Chapter I

State of the Bangladesh Economy in 2004-05

1. INTRODUCTION

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

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

Changes since Mid-year Assessment

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

Major Features of FY2005

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

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

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

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

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

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

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

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

2. ECONOMIC GROWTH AND POVERTY ALLEVIATION

2.1 GDP Growth

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

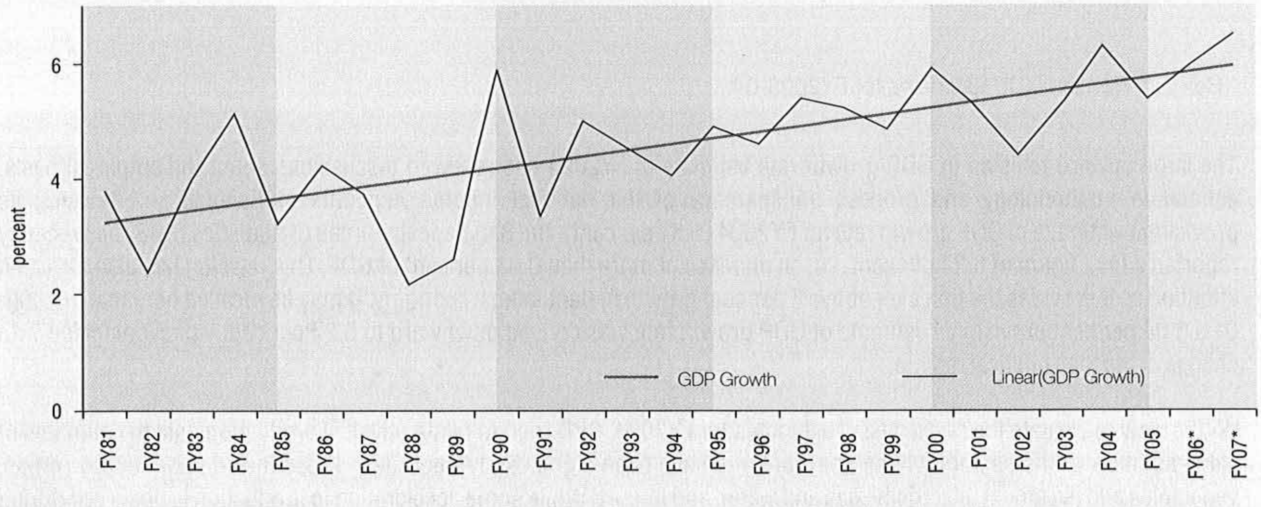
Following a decline of the GDP growth rate from 5.9 per cent in FY2000 to 4.4 per cent in FY2002, the national economy repositioned itself at a 5.0 per cent-plus growth trajectory during the subsequent two fiscal years (FY2003 and FY2004). The GDP growth rate for FY2004 was provisionally estimated to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

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

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

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

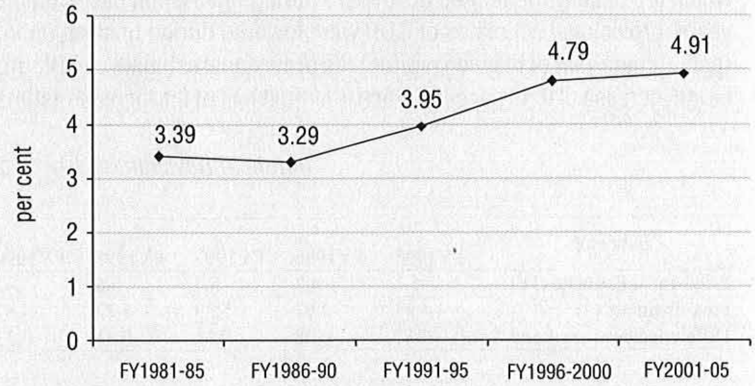
Figure 2.1: Trend in GDP Growth



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

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

Figure 2.2: Periodic Linear Growth Rates of GDP

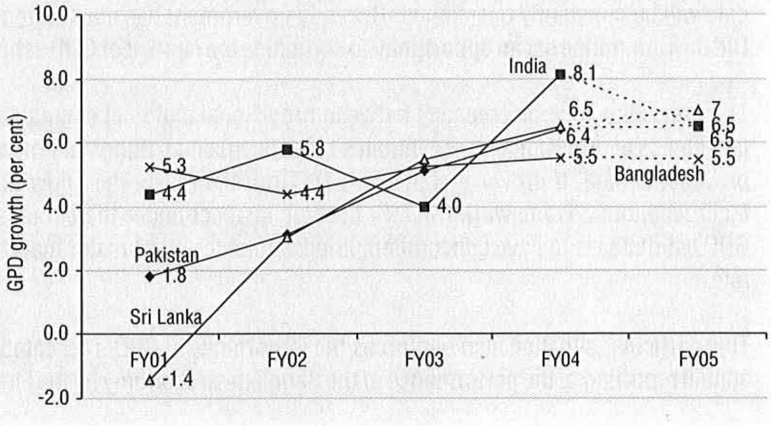


Source: CPD-IRBD Database, 2005.

Sources of Growth

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

Figure 2.3: GDP Growth Rate of Selected South Asian Countries



ECONOMIC GROWTH AND POVERTY ALLEVIATION

Box 2.1: Revised GDP Estimates for FY2003-04

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

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

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

Trends in Revision of GDP Growth Rate

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

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

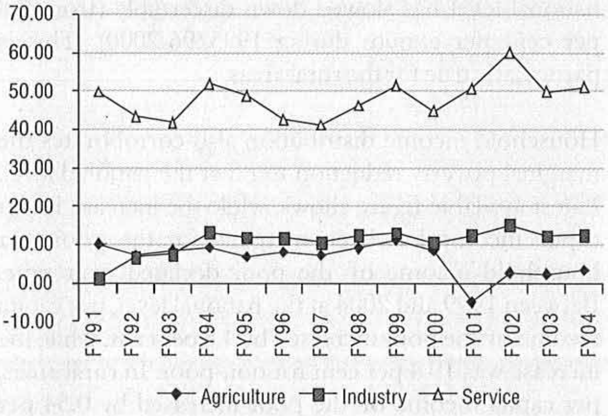
One needs to be sure that identical estimation procedure was followed by the BBS in generating the provisional and final GDP figures of FY2004. Without transparency as regards the estimation methodology, reliability and usefulness of GDP data will be constantly questioned. Recently government has constituted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

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

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

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

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



Source: Computed from CPD (2005).

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

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

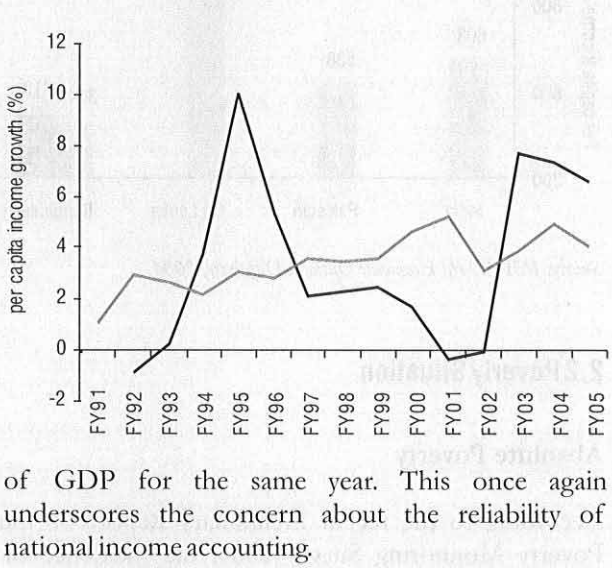
Per capita Income

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

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

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

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



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

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

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

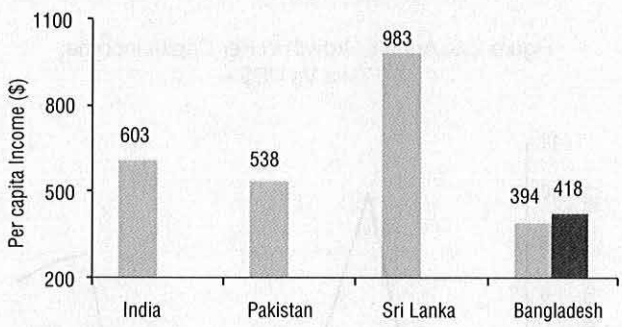
The per capita income of Bangladesh is still very low when compared with the same in other South Asian countries. For example, Pakistan, India and Sri Lanka in 2004 recorded a per capita GDP of $ 538.1, $ 602.6 and $ 982.5 respectively. In other words, Pakistan, India and Sri Lanka have a per capita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

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

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

Source: IMF World Economic Outlook Database, 2004.

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



Source: IMF World Economic Outlook Database, 2004.

2.2 Poverty Situation

Absolute Poverty

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

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

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

Relative Poverty

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

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

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

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

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

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

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

Spatial Poverty

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

Table 2.2: Regional Disparity in Poverty Incidence (2000)

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

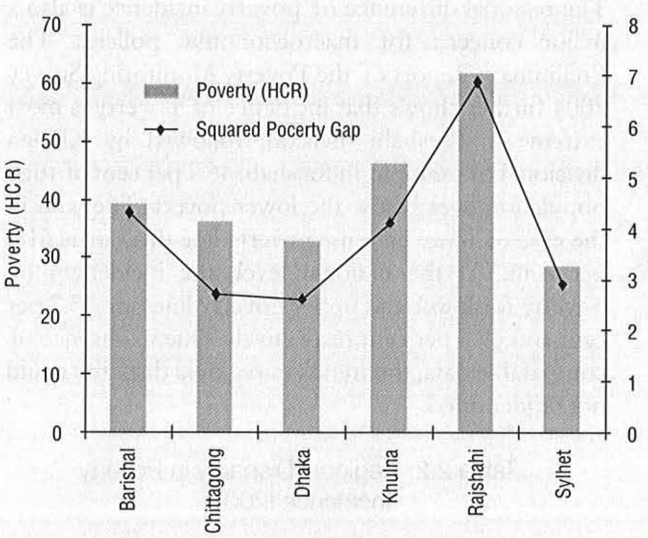
Source: Report of the Household Income and Expenditure Survey, 2000 (BBS 2000).

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

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

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

Figure 2.7: Regional Disparity in Poverty Incidence (2004)



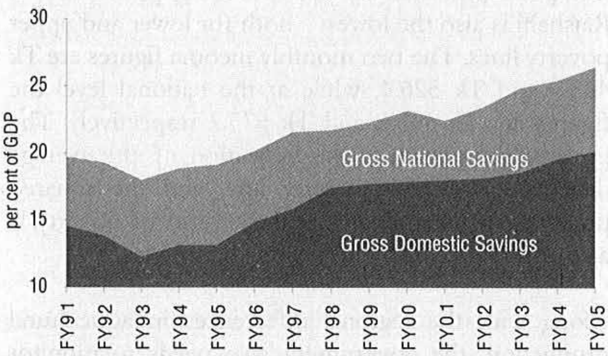
Source: Preliminary Report of the Poverty Monitoring Survey, 2004 (BBS, 2004).

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

2.3 Savings

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

Figure 2.8: National Savings in FY1991-2005



Source: CPD-IRBD Database, 2005.

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

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

New Data on Savings

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

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

2.4 Investment

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

Table 2.3: Revision in National Savings and Domestic Savings Figures

Savings as per cent of GDP	FY2003			FY2004			FY2005
	before	after	change	before	after	change	
Gross National Savings	24.45	24.87	0.42	24.49	25.44	0.95	26.49
Gross Domestic Savings	18.21	18.63	0.42	18.27	19.53	1.26	20.16

Source: CPD-IRBD Database, 2005.

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

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

New Data on Investment

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

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

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

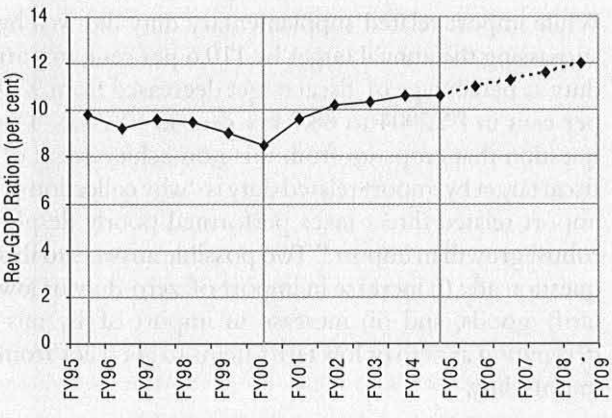
Source: Estimated from CPD Database.

3. TRENDS IN THE FISCAL SECTOR

3.1 Revenue Collection

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

Figure 3.1: Revenue-GDP Ratio in Bangladesh



Source: CPD-IRBD Database, 2005.

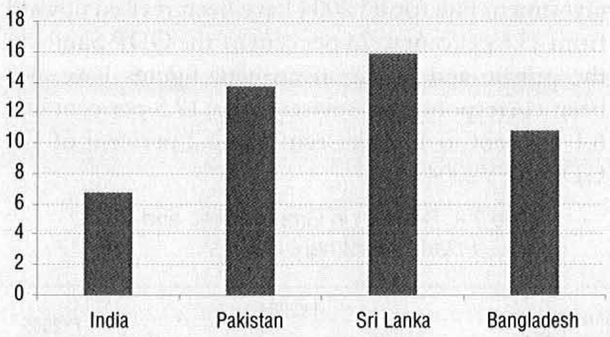
The ambitious revenue target for FY2005, which was set at 16.7 per cent higher than the realised figure of FY2004, ultimately fell short by (-) 5.7 per cent. However, the realisation in FY2005 was 14.9 per cent higher than the corresponding figure of the previous fiscal year. Tax component grew by 14.4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

Table 3.1: Revenue GDP Ratio: PRSP Vs Budget

Indicator	FY2005			FY2006			FY2007
	MTMF	Actual	Change	MTMF	Target	Change	
Total Revenue	10.70	10. 57	-0.13	11.20	10.96	-0.24	11.70
Tax	8.70	8.67	-0.03	9.10	8.95	-0.15	9.60
Non -tax	2.00	1.9 0	-0.10	2.10	2.02	-0.08	2.10

Source: Estimated from CPD Database.

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



Source: CPD-IRBD Database, 2005.

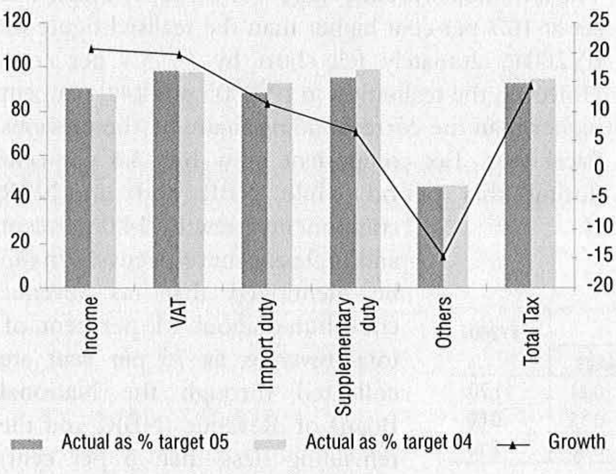
Tax-GDP ratio in Bangladesh was 10.8 per cent in FY2004, which is lower than that of Pakistan (13.70 per cent) and Sri Lanka (15.90 per cent) but higher than India (6.80 per cent). Tax revenue as percentage of GDP was 8.67 per cent at the end of FY2005.

NBR Component

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

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

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



Source: CPD-IRBD Database, 2005.

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

Table 3.2: Growth of Revenue Collection in FY2005

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

Source: Estimated from CPD Database.

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

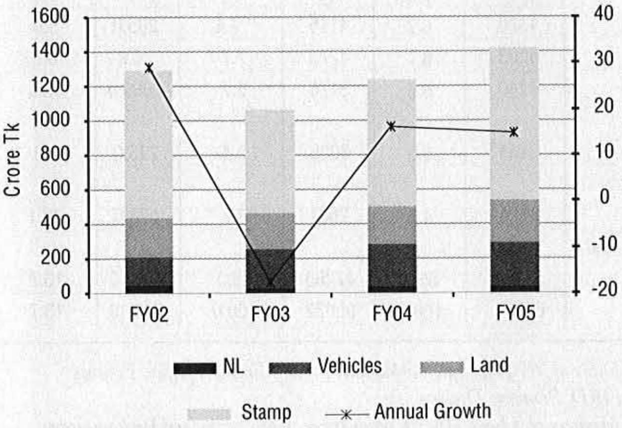
The incremental contribution of VAT in total revenue growth was about 34.0 per cent, while tax on income contributed 19.1 per cent to the added revenue intake. The encouraging point to be noted here is that during FY2005, direct tax (income tax) has registered a 20.5 per cent growth over the previous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

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

Non-NBR Component

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

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



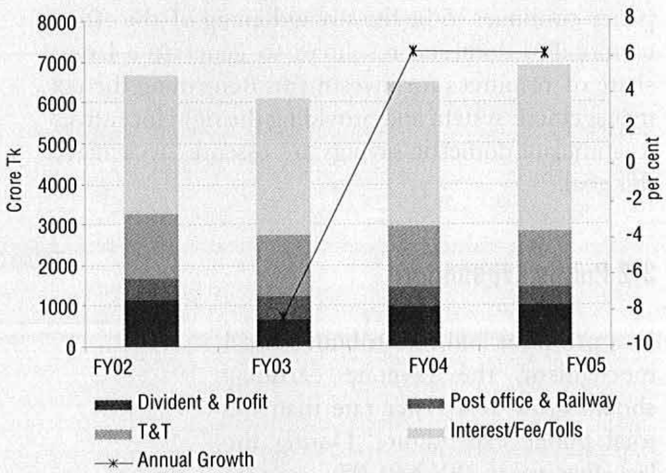
Source: CPD-IRBD Database, 2005.

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

Non-Tax Revenue

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

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



Source: CPD-IRBD Database, 2005.

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

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

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

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

3.2 Public Expenditure

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

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

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

Overview of Sectoral Allocation

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

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

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

Notes: * *includes Office of the President, Parliament, Prime Minister's Office, Finance Division, IRD, Planning Division, etc.*

** *includes Ministry of Home Affairs, Ministry of Law, Justice and Parliamentary Affairs, Supreme Court, Anti Corruption Commission.*

*** *includes Ministry of Social Welfare, Ministry of Food and Disaster Management, Ministry of Women and Children Affairs.*

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

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

Defence

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

Revenue Expenditure

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

Table 3.4: Economic Analysis of Revenue Expenditure: FY2005

(Tk in crore)

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

Source: CPD-IRBD Database, 2005.

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

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

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

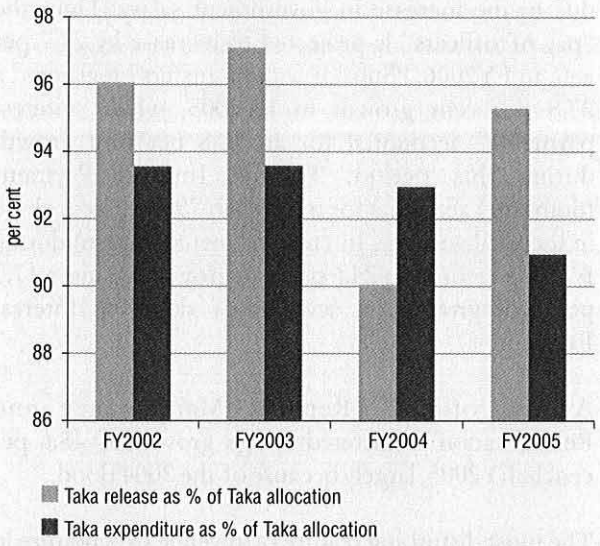
The most disturbing feature of revenue expenditure in FY2005 has been the high growth of "Block Allocation". In FY2005, block allocation grew substantially by 215.8 per cent over the corresponding figure for FY2004. However, the government for FY2006 has put a total amount of Tk 2549.5 crore as block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

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

Annual Development Programme (ADP)

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

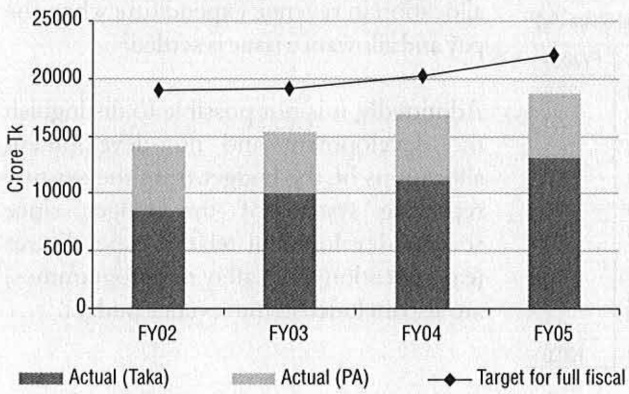
Figure 3.6: Taka Release and Expenditure of ADP during FY2002-05



Source: CPD-IRBD Database, 2005.

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

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



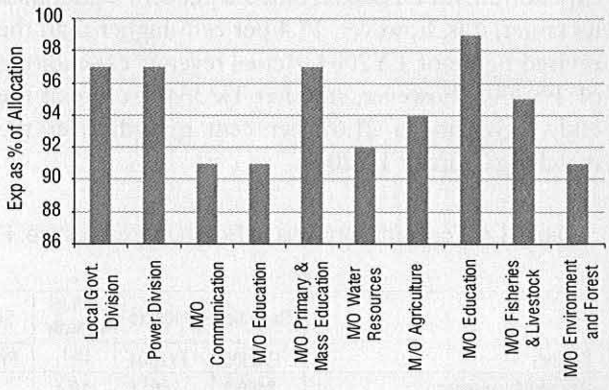
Source: CPD-IRBD Database, 2005.

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

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

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

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



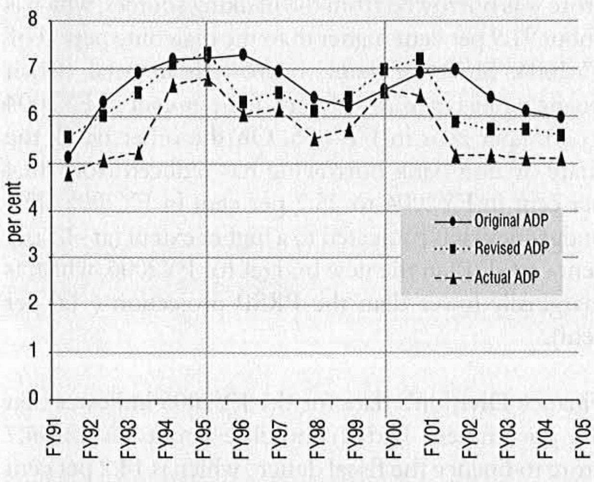
Source: CPD-IRBD Database, 2005.

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

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

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

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



Source: CPD-IRBD Database, 2005.

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

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

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

Source: CPD-IRBD Database, 2005.

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

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

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

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

Table 3.6: Budget Deficit: MTMF Vs Budget

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

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

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

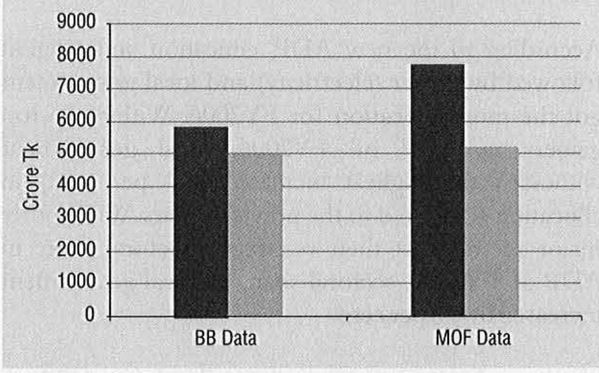
Budget Deficit and Financing

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

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

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

Mismatch of Deficit Financing Figures: Finance Div Vs Bangladesh Bank



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

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

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

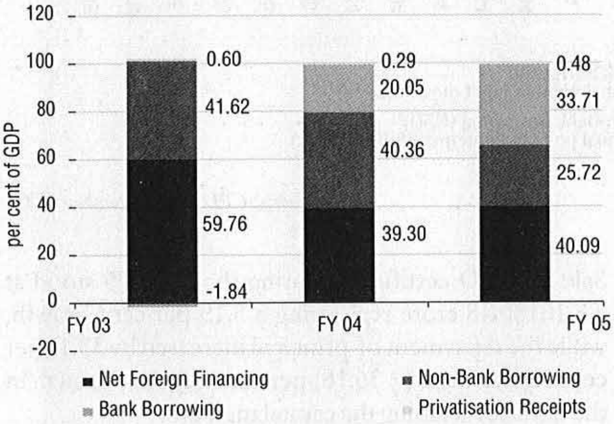
[6] Budget deficit reported in the budget announcement is revised, not actual. Since there is a lag between actual expenditure and budget proclamation, actual budget deficit often remains unpublicised.

Table 3.7: Sources of Financing

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

Source: CPD-IRBD Database, 2005.

Figure 3.10: Decomposition of Deficit Financing During FY2003-05



Source: CPD-IRBD Database, 2005.

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

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

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

4. DEVELOPMENTS IN THE MONETARY SECTOR

4.1 Domestic Credit Expansion

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

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

Government Borrowing and Public Debt

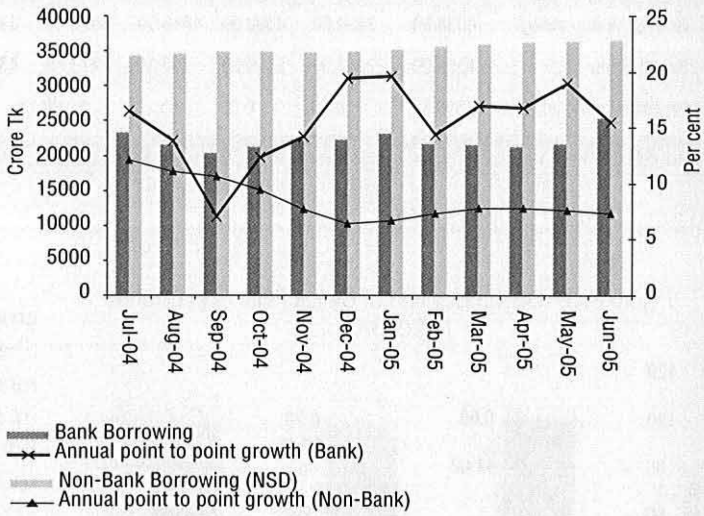
During FY2005, government borrowing experienced a major shift as regards its source by way of making a shift from non-bank to banking sources. This process has been underpinned by a drastic fall in the net sales of National Savings Deposits (NSDs). Share of bank borrowing in total outstanding public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

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

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

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

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



Source: CPD-IRBD Database, 2005.

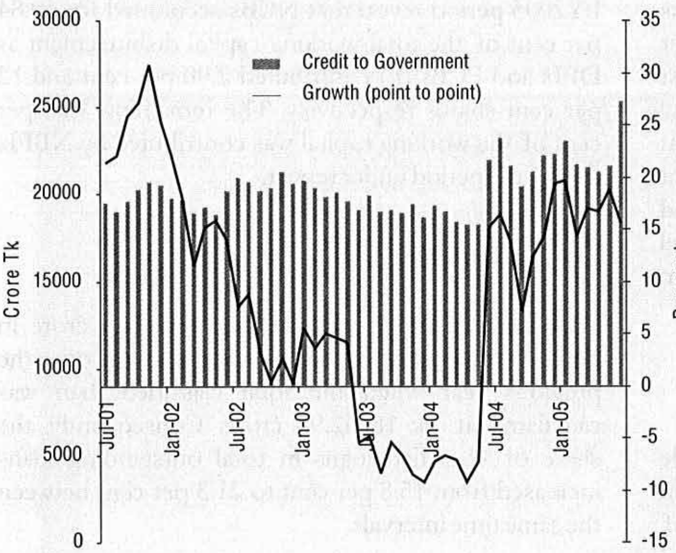
Sale of NSD certificates during the FY2005 stood at Tk 10180.48 crore registering a 5.19 per cent growth, while the repayment of principal increased by 33.18 per cent registering a (-) 36.18) per cent negative growth in the net sale including the capital market.

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

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

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

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



Source: CPD-IRBD Database, 2005.

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

Private Sector Credit

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

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

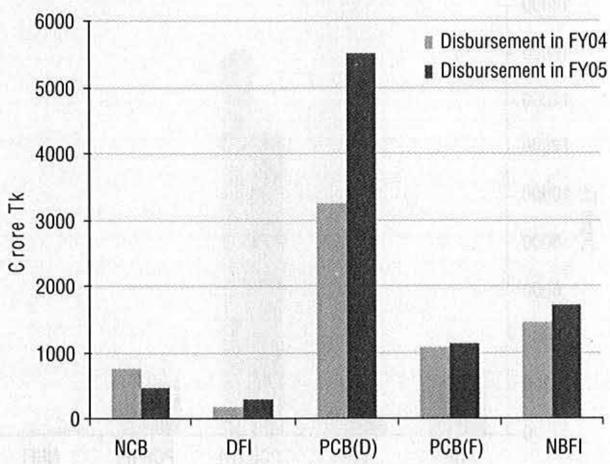
4.2 Industrial Credit

Term Loan

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

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

Figure 4.3: Disbursement of Term Loan in FY2004-05



Source: CPD-IRBD Database, 2005.

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

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

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

Working Capital

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

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

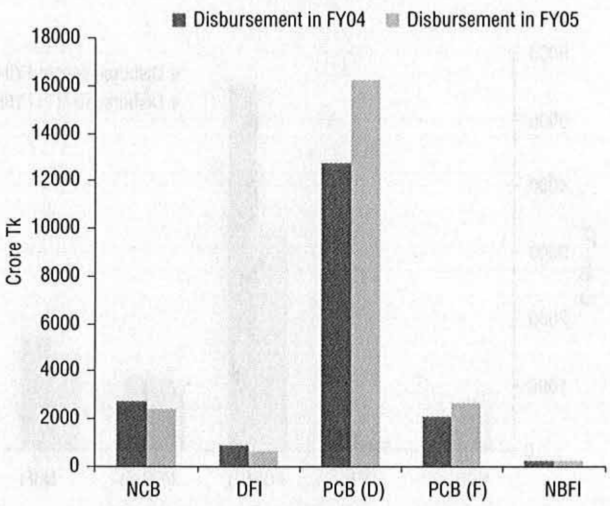
Relative contributions of working capital during the FY2005 period reveal that NCBs accounted for 10.84 per cent of the total working capital disbursement as DFIs and PCBs (F) contributed 2.90 per cent and 12 per cent shares respectively. The remaining 1.24 per cent of the working capital was contributed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

Loan Default Scenario

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

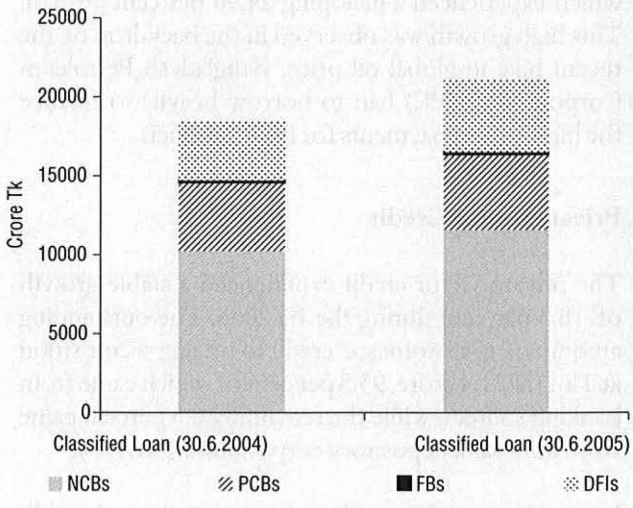
Only foreign banks (FBs) made significant progress

Figure 4.4: Disbursement of Working Capital in FY2004-05



Source: CPD-IRBD Database, 2005.

Figure 4.5: Classified Loan by Banks



Source: CPD-IRBD Database, 2005.

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

4.3 Reserve Money and Liquidity Position

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

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

4.4 Agricultural Credit

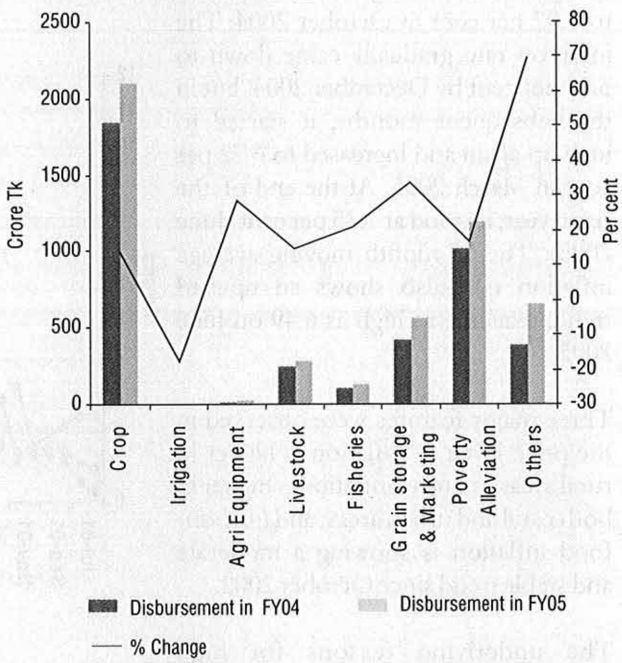
It was expected that the post-flood rehabilitation programmes of the government will be reflected by an increase in the agricultural credit. However, agricultural credit expansion during the FY2005 presents a mixed scenario. Though disbursement has increased, the target has not been achieved.

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

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

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

Figure 4.6: Agricultural Credit Expansion by Sector



Source: CPD-IRBD Database, 2005.

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

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

4.5 Inflation

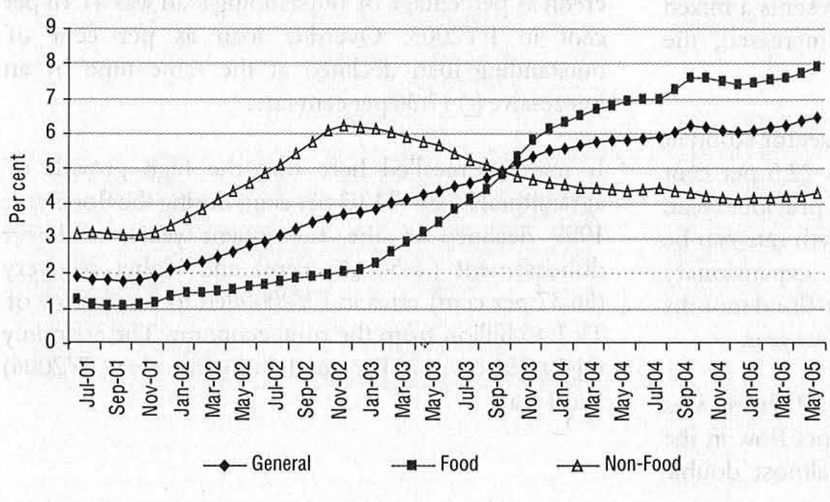
Consumer Price Inflation

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

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

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

Figure 4.7: Inflation (Moving Average)

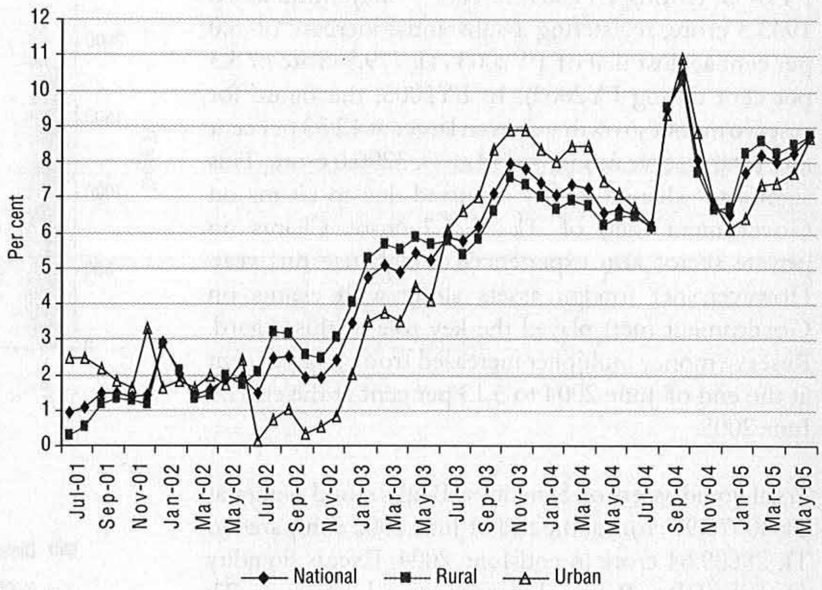


Source: CPD-IRBD Database, 2005.

Food Inflation

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

Figure 4.8: Food Inflation (Point to Point)



Source: CPD-IRBD Database, 2005.

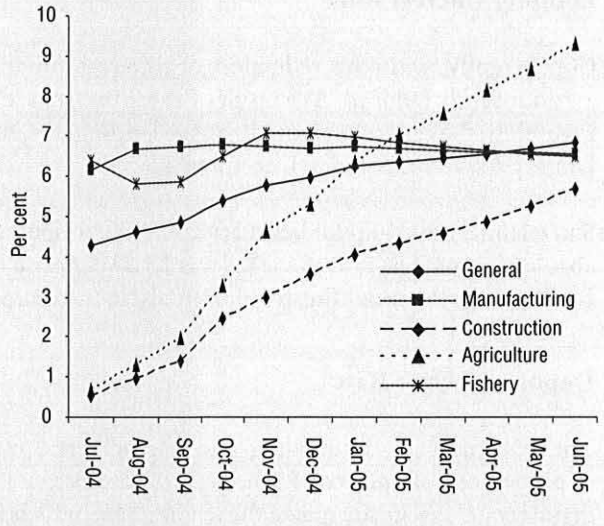
Wage Inflation

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

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

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

Figure 4.9: Wage Inflation

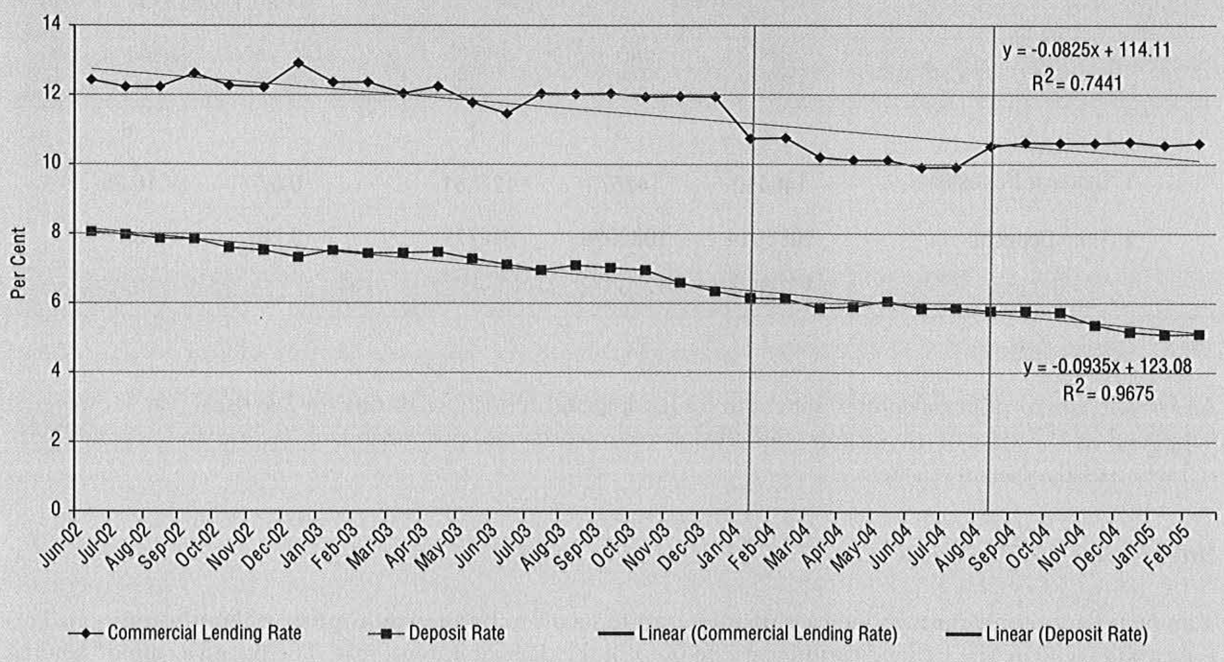


Source: CPD-IRBD Database, 2005.

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

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

Trends in Commercial Interest Rate



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

Lending Interest Rate

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

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

Deposit Interest Rate

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

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

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

Source: Bangladesh Bank.

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

Interest rate and Inflation

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

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

5. PERFORMANCE OF THE REAL SECTOR

5.1 Agricultural Production

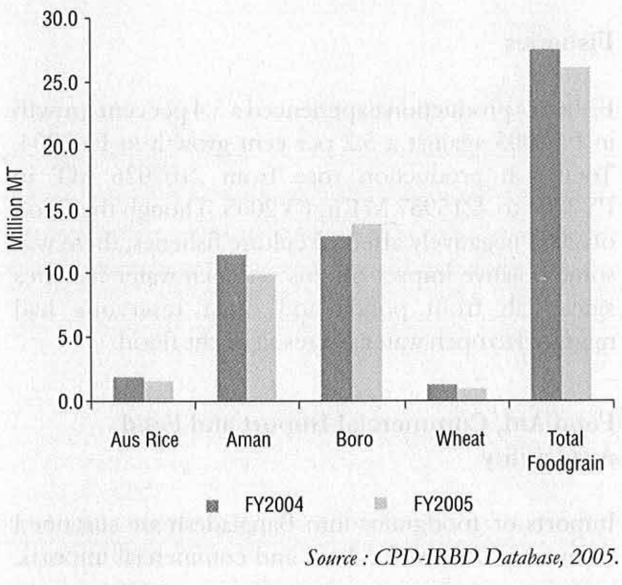
Foodgrains

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

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

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

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



Source : CPD-IRBD Database, 2005.

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

Other Crops

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

Livestock

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

Fisheries

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

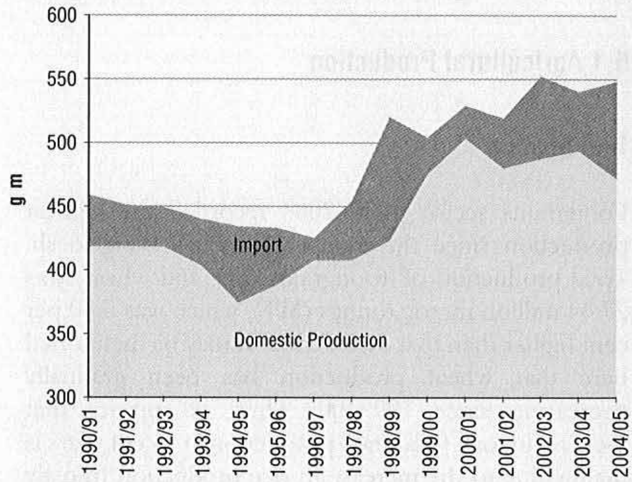
Food Aid, Commercial Import and Food Availability

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

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

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

Figure 5.2: Per Capita Daily Foodgrain Availability



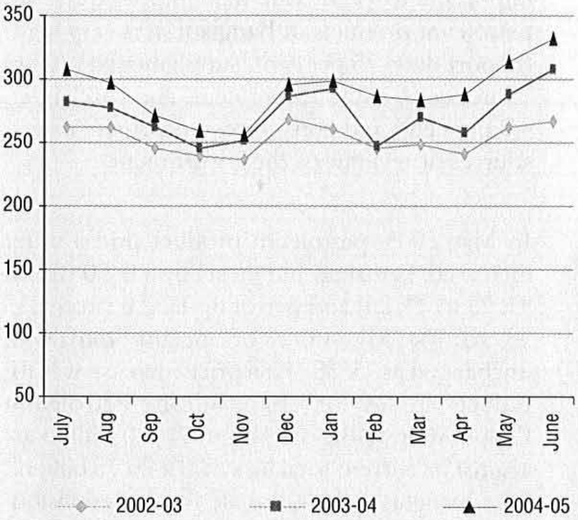
Source: Bangladesh Foodgrain Digest.

5.2 Industrial Production

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

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

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

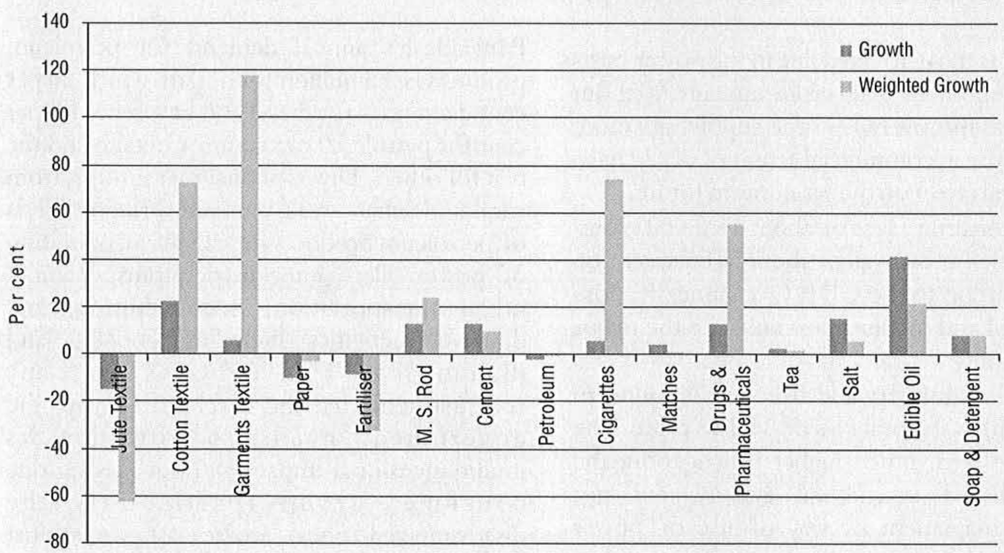


Source: CPD-IRBD Database, 2005.

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

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

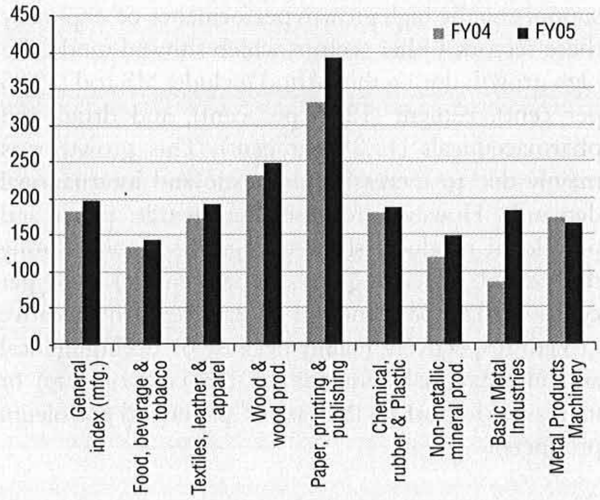
Figure 5.4: Growth in Major Industries During FY2005



Source: CPD-IRBD Database, 2005.

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

Figure 5.5: QIP of Small-Scale Manufacturing Industries



Source: CPD-IRBD Database, 2005.

Box 5.1: Crisis of Power Supply and Its Economic Cost

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

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

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

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

Box 5.2: Political Economy of Petroleum Product Pricing

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

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

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

Readjustments of Fuel Price in Bangladesh (Tk/litre)

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

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

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

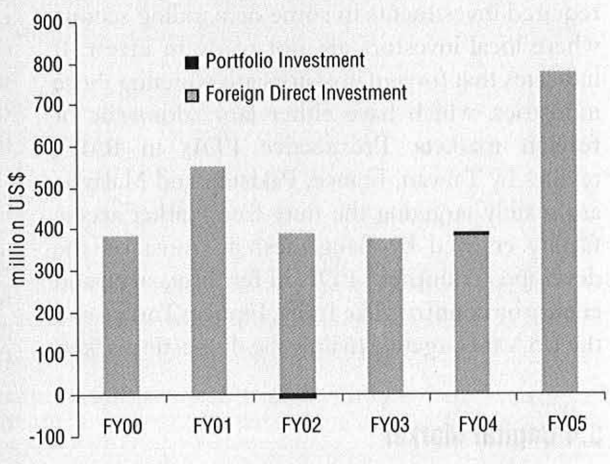
Conversely, comparatively low rise in petrol price will affect urban dwellers having cars and other transports only marginally. Indeed, price of octane, which is largely used in the cars of affluent people, did not undergo any change. One of the major reasons cited by the government in favour of this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

5.3 Foreign Investment

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

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

Figure 5.6: Foreign Investment during FY2000-FY2005

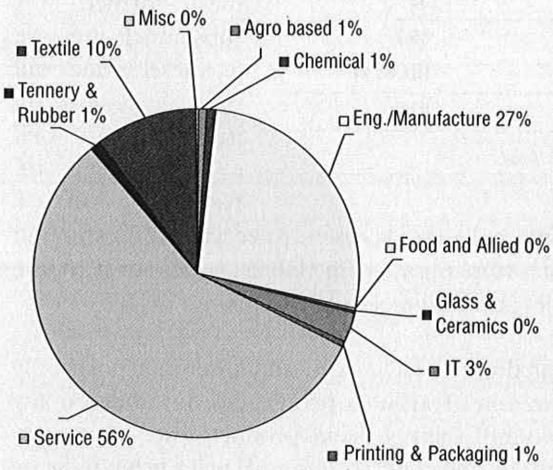


Source: Bangladesh Bank Report, 2004.

position of FDI inflow will hopefully improve significantly.

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

Figure 5.7: Sectoral Composition of Registered FDI, FY2004



Source: Board of Investment.

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

5.4 Capital Market

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

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

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

Discrepancy between BOI and Bangladesh Bank Data.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

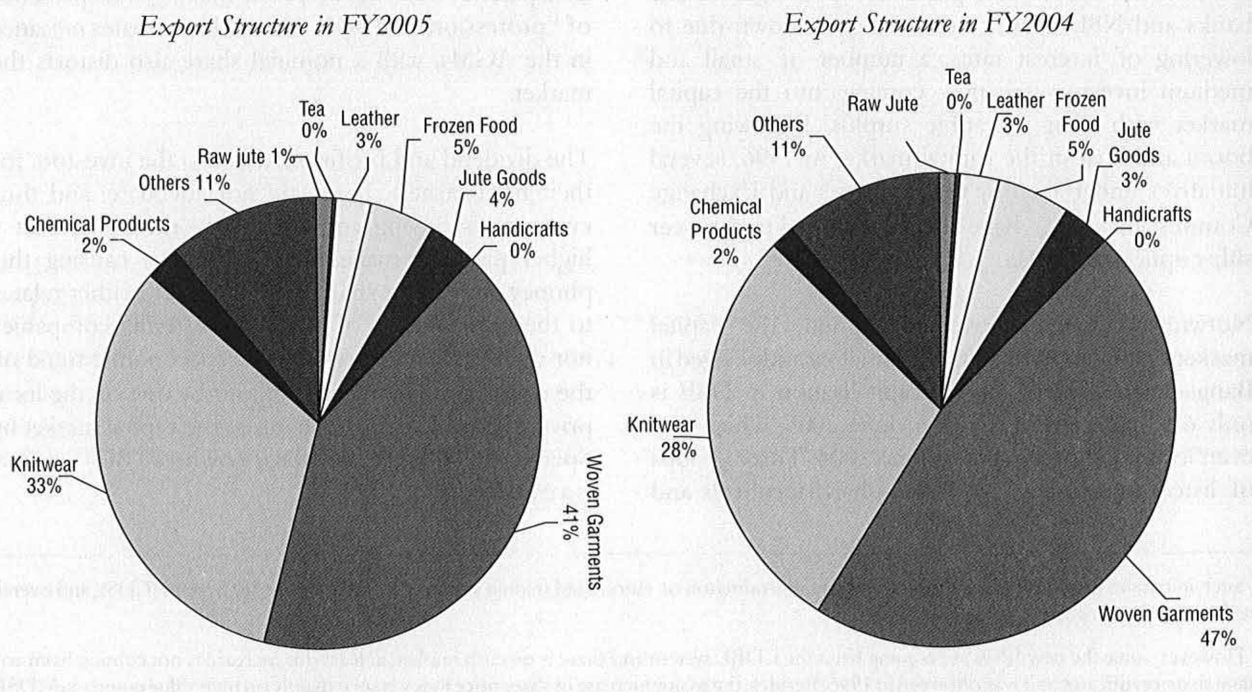
6. BEHAVIOUR OF THE EXTERNAL SECTOR

6.1 Export Sector

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

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

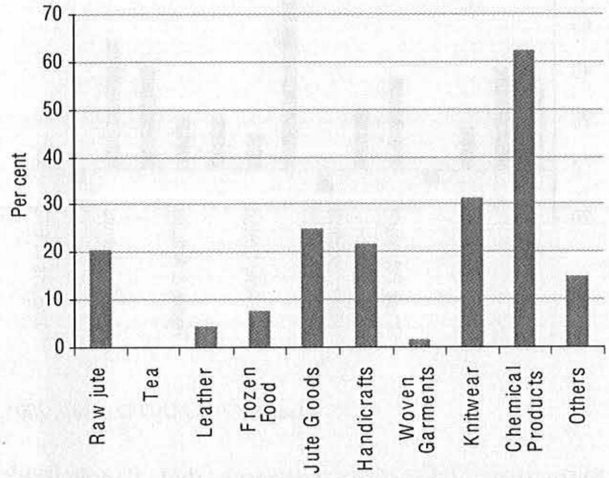
Figure 6.1: Export Structure for FY2004 and FY2005



Source: CPD-IRBD Database, 2005.

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

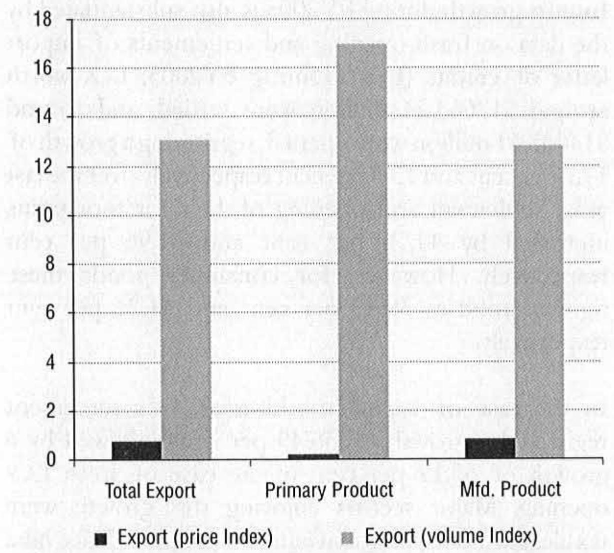
Figure 6.2: Commodity wise Growth of Exports during FY2005



Source: CPD-IRBD Database, 2005.

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

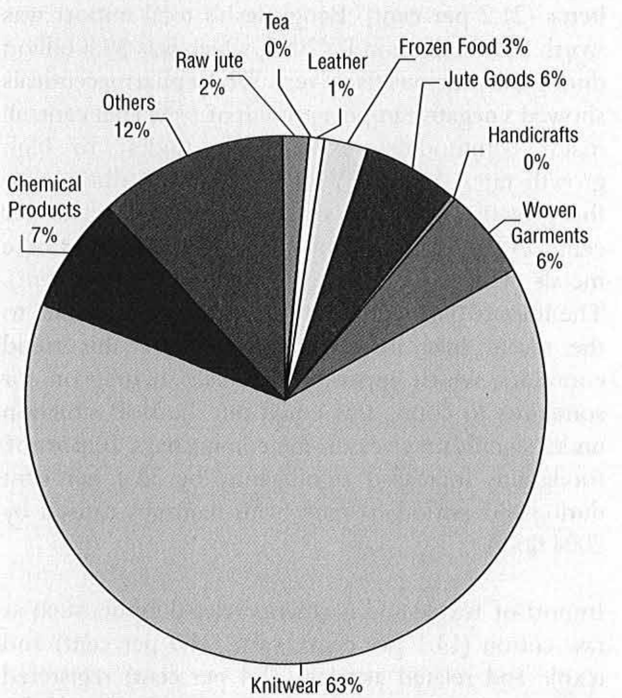
Figure 6.3: Price and Volume Index of Export during FY2005



Source: CPD-IRBD Database, 2005.

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

Figure 6.4: Contribution in Incremental Exports during FY2005



Source: CPD-IRBD Database, 2005.

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

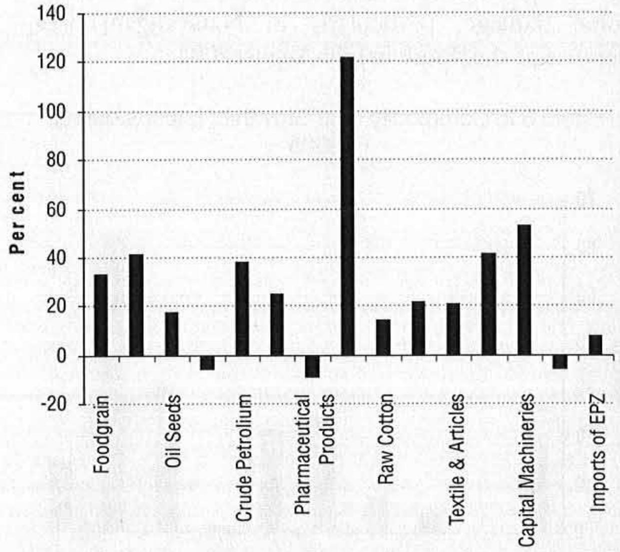
Export diversification must be given due priority to minimise Bangladesh's risks in the volatile global export market of Bangladeshi products. Active initiative should be taken to diversify frozen food export to reach its export destination. Moreover, quality control is also crucial for creating greater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

6.2 Import

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

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

Figure 6.5: Sectoral Growth of Imports during FY2005



Source: CPD-IRBD Database, 2005.

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

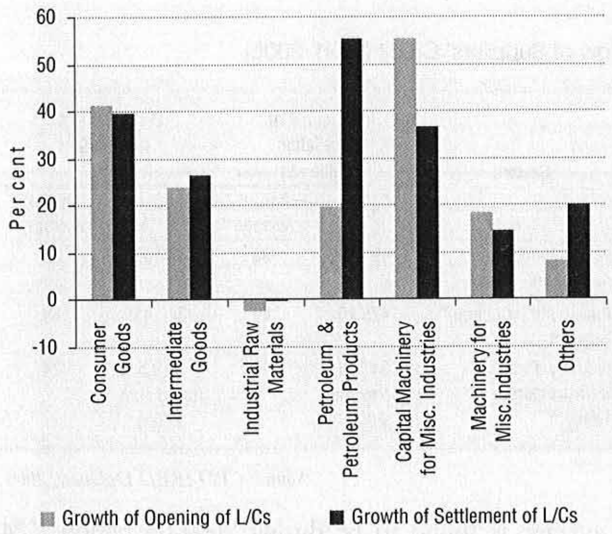
Opening and Settlement of Import LCs

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

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

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

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



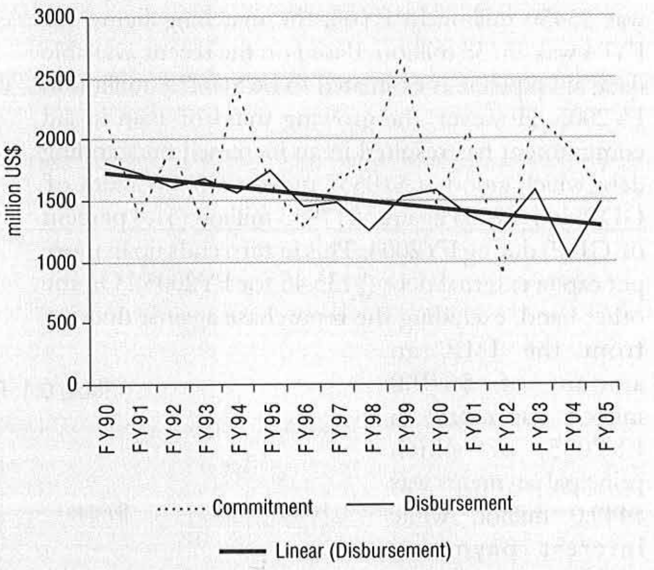
Source: CPD-IRBD Database, 2005.

6.3 Foreign Aid

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

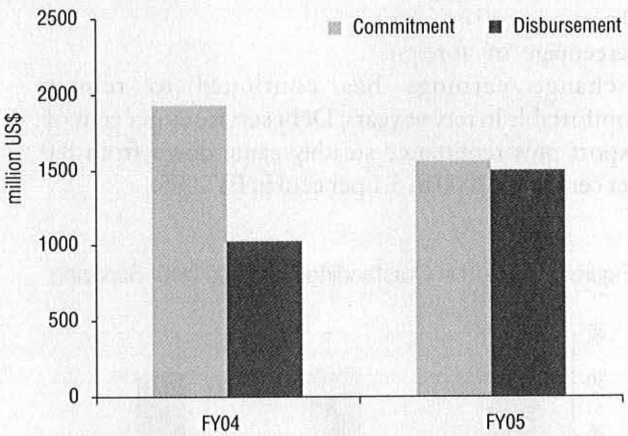
Disbursement of foreign aid in FY2005 stood at $1491.0 million, whereas the matching figure for FY2004 was lower at $1034.0 million. This indicates that the disbursement of foreign aid was about 44.2 per cent more compared to the previous fiscal year. Another $1552.3 million worth of new commitment of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

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



Source: CPD-IRBD Database.

Figure 6.8: Flow of Foreign Aid during FY04-05

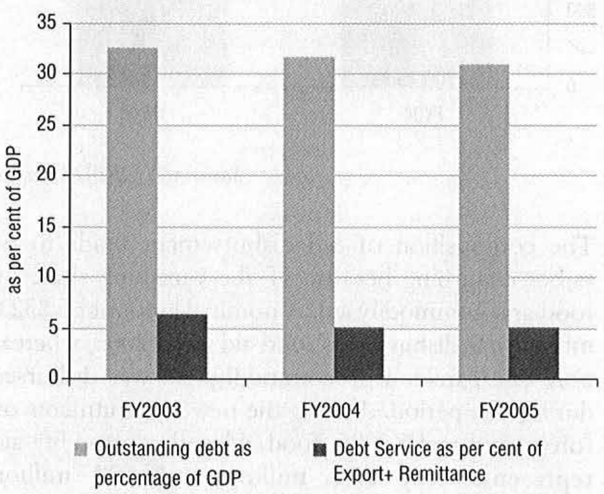


Source: CPD-IRBD Database.

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

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

Figure 6.9: Trend in Outstanding Debt and Debt Servicing



Source: CPD-IRBD Database.

Suppliers' Credit

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

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

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

Source: CPD-IRBD Database, 2005.

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

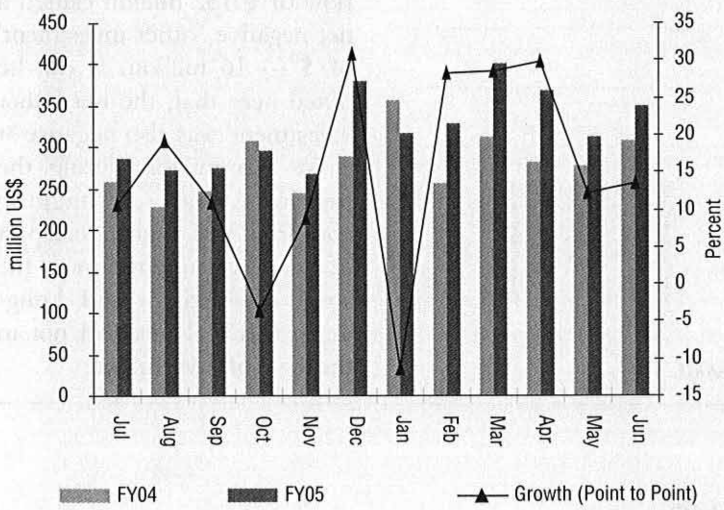
The foregoing discussion supports that suppliers' credit continues to play a significant role in accessing external resources and that the performance of the present regime is no less active in comparison to the previous one. It is to be seen to what extent the government contracts further suppliers'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

6.4 Foreign Remittances

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

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

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



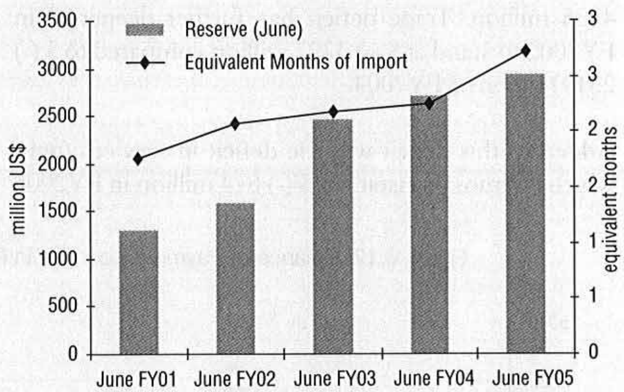
Source: CPD-IRBD Database, 2005.

priority by Bangladesh's policymakers in view of the emerging and possible opportunities in the global labour market.

6.5 Foreign Exchange Reserves

After the pinnacle attained in FY1995 when the foreign exchange reserve of Bangladesh reached $3070

Figure 6.11: Foreign Exchange Reserves and Equivalent Months of Import



Source: CPD-IRBD Database, 2005.

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

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

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

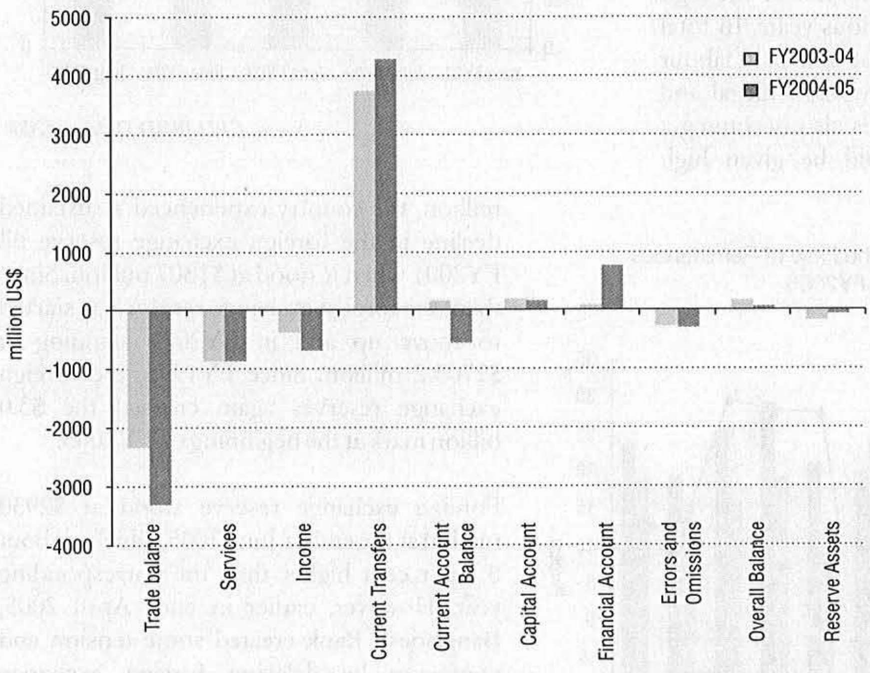
6.6 Balance of Payments

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

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

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

Figure 6.12: Balance of Payment Scenario in FY2004-05



Source: CPD-IRBD Database, 2005.

7. CONCLUDING OBSERVATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook for Budget FY2006

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

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

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

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

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

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

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

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

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

Economic Policy-making during the Time of Political Transition

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

(i) Bloated Public Investment Programme

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

(ii) Adverse Selection of Projects and Programmes

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

(iii) Tendentious Award of Tax and Tariff Relief

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

(iv) Contracting of Questionable Suppliers Credit

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

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

(v) Patronage Distribution through Public Procurement

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

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

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

(vii) Issuance of New Bank Licences

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

(viii) Issuance of New Insurance Licences

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

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

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Participants at the Expert Group Meeting

CPD-IRBD 2005

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

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

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