advisors and people in general about the new VAT law before it starts to be implemented.

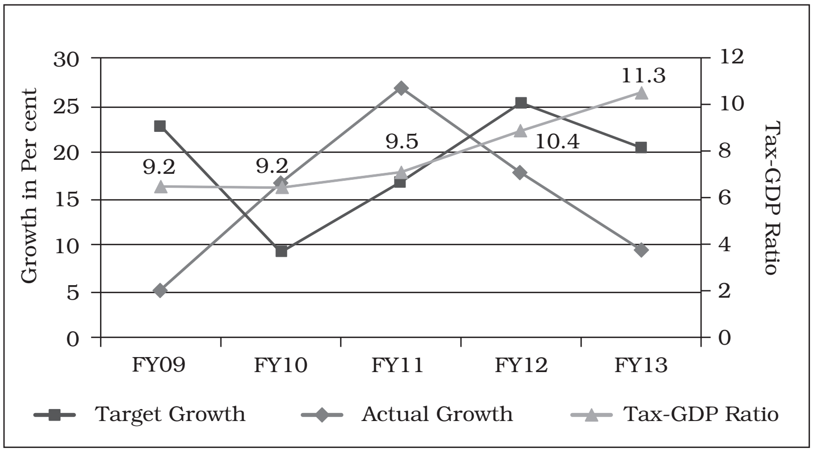


Figure 1.17

Tax Collection Growth and Tax-GDP Ratio

Source: Ministry of Finance (MoF) and Bangladesh Bureau of Statistics (BBS) data.

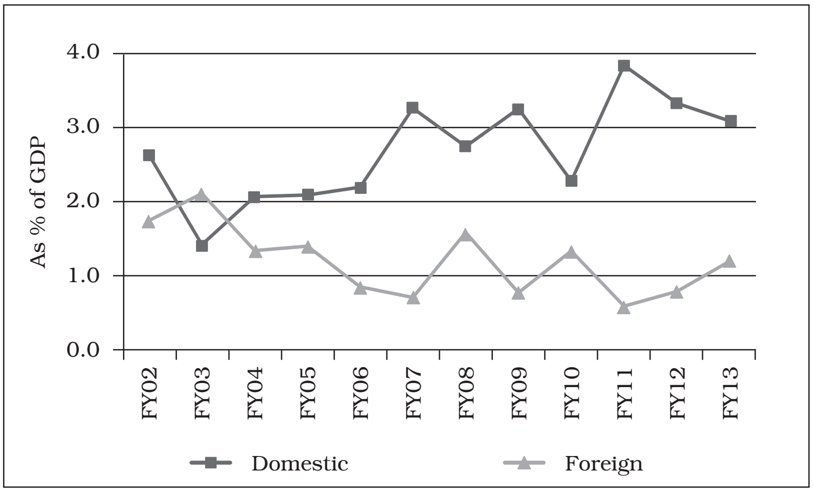
1.4.3 Increased Dependence on Domestic Sources for Deficit Financing

In resource-poor countries, the traditional mechanism to offset budget deficit is financing from foreign capital inflows through both public and private sectors. This helps the government to carry out expansionary domestic policies without drawing on the scarce domestic resources which could otherwise be used to underwrite for prioritised activities. In Bangladesh, the tradition has been to contain the budget deficit (excluding grants) within 5 per cent of the GDP. While this has been maintained over the past years, the composition of deficit financing has been undergoing some changes.

The pattern of deficit financing since FY2005-06 indicates that Bangladesh is becoming increasingly dependent on domestic resources to finance its expenditures (Figure 1.18). In recent years the gap between financing from domestic and foreign sources has widened further. In FY2009-10 the difference between financing sources was 0.5 per cent of GDP, which reached as high as 3.3 per cent in FY2010-11 before declining to 1.9 per cent in FY2012-13. For FY2013-14, deficit finance has been targeted at 4.6 per cent of GDP. Although deficit finance was 1.4 per cent of GDP till March 2014, but this is expected to rise significantly towards the end of FY2013-14. Lower figure till March 2014 was not because of any significant improvements in revenue generation, but due to of the lower development expenditure (discussed in detail in Section 1.3 of this chapter). In terms of financing the deficit, about 72.1 per cent of total budget deficit was financed by domestic resources in FY2012-13. The dependence on domestic resources as a source of financing has increased even further to more than 91.6 per cent in FY2013-14 (up to March 2014). Increased dependence on domestic resources for deficit financing is a matter of concern from the point of public finance management, particularly when domestic resources are not enough to meet the demand of the country.

Figure 1.18

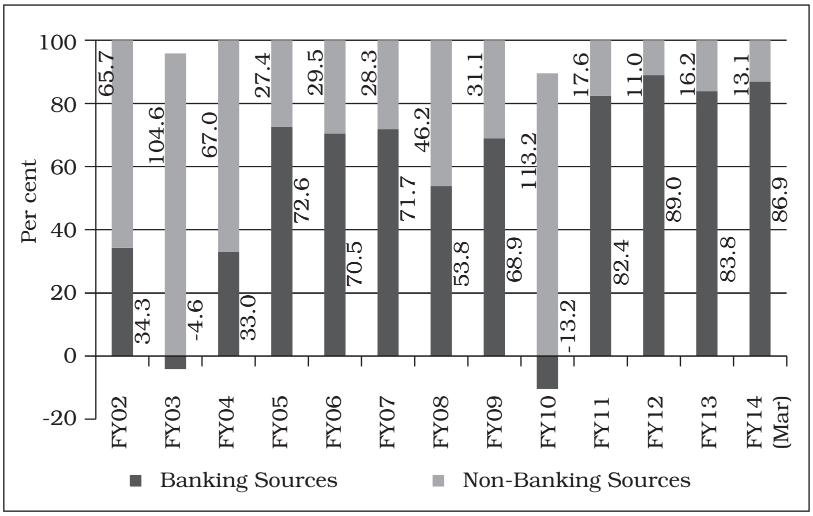
Domestic and Foreign Sources of Finance



Source: Ministry of Finance (MoF) data.

Figure 1.19

Composition of Domestic Sources of Budget Financing



Source: Ministry of Finance (MoF) data.

The government has been resorting to bank borrowing in the recent years for the purpose of deficit financing. As a result, borrowing from the banking sector in FY2012-13 was 2.6 per cent of GDP as opposed to 0.5 per cent from non-banking sectors. In the early 2000s, a large part of the budget deficit was financed from non-banking sources. This trend got reversed since FY2007-08 when bank borrowing started to outpace non-bank borrowing (Figure 1.19). In FY2013-14 (up to March), the amount of bank borrowing was seven times higher than non-banking sources. A detailed fiscal framework is attached in Annex Table 1.3.

1.4.4 Changing Pattern of Foreign Aid

The concern of lower flow of external resources for budget financing gets compounded by the fact that the amount of grant component has been on the decline since FY2005-06, excepting FY2010-11. In FY2013-14 foreign grants was planned to be Tk. 6,670 crore, which was about 3 per cent of total expenditure in the Budget for FY2013-14. During the first nine months of FY2013-14, realisation of grants was Tk. 799.4 crore which was about 12 per cent of proposed total grant and 0.7 per cent of total expenditure. As is the case, a significant part of foreign aid goes as amortisation payment, making the net foreign loan even smaller. In FY2013-14 (up to March), an amount of Tk. 7,002.6 crore has already been paid as amortisation as against a loan of Tk. 7,606.5 crore.

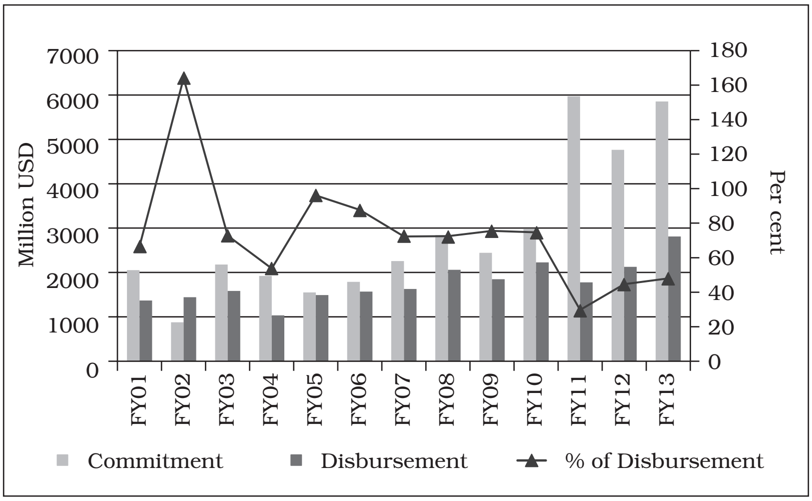


Figure 1.20
Commitment and Disbursement of Foreign Aid

Source: Bangladesh Economic Review 2013, Ministry of Finance (MoF).

Between FY2005-06 and FY2013-14 (up to March), about 41 to 92 per cent equivalent of foreign borrowing has been used for amortisation payment. Additionally, debt servicing has to be made against the accumulated foreign debt, resulting in lower net inflow on account of foreign borrowing. Unsatisfactory disbursement of the committed foreign aid adds to the problem of financing. Disbursement as percentage of commitment is declining since FY2004-05 (Figure 1.20). Progress on aid disbursement, to a large extent, depends on the success of project implementation. Lower than planned implementation of foreign-aided projects under ADP leads to lower disbursement of foreign aid against the committed amount which results in both unrealised infrastructural development and additional burden on domestic sources. Enhanced efficiency of the public administration and related institutions through capacity building, institutional strengthening, civil service reforms, strengthening line Ministries and involving local government institutions have been emphasised repeatedly towards higher absorption of foreign aid. However, these remain unfinished agendas.

1.4.5 Way Forward

Financing public expenditure will continue to be a challenge for the government if the current trends of revenue collection and foreign aid disbursement continue in future. Indeed, the involved problems could accentuate if carefully crafted strategies are not put in place now. Resource needs will likely rise at a fast pace in the coming years and smart mix of domestic and foreign resources will be needed to underwrite the increasing demands. In its budget recommendations for FY2014-15 (see Chapter 2), CPD made a number of proposals in order to rejuvenate the revenue mobilisation effort and strengthen its fiscal policy framework. Given the importance of the issue these recommendations are highlighted once again.

First, the government should revisit and rationalise the tax incentive structure. It is also important to account for, analyse and publish the revenue foregone emerging from these tax incentives. It will be prudent to tie the incentives with the intended objectives. For example, the recent cut in the advanced income tax (AIT) at source for the RMG exports (which is also the final settlement) should be tied with implementation of the new minimum wage. Concurrently, the government must have a plan to 'phase out' the incentives gradually. The government may consider phasing out the tax holiday while considering renewal of (quick) rental power plants. The government should also stay away from continuation of provision for legalising undisclosed income/wealth in any form.

Second, the NBR needs to be vigilant to curb tax evasion emerging from trade mispricing, re-invoicing and misdeclaration. A strong and well-equipped specialised taskforce should be set up to deal with this issue appropriately; a number of public institutions (e.g. NBR, Bangladesh Bank and others) will need to act in a coordinated manner to make this successful. At the same time the NBR needs to emphasise operationlising the newly introduced Transfer Pricing Cell without any delay.

Third, the government will have to put emphasis on collection of wealth tax surcharge. This is particularly important from the perspective of establishing economic and social justice. To generate adequate amount of revenue from this source, there is a need to review valuation of wealth, particularly those of real estate (both land, and house and flats). The NBR has already proposed to consider bringing this issue under the jurisdiction of income tax ordinance. This is a welcome initiative. In connection with this, the NBR has recently conducted a survey and found that about 162,000 homeowners from major metropolitan cities (e.g. Dhaka and Chittagong) did not submit their tax returns. It was also found by the NBR (as reported by the newspaper) that about 90 per cent of the professionals such as doctors, lawyers and engineers do not pay proper amount of tax. The NBR needs to design an action plan for FY2014-15 to bring tax defaulters and dodgers under tax net and take measures to enforce the plan.

Fourth, in recent times there is a growing allegation that a number of non-Bangladeshi citizens are working in Bangladesh, who are doing so without any proper paperwork and without paying the due income taxes. This issue needs to be investigated and corrective measures ought to be put in place.

Fifth, the government must not be detracted from ongoing implementation strategy of the forthcoming VAT law. To implement this new law, the government will need to introduce an awareness raising plan among the stakeholders. This will help to mobilise more revenues, ensure buy-ins by stakeholders and reduce hassle faced by business people. The NBR will also have to explore the possibility of expanding the VAT net particularly in the services sector. However, the government needs to consider raising the threshold for turnover tax to safeguard the interests of small traders and entrepreneurs, who were most severely affected by the political impasse.

Sixth, the NBR Chairman informed (through the media) that, the government plans to reduce the number of items that face supplementary duties from 1,362 to 170 by 2015. While trimming this list, the NBR should consider both economic benefits and possible revenue loss.[45]

Seventh, government will have to explore new ways to tap non-tax revenues. Government should formulate a 'leasing policy of public property' (similar to the recent 'toll policy') on an urgent basis. This policy may consider including a binding constraint in the form of a minimum annual increase of leasing fee taking into cognisance the inflation rate. It is also important to ensure efficiency of public enterprises including financial entities to ensure higher revenue in the form of dividends and profits.

Finally, capacity development and institutional reform as regards revenue mobilisation should be accelerated. It is important to decentralise the revenue collection efforts for widening the outreach and identify new sources.

1.5 SUSTAINABLE POWER SECTOR DEVELOPMENT: WHETHER IN RIGHT DIRECTION?

Development of the power sector is one of the major policy priorities of the present government. Over the last five years a number of different initiatives have been undertaken in this regard including introduction of new policies, amendment of existing rules and regulations, large public investment in generation, transmission and distribution of electricity, allowing private sector to go for higher investment in independent power producers (IPPs), not to speak of the setting up of much-talked rental and quick rental power plants. All these measures and initiatives have contributed to improving the power generation capacity, its availability and accessibility which went a long way to address the increasing public demand for electricity. In view of

[45]According to the same media report it is anticipated that this will lead to reduction of revenue mobilisation by Tk. 600-700 crore.

the experience in this regard, spanning more than five years, it is important to examine the development of the power sector from the sustainability point of view, i.e. to assess the record from the perspective of improvements in efficiency in power generation, better access by various categories of consumers, and availability of alternate sources of energy.

1.5.1 Access to Electricity

According to the Bangladesh Power Development Board (BPDB), power generation capacity has increased to 10,341 mega watts (MW) in April 2014, which was 9,151 MW in FY2012-13, and 5,166 in FY2008-09 (Table 1.12). However, actual generation did not rise in tandem with the rise in the generation capacity. Maximum generation till date was 7,356 MW which indicates a large gap between the generation capacity and actual generation. It is also important to note that, this gap has widened over successive years (from 1,004 MW in 2009 to 2,985 MW in April 2014).[46] Official data shows a limited amount of 'load-shedding' in the country (e.g. 139 MW in Dhaka and 12 MW in Barisal as of 19 May 2014, and 0 MW in 28 May 2014); however, the extent of load-shedding experienced in recent months portrays rather an 'opposite' view as regards this. More importantly, there is large unmet demand for electricity in the country.[47]

Table 1.12

Electricity Generation during FY2008-09 to FY2013-14

Indicator	FY09	FY10	FY11	FY12	FY13	FY14 (As of Apr)
Installed Capacity (MW)	5166	5271	6639	8100	9151	10341
Average Generation (MW)		3926	4101	4936	5492	5968
Maximum Generation (MW)	4162	4606	4968	6066	6350	7356
Gap between Installed and Maximum Generation (MW)	1004	665	1671	2034	2801	2985
Electricity Power Consumption (kWh/Person)*						
South Asia	540	572	605	N/A	N/A	N/A
Bangladesh	221	247	259	N/A	284	N/A
Access to Electricity (% of Population)*						
South Asia	N/A	70.7	73.2	N/A	N/A	N/A
Bangladesh	N/A	46.5	59.6	N/A	N/A	N/A
Time Required to Get Electricity Connection (Days)*						
South Asia	162	133	134	147	145	N/A
Bangladesh	137	142	295	404	404	N/A

Source: Bangladesh Power Development Board (BPDB) and World Development Indicator (WDI).
Note: *in Calendar Year.

The incremental share of generated electricity has been supplied more to domestic and agriculture activities and relatively less to small and medium industries and for commercial activities (Table 1.13).[48] Besides the reduction in the number of connections in the Rural Electrification Board (REB) (from 185 bulk buyers in FY2008-09 to only 70 in FY2012-13) indicate lower levels of connections perhaps due to shifting of connections to other sources (e.g. PDB).[49] Overall, electricity supply to different categories of consumer

[46]In April 2014, about 29 per cent of the capacity was remained unutilised.

[47]Coverage for electricity has reached more than half of the total demand (59 per cent of total population in 2013), and per capita availability of electricity has increased to 284 kWh (kilowatt hour) in 2013.

[48]During FY2012-13 out of total retail consumption of 7,683 MkWh, 46.5 per cent was utilised for domestic purposes, 37.4 per cent for industrial purposes, 10.3 per cent for commercial purposes and 3.2 per cent for agriculture purposes.

[49]On the other hand, the recent reforms in the REB Act through adoption of the *Rural Electrification Board Act, 2013* in place of the *Rural Electrification Board Ordinance, 1977* (Ordinance No. LI 1977) was expected to lead to improvement in the management with increased and better access to electricity in rural areas for non-agricultural activities.

Table 1.13

Changes in Number of Connections for Different Categories of Consumers

(in Per cent)

Year	Domestic	Agriculture	Small Industry	Small Commercial	Large Industry & Commercial	REB	Others	Total
2009-2010	8.5	14.1	4.6	3.5	6.1	0.0	4.9	7.5
2010-2011	5.1	6.3	1.7	1.8	5.8	0.0	0.8	4.5
2011-2012	14.2	19.6	3.9	5.8	11.9	-62.2	4.0	12.6
2012-2013	10.2	9.1	3.6	3.9	8.8	0.0	10.3	9.1

Source: Bangladesh Power Development Board (BPDB).

cannot be termed 'robust' in view of rising demand and Bangladesh's record still lags behind the average level of South Asia (WDI 2013). In this backdrop, whether the existing initiatives would be adequate to enhance the coverage of access to electricity to 100 per cent by 2021, as in the vision of the government, ought to be subject to close scrutiny.

1.5.2 Generation of Electricity

To address the huge demand for electricity over the shortest possible time, the government took the strategy to allow the private sector to establish small-scale power plants under IPP/SIPP, rental and quick rental system, along with establishment of power plants under the public sector. Although public sector power plants still generate the major share of electricity (55 per cent of total generated capacity), the rental and quick rental power plants have overtaken the IPPs, and their share have reached to 21.5 per cent (2,096 MW) as of April 2014 (Table 1.14). Since the electricity generation cost through rental power plants is significantly higher than that of BPDB's and IPP's power plants (Tk. 10.99/kWh vis-à-vis Tk. 3.8/4.07 per kWh), average generation cost has considerably increased over the years (111.2 per cent between FY2009-10 and FY2012-13). More importantly, the existing mix of sources for power generation cannot be considered 'sustainable' as the costly rental and quick rental power plants could only meet the temporary demands which need to be replaced by low-cost, large-scale power plants and other alternate sources. In this connection, rise in generation of electricity through alternate sources (e.g. renewable energy and nuclear power plants) and import of electricity from India and other South Asian countries, at reasonable price, were expected to make significant positive contribution.

In all likelihood electricity generation will continue to be one of the major policy priorities in the medium term future (Table 1.15). The cumulative generation target by 2018 is set at 20,086 MW which will be sourced both by using the existing capacities (10,341 MW) as well as by installing additional capacities

Table 1.14

Power Generation through Different Sources

Particular	Derated Capacity (as of Apr 2014) (MW)	Additional Generation in FY14 (till Apr) (MW)	Share of Total Derated Capacity (MW)	Cost 2012-2013 (Tk./kWh)
Public sector	5381	562	55.3	3.80
IPP/SIPP	1750	128	18.0	4.08
Rental	2096	0	21.5	10.99
Import	500	500	5.1	6.00-6.35
Total	**9727**	**1190**	**100.0**	**5.47**

Source: Bangladesh Power Development Board (BPDB).

Table 1.15

Projected Year-wise Generation of Electricity: 2013-2018

(MW)

Sector	2014	2015	2016	2017	2018	Total
Public	679	1837	1510	0	1320	5933
Private	2007	1097	638	1271	0	5064
Power Import	-	-	-	-	-	500
Total	2686	2934	2148	1271	1320	11497
Share (%)						
Public	25.3	62.6	70.3	0.0	100.0	51.6
Private	74.7	37.4	29.7	100.0	0.0	44.0
Power Import	0.0	0.0	0.0	0.0	0.0	4.3
Cumulative Generation (up to April 2014: 10341)	12413	15347	17495	18766	20086	-

Source: Bangladesh Power Development Board (BPDB).

(11,497 MW between FY2013-14 to FY2017-18) mainly by BPDB and IPP. This indicates that the existing rental and quick rental plants will be one of the major sources of electricity, at least till 2018 (when their share would be about 10 per cent of total capacity). Hence the likelihood of exit of the rental and quick rental power plants in immediate future is rather low.

1.5.3 Efficiency in the Power Sector

The efficiency in the power sector has been discussed in terms of efficiency in fuel-mix, operational efficiency of power plants operated by BPDB, IPP and quick rentals, terms set for renewal of contract of existing quick rentals, and progress made as regards establishment of large-scale power plants.

Fuel-Mix in Power Generation

No major change can be discerned in fuel-mix in the power generation – gas continues to be the major fuel for power generation (Table 1.16). Reducing the current dependence on liquid fuel (such as heavy fuel oil (HFO) and high speed diesel (HSD)) from the existing level (16.7 per cent) to 6.1 per cent by 2016, as per the generation plan, appears to be highly unlikely given the limited progress in power generation through

Table 1.16

Fuel-wise Power Generation Plan

(in Per cent)

Particular	Fuel-Mix at Present (FY2014)	Plan for Fuel-Mix		
		2013-14	2014-15	2015-16
Import-based	-	2.5	4.8	4.5
LNG-based	-	-	-	1.6
Liquid energy-based	16.5	16.7	12.5	6.1
Hydro	2.3	1.9	1.7	1.5
Coal	3.1	1.9	1.7	6.9
Gas	78.1	77.0	79.4	79.4
Total	100.0	100.0	100.0	100.0

Source: Bangladesh Power Development Board (BPDB).

alternate sources such as coal and liquefied natural gas (LNG). On the other hand, given the limited gas reserve (proven)[50] and low growth in supply of gas for power generation, import of HFO, mainly for power plants, has doubled within one year – from 5.9 per cent in FY2011-12 to 14.6 per cent in FY2012-13. Thus, the existing pattern of fuel-mix is likely to continue to have implications for generation cost of electricity.[51] Recently, BPDB has set the long-term target for diversifying the fuel-mix by 2030 whereby about 50 per cent electricity was to be generated by coal, 25 per cent by natural gas, 10 per cent by liquid fuels, and 15 per cent by other sources (e.g. cross-border electricity trade, renewable energy and nuclear energy). This indicates that out of total targeted generation of 37,000 MW, about 18,000 MW will be generated by coal; of which about 60 per cent (about 11,000 MW) is targeted to be generated by local coal. Given the slow progress in developing the local coal base (both from local coal mines as well as from imported coal) the targeted level of change in fuel-mix will be difficult to attain. This was likely to lead to further revision of the long-term plan perhaps with more emphasis on other alternate sources such as increased import of electricity from India (estimates have been put at as high as 3,500 MW) and from Nepal and Bhutan.

Operational Efficiency – BPDB

The choice of fuel use has significant impact in the generation cost of the BPDB's power plants. Of the total capacity of BPDB (5,088 MW), about 50 per cent is generated by gas, 15.3 per cent by HFO, 4.9 per cent by coal, and 4.5 per cent by water (Table 1.17). However, generation cost significantly varies for different kinds of fuel – from as low as Tk. 0.88 in hydropower, and Tk. 1.97 in gas-based power-plants, to as high as Tk. 17.8 in HFO, and even Tk. 43.9 in case of use of diesel. Cost of fuels such as HFO and diesel account for the major share in the generation cost of the plants use such fuels. There is significant difference in operation and maintenance (O&M) cost between diesel-based power plants vis-à-vis other plants. Overall, the operational efficiency for BPDB is likely to be high in plants where generation cost is low. From this consideration, the low plant factor[52] (6 per cent) for costly diesel-based power plants is well understood. In contrast, failure to more use (low plant factor) of the low-cost gas, water and coal-based power plants (low plant factor) at the required high level because of low level of efficiency of the plants, due to outdated machineries and lack of adequate supply of gas, are resulting in incurring the burden of additional cost. Due to weaknesses in power generation strategy, BPDB is facing operational inefficiency.

Table 1.17

Generation Costs for BPDB Power Plants

Generation Plant under Power Station	Capacity (MW)	Share (%)	Plant Factor (%)	Variable Cost		Fixed Cost Tk./kWh	Generation Cost Tk./kWh
				Fuel Cost Tk./kWh	O&M Cost Tk./kWh		
Water	230	4.5	44	-	0.14	0.74	0.88
Gas	2537	49.9	42	1.03	0.17	0.77	1.97
Coal	250	4.9	53	4.65	0.25	0.81	5.71
HFO	791	15.5	15	15.15	0.29	2.41	17.85
Diesel	146	2.9	6	28.78	9.26	5.88	43.91
Sub-Total	3954	77.7	36	2.63	0.24	0.94	3.80
Public Co.	1134	22.3	54	0.26	0.75	1.00	2.01
Grand Total	5088	100.0	-	1.90	0.40	1.00	3.30

Source: Bangladesh Power Development Board (BPDB).

[50] Please see Section 1.5.5 for details on availability of gas.

[51] The generation cost has increased by 7.6 per cent between FY2011-12 and FY2012-13.

[52] The plant factor indicates how much share of total available generation capacity is being used for power generation.

Operational Efficiency – IPP

Over 80 per cent electricity generated by IPP and small IPP power plants is by gas, and the rest 20 per cent is by HFO. However, the cost structure of BPDB and IPP/small IPP of similar fuel-based plants are not same – overall generation cost in the IPP is about Tk. 0.22 per kWh higher than that of BPDB (Table 1.18). It is interesting to note that, generation cost in HFO-based plants is Tk. 0.08 per kWh less than that of BPDB and that of gas-based plants is Tk. 0.3 per kWh higher than that of BPDB. On the other hand, the plant factor for gas-based IPP is about 26.1 percentage points higher than that of BPDB given the fact that the generation cost in the former is higher than that of the latter. Similarly, efficiency in fuel-use as well as operation and maintenance cost in IPP plants appears to be lower than that of BPDB. Given the limited supply of gas, it is better to supply gas to well-maintained BPDB plants to generate electricity at lower cost by increasing use of their unutilised capacities. In the same logic, it is better to use IPP plants using HFO for ensuring better operational efficiency. However, the needed changes are difficult to attain in most cases because of locational and other constraints (inadequate availability of primary energy).

Table 1.18

Generation Costs for IPP Power Plants

Generation Plant under Power Station	Capacity (MW)	Share (%)	Plant Factor (%)	Variable Cost		Fixed Cost Tk./kWh	Generation Cost Tk./kWh
				Fuel Cost Tk./kWh	Variable O&M Tk./kWh		
Total IPP & Small IPP	1516	100.0	69	2.91	0.12	1.76	4.08
HFO	297	19.6	41	13.81	-	3.95	17.77
Gas	1219	80.4	76	0.65	0.14	1.47	2.27
Difference in costs (IPP/SIPP is less/greater than PDB)							
HFO	-297	-	-	-1.34	-0.29	1.54	-0.08
Gas	-1318	-	-	0.68	0.03	-0.70	0.30

Source: Bangladesh Power Development Board (BPDB).

Operational Efficiency – Rental/Quick Rental

Rental power plants generate electricity by using gas (40 per cent), HFO (42.3 per cent) and diesel (18.7 per cent). There is wide difference in the plant factor for different kinds of plants reflecting operational priorities in fuel-mix based on the differences in the generation cost (Table 1.19). Compared with HFO and gas-based plants of BPDB, rental power plants generate electricity in HFO and diesel-based power plants at lower cost; but they generate electricity in gas-based power plants at higher cost. In fact, rental HFO plants generate electricity even at a lower price compared to that of IPP/small IPP. This could perhaps be due to their comparatively new machineries which were set up within the last five years.[53] With high generation cost in gas-based rental and quick rental power plants, an average plant factor of 71 per cent indicates inefficiency in operation when low-cost plants of BPDB and IPP remain underutilised (plant factor: 42 per cent and 76 per cent respectively). As mentioned earlier, this is difficult to attain because of locational and other constraints.

It appears that there is operational inefficiency involving various types of power plants which is contributing towards higher cost burden to the users (Table 1.20). Public entities entasked to maintain operational efficiency (e.g. National Load Dispatch Centre – NLDC) needs to be strengthened to cope with and more

[53]Although per unit fixed cost (Tk./kWh) of rental plants is higher than that of IPP and BPDB in all kinds of fuel use, because of their efficiency in fuel use specifically in HFO and diesel-based plants, overall generation cost is lower than that of BPDB and IPP plants.

Table 1.19

Generation Costs for Rental and Quick Rental Power Plants

Generation Plant under Power Station	Capacity (MW)	Share (%)	Plant Factor (%)	Variable Cost		Fixed Cost Tk./kWh	Generation Cost Tk./kWh
				Fuel Cost Tk./kWh	Variable O&M Tk./ kWh		
Total Rental	**2169**	**100.0**	**50**	**6.56**	**0.31**	**4.11**	**10.99**
Gas	874	40.3	71	0.83	0.34	3.40	4.58
HFO	917	42.3	43	13.35	0.27	3.96	17.58
Diesel	405	18.7	19	16.43	0.36	10.45	27.24
Difference in costs (rental is less/greater than PDB)							
HFO	126	-	-	-1.80	-0.02	1.55	-0.27
Gas	-1663	-	-	-0.20	0.17	2.63	2.61
Diesel	259	-	-	-12.35	-8.90	4.57	-16.67

Source: Bangladesh Power Development Board (BPDB).

Table 1.20

Inefficiency in Power Plant Operation

Fuel	BPDB		IPP/SIPP		Rental/QRR	
	Plant Factor	Generation Cost	Plant Factor	Generation Cost	Plant Factor	Generation Cost
Gas	49.9	1.97	80.4	2.27	40.3	4.58
HFO	15.5	17.85	19.6	17.77	42.3	17.58
Diesel	2.9	43.91	-	-	18.7	27.24

Source: Bangladesh Power Development Board (BPDB).

efficient in order to reduce the overall generation cost. Even after considering structural constraints (e.g. location, low availability factor due to old plants and lower supply of gas against the requirement), if operational inefficiency continues, it will then be indicative of adverse impact of non-economic factors which influence choice of different plants for generating electricity. A major challenge for the power sector is to take into account the rapid changes in the structure of demand for electricity (e.g. changes in seasonal demand and changes in the nature of consumer demand), and thereby to generate adequate amount of electricity accordingly. In the long-term, BPDB will need to cater to the growing demand for electricity by using more low-cost power plants as well as by bringing down the share of high-cost power plants, and also by ensuring the right balance between base load and peaking plants.

Exit Issue of Quick Rental Plants

A total of 18 quick rental power plants are currently in operation and the majority of these plants are supposed to exit by 2014-2017. A total of six plants have been contracted for the second term (with a generation capacity of 434 MW) with the same contractual arrangements as were the cases earlier. According to the estimated projection, as well as anecdotal information of BPDB, the contracts of the rest of the rental and quick rental plants are likely to be renewed for yet another term. If such decision is taken by the Ministry, following issues will need to be examined: a) Under what condition, a similar contractual arrangement prevails with quick rental plants which has already appropriated the establishment costs and has already exhausted its most efficient operational period; and b) Under what conditions, the government decided to continue the operation of fuel-based quick rental plants given the fact that operational cost of these plants is significantly high.

Table 1.21
Estimated Tariff under Different Terms and Conditions

Plant	Under the New Contractual Arrangement			Possible Alternatives for Adjustment of Costs			
	Tariff before Renewal	Tariff after Renewal	Changes in Tariff (Tk./kWh)	Liberalised Tariff (Fixed Cost=Zero)	Liberalised Tariff (Fixed Cost=20% of the Initial Rental Cost)	Changes in Tariff (Tk./kWh) (Fixed Cost=Zero)	Changes in Tariff (Tk./kWh) (Fixed Cost=20% of the Initial Rental Cost)
1	*2*	*3*	*4=(3-2)*	*5*	*6*	*7=(5-2)*	*8=(6-2)*
Siddhirganj 100 MW QRPP	19.57	19.54	-0.03	16.40	17.1	-3.17	-2.47
Ghorarsal 78.5 MW QRPP	5.41	3.29	-2.12	1.22	2.0	-4.19	-3.41
Khulna 55 MW QRPP	21.26	19.55	-1.71	18.10	18.6	-3.16	-3.16
Brahmanbaria 70 MW QRPP	5.42	5.36	-0.06	1.20	2.0	-4.22	-3.42
Ashuganj 80 MW QRPP	5.40	5.40	0.00	1.20	2.0	-4.20	-3.40
Pagla 50 MW QRPP	20.40	20.00	-0.41	17.00	17.2	-3.40	-3.20

Source: Calculated by the CPD IRBD Team based on the Bangladesh Power Development Board (BPDB) data.

Regarding the first issue, there is little justification to renew the contracts of six rental plants with the same contractual arrangement.[54] Since the fixed cost of these plants is supposed to be paid back while they are in operation in the first phase, the same fixed cost should not be considered while calculating the generation cost. If these plants use the same machines in the second phase (only by replacing parts and components) then the component of fixed cost is supposed to be close to zero. However, the changes in the tariff after the renewal of the contract in most of the plants are rather insignificant (this was not even changed in one particular case) which indicate inclusion of almost the same amount of 'fixed cost' for the new phase (Table 1.21). If alternate estimates are used (assuming two scenarios: no fixed cost and 20 per cent fixed cost), the average tariff would be reduced by as low as Tk. 3.20 to as high as Tk. 4.22. In other words, a huge amount of additional costs are to be borne under these new contractual arrangements. If similar kinds of contractual arrangement are followed for the rest of the rental plants, a huge burden will need to be borne by the government which will eventually be passed on to the retail consumer's level.

Secondly, it appears that BPDB tries to avoid using HFO and HSD-based power plants in generating electricity (average plant factor 20-40 per cent) because of their high generation cost. In that case, there is little opportunity to utilise maximum available capacity of those power plants in the future as well. However, these costly power plants, given the advantage of quick load particularly of diesel-based plants, should be used for meeting the immediate peak demand.

Regarding the second issue, the progress of power generation plants currently being implemented under the BPDB is not satisfactory. A total of 14 ADP projects related to power generation is supposed to be

[54]According to anecdotal information, BPDB took the decision to renew the contract considering 50 per cent of the plant's capacity cost (fixed cost) in the estimation of generation cost. Analysis shows that contract of only one plant out of the six has been renewed under this term, and rest of the plants have been contracted at significantly higher than 50 per cent of the fixed cost.

Table 1.22
Implementation Status of Selected Power Sector-related ADP Projects

Project	Expected Time of Implementation	Total Cost			Cumulative Expenditure up to March 2014			Expenditure of Total Cost (%)
		Total Cost	GoB	Project Aid	Total	GoB	Project Aid	
Bhola 225 MW Dual Fuel Combined Cycle Power Plant	30 September 2014	200141.69	59561.88	140579.81	37632.86	32908.09	4724.77	18.8
Shahjibazar 330 MW Combined Cycle Power Plant	30 December 2015	271642.93	84063.64	194579.29	0.52	0.00	0.52	0.0
Bheramara Combined Cycle Power Plant (360 MW) Development	31 December 2014	414048.00	91937.59	322108.42	31672.88	2316.24	27486.69	7.6

Source: Bangladesh Power Development Board (BPDB).

completed in FY2013-14. But only two projects are likely to be completed; another two projects have made considerable progress (50-70 per cent). However, rest of the projects has made only insignificant progress. The progress of three large-scale power plant projects[55] which are supposed to be completed in 2014-2015 have not been able to make appreciable progress till date (as of March 2014) (Table 1.22). Lack of planning in project implementation is a major weakness which is partly related to failure to get confirmation about supply of gas from the Petrobangla. In fact, because of the delay of public sector projects, the likelihood of discontinuing the quick rental plants after the existing phase was rather bleak.

1.5.4 Generation of Electricity through Alternate Sources

According to the renewable energy policy, about 5 per cent of total electricity was planned to be supplied by 2015 from alternate sources which will be increased to 10 per cent by 2020. The targeted level of renewable energy is about 800 MW to be generated through solar and biogas (Ten Year Perspective Plan, 2021). However, progress made so far has been insignificant – about 139 MW of renewable energy generation capacity has been installed till FY2013-14 while another 39 MW of capacity was to be installed in FY2014-15 (projected) (Table 1.23).[56] According to IDCOL, out of the target of 6 million solar home system (SHS) to be installed by 2016 about 2.98 million has been installed till now. However, the progress with respect to other programmes is rather slow including that of solar mini grid (installed capacity till FY2013-14 100 kW against the target of 1,434 kW by FY2014-15) and the solar irrigation pump programme (38.9 kW against target of 1,789 kW by FY2014-15) (Table 1.23).[57] Scarcity of resources is one of the major problems in implementing renewable energy-related projects; more grants and subsidised credit are needed to make renewable energy available at the consumer level. Bangladesh needs to put focus on technology upgradation and emission reduction if it is willing to get low-cost global fund to be available by 2020 for the promotion of renewable energy.[58]

[55]These projects are: Bhola 225 MW dual fuel combined cycle power plant; Shahjibazar 330 MW combined cycle power plant; and Bheramara combined cycle power plant (360 MW).

[56]Among various programmes of renewable energy, solar home system (SHS) has produced over 137 MW of electricity which has made Bangladesh the sixth largest renewable energy producer in the world in 2013.

[57]All these programmes have been implemented by the IDCOL, a public-private infrastructure financing entity. Investment in IDCOL has both international and local components comprising of grant from the government.

[58]A number of Pacific Island countries have taken strategies towards that direction.

Table 1.23

Renewable Energy: Installed Capacity

Source	Installed Capacity		
	Till FY14	During FY14	FY15 (Projected)
SHS	137 MW	29.21 MW	38.61 MW
Biogas plant for cooking	33166	4745	15400
Solar mini grid	100 kW	382 kW	1434 kW
Solar irrigation pump	38.92 kW	217.45 kW	1789.46 kW
Biogas-based power plant	518 kW	64 kW	207.5 kW
Biomass-based power plant	650 kW	0	0

Source: Infrastructure Development Company Limited (IDCOL).

Recently government has taken a plan to introduce 'feed-in-tariff' in renewable energy which is a cost-based compensation or subsidy to renewable energy producers. This has been implemented in many countries under long-term contracts to keep the production cost near to the conventional electricity.

1.5.5 Availability of Gas as Primary Energy

Domestic supply of gas is the main source of fuel in gas-based power plants. At present about 60 per cent of total supply of gas is being used for generating electricity. However, domestic gas reserve has been depleted over the past years which reduced the scope of using gas for the power sector. The Petrobangla will be able to supply gas only till 2016-2017 to the BPDB for generation of power. The gas reserves in Bangladesh as per proven, probable and possible estimates are 20.7 trillion cubic feet (tcf), 27.04 tcf and 31.34 tcf respectively. The question that begs answer is for how long the gas reserve could be used for domestic economic activities. The length of availability will depend on level of utilisation of gas in each year. At present, domestic supply of gas per year is 0.8 tcf which is likely to be increased in the coming years given the possible rise in economic activities.

Using different levels of consumption of gas as suggested by the Petrobangla (0.8 tcf, 1.22 tcf and 1.45 tcf per year) an exercise has been carried out to understand the possible duration of availability of gas (usually called reserve/production (R/P) ratio) for recoverable proven, recoverable proven plus probable and recoverable proven plus probable plus possible (Figure 1.21). According to the Petrobangla, out of the total available reserve of 31.34 tcf, till now 16.34 tcf has been produced, and about 15 tcf gas is still available. The R/P ratio for the remaining gas reserve under the three different scenarios of consumption level was

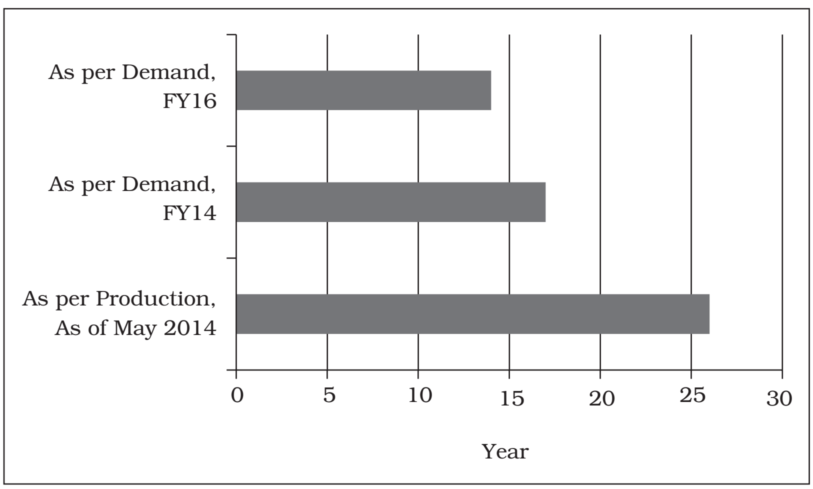


Figure 1.21

Estimated Duration of Gas Reserve in Bangladesh

Source: Petrobangla.

likely to be as low as 14 years (with the projected demand level of 1.45 tcf for FY2015-16) to as high as 26 years (with the current level of production of 0.8 tcf). Under such a scenario the remaining available gas reserve will be exhausted between 2028 and 2040.

Unlike the power sector, development of the gas sector has not yet received the attention that it deserves from the government as a priority sector. The oil, gas and mineral sector is implementing eight ADP projects in FY2013-14. Five projects are supposed to be completed by 2014. However, none of these are likely to be finished on time (completion rate below 32 per cent as of November 2013).[59]

The current status of exploring and exploiting the resources of off-shore gas blocks leaves much to desire. Conoco Philips is scheduled to undertake survey in Block 10 and 11. In February 2014, a contract has been signed with the ONGC for blocks 4 and 9. In March 2014, one more contract has been signed with SANTOS and Kriss energy for block 11. Even if gas was discovered, it will take significant time to get gas from these contracted blocks as activities in most of these blocks are at a very early stage.

1.6 EXPORT SECTOR PERFORMANCE: FLUCTUATING FORTUNES

Bangladesh's export sector was able to record an impressive growth rate of 13.2 per cent during the July-April period of FY2013-14 compared to the corresponding period of FY2012-13 in the backdrop of political instability and the adverse implications this had on export-related activities. However, while the RMG sector's performance was notable (15.4 per cent growth), the performance of the non-RMG sector remained a cause for concern. From both product as well as market diversification, the record of non-RMG sector does not augur well, necessitating a closer look at the underlying factors.

1.6.1 RMG: Impressive Growth

During July-April period of FY2013-14, export earnings from knitwear registered 16.9 per cent growth and woven sector's growth was 13.9 per cent compared to the corresponding months of FY2012-13. RMG exports experienced fluctuating fortunes and some volatility in FY2013-14. While RMG export growth in the early months of the current fiscal year was quite robust, earnings were rather sluggish during January-March of FY2013-14. Table 1.24 shows that RMG export earnings recorded a high growth of 24.2 per cent in the first quarter (July-September) of FY2013-14, but then tapered down to 6.8 per cent during the third quarter (January-March). In a significant turnaround, export in April of FY2013-14 posted an impressively high growth of 17.6 per cent.

Market decomposition for the RMG exports illustrates that Bangladesh's exports in the US market posted a moderate growth of 8.4 per cent during the period of July-March of FY2013-14 compared to the corresponding

Table 1.24

Growth of RMG and Non-RMG Exports in Different Quarters of FY2013-14

(in Per cent)

Product	**FY14 Q1 (Jul-Sep)**	**FY14 Q2 (Oct-Dec)**	**FY14 Q3 (Jan-Mar)**	**FY14 (Apr)**
RMG	24.2	15.7	6.8	17.6
Non-RMG	10.0	-2.1	4.5	10.1
Total	21.2	11.9	6.4	16.0

Source: EPB (2014).

[59] Completion rate for one project is less than 1 per cent; one project is supposed to be completed by 2012, but it is yet to be started. Two projects are expected to be completed by 2015, but the completion rate is below 15 per cent.

Table 1.25

RMG Export Growth of Bangladesh and Other Competing Countries in the EU and US

(in Per cent)

Country	EU: FY14 (Jul-Feb)			USA: FY14 (Jul-Mar)		
	Knit	Woven	Total RMG	Knit	Woven	Total RMG
Bangladesh	14.7	14.3	14.6	14.3	6.5	8.4
China	3.0	-0.8	1.0	4.8	-0.7	2.2
Vietnam	6.2	6.5	6.4	16.3	15.8	16.1
Turkey	3.7	-2.4	1.4	18.2	7.9	12.0
India	12.8	-0.9	5.6	13.6	7.9	10.2
Cambodia	26.9	28.6	27.3	6.7	-7.5	2.6
Indonesia	-0.3	-4.6	-2.8	-5.2	0.4	-2.8

Source: Eurostat, European Commission (2014) and United States International Trade Commission (USITC) (2014).

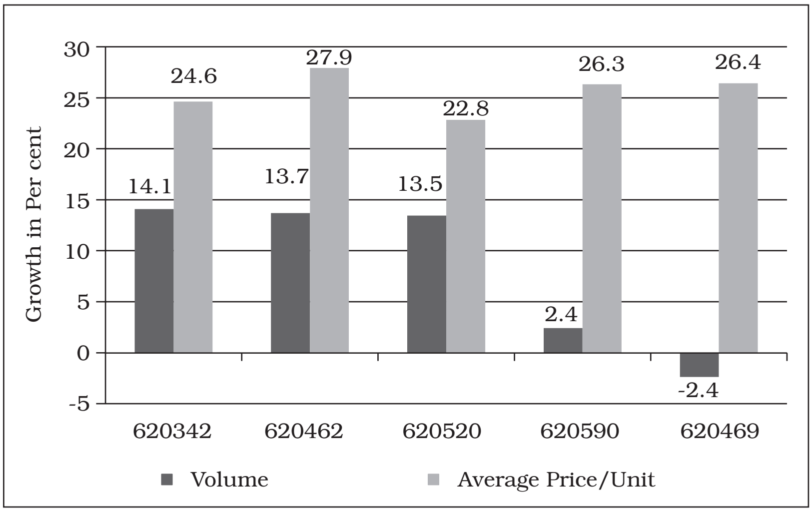
period of FY2012-13 (USITC 2014). Data also shows that over the corresponding period growth of earnings from knitwear (14.3 per cent) was higher compared to the woven items (6.5 per cent) in the US market. Table 1.25 shows that competing countries of Bangladesh such as Vietnam (16.1 per cent), India (10.2 per cent) and Turkey (12 per cent) performed better than Bangladesh over the corresponding period. To compare, Bangladesh's performance was better than China (2.2 per cent), Indonesia ((-) 2.8 per cent) and Cambodia (2.6 per cent) in the US market. Two conclusions could be made from here: first, orders are continuing to shift from China in the increasingly large US market; second, along with Vietnam, a traditional competitor of Bangladesh, some of its other competitors such as India and Turkey are consolidating their foothold in the US market.

As opposed to the US market, Bangladesh's performance in the EU was better. Bangladesh has continued to strengthen its competitive position in this market, and this was true for all major exportable items. Eurostat (2014) data shows that RMG export achieved 14.6 per cent growth in the EU market with about 14.7 per cent for knit and 14.3 per cent growth for woven items during July-February in FY2013-14 compared to the corresponding months of FY2012-13. The data also reveals that in case of exports of the RMG items Bangladesh performed better than its major competitors such as Vietnam (6.3 per cent), Turkey (1.3 per cent), Indonesia ((-) 2.7 per cent), India (5.6 per cent) and China (0.9 per cent). However, Cambodia was able to post a significantly high growth of 27.3 per cent in case of RMG exports to the EU.

It is important to identify whether the growth during July-April of FY2013-14 was driven by volume or price effect. As can be seen from Figure 1.22, in this period both the volume and average price per unit of woven products have registered some increase, for the top five woven items, when compared to the same months of FY2012-13. It is seen that growth was primarily driven by price effect. Trends for volume and price effects for the top five knitwear items were found to be somewhat mixed.

As is known, despite the impressive export performance the RMG industry is facing formidable challenges in view of the Rana Plaza tragedy. As may be recalled, a National Tripartite Committee was constituted in 2013 to deal with policy and legislative, administrative and practical issues concerning building safety, electrical safety and fire safety and other concerns. Over the next years, the fate of the export-oriented RMG sector will critically hinge on the successful implementation of various elements of this Action Plan. A number of incentives have been put in place by the government to ease the difficulties faced by RMG entrepreneurs including bringing down the AIT from 0.8 per cent of f.o.b. (free-on-board) value to 0.3 per cent, raising incentives for exports to non-traditional markets and arranging low-cost credit for struggling RMG units. There was a need to relate such incentives to the implementation of the 2013 minimum wages in the enterprises, and this is yet to be done. Regrettably, providing compensation for the dead and injured

Figure 1.22
Volume and Price Growth for Top Five Woven Items: FY2013-14 (July-March)



Source: EPB (2014).

workers has remained an unfinished task as of now; needs and problems faced by workers who have lost their jobs and have been injured and of enterprises which are being closed down, are not being addressed in a speedy manner.

The sub-contracting led model of apparels sector development in Bangladesh has come under scrutiny, and to address the post-Rana Plaza challenges and take advantage of the emerging opportunities in the global market Bangladesh will need to pursue a coordinated strategy that should include factory relocation, compliance assurance, living wages for workers and product and market diversification. CPD's reports on post-Rana Plaza monitoring (available on CPD website) have dealt with these concerns in a detailed manner.

Box 1.1
Compliance Issues in the RMG Sector

The National Tripartite Committee, established in 2013, was set up to undertake comprehensive actions to ensure safety and security of workers at workplace through the needed safety measures in the RMG enterprises. Initiatives included recruitment of factory inspectors, reviewing and adjusting factory licensing and certification procedures, development and implementation of a factory fire safety programme and to provide legislative supports.

Accord, a platform of 150 European retailers, and Alliance, another platform of 27 North American retailers have brought together major brands dealing with Bangladesh in an effort to improve compliance situation in the Bangladesh RMG industry. Bangladesh University of Engineering and Technology (BUET) and International Labour Organization (ILO) are taking measures to assess RMG units both for structural integrity, and fire and electrical safety. Alliance and Accord have carried out inspection in three areas: A. Fire safety, B. Electrical safety and C. Building structure standards. Some progress has been made so far in assessing the safety record in the RMG factories.

Box Table 1.1: Factory Inspection Report by Accord, Alliance and ILO & BUET

Initiative	Total Number of Factories	Number of Factories Inspected	Factories Closed Down
Accord	1500	550	16
Alliance	626	519	3
ILO & BUET	1300	252	2
Total	3426	1321	21

Source: Accord and Alliance (2014).

(Box 1.1 contd.)

(Box 1.1 contd.)

As can be seen from the Table, the Alliance has completed about 80 per cent of its target for inspection. 519 of the 626 factories listed with the Alliance have been inspected. On the basis of inspection results, three factories have been asked to close down operation. Accord had planned to inspect 1,700 factories by September 2014; of these inspections of 550 factories have been completed 16 factories were asked to close down for not being able to meet with compliance standards. ILO and BUET inspected 252 factories of which two factories were asked to discontinue production. It is important to note that, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) had provided a list of 176 RMG factories which were closed down during the post-Rana Plaza period. However, initial findings of CPD's survey of these 176 factories indicate that several factories were closed down due to various reasons including ownership problems, wage hikes, lack of competitiveness, infrastructural issues and other reasons.

It has been reported that about 14 thousand workers have lost jobs as a result of the closure of about 20 RMG factories. Alliance has agreed to pay 50 per cent of the salary of workers in those factories. However, Accord and ILO are yet to agree to pay any compensation to the workers laid off due to compliance issues. In view of the emerging concerns, an effective mechanism of financial supports for the laid-off workers should be put in place, under the aegis of the government and with support from Alliance, Accord and ILO. Low cost fund and soft loans should be provided to the factories to help them to take the necessary corrective measures. Particular attention ought to be given to the needs of small and medium enterprise (SME) RMG units which will need both technical and financial support to weather the current difficulties.

1.6.2 Non-RMG: Short of Target

Growth performance of the non-RMG sector leaves much to desire. Export growth target for non-RMG sector in FY2013-14 was 15.5 per cent. However, the actual growth was much lower at 4.7 per cent. Over the next two months the required growth, 62.5 per cent, will be impossible to achieve. Figure 1.23 shows the month-on-month growth rate of RMG and non-RMG exports during July-April period of FY2013-14 as compared to the corresponding months of FY2012-13.

Within non-RMG sectors some have been able to post commendable performance: leather (33.9 per cent), footwear (30.2 per cent) and frozen food (23.3 per cent) experienced very high growth in the first ten months of FY2013-14 (Table 1.26).

Among major non-RMG items for the July-April period of FY2013-14 performance records of home textiles (0.22 per cent growth), jute and jute goods ((-) 21.1 per cent), petroleum bi-products ((-) 42.4 per cent) and cotton ((-) 2.7 per cent) were discouraging. Performance of jute and jute goods exports has continued to show downward trend with concomitant adverse multiplier effects in the economy.

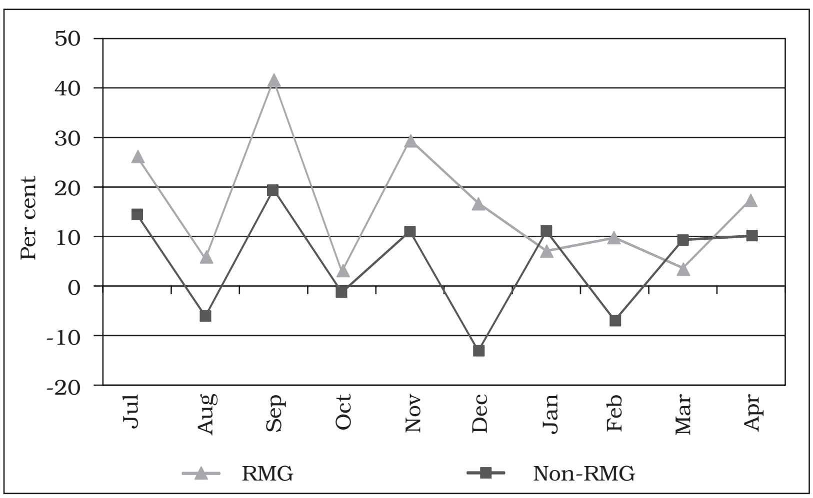


Figure 1.23

Month-on-Month Growth Rate of Bangladesh's RMG and Non-RMG Export: FY2013-14 (July-April)

Source: EPB (2014).

Table 1.26

Export Growth in Major Non-RMG Products: FY2012-13 and FY2013-14 (July-April)

(Million USD)

No.	Product	FY13 (Jul-Apr)	FY14 (Jul-Apr)	Growth (%)
	Positive Growth			
1	Home Textiles (Chapter: 53)	648	650	0.22
2	Frozen Food (Chapter: 02 & 03)	431	528	22.6
3	Footwear (Chapter: 64)	341	444	30.2
4	Leather (Chapter: 41)	317	424	33.9
5	Vegetables (Chapter: 07)	84	119	42.7
	Negative Growth			
1	Jute & Jute Goods (Chapter: 53)	860	679	-21.1
2	Petroleum Bi Products (Chapter: 27)	264	152	-42.4
3	Cotton (Chapter: 52)	102	99	-2.7
4	Plastic Products (Chapter: 39)	70	68	-3.2
5	Ores, Slag and Ash (Chapter: 26)	17	17	-2.1

Source: EPB (2014).

Market decomposition data indicates a mixed picture for Bangladesh's non-RMG exports. In the US market, Bangladesh's export of frozen food (45.3 per cent) and footwear (81.3 per cent) experienced extraordinarily high growth during July-April in FY2013-14. On the other hand, leather ((-) 27.3 per cent) and home textile ((-) 26.7 per cent) experienced significant negative growth over the same period. Despite the negative growth in the US market for leather products, the leather industry crossed the threshold of USD 1 billion mark for exports for the first time in the first ten months of the current fiscal.[60] As is known the leather sector has formidable potential to emerge as the next RMG sector in Bangladesh. Its global market, worth of USD 230 billion, indicate the potential market opportunities that Bangladesh has. The local value addition in this sector is also significantly high. However, several health, environmental and compliance issues need to be addressed; the tannery industry needs to be shifted; Tannery Park needs to be established on an urgent basis.[61] The Central Effluent Treatment Plan (CETP) needs to be established at the Savar Tannery Park to ensure environmental compliance.[62]

According to the Eurostat (2014) data, in the EU market Bangladesh's export earnings from footwear (21.4 per cent), frozen food (17 per cent) and home textile (19.4 per cent) and leather (30.2 per cent) posted impressive growth during July-February in FY2013-14 compared to the same months of FY2012-13.[63] Eurostat (2014) data shows that the performance of Bangladesh either matched or surpassed the growth performance of other major competing countries such as Vietnam, Cambodia and Turkey. Figure 1.24 provides a comparison of Bangladesh and Vietnam's performance in the EU market for some major items such as RMG, footwear, leather, frozen food and home textiles.

As is known, Bangladesh's South-South trade has been on the rise over the past few years which is good for both market and product diversification.[64] It is also important to mention that the non-RMG exports

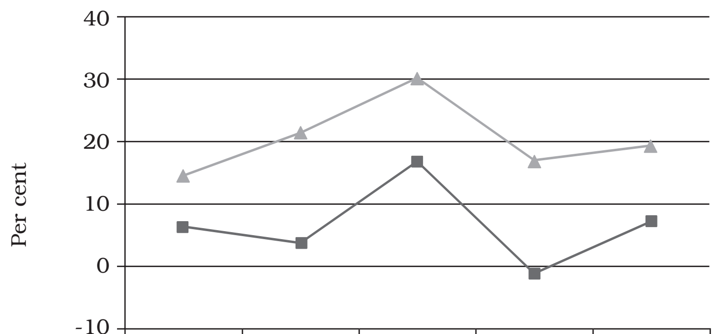
[60]It is important to note that, leather exports was USD 980.7 million during the whole FY2012-13.

[61]EU have set a time limit that they would not import leather products from environmentally non-complaint countries.

[62]The leather industry will relocate to the Savar Tannery Park by 2014.

[63]For the footwear items, Turkey (16.8 per cent) experienced high growth while Vietnam (3.8 per cent) posted moderate growth during July-February in FY2013-14 as compared to the same months of FY2012-13. However, China ((-) 1.9 per cent), Indonesia ((-) 5.9 per cent) and Cambodia ((-) 2.7 per cent) experienced negative growth in the EU market for footwear items during the above mentioned period.

[64]Between FY2008-09 and FY2012-13, share of Bangladesh's export to the rest of the world (barring non-OECD countries) increased from 15.9 per cent to 19.7 per cent. The share decreased slightly to 19.2 per cent during July-April of FY2013-14 compared to the same months of FY2012-13.



	RMG	Footwear	Leather	Frozen Food	Home Textiles
Bangladesh	14.6	21.4	30.2	17.0	19.4
Vietnam	6.4	3.8	16.8	-1.1	7.2

Source: Eurostat, European Commission (2014).

Figure 1.24
Comparison between Bangladesh and Vietnam's Export Growth in EU (27): FY2013-14 (July-February)

Table 1.27
Share of RMG and Non-RMG in Bangladesh's South-South Trade: FY2013-14 (July-April)

(in Per cent)

Country	RMG	Non-RMG	Total Export (Million USD)
China	30.8	69.2	611
India	23.2	76.8	334
Hong Kong	29.4	70.6	237
Saudi Arab	25.5	74.5	151
Turkey	72.6	27.4	722
Korea, Republic of	39.5	60.5	297
Russia	72.8	27.2	225
United Arab Emirates	64.0	36.0	196
Brazil	95.5	4.5	149

Source: EPB (2014).

contributed an important share in Bangladesh's South-South trade (Table 1.27). However, Bangladesh's export to the major developing countries for non-RMG products is rather mixed.

Bangladesh's non-RMG export experienced commendable growth in China (66 per cent) and Korea (74.4 per cent) during July-April period of FY2013-14 as opposed to the same months of FY2012-13. Export earnings registered a moderate growth in Turkey (6.1 per cent) and Russia (15.2 per cent) during the above mentioned period. However, non-RMG exports registered negative growth in other major markets such as Brazil ((-) 26.4 per cent), UAE ((-) 19.1 per cent), Hong Kong ((-) 19.7 per cent) and India ((-) 40.3 per cent).

It is important to note that, India has emerged as an important trading partner of Bangladesh. Bangladesh's total trade with India reached to USD 5,303 million in 2013 from USD 2,170 million in 2005. Despite the higher growth in recent years, it is notable to observe that Bangladesh's export to India decreased by (-) 33.2 per cent during July-April of FY2013-14, in spite of the recently offered duty-free market access initiative of India. But the fact remains that the offer could potentially help Bangladesh to consolidate its position in the growing Indian import market (USD 490 billion in 2013), where Bangladesh's current share is only 0.13 per cent in 2013.[65] In a recent study, Rahman and Akhter (2014) identified that trade facilitation-related

[65]India provided duty-free (and quota-free) market access virtually for all exportable products (excepting 25 products which includes drugs, tobacco and arms) of Bangladesh in 2011.

measures including infrastructure bottlenecks, customs and port-related facilities and non-tariff barriers are crucial to promote trade with India.[66] The study concluded that better infrastructure, adequate port and customs-related facilities, strengthening and modernisation of the Bangladesh Standards and Testing Institution (BSTI), introduction of e-documentation, electronic interchange data, implementation of Single Window, and signing of mutual recognition agreements will be required to take full advantage of India's market access offer.[67]

1.6.3 Jute Export: Drastic Reduction

The negative growth in the jute sector is a disquieting feature of the export earnings during July-April of FY2013-14 as opposed to the same months of FY2012-13. While the growth of raw jute dropped significantly by (-) 50 per cent, export of jute sacks and bags also declined drastically by (-) 52.2 per cent during the above mentioned period. Only jute yarn and twine experienced a positive growth of 5.6 per cent. Market decomposition data for jute and jute goods indicate that Bangladesh's export to the top 10 importing countries has suffered significantly in recent times. On the other hand, Bangladesh's jute exports to traditional markets of India ((-) 60.5 per cent), Thailand ((-) 81 per cent), Iran ((-) 13.8 per cent), Pakistan ((-) 19.5 per cent), Egypt ((-) 11.8 per cent), Indonesia ((-) 20.5 per cent) and Sudan ((-) 35.5 per cent) experienced significant negative growth during the above mentioned period. Positive growth in export earnings was registered in Turkey (6.5 per cent) and China (16.5 per cent) during July-April months of FY2013-14.[68]

There are several reasons for the drastic deceleration of jute exports. *First*, the demands for jute and jute goods have experienced deceleration in several traditionally importing countries. As was seen, in the first nine months of this fiscal, Bangladesh's jute exports to Thailand fell by (-) 80.9 per cent whereas Thailand's total global import of jute goods declined by (-) 33.2 per cent during the same months (Customs Department, Thailand, 2014). In India, total global import of jute goods has also declined by (-) 33.84 per cent during April-December period of FY2013-14 (April-March) as opposed to the comparable months of fiscal year 2013.[69] Total global import of jute goods also declined in other major importing countries of Bangladesh such as Indonesia ((-) 23.5 per cent), Thailand ((-) 33.2 per cent) and Turkey ((-) 4.9 per cent) (Table 1.28).

Table 1.28

Total Import of Jute Goods by Major Markets of Bangladesh in FY2013-14

(Million USD)

Country	FY13 (Jul-Mar)	FY14 (Jul-Mar)	Growth (%)
India[a]	378	250	-33.8
Indonesia[b]	39	30	-23.5
Thailand	81	54	-33.2
Turkey	223	212	-4.9
Pakistan	39	39	-4.9

Source: Statistics Indonesia (2014); Information and Communication Technology Centre, Thailand (2014); Turkish Statistical Institute (2014); State Bank of Pakistan (2014); and Department of Commerce, India (2014).
Note: [a]Figures of India represents the period of April-December of each fiscal year.
[b]Figures of Indonesia represents the period of July-February of each fiscal year.

[66]Rahman and Akhter (2014) identified five major trade facilitation-related issues in the Indian marked which are: (a) infrastructure-related bottlenecks; (b) inadequate customs and port-related facilities; (c) cumbersome export procedures and documentation; and (d) non-tariff barrier-related to testing requirements, registration or licensing, certification, packaging and labeling and restriction on use of food additives.
[67]Export to India from Bangladesh is dominated by non-RMG exports; this is a distinguishing feature when compared to Bangladesh's traditional export markets of the US, Canada and the EU.
[68]Bangladesh also experienced positive growth in Russia (9.8 per cent), Japan (4.7 per cent) and Germany (21.5 per cent) during July-April of FY2013-14 as compared to the same months of FY2012-13.
[69]Indian fiscal year runs from April to March.

Second, the international prices for jute and jute goods have suffered. For example, the price of 100 pieces cut size jute bags was about USD 54 in FY2012-13 which came down to USD 50 in FY2013-14 registering (-) 7.4 per cent negative growth. As per the price projection of Bangladesh Jute Mills Corporation (BJMC) (2014), the price for Hessian Bags (HC 40-10oz/40 Food Grade) was likely to come down by (-) 5.6 per cent during May-July of FY2013-14 as compared to the same months of FY2012-13.[70] *Third*, the price of raw jute in the domestic market has seen some rise in recent times. The price of raw jute per maund was about Tk. 1,300-1,400 in 2013 which increased to Tk. 1,400-1,600 in 2014. Exporters were of the opinion that price hike for the raw jute reduced their profitability and the exports. *Fourth*, depreciation of Indian Rupee also worked as a major reason for the falling jute exports in the Indian market. *Fifth*, political developments in several jute-importing countries also worked as a major impediment to export of jute. Exporters complained that jute exports suffered because of political turmoil in the Middle East (Egypt, Syria) and Africa (Sudan) which were traditionally important markets for Bangladesh.[71]

To revive the declining fortune of jute and jute goods, Bangladesh will need to take a number of short and medium term measures. Proper implementation of Jute Packaging Act, 2010 will be crucial to increase domestic demand and rejuvenate the jute industry.[72] Jute has been identified as an environment-friendly item because of its biodegradable qualities. Technological upgradation, research and development, and improvement of the quality and designs for the jute products will be needed to raise competitiveness of the jute items in the global market. An earlier CPD study (Moazzem *et al.* 2012) has identified a number of steps in this regard, including suggestions for restructuring of the BJMC, strengthening relevant institutions, undertaking necessary reforms and raising the efficacy of privatisation of the SoEs related to the jute sector. It may be noted that India provides minimum support price for the Indian jute producers, and the enforcement of mandatory use of jute bags is quite stringent in India.[73] With its exceptionally high domestic value addition, significant multiplier effects in the economy and the renewed interest in jute products globally, jute sector should command a refreshing look by Bangladeshi policymakers. A comprehensive plan covering productivity growth, allocative efficiency of supportive measures and restructuring of the jute industry will be needed if Bangladesh is to take advantage of the emerging opportunities in this regard.

The upshot of the above discussion is that to sustain the growth momentum, reduce vulnerability, ensure sustainable growth of the export-oriented sectors of the country and to take advantage of the growing opportunities in the global market, Bangladesh should undertake a comprehensive strategy to pursue the objectives of the twin diversification: product diversification, both within RMG and extra-RMG, and market diversification. In this regard South-South export opportunities and sectors such as leather and footwear should receive high priorities from the policymakers.

1.7 CONCLUDING REMARKS

As the present analyses reveal, the fiscal framework envisioned in the Budget for FY2013-14 has weakened to a considerable degree. Domestic resource mobilisation has been losing its buoyancy and has underperformed; the value for money spent for public expenditure has suffered erosion in view of weak implementation record of projects; private sector credit is not picking up; because of reasons of lower net aid flow, dependence on domestic resources to underwrite deficit financing has been on the rise.

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[70] Jute exporters also complained about the 'undercutting' as a major factor for low export price. It has been mentioned that the behaviour of the big jute firms is quite oligopolistic. Some large exporters offer low price to the buyers and the price decreases for the whole jute and jute goods market.

[71] Sudan has imposed restrictions on import of jute yarn from Bangladesh.

[72] Jute Packaging Act, 2010 ensures mandatory use of jute for several packaging products. To facilitate domestic use of jute bags instead of polythene or polypropylene, Jute Packaging Act 2010 became effective from January 2014.

[73] India Cabinet Committee on Economic Affairs approved the minimum support price for 2014-15 for TD-5 grade of jute at Rs. 2,400 per quintal which is a 4 per cent increase from FY2013-14.

As is known, the first half of FY2013-14 saw significant disruption in macroeconomic management. However, in the second half of the fiscal, despite the relative respite, uncertainties continued to adversely affect private sector investment. Both the above woes had undermined the performance of key macroeconomic performance indicators and attainment of medium term developmental targets of the economy. Whilst the economy has been able to demonstrate a modicum of stability, manifested in contained inflation, sustained exchange rates and high foreign exchange reserves, structural weaknesses continue to persist and afflict the economy. In this backdrop, the key challenge confronting macroeconomic management in FY2014-15 will be to ensure accelerated growth through reinvigoration of the investment scenario.

This report has made an attempt to flag some key concerns emanating from the analysis of the state of Bangladesh's macroeconomic management in FY2013-14. Many of these concerns are of medium to long-term in nature, and will not only serve as benchmark of FY2014-15, but will also be shaping the outcomes of the FY2014-15 budgetary proposals. The evolving situation may be corrected and addressed only through concerted efforts at institutional strengthening, targeted reforms, good governance at all levels and by putting in place an inclusive and participatory political culture.

Indeed, in the report titled 'A Set of Proposals for the National Budget FY2014-15', dated 4 May 2014 (Chapter 2 of this volume), CPD had underscored the importance of non-economic factors in defining the economic prospect of the country over the coming years. The three 'traditional' non-economic factors identified in this connection, broadly, were: (i) weak implementation capacity of the state relating to, inter-alia, human resource management, devolution of power and autonomy; (ii) weak oversight capacity relating to, inter alia, rule of law, democracy and representativeness, and control of corruption and leakages; and (iii) weak capacity for reforms relating particularly to regulatory, administrative and legal and institutional reforms. It was also noted that the adverse impact of these 'traditional' factors have been further accentuated by newly emerging ones which are, on the one hand, results of aggravation of the old ones, and on the other, new ones emanating from the current political scenario triggered by non-participatory elections that have produced a government whose legitimacy is truncated and moral foundation questionable.

In this backdrop, restoring investors' confidence, undertaking and enforcing regulatory reforms, enhancing service delivery capacity of institutions, taking advantage of the window of opportunities of strengthened global market integration, addressing the ever increasing infrastructure demand in cost-effective manner, and realising the ambition of attaining the status of a 'modern' middle-income country will become increasingly challenging.

In the aforesaid report, CPD emphasised five following aspects:

a. Setting up of a Task Force to address the pending reform measures including enactment of the Civil Service Act;
b. Local governments to be vested with more effective devolution of power and fiscal autonomy;
c. Enhancement of capacities of agencies involved with implementation of major public investment projects;
d. Reduction of transaction costs of contract enforcement; and
e. Concrete initiatives towards promotion of a participatory and pluralistic democratic polity, driven by inclusive and credible national elections.

It is maintained that the aforesaid recommendations remain crucial as we move towards a new fiscal year, with new ambitious targets as regards resource mobilisations, resource allocation, project implementation and growth performance. The experience of macroeconomic management and likely economic performance record of FY2013-14 strongly suggest that both accelerated GDP growth and distributive justice will critically hinge on how strategically Bangladesh is able to address these formidable tasks, which are often beyond the ambit of budgetary measures.

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Annex Table 1.1

Major Imported Items at 8 Digit HS Code Level in FY2013-14 (July-March)

HS Code	Items	FY13 (Jul-Mar)	FY14 (Jul-Mar)	Share	Growth	Incremental Growth
		Ad Valorem (Million USD)		(%)		
10011990	Durum wheat, other than seed, excl. wrapped/canned upto 2.5 Kg	322	525	2.6	63.0	13.4
12019090	Soybeans, whether or not broken other than seed, excl. wrapped/ canned upto 2.5 Kg	137	284	1.4	107.2	9.7
15071000	Crude oil; whether or not degummed	331	246	1.2	-25.7	-5.6
15111010	Crude palm oil imported by VAT registered edible oil refinery industries	229	227	1.1	-1.0	-0.2
15119090	Palm oil (excl. crude) and its fractions....n.e.s. incl. refined palm oil	537	532	2.6	-1.0	-0.4
17011400	Other cane sugar	294	252	1.2	-14.4	-2.8
25231020	Cement clinkers, imported by VAT registered manufacturers	460	488	2.4	6.0	1.8
27101262	High speed diesel oils	650	651	3.2	0.3	0.1
27101911	Other fuel oils, furnace oils	198	303	1.5	52.8	6.9
31021000	Urea; whether or not in aqueous solution	391	375	1.8	-4.0	-1.0
52010000	Cotton (not carded or combed)	1,655	1,759	8.6	6.3	6.9
72071100	Semi-products of Iron/Steel, <0.25% Carbon, of squarish section	247	251	1.2	1.6	0.3
73101000	Tanks, casks, drums, cans (excl. for Gas) of Iron/Steel, 50-300 L	1	329	1.6	32,079.7	21.7
84261900	Transporter cranes, Gantry cranes, Bridge cranes, Overhead travelling cranes n.e.s.	7	466	2.3	6,225.7	30.3
85171210	Cellular (mobile/fixed wireless) telephone set	276	365	1.8	32.2	5.9
88022000	Aeroplanes and other aircraft, n.e.s. of an Unladen weight =<2000kg	2	326	1.6	17,605.4	21.4
89080000	Vessels and other floating structures for breaking up	976	750	3.7	-23.2	-15.0
Sum of 17 Products		6,713	8,127	39.7	21.1	93.5
Total Customs Shipment		**18,937**	**20,450**	**100.0**	**8.0**	**100.0**

Source: National Board of Revenue (NBR).

Note: Data exclude bond, baggage and back-to-back imports.

Annex Table 1.2

Fiscal Trends (in Constant Term)

Indicator	FY08	FY09	FY10	FY11	FY12	FY13	Annual Avg. Change (%)
	Crore Tk.						
Public Expenditure	53,460	49,423	52,761	62,001	67,910	72,429	7.1
Non-Development Expenditure	*34,005*	*36,313*	*38,026*	*40,055*	*42,976*	*43,553*	*5.6*
Development Expenditure	*11,687*	*11,999*	*14,611*	*17,270*	*18,120*	*21,972*	*17.6*
Others	*7,768*	*1,112*	*124*	*4,676*	*6,813*	*6,904*	*-2.2*
	As Percentage of GDP						
Total Revenue	11.1	11.3	11.4	11.9	12.5	13.5	-
Total Expenditure	17.3	15.3	15.9	16.3	17.6	18.2	-
Budget Deficit (excl. Grants)	6.2	4.1	4.5	4.4	5.0	4.8	-
Deficit Financing	4.4	4.1	4.5	4.4	5.0	4.8	-
Net Foreign Financing	*1.8*	*1.8*	*2.0*	*1.3*	*1.3*	*1.7*	-
Net Domestic Financing	*2.6*	*2.3*	*2.5*	*3.1*	*3.8*	*3.1*	-
Credit from Commercial Banks	*2.0*	*1.7*	*1.2*	*2.3*	*3.2*	*2.7*	-

Source: Ministry of Finance (MoF) data.

Annex Table 1.3

Composition of Deficit Financing

Fiscal Year	Type of Estimate	Total Deficit (Crore Tk.)	% of GDP	% of Total Expenditure	Financing					
					Domestic			Foreign		
					Total (% of Total Deficit)	Bank (% of Total Domestic)	Non-Bank (% of Total Domestic)	Total (% of Total Deficit)	Grants (% of Total Foreign)	Loans (% of Total Foreign)
2009-10	Budget	34,358.0	5.0	30.19	59.83	81.51	18.49	40.17	37.17	62.83
	Revised	31,244.0	4.5	28.27	55.45	49.99	50.01	43.89	27.29	72.71
	Actual	25,074.0	3.7	24.68	63.09	-13.23	113.23	36.90	34.77	65.23
2010-11	Budget	39,323.0	5.0	29.75	60.22	66.22	33.78	39.78	30.74	69.26
	Revised	34,824.0	4.4	26.79	71.26	74.06	25.94	28.74	42.21	57.79
	Actual	34,881.0	4.5	27.19	87.70	82.42	17.58	14.56	48.24	51.76
2011-12	Budget	45,204.0	5.0	27.63	60.19	69.67	30.33	39.81	27.44	72.56
	Revised	46,328.0	5.1	28.74	74.40	84.47	15.53	25.60	37.61	62.39
	Actual	37,735.0	4.1	24.76	80.94	89.03	10.97	19.06	49.59	50.41
2012-13	Budget	52,068.0	5.0	27.16	64.31	68.69	31.31	35.69	32.52	67.48
	Revised	49,656.0	4.8	26.23	65.40	87.77	12.23	34.60	30.73	69.27
	Actual	44,461.9	4.4	25.65	72.10	83.77	16.23	27.90	52.96	47.04
2013-14	Budget	55,032.0	4.6	24.74	61.72	76.53	23.47	38.28	31.66	68.34
	Actual*	16,634.1	1.4	14.44	91.56	86.88	13.12	5.49	87.50	12.49

Source: Based on various issues of Budget Speeches and Monthly Fiscal Reports, Ministry of Finance (MoF).

Note: * Up to March 2014.

Chapter 2

A Set of Proposals for the National Budget FY2014-15

This set of proposals was released to the media by the Centre for Policy Dialogue (CPD) on 4 May 2014.

2.1 INTRODUCTION

As is known, the Bangladesh economy experienced a high degree of volatility during the first six months of FY2013-14 in the backdrop of the political movement prior to the January 2014 elections. In view of the emergent uncertainties, many of the important macroeconomic correlates evinced disquieting trends in the first half of FY2013-14. The possible slowdown in economic growth, for the third consecutive fiscal year, which was likely to drag the gross domestic product (GDP) growth rate below the threshold of 6 per cent, has been anticipated by analysts in general, including the Centre for Policy Dialogue (CPD). CPD in its report on the state of the Bangladesh economy presented in January 2014 observed that, from the macroeconomic management perspective, the major challenge for the government will be to put the economy on the aspirational growth trajectory of 7 per cent. It was hoped that the 'ceasefire' on the political front will lead to some acceleration in economic growth in the second half of FY2013-14. However, whilst economic activities have resumed in view of cessation of disruptive politics, the economy is still to regain its lost momentum as it gets on with the fourth and final quarter of the current fiscal year. Although the macroeconomy is showing some degree of stability, in terms of steady exchange rate, growing foreign exchange reserves and the budget deficit remaining within limits, the underlying factors and weaknesses evince disquieting trends as the economy moves towards the end of FY2013-14. In this backdrop, the expectation from the National Budget for FY2014-15 will be to help rejuvenate of the performance of major macroeconomic correlates and support growth dynamism through appropriate fiscal-budgetary measures and initiatives.

In the backdrop of the aforesaid assessment, the CPD Budget Proposals for FY2014-15 focus on a number of key areas:

i. An assessment of macroeconomic developments in FY2013-14 and recommendations for the needed macroeconomic policy stance and formulation of an appropriate fiscal framework for FY2014-15;
ii. A review of the state of manufacturing production and investment situation and proposals with regard to manufacturing sector;
iii. Fiscal-budgetary recommendations on issues related to the rural economy;
iv. Proposals for strengthening social protection in Bangladesh;
v. A number of non-economic issues that need to be taken cognisance of to realise the FY2014-15 Budget proposals.

2.2 MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2014-15

2.2.1 Macroeconomic Trends in FY2013-14

The National Budget for FY2014-15 will need to be framed by taking cognisance of the specific features of the developments and performance indicators in FY2013-14. And on both counts the signs are disquieting. The looming uncertainties afflicting business and investment outlook has continued to persist with adverse implications for major performance indicators. Growth of export earnings is declining for four consecutive months now. Export growth was 3.9 per cent during the third quarter of FY2013-14 (January-March, 2014), which was 16.6 per cent during first half of the fiscal. Overall, the export growth of 12 per cent during the first three quarters has somewhat slipped below the annual target of 12.9 per cent. During the third quarter of FY2013-14, growth of export earnings from readymade garments (RMG) products experienced a sharp decline to reach 6.8 per cent, whilst export earnings from non-RMG products declined by (-) 8.3 per cent compared to the corresponding period of FY2012-13. The recent trends of export earnings from both RMG and non-RMG products call for careful scrutiny while preparing the forthcoming Budget proposals. Growth of overall import payments during the January-February of FY2013-14 increased to 8.3

per cent, which was only 5.5 per cent during July-December period; import of consumer goods (other than foodgrains) experienced a sharp decline ((-) 22.3 per cent). Collection of tax revenue by the National Board of Revenue (NBR) also indicates disquieting trends. Indeed, during January-February of FY2013-14 tax revenue collected by NBR declined by (-) 0.1 per cent. Growth of total value added tax (VAT) collection (from both local and external sources) increased by only 2.1 per cent during the aforementioned period, whereas during the July-December period of FY2013-14 the growth was 10.6 per cent. On a welcome note, growth of remittance inflow returned to the positive terrain after six months in February FY2013-14. The inflow of remittances during the third quarter of FY2013-14 managed to match the inflow during the corresponding period of previous fiscal year. It is to be noted that inflow of remittances during the first half of FY2013-14 experienced a sharp decline ((-) 8.5 per cent).

Possibility of economic turnaround in the near future also looked somewhat uncertain as the indicators related to investment failed to show signs of improvement. The growth of private sector credit was 10.7 per cent at the end of February FY2013-14, which was 10.6 per cent at the end of December FY2012-13. Import of capital machineries declined by (-) 1.4 per cent during the January-February of FY2013-14. Public investment in the form of implementation of Annual Development Programme (ADP) also experienced some setback. The gap as regards implementation rate between performance in FY2013-14 and that of the previous fiscal year widened during the third quarter. During January-March of FY2013-14 only 16 per cent of the ADP allocation was spent; the corresponding figure for FY2012-13 was 19 per cent.

On the other hand, overall trends in macroeconomic correlates indicate that the economy is, as of now, at somewhat of a stabilised state. Inflation rate remained closer to the target (7 per cent) at around 7.5 per cent (7.6 per cent in March 2014). The emerging concern relates to the rising trend of food inflation. Food inflation continued to soar throughout the fiscal year to reach 8.5 per cent in March FY2013-14, which was 7.9 per cent in December FY2013-14. On the flipside, non-food inflation declined to 6.2 per cent in March FY2013-14 (6.9 per cent in December FY2013-14). This is perhaps a reflection of slowdown of domestic demand originating from stable exchange rate and global commodity and fuel prices. Balance of payments (BOP) situation remained within the comfort zone during July-February, FY2013-14 period with a hefty surplus of USD 3.3 billion, thanks to the resilient growth of export earnings and the lower growth of import payments (6.2 per cent during July-February, FY2013-14), along with a somewhat improved performance in remittance flows. Exchange rate remained stable with an insignificant appreciation of Bangladeshi Taka (BDT) against the United States Dollar (USD). As a result, foreign exchange reserves increased by about USD 4.8 billion in the first ten months of the current fiscal year. In terms of fiscal deficit, the economy remained within the programmed level. Financing mix of the budget deficit continued to rely mainly on domestic sources. During the first eight months of FY2013-14, 94.7 per cent of the budget deficit was financed from domestic borrowing (including both bank and non-bank sources) which was 57.1 per cent during the corresponding period of previous fiscal year. It is highly likely that budget deficit financing will continue to remain strongly biased towards domestic financing as the fiscal year closes. Thankfully, the government managed to accumulate more than the annual target of borrowing from net sales of National Savings Bond (NSD) certificates (Tk. 4,971 crore) in the first eight months (about Tk. 6,245.6 crore), while the banking system remained flushed with excess liquidity (Tk. 94,855 crore as of end January 2014).

In the backdrop of the foregoing assessment, it is anticipated that the National Budget for FY2014-15 will face a daunting task in instilling momentum in the performance of the Bangladesh economy. The stabilised state of the macroeconomic situation will help the government to undertake the needed counter-cyclical policies. However, the recent slowdown in revenue collection will make the task challenging. Thus, the fiscal policy package for FY2014-15 will need to go for consolidation of public expenditure with prudent prioritisation, an intensification of revenue mobilisation drive from the perspective of both structure of fiscal measures and enforcement of related measures, and paying closer attention to financing of fiscal deficit with greater emphasis on foreign financing.

2.2.2 Recommended Macroeconomic Stance for Budget FY2014-15

In the backdrop of evolving macroeconomic scenario, the likely outcome, and in view of the ongoing budgetary discussion, the fiscal-budgetary framework for FY2014-15 needs to be informed by some of the following considerations.

On the resource supply side, a pragmatic approach should be taken in planning the revenue targets of FY2014-15. In view of the possible revenue shortfall, the government has already slashed the target for NBR for FY2013-14 by Tk. 11,090 crore. Early hints from government sources indicate that the target for NBR revenue mobilisation may be set at Tk. 149,700 crore which will require attainment of a 19.8 per cent growth over the revised budget figure for FY2013-14. The present revenue collection trend of NBR indicates a possibility of further shortfall from this revised target, which will certainly push the target growth figure upward. Indeed the target set for NBR tax revenue mobilisation for FY2014-15 may prove to be rather ambitious as was the case for FY2013-14. Over the past three years, revenue intake from non-tax sources relied significantly on mobile spectrum fees (renewal of 2G and introduction of 3G licenses).

Fiscal Measures and Revenue Mobilisation

In terms of designing fiscal measures and formulating revenue mobilisation plan, the government may consider the following proposals.

First, the government should revisit and rationalise the tax incentive structure. It is also important to account for, analyse and publish the revenue foregone emerging from these tax incentives. It will be prudent to tie the incentives with the intended objectives. For example, the recent cut in the advanced income tax (AIT) at source for RMG exports (which is also the final settlement) should be tied with implementation of the new minimum wage. Concurrently, the government must have a plan to 'phase out' the incentives gradually. The government may consider phasing out the tax holiday while considering renewal of (quick) rental power plants. The government should also stay away from continuation of provision for legalising undisclosed income/wealth in any form.

Second, the NBR needs to be vigilant to curb tax evasion emerging from trade mispricing, re-invoicing and misdeclaration. A strong and well-equipped specialised taskforce should be set up to deal with this issue appropriately; a number of public institutions (e.g. NBR, Bangladesh Bank and others) will need to act in a coordinated manner to make this successful. At the same time, NBR needs to emphasise operationlising the newly introduced Transfer Pricing Cell without any delay.

Third, the government will have to put emphasis on collection of wealth tax surcharge. This is particularly important from the perspective of establishing economic and social justice. To generate adequate amount of revenue from this source, there is a need to review valuation of wealth, particularly those of real estates (land as well as houses and flats). The NBR has already proposed to consider to bring this issue under the jurisdiction of income tax ordinance. This is a welcome initiative. In connection with this, the NBR has recently conducted a survey, and found that about 162,000 homeowners from major metropolitan cities (e.g. Dhaka and Chittagong) did not submit their tax returns. It was also found by the NBR (as reported by the newspaper) that about 90 per cent of the professionals such as doctors, lawyers and engineers do not pay proper amount of tax. In view of these the NBR needs to design an action plan for FY2014-15 to bring tax defaulters and dodgers under tax net and take measures to enforce the plan.

Fourth, in recent times there is a growing allegation that a number of non-Bangladeshi citizens are working in Bangladesh, who are doing so without any proper paperwork and without paying the due income taxes. This issue needs to be investigated and corrective measures ought to be put in place.

Fifth, the government must not be detracted from ongoing implementation strategy of the forthcoming VAT law. To implement this new law, the government will need to introduce an awareness raising plan among the stakeholders. This will help to mobilise more revenues, ensure buy-ins by stakeholders and reduce hassles faced by business people. The NBR will also have to explore the possibility of expanding the VAT net particularly in the services sector. However, the government needs to consider raising the threshold for turnover tax to safeguard the interests of small traders and entrepreneurs, who were most severely affected by the political impasse.

Sixth, the NBR Chairman informed (through the media) that, the government plans to reduce the number of items that face supplementary duties from 1,362 to 170 by 2015. While trimming this list, the NBR should consider both economic benefits and possible revenue loss.[1]

Seventh, government will have to explore new ways to tap non-tax revenues. Government should formulate a 'leasing policy of public property' (similar to the recent 'toll policy') on an urgent basis. This policy may consider including a binding constraint in the form of a minimum annual increase of leasing fee taking into cognisance the inflation rate. It is also important to ensure efficiency of public enterprises including financial entities to ensure higher revenue in the form of dividends and profits.

Finally, capacity development and institutional reforms as regards revenue mobilisation should be accelerated. It is important to decentralise the revenue collection efforts for widening the outreach and identify new sources.

Public Expenditure

The pattern of budgetary expenditure for FY2014-15 needs to be planned in a prudent way. There is an indication that the size of the Budget for the next fiscal year will be to the tune of Tk. 248,000 crore. Indeed, in view of the possible revenue constraint, the government needs to take a conscious policy as regards non-development allocations and subsidy requirements. The demand for subsidy is likely to be within the limit in the backdrop of stable international prices of petroleum products and lower international prices for fertilisers. Nevertheless, keeping subsidy requirements within 2 per cent of GDP will be an achievement. The government needs to carefully plan the price adjustments of fuel and electricity during FY2014-15, particularly considering the production cost. Allocation demand for non-development expenditure may see some rise in view of a number of special circumstances in FY2014-15. An additional Tk. 6,000 crore has been sought for further recapitalisation of the state-owned commercial banks (SCBs).[2] The pay scale for public servants is also expected to be revised upward in FY2014-15. The rising demand from domestic debt servicing liability is likely to continue and the government will have to accommodate it. Indeed, issues as regards non-development expenditure need to be prioritised and rationalised with caution.

In case of development expenditure, there should be a priority guideline towards quality implementation of the large projects. Emphasis should be given on utilisation of the foreign aid component of the projects to ensure high rate of ADP implementation. In this regard, capacity of the line ministries should be enhanced to better equip them in terms of appropriate use of aid resources. It is often argued that some of the government agencies do not show the required interest in implementing foreign-aided projects due to the stringent transparency mechanisms involved. This issue needs to be investigated and the attitude should be discouraged. With regard to Padma Bridge project, it is important to re-estimate the project cost and the tolls to be fixed. The awarding process of the contract should not compromise on the issue of quality and transparency. Indeed, there is also a need to investigate whether the lack of interest to participate in the bidding process of constructing the main Bridge indicates a lack of confidence of international

[1] According to the same media report, it is anticipated that this will lead to reduction of revenue mobilisation by Tk. 600-700 crore.
[2] About Tk. 4,100 crore was disbursed in FY2013-14 for this purpose.

construction firms on the financing mechanism of the project and the associated controversies. Number of ADP projects needs to be rationalised given the capacity of the agencies. Indeed, as has been seen, small projects taken under political consideration only increases the size of the ADP, and undermines the quality of development spending.

Financing of Budget Deficit

Accommodating the envisaged budget deficit (excluding grants) within 5 per cent (of GDP) in FY2014-15 should not be a major concern; rather it would be a welcome initiative from the perspective of macroeconomic management. In contrast, financing structure of budget deficit will be a challenge for the government. Without significant improvement in investment climate, the demand for credit is expected to remain low. Hence, commercial banks may continue to offer lower interest rates for deposits. Depositors may help government mobilise a higher amount of money from net sales of NSD certificates. Concurrently, the existing significant amount of excess liquidity will help the banking system to accommodate the required financing in the form of 'government bank borrowing'. A major challenge will be to cater to the envisaged financing from foreign sources, particularly in the form of foreign borrowing. It is likely that amortisation payment will continue to rise. It is to be noted that the bulk of the foreign borrowing is tied with ADP implementation capacities of the government agencies. In view of lower net foreign aid flow, government has already sought budgetary support from the World Bank for FY2014-15. This, if realised, may help the government restore budget deficit financing mix, which will be a prudent strategy both in terms of budgetary discipline, as well as debt-servicing liabilities.

Supportive Macroeconomic Policies

Finally, successful implementation of the Budget for FY2014-15 will require a set of complementary macroeconomic policies. The Central Bank should maintain stability of the value of BDT and avoid its appreciation. The present money supply situation can comfortably accommodate further accumulation of foreign exchange reserve. It is important to realise that, it does not make sound economic sense to fix the macroeconomic targets, including that of economic growth, at an overambitious level. It will be advisable to set the macroeconomic targets for FY2014-15 in accordance with emerging realities and streamline the targets for the subsequent years while preparing the Medium Term Macroeconomic Framework (MTMF).

2.3 MANUFACTURING SECTOR

2.3.1 Current State of Manufacturing Sector

Production

Manufacturing sector has been experiencing significant volatility over the past year. High growth of production in most of the manufacturing industries observed in FY2009-10 (16.9 per cent for large and medium-scale industries) did not continue over the following years (9.4 per cent in FY2012-13). Barring a few, most of the 'small-scale' and 'medium and large-scale' industries have experienced slowdown in growth during the pre-election period (July-December, 2013). Good performance of some of the key sectors including apparels, pharmaceuticals and food processing has contributed to maintaining noteworthy growth (i.e. 9.1 per cent for medium and large-scale industries, but only 2.5 per cent for small-scale industries during July-December, 2013). The apparels sector appears to have withstood the fallouts of the fatal incidences of Tazreen fire and Rana Plaza tragedy by initiating a host of corrective measures. However, production of a number of industries such as jute, textiles, chemicals and chemical products, etc. was affected as a result of a number of internal and external factors. A recent report of CPD[3] found that performance of largely 'domestic market-oriented industries' was comparatively 'poor' during the pre-election period.

Investment

Growth of private investment has been sluggish over the last year. Growth of gross private investment was only 7 per cent in FY2012-13, followed by 18.4 per cent in FY2011-12, which caused a decline in the private investment-GDP ratio. This trend has continued in FY2013-14 – disbursement of industrial term loan during the pre-election period (July-December, 2013) was negative ((-) 1.8 per cent). The situation was rather mixed in the post-election period (January-February, 2014) – growth of import of intermediate goods, industrial raw materials and capital machineries (both in terms of opening and settlement of letter of credits (L/Cs)) did not indicate a robust growth in investment. The rise in opening and settlement of L/Cs for import of raw materials and intermediate products during January-February, 2014 appears to have gone for meeting the needs of the existing capacities in industries in the backdrop of some rise in the demand after the election. Overall, investment is yet to gain momentum in the post-election period due to unfavourable business environment as the economy moved from the phase of political unrest to the phase of political uncertainty.

Public investment, on the other hand, has maintained a high rate of growth during the last two years (32.8 per cent in FY2011-12 and 36.5 per cent in FY2012-13); however, this trend could not be maintained in FY2013-14. A significant part of this investment was targeted towards development of infrastructure which could potentially crowd in private investment, particularly in the manufacturing sector. However, the weak state of private investment in the current fiscal year portrays a rather 'limited' positive impact of public investment. In this context, the progress of 'fast-tracked' projects identified by the government immediately after the national elections – the Padma Multipurpose Bridge, Rampal Thermal Power Plant, Rooppur Nuclear Power Plant, metro rail, deep sea port and LNG (liquefied natural gas) terminal – ought to be very closely monitored from the perspective of timeliness as well as quality of implementation. However, the rationale of a number these projects (e.g. Rampal Thermal Power Plant and Rooppur Nuclear Power Plant) is debatable.

In the backdrop of the current state of investment, long-term investment targets as envisaged in the Sixth Five Year Plan (SFYP), have become rather 'illusionary'. Given the low level of growth of private investment till date, a 'big' jump will be required to attain the targeted level of investment in the remaining period (i.e. 41.1 per cent during FY2013-14 and 20.1 per cent in FY2014-15). The positive global economic outlook for the coming years (i.e. growth of world trade is projected to be 4.7 per cent in 2014, followed by 5.3 per cent in 2015) will likely have limited positive implications for Bangladesh in terms of the needed leap in private investment unless the private sector envisages significant improvements in domestic business environment, which will induce it to commit to new long-term investment.

2.3.2 Factors Responsible for Sluggish Investment

A number of supply-side as well as demand-side factors were responsible for the weak state of production and private investment in the manufacturing sector in FY2013-14. Besides economic factors, a number of political factors contributed to this situation. Hence finding solutions only in fiscal and budgetary measures will not be adequate to improve investors' confidence.

[3]CPD. (2014). *Analytical Review of Bangladesh's Macroeconomic Performance in Fiscal Year 2014 (Second Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Available at: http://cpd.org.bd/wp-content/uploads/2014/01/IRBD-FY14-Second-Reading.pdf

Supply-side Factors

Prolonged violence and nationwide strikes originated from confrontational politics, during the first half of FY2013-14, led to severe disruption in industrial production. This raised operational cost, particularly related to transport and labour, and caused damage to both inventory and transported products. The damage experienced by domestic market-oriented small and medium enterprises (SMEs) was rather high compared to the larger ones since the former had only limited flexibilities.[4]

Lack of enabling business environment in the pre-election period seriously damaged investors' confidence, discouraging them from undertaking medium to long-term investments. The environment did not improve much in the post-election period even though political violence has reduced significantly. The continued political uncertainty in the post-election period appears to be a major cause that informs the continued lack of investors' confidence.

Public investment for development of physical infrastructure is lagging behind the demands of the private sector. Lack of development of energy sector, limited improvement in trade-related and supply chain-related infrastructure (e.g. roads and highways), slow progress in the implementation of industrial cluster development projects (related to garments, leather, and information and communication technology (ICT)) are discouraging private investment.

Existing lending rates underwriting projects financed by the commercial banks are perceived to be 'high' by the investors, particularly in the backdrop of lack of enabling environment originating from 'high' risks due to political uncertainties and 'additional' costs arising out of lack of the needed infrastructural facilities.

Demand-side Factors

Consumers' confidence has been slack in the backdrop of a slowing down of economic growth and weakened purchasing capacity. Domestic demand has slowed down over the years for a number of reasons. *First*, pressure of moderate to high inflation in the previous years (both with respect to food and non-food items) has put downward pressure on consumers' disposable income. The pressure has continued in FY2013-14 since inflation has been sticky downward (7.48 per cent in March 2014). *Second*, negative growth in the inward flow of remittances had an adverse impact on disposable income, particularly for households which were to a large extent dependent on migrant workers' income. *Third*, temporary/permanent unemployment due to closure of factories during the pre-election period (which has perhaps improved somewhat during the post-election period).

The slowdown in growth in employment in recent period is likely to have adverse impact on household's consumption expenditure. *First*, growth of employment in the domestic market appears to have slowed down due to lower levels of investment in the manufacturing and services sectors. *Second*, decline in international migration has reduced employment opportunities in the external job markets. Both these have negative implications from the perspective of employment generation and consumers' confidence.

2.3.3 Proposals for Upcoming National Budget FY2014-15

Fiscal and Budgetary Measures for Reducing Supply-side Constraints

The National Budget for FY2014-15 should go for supportive fiscal measures to create an enabling business environment towards enhanced production and higher investment. The upcoming Budget may

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[4]CPD. (2014). *Analytical Review of Bangladesh's Macroeconomic Performance in Fiscal Year 2014 (Second Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Available at: http://cpd.org.bd/wp-content/uploads/2014/01/IRBD-FY14-Second-Reading.pdf

consider a number of fiscal measures to improve the situation: expansion of subsidised credit facility for domestic market-oriented SMEs in order to help them recover their losses due to political turmoil; special incentives for non-RMG export-oriented industries to improve their competitiveness in export markets; Export Development Fund needs to be increased further from the existing balance of Tk. 120 crore in order to support export-oriented industries; tax holiday facility provided to selected sectors needs to be assessed from efficiency point of view whether it will be more preferable to go for selected 'strategically' and 'potentially' important sectors which will be given for a limited period of time.

Government may consider a number of fiscal measures for a set of targeted industries: the exemption limit for VAT for SMEs can be increased from the existing Tk. 80 lakh to Tk. 1 crore; reduction of import duty on raw materials used in the furniture sector (except those produced locally at significant level)[5]; reduction of import duty of raw materials for the pharmaceutical sector; and withdrawal of import duty on networking machinery and data transmission link.

With regard to public investment, government should strengthen its monitoring activities to ensure speedy implementation of the 'fast-tracked' projects which are above controversies. In this context, concerns raised as regards various projects need to be taken into cognisance before going for implementation. A number of other ADP projects also need faster implementation. These include among others: Dhaka-Chittagong four-lane highway; eleven large-scale power plants; expansion of gas connection in the industrial zones, on a priority basis; completion of remaining works for the establishment of special economic zones (SEZs) in selected areas; completion of Kaliakoir High-tech Park; completion of central effluent treatment plant (ETP) in the Leather City at Savar and shifting of leather factories from Hazaribag. Government should expedite the tendering process of the remaining off-shore blocks for exploration of gas; needed resources should be allocated to build the infrastructure for the coal-fired electricity projects. As per the adopted Power System Master Plan 2010, coal will be one of the important sources of the primary energy in the coming years. Government needs to come out with an 'effective' exit plan for the quick rental plants; a total of 16 power plants with a total capacity of more than 1,400 MW were to expire by 2015.

In order to improve connectivity, ADP allocation for the development of the railway sector needs to be increased. According to the Andrés *et al.* (2013)[6], Bangladesh needs about USD 62-82 billion worth of investment between 2011-2020 for the development of different kinds of infrastructure in such diverse areas as transport, electricity, solid waste management and telecom sector.

Growth of industrial sector has been increasingly constrained due to lack of adequate supply of skilled workers and professionals. In this context, recently approved project titled 'Skills for Employment Investment Programme (SEIP Phase I)' with an allocation of Tk. 1,050 crore for a period of 2014-2017 for human resource development in six sectors is a welcome initiative. Various components of the projects are geared towards meeting the requirement of special skilled workers and professionals in selected sectors. Budgetary allocation for education sector needs to be increased, particularly at high school, college and university levels with a view to developing the needed human resource for the industrial sector.

Government may consider allowing nationalised commercial banks to mobilise the required capital from the capital market by off-loading shares. An additional 10 per cent penal tax on tax-free incomes can be imposed in the next Budget for companies that are enjoying tax holiday facilities, but not complying with the condition of investing in the capital market. The refinancing scheme introduced to support investors will perhaps not be enough of an incentive since the rate of interest appears to be high (8 per cent).

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[5]Average import duty at present is more than 50 per cent.

[6]Andrés, L., Biller, D. & Dappe, M. H. (2013). *Reducing Poverty by Closing South Asia's Infrastructure Gap*. The World Bank and Australian Aid. Available at: http://www.worldbank.org/content/dam/Worldbank/document/SAR/Reducing%20Poverty%20by%20Closing%20South%20Asia's%20Infrastructure%20Gap_Web.pdf

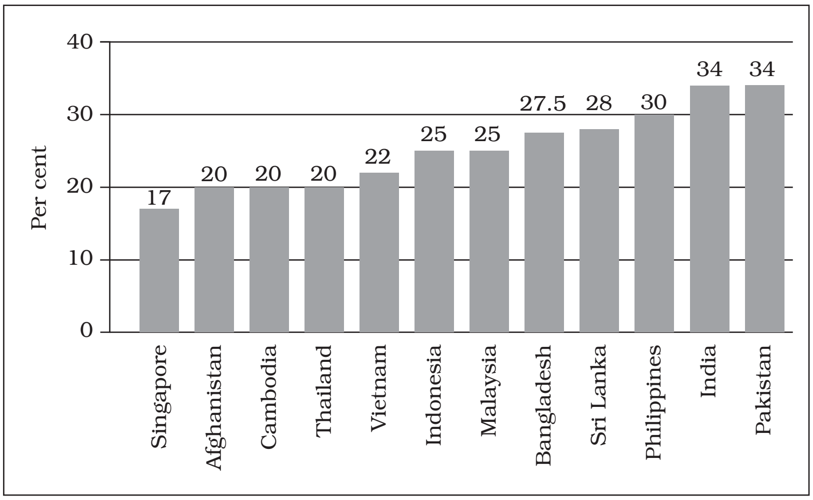
Fiscal Measures for Reducing Demand-side Constraints

A major challenge for the government will be to improve consumers' confidence by addressing the demand-side constraints through appropriate fiscal measures. National Budget for FY2014-15 may consider an upward revision of the exemption limit for personal income tax (from Tk. 220,000 to Tk. 300,000) with concomitant adjustments as regards other slabs with a view to increase consumers' disposable income; an increase in the tax exemption limit of house rent of individual taxpayers (from Tk. 20,000 to Tk. 30,000) may also be considered.

The demand of the business community for lowering the corporate tax rates calls for close examination and a detailed analysis. *First*, the logic of lowering the corporate tax rate on the ground that it is very 'high' compared to other competing countries of Asia is not 'correct'. The corporate tax rate for listed companies in Bangladesh is one of the lowest in South Asia which is close to the average corporate tax rate of South East Asian countries (Figure 2.1). *Second*, the argument that a lowering of the corporate tax rate will have positive impact on private investment is not 'robust'. In the backdrop of over dependence on debt-based financing for investment by the corporate sector, a reduction of corporate tax rate may not have adequate positive impact on investment. *Third*, if measures such as a conducive business environment and supportive infrastructure are not put in place, then an increasing investible surplus through lowering of corporate tax rate is likely to have only a limited impact on investment.

Figure 2.1

Corporate Tax Rates of Selected Asian Countries



Source: KPMG Database.

Despite the pressure to go for upward revision of tariffs on gas, CNG (compressed natural gas) and other public utilities with a view to reduce overall subsidy, government may consider the option of not taking such measures as these will have adverse implications for consumers' non-food expenditures. Instead the power sector should target reduction of operational inefficiency in power generation and distribution as well as enhance budgetary allocation for early completion of large-scale power generation plants.

Government should take measures to enhance inward flow of remittance by encouraging the remitters to use formal channels, and by reducing the cost of transfer of funds. Government should also take proactive measures to increase the flow of migrant workers in key labour markets such as United Arab Emirates (UAE), Saudi Arab and Malaysia.

Monetary Policy Stance

Central Bank should examine the process of determining the deposit and lending rates and interest rate spread by the commercial banks by taking into account the nature and extent of 'competitive' practices followed in the banking operation. The so called 'market-based' approach of determining the interest rate appears to be not 'functional' given the prevalence of widespread market segmentation and dual-form of governance in banking practices.

Other Measures

First, the government should go for a number of reform measures targeting the public sector enterprises and organisations with a view to improve their operational efficiency and competitive practices; this is needed also to create conducive business environment for the private sector. For example, the Board of Investment (BoI) should be reorganised appropriately with a view to transform it into an 'effective' investment promotion agency. The recent decision of the merger of the Privatization Commission with the BoI, perhaps to accommodate absorption of jobs, but without strategic thinking and without taking cognisance of the needs of the private sector, was unlikely to address the real problems.

Second, Ministry of Labour and Employment should be considered as one of the 'core' ministries in the portfolio of the government. The Ministry should be vested with the necessary funds for its revenue and development budget, particularly with a view to put in place measures set out in the National Action Plan (NAP). Government should encourage the entrepreneurs to deposit part of their profit (0.5 per cent as per the Amended Labour Act 2013, if the profit is more than Tk. 1 crore) to the Workers' Welfare Fund.

Third, with a view to improve the governance practices in the capital market and other markets, Ministry of Finance (MoF) should take up necessary step to finalise the 'Draft Financial Reporting Act'.

Fourth, government should strictly enforce the 'mandatory packaging act' for the selected agricultural products with a view to expand the domestic market for the jute sacks and other jute products against the backdrop of decline in export in key markets.

2.4 RURAL ECONOMY

In FY2013-14, rural economy (agriculture and allied sector) received Tk. 17,471 crore which is 2.3 per cent of total GDP of FY2013-14. The allocation was 11.9 per cent lower than FY2012-13 mainly due to the reduction in allocation for the Ministry of Agriculture. The Ministry of Environment and Forest has also received lower allocation (Tk. 797 crore) in FY2013-14 than in FY2012-13 (Tk. 910 crore). However, allocation for the Ministry of Fisheries and Animal Resources (Tk. 1,061 crore), Ministry of Land (Tk. 750 crore), and Ministry of Water Resources (Tk. 2,593 crore) were increased by 18.7 per cent, 13.8 per cent and 3.7 per cent respectively in FY2013-14 compared to FY2012-13. An amount of Tk. 9,000 crore was allocated as subsidy for fertiliser and other agricultural inputs in FY2013-14, which was 25 per cent lower than the allocation for FY2012-13 (Tk. 12,000 crore).

Lower fertiliser price in international market is expected to reduce expenditure for fertiliser subsidy in the current year. As Bangladesh meets most of its fertiliser demand by importing from the international market, lower global price will have significant implications for the country. During July 2013-March 2014, the average international price of diammonium phosphate (DAP) came down by 20 per cent, triple super phosphate (TSP) by 25 per cent, urea by 17 per cent, and muriate of potash (MoP) by 19 per cent compared to the same period in the previous year. CPD estimates show that given the current administered prices, the government would require about Tk. 3,050 crore as fertiliser subsidy against the allocation of Tk. 9,000 crore as agricultural subsidy to meet its projected fertiliser demand of 4.37 million metric tonnes (MT) in FY2013-14. If the government decides to import more fertiliser, it will need to go for lower subsidy allocation in the coming Budget.

Implementation of the development budget for agriculture and allied sector has remained poor till the last reported month. For example, during the first eight months of the fiscal year, only 36.7 per cent (Tk. 1,548 crore) of total development budget for the sector was spent, of which expenditure for the Ministry of Land was the lowest (14.4 per cent), and expenditure for the Ministry of Fisheries and Animal Resources was the highest (39.2 per cent). If this pace is any cue, timely implementation of the development projects will be a major challenge in the coming Budget.

Proposed Budgetary Measures

Agriculture, Food Security and Food Safety

Consumer preferences towards food intake are changing in Bangladesh. During FY2004-05 to FY2008-09, average wheat consumption in Bangladesh was 2.7 million MT which increased to 3.8 million MT during FY2009-10 to FY2013-14. This increased demand was mainly met by imports from international market. During FY2009-10 to FY2013-14, on average 70 per cent of wheat demand was met through import. In order to reduce import dependency, emphasis should be given to domestic production. Hence, more budgetary allocation should be made for the Department of Agricultural Extension (DAE) to extend wheat cultivation in the areas where weather is favourable. Also, budgetary allocation could be made for the Bangladesh Agricultural Research Council (BARC) to innovate high-yielding wheat varieties suitable for Bangladesh.

Production and promotion of high-value crops such as oilseeds, pulses, spices and fruits are important from both nutritional and food security perspectives. More allocation for production of these crops is needed.

Bangladesh's vulnerability to climate change is on the rise. In order to adapt to the impact of climate change, special allocation should be made to innovate and promote crop varieties which are salt and submergence-tolerant as well as drought-tolerant and water-efficient.

There is a significant gap between grower and retail level prices of agricultural produces in Bangladesh.[7] In order to ensure fair price at both grower and consumer levels, an Agricultural Price Commission needs to be set up with adequate resource allocation. The SFYP also mentions about this.

Funds should be allocated for establishing a Food Safety Authority which will play a major role in implementing food safety rules and regulations. The authorities could have a food safety inspection and monitoring cell with modern equipments and adequate human resources. The work of this body should support the implementation of the Consumer Rights Act.

Government should set up agriculture and food safety court in each district which will deal with food safety, agro-market manipulation, and agro-input adultery-related litigations.

In order to protect farmers from climatic risks, and rural entrepreneurs from unexpected shocks, government should think about establishing a Rural Insurance Entity.

Agricultural call centres could be initiated in each union under the supervision of DAE and Department of Agricultural Marketing (DAM) in cooperation with TeleTalk. The centre would provide tele-help to farmers as regards cultivation and marketing-related issues.

[7]CPD. (2014). *Analytical Review of Bangladesh's Macroeconomic Performance in Fiscal Year 2014 (Second Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Available at: http://cpd.org.bd/wp-content/uploads/2014/01/IRBD-FY14-Second-Reading.pdf

Bangladesh has considerable potential in food processing (e.g. pineapple canning, mushroom growing and dried food production).[8] However, export of processed food is discouraged by sanitary and phytosanitary (SPS) issues. To overcome the challenge, adequate funds should be allocated towards strengthening the capacity of Bangladesh Standards and Testing Institution (BSTI).

Price volatility in potato market has been a common feature in Bangladesh in recent years. To reduce this, storage capacity should be increased. In this regard, emphasis should be given to establishment of more cold storage facilities in the bumper producing areas such as Munshiganj, Rangpur, Bogra and Rajshahi. About 46 per cent of total potato in FY2012-13 was produced in these four districts.

Livestock, Poultry and Fisheries

Poultry farmers are currently exempted from income tax; this should be continued in view of the difficulties faced by the sector. Moreover, duty-free import facilities for poultry feed may be continued.

Existing 25 per cent custom duty on import of chicks and eggs should be continued in order to encourage local poultry farmers.

Due to alarming levels of pollution in open water bodies, the fisheries sector is under risk. Implementation of environmental laws and introduction of water pollution tax are therefore needed to protect fishery resources.

Land and Water Resources

Digitalisation (online delivery and management) of existing land recording system will reduce hassles experienced with land registration and will hasten its pace. Evidence from the Karnataka Bhoomi Project suggests that digitalisation significantly reduces bribery and harassments, and expedites the registration process. Ministry of Land has taken a pilot project to digitalise land recording system in Bangladesh. The initiative needs to be expanded all over the country.

Soil fertility in Bangladesh has been on the decline due to excessive use of chemical fertiliser, saline water intrusion and inundation of land by industrial waste. In order to replenish the diminishing soil quality, the government could think of putting in place soil pollution tax on polluters. An incentive mechanism may be developed to encourage adoption of organic and well-balanced fertiliser use.

Overexploitation of ground water has led to overshooting of the capacity of annual recharge of aquifers. This is causing rapid depletion in the ground water level. Therefore, funds should be allocated for re-excavation of canals to increase the navigability. Also, funds should be allocated for renovation of dams, particularly in the northern districts, to conserve the surface water for irrigation purposes.

Rural Infrastructure

Government should establish information technology centres with funds from development partners across rural areas in Bangladesh. These centres should have computers with high-speed internet connection, and be openly accessible to the rural population.

A climate change adaptation institute (a possible name: Bangladesh Climate Change Adaptation Institute) needs to be established which will coordinate adaptation activities and conduct necessary research to find

[8] GED. (2011). *Sixth Five Year Plan FY2011-FY2015: Accelerating Growth and Reducing Poverty (Part 1)*. Dhaka: General Economics Division (GED), Planning Commission, Ministry of Planning, Government of Bangladesh (GoB).

out appropriate adaptation strategies. Currently Ministry of Environment and Forest is performing the task of coordinating various activities in this regard.

2.5 SOCIAL PROTECTION

Social Protection Policy is a broad-based and multidimensional concept which is designed to reduce vulnerabilities of the weaker section of the society who are not able to take advantage of the opportunities in the factor market in the economy. This is done through interventions in the labour market, through provisions of various kinds of cash and non-cash, and by help of various measures to reduce economic and social risks faced by the poor including unemployment, disability and vulnerability at old age, and adverse impact of climate change. However, the current Social Safety Net Programmes (SSNPs) in Bangladesh have been delimited to a few categories of support, such as Open Market Sales (OMS), Vulnerable Group Development (VGD), Vulnerable Group Feeding (VGF), Test Relief (TR) (food), Gratuitous Relief (GR) (good), food assistance in the Chittagong Hill Tracts (CHT) and Food for Work (FFW). The task confronting Bangladesh at present is to move from the narrowly defined SSNP to a comprehensive Social Protection Policy backed by well-thought design and cost estimates.

Recently, the government has prepared a draft on National Social Protection Strategy for Bangladesh. The Strategy proposes a consolidating lifecycle system of social protection, which envisages social protection for socially excluded people, strengthening of social protection system for the urban poor, and consolidation of special programmes and small schemes. If Bangladesh is to gradually move towards implementation of the National Social Protection Strategy, restructuring of the current schemes, steps to raise allocative efficiency and higher allocations will be required. The allocation for the SSNPs has been falling over the years. Total allocation to the SSNP was 2.51 per cent of GDP in FY2011-12, which came down to 2.13 per cent in FY2013-14. Overall allocation to the social protection programmes will need to be increased in Bangladesh in view of the rising demand. A number of studies indicate that less than half of the eligible poor are receiving social benefit in Bangladesh. In view of this, the number of beneficiaries will need to be increased.

The large number of SSNPs calls for addressing several issues including governance, institutional capacities, coordination, systematic monitoring and evaluation, and other administrative issues. Currently there are 95 SSNPs in Bangladesh which are administered by nearly 30 ministries/agencies. However, there is no formal mechanism for sharing information among the implementing ministries/agencies. This will call for rationalisation and strategic consolidation of the large number of SSNPs. Commensurate with this, there will be a need to address issues of scaling up of programmes and creating the needed fiscal space to underwrite the enhanced commitments. Introduction of Management Information System (MIS) can be an important tool towards better management and effective delivery of the social protection programmes. Introduction of MIS was found to be useful in implementing Mexican *Oportunidades* programme and other social protection policies. MIS would facilitate collection of the necessary data, better targeting of beneficiaries, monitoring and evaluation of the various social protection policies, and coordination among involved agencies. Since poverty in Bangladesh is increasingly being concentrated in peri-urban areas, special SSNPs need to be developed for the poor in these areas.

Employment Generation Programme for the Poorest

Among the existing SSNPs, to target the hardcore poor, Employment Generation Programme for the Poorest (EGPP) project is being implemented in several phases; the cumulative disbursement has been to the tune of USD 150 million until 2014. About 485 upazilas have been brought under the coverage with 7 lakh beneficiaries having been registered in each of the phases. Considering the number of poor people in Bangladesh (31.5 per cent of total population in 2010), both allocation and coverage of safety net programmes ought to be increased in a significant manner. A mapping exercise as regards spatial distribution of various types of vulnerabilities should be carried out, and allocation needs to be made accordingly. Selection criteria for identifying the target groups of the poor should be transparent and monitored on a continuing basis. Local government institutions will need to be involved in this process. Allocation for the operative support component under this programme is somewhat inadequate at only Tk. 3.8 crore, and hence should be increased. This has adverse implications for effectiveness and implementation of the programme. Funds should be allocated to introduce an electronic database of the beneficiaries which will help track allocations, monitor progress and assess outcomes. Recently Bangladesh Bureau of Statistics (BBS) has taken a programme to create a database for the poor. Digital database for the beneficiaries is needed to coordinate the various programmes and undertake the task of ongoing monitoring.

Social Assistance

Social assistance including assistance for the elderly (e.g. non-contributory basic allowances for the elderly, old-age allowances), family allowances (e.g. in-kind or cash transfer to assist poor families) and disability benefits are important elements of social protection programmes. Old age allowance, allowances for widowed, deserted and destitute, and allowances for financially insolvent physically challenged are much inadequate. Hence, allocation in the social assistance programmes should be increased significantly. The current amount of old age allowance and for the widowed, deserted and destitute is only Tk. 300 per month (fixed in 2009). Considering the impact of inflation and rising living expenses, this amount should be increased to at least Tk. 500. In Brazil, the average benefit per family under the *Bolsa Familia*, a well-recognised and successful social protection programme, was found to be significantly higher in a relative sense.

The allowance for persons with disability is also very low. The allowance should be increased from the current rate of Tk. 350 to Tk. 500. The differential rates of social safety net support, according to geographical location, should also be reviewed to reduce the large discrepancies.

Allocation for the welfare of acid burnt and disable should also be increased. Current allocation for this fund is only Tk. 1 crore. Considering the high cost of treatment and vulnerability of those people, allocation here should be increased significantly.

Block Allocation

One of the important features of the current SSNPs is that the block allocation for various programmes has increased notably over the years. Block allocation rose from only Tk. 6 crore in FY2008-09 (0.4 per cent of total SSNP allocation) to Tk. 1,009 crore in FY2009-10; the amount decreased to Tk. 801 in FY2012-13, only to significantly increase to Tk. 1,933 crore in FY2013-14 (7.6 per cent of total SSNP allocation).

Whilst higher block allocation could give flexibility in disbursement of resources to address emergency situations, the significantly rising block allocation should be a cause of concern from the perspective of good governance, since this type of allocation lacks specification and transparency, and undermines effectiveness and accountability. Funds should be earmarked for specific projects to the extent possible.

National Pension Scheme

Pension schemes are one of the important indicators of social protection policy. Currently, the government is planning to introduce National Pension Scheme which will cover private sector employees by 2018, and ensure social security by 2021. It is expected that about 3 million officials and employees in the private sector will be covered under the National Pension Scheme. Putting in place a universal pension scheme will call for adequate planning and appropriate design. India introduced a National Pension Scheme in 2009. In India, central government's contribution to the scheme is 1.16 per cent of the basic salary. A certain amount from Employees Provident Fund is also diverted to the Employees Pension Scheme in India.

Assessing the benefit package and identifying the mechanism of funding will be critical to implementing the proposed National Pension Scheme.

Insurance for the Workers

If Bangladesh is to move towards a comprehensive social protection system, the government will need to consider putting in place an adequate insurance policy for workers as well. Group insurance for workers became compulsory for the owners under the Labour Act, 2013. However, the respective part of the labour law is quite inadequate both in terms of related provision, and the amount of money to be received by the workers.

A comprehensive guideline for compensation should also be developed in line with the International Labour Organization (ILO) Convention. Bangladesh should also be a signatory of the ILO Convention CO17 (worker's compensation convention).

Insurance for the Flood Victims

A broad-based insurance for the flood victims may also reduce the vulnerability of the flood-affected people. It may be recalled that Oxfam International has introduced flood insurance for the *char* communities in 2012 to protect the low-income earners in the flood-affected area. This experience may be reviewed for replication and scaling up.

Fund for Climate Change

It is important to note that the fund for climate change has been on the decline over the past years. Allocation from this fund reduced from Tk. 700 crore in FY2011-12 to Tk. 400 crore in FY2012-13, coming down further to Tk. 200 crore in FY2013-14. This should be looked at and reviewed. Allocation for the extreme poor in vulnerable areas, particularly in the *char* and *haor* areas, should be enhanced.

School Feeding Programme

National Social Protection Strategy focuses on consolidating the lifecycle system of social protection. In view of this, the school feeding programme, introduced on limited scale, should be further scaled up. Since Bangladesh is lagging behind in terms of achieving the Millennium Development Goals (MDGs) in areas of malnutrition intake and stunting of children, this particular programme ought to receive due priority. Implementation of school feeding and stipend programmes should receive similar attention particularly in view of the special needs of the students in the *char* and *haor* areas.

2.6 IMPORTANCE OF THE NON-ECONOMIC FACTORS IN FY2014-15

Along with economic factors, non-economic factors play an equally critical role in contributing towards socio-economic development of Bangladesh. More specifically, macroeconomic performance and budget implementation are significantly influenced by non-economic dimensions of institutional and policy environment of the country. These underlying factors have assumed greater importance in the second half of FY2012-13, and have continued to matter in terms of their significance for the performance of the economy over the upcoming fiscal year.

Non-economic factors underpin social and political environment, indirectly affecting the macroeconomic performance. Some of these non-economic factors are structural in nature, and had informed and influenced developmental outcomes in Bangladesh for some time. 'Traditional' non-economic factors may be broadly classified into three categories: (i) weak implementation capacity of the state relating to, inter alia, human resource management, devolution of power and autonomy, and data/information availability and monitoring; (ii) weak oversight capacity relating to, inter alia, rule of law, democracy and representativeness, and control of corruption and leakages; and (iii) weak capacity for reforms, relating particularly to regulatory reforms, administrative reforms and legal and institutional reforms.

Along with traditional non-economic factors inhibiting macroeconomic performance and budget implementation, a number of 'new issues' have emerged which impinge on delivery capacity of the government. These issues, on the one hand, aggravate some of the traditional factors (e.g. severe deterioration of rule of law). On the other hand, new dimensions have been added by the continuation of the democratic disquiet in the backdrop of the recent non-participatory national elections. This protracted political uncertainty is definitely undercutting investors' confidence in the short, if not medium-term.

Implementation capacity of the Government of Bangladesh (GoB) has been historically inadequate. Weakness in the human resource management of the public sector is one of the foremost impediments to developmental progression. Excessive rotation of government officials undermines institutional memory and discourages specialisation. Political influence often plays a major role in this process. Moreover, effective autonomy of parastatals is hardly seen in practice. Inadequate processes and practices in the area of monitoring as well as information asymmetry constitute two core shortcomings of the current state of implementation capacity in Bangladesh. As is known, the Implementation Monitoring and Evaluation Department (IMED) of the Ministry of Planning suffers from acute resource shortage. When projects do get monitored, this is usually done in terms of funds spent rather than the actually achieved results. Earmarked funds in successive ADPs have systematically remained underutilised. Lack of implementation capacities of the line ministries can be largely held responsible for this. However, corruption and bureaucratic procedures also contribute to the non-utilisation of funds. In cases where signs of progress are visible, e.g. collection of direct tax by the NBR, limits of efficiency induced performance are quite obvious.

Low level of oversight capacity is another non-economic factor which remains a lingering concern in Bangladesh. In a general democratic setting, policies set by the legislature and implemented by the executive organs of the state are often monitored by the judicial and quasi-judicial bodies. The Parliamentary Standing Committees traditionally play an effective role in this regard. However, in Bangladesh institutions belonging to the 'national integrity system' including the Anti-Corruption Commission, Human Rights Commission and Information Commission have often remained inefficient (and often partisan). Pervasive corruption and inadequate enforcement of rule of law are significantly undermining the economic growth prospect in general, and the government's ability to raise revenue and implement development projects in particular. Such a situation also discounts the value for money invested by the government. Furthermore, the state of malgovernance affects the most disadvantaged sections of the society and by implication frustrates the anti-poverty stance of the development policies.

Regarding reform capacity of the GoB, it may be recalled that while a number of regulatory, administrative, legal and institutional reform proposals are being discussed for quite some time, implementation of these initiatives had been rather disappointing. At the end of the day, lack of political commitment has held back these proposals from being implemented in reality. As a result, Bangladesh economy has been deprived of the necessary impetus to attain accelerated economic growth.

The 'new non-economic factors' are in some sense due to extreme aggravation of the factors underlining the weak implementation, lax oversight and inadequate reform capacities of the state. This situation has been triggered by the recent national elections which have produced a government of truncated legitimacy and circumscribed moral foundation. The emerging nature of the polity has further weakened the transparency and accountability process, widening the scope for arbitrary and discretionary actions by the political power of the day. In the absence of political predictability, lumpy and irreversible investments are shying away from the Bangladesh economy.

In view of the preceding discussion, the following proposals can be considered for the upcoming FY2014-15 Budget:

i. The government should consider a Task Force to spearhead adoption of the pending reform measures including adoption of the Civil Service Act. Promotion of a civil service based on merit, informed by professionalism, and free from political interference is a singular necessity for the development process to gather new momentum.
ii. Local government bodies are to be endowed with effective devolution of power and fiscal autonomy.
iii. Capacities of agencies implementing major public investment projects of the government should be strengthened. The profile and capacity of the IMED should be enhanced so that it can deploy modern processes and techniques while monitoring the implementation of development projects.
iv. The transaction costs of contract enforcement have to be reduced by improving the judicial processes and creating alternative dispute settlement mechanisms.
v. A participatory and pluralistic democratic polity, driven by an inclusive and credible national election, will be necessary to provide the much needed confidence to the investors.

Under its Independent Review of Bangladesh's Development (IRBD) programme, the Centre for Policy Dialogue (CPD) has been preparing analyses of the major macroeconomic performance indicators of Bangladesh economy, on an ongoing basis, for about two decades. Following is a list of publications which has been brought out by the CPD under the CPD IRBD programme:

- State of the Bangladesh Economy in FY2012-13 and Outlook for FY2013-14
- Bangladesh Economy in FY2012-13: Second Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2011-12 and Outlook for FY2012-13
- Bangladesh Economy in FY2011-12: Third Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2010-11 and Outlook for FY2011-12
- Bangladesh Economy in FY2010-11: Second Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in 2009-10 and Outlook for 2010-11
- বাংলাদেশের অর্থনীতি পর্যালোচনা ২০০৮-০৯
- Bangladesh Economy in FY2009-10: An Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2008-09 and Outlook for FY2009-10
- Development of Bangladesh with Equity and Justice: Immediate Tasks for the New Government
- Bangladesh Economy in FY2008-09: An Interim Review of Macroeconomic Performance
- বাংলাদেশের অর্থনীতি: বিশ্লেষণ ২০০৭-০৮ এবং অন্তর্বর্তীকালীন পর্যালোচনা ২০০৮-০৯
- State of the Bangladesh Economy in FY2007-08 and Outlook for FY2008-09
- Recent Inflation in Bangladesh: Trends, Determinants and Impact on Poverty
- Bangladesh Economy in FY2007-08: An Interim Review of Macroeconomic Performance
- Emerging Issues in Bangladesh Economy: A Review of Bangladesh's Development 2005-06
- বাংলাদেশের অর্থনীতি পর্যালোচনা ২০০৭-০৮
- State of the Bangladesh Economy in FY2006-07 and Outlook for FY2007-08
- State of the Bangladesh Economy in FY2005-06 and Outlook for FY2006-07
- State of the Bangladesh Economy in FY2004-05 and Outlook for FY2005-06

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