Unedited version

Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2015-16

Third Reading

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CENTRE FOR POLICY DIALOGUE (CPD)
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Contents

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As part of the CPD IRBD tradition, CPD had organised an Expert Group Consultation on 4 May 2016. The working document prepared by the CPD IRBD 2016 Team was shared at this meeting with a distinguished group of policymakers, academics and professionals. The CPD team is grateful to all of those present at the consultation for sharing their views, insights and comments on the draft report. A list of the participants of the meeting is provided below (in alphabetical order):

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The CPD IRBD 2016 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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SECTION I. INTRODUCTION

In the face of formidable challenges, the Bangladesh economy continued to show signs of resilience throughout the FY2016 period. The economy enjoyed a number of advantages from the perspective of macroeconomic management which were sustained from the previous fiscal year (FY2015). Macroeconomic stability was maintained, thanks to falling inflation, contained budget deficit, large surpluses in both current and financial accounts in the balance of payments, backed up by impressive export growth and rising foreign direct investment (FDI), and increasing foreign exchange reserves. Declining interest rate on lending has played an important role in the recovery of credit growth to the private sector. Provisional estimates of gross domestic products (GDP) growth rate for FY2016 is indicative of strong performance, although private investment (as a share of GDP) is expected to decline, and the drivers of growth to remain outside of real sectors. Moving forward, Bangladesh needs to translate the macroeconomic stability into higher investment and higher growth. Bangladesh will also need to prioritise a sustainable and inclusive growth agenda in light of the Sustainable Development Goals (SDGs) at a time when the first year of Seventh Five Year Plan (7FYP) comes to a close.

Despite the revealed macroeconomic stability, a number of concerns continued to nag the economy during FY2016. Stagnating private investment, decline in agricultural growth, appreciation of the real effective exchange rate (REER), weak (particularly public) banking sector performance, and low efficiency of development spending threaten to undermine economic potential and growth prospects. Both revenue collection and public expenditure are projected to fall short of target, leaving cause for concern regarding implementation of the national budget. Initiatives in the areas of energy, special economic zones, and rapid transit systems are yet to gain momentum, as these policy issues and necessary actions are likely to spill over into FY2017.

Both resource mobilisation efforts and efficacy of resource use will need to be significantly raised in the course of the upcoming fiscal year if growth momentum is to be sustained and further strengthened. Significant public sector funding will be needed for investment in transport and primary energy sectors. Strengthening of financial regulation and supervision, an institutionalised loan recovery framework and energetic measures to stimulate private sector credit growth should be seen as priority tasks that the financial sector must address. Further reforms relating to various government regulations and auditing pertaining to commerce and industry will be needed for strengthening competitiveness of the economy and reducing barriers to doing business. Fiscal-budgetary measures in the FY2017 budget will need to be aligned with the objectives and targets of the 7FYP.

This report is the third instalment of CPD's flagship programme titled "Independent Review of Bangladesh's Development (IRBD)". The report presents a detailed snapshot of the current state of the national economy and flags the emerging challenges facing the economy. Earlier instalments, released in January and April of 2016, provided an interim assessment of the state of the current economy and concerns regarding the upcoming budget for FY2017. The IRBD exercise to be carried out in this fiscal year will also include an immediate assessment of the upcoming FY2017 national budget, to be released on 3 June 2016 (the day after the national budget is set to be presented at the national parliament). Based on latest national and global micro- and macroeconomic data and information, this report presents CPD's assessments as regards the performance of the economy in FY2016, and the tasks to be addressed in view of the emerging macroeconomic and sectoral scenarios. Discussion of the state of the economy is segmented into following sections which are focused on GDP growth and private investment (Section II), fiscal and budgetary framework (Section III), financial sector performance (Section IV), and the external sector dynamics (Section V). Two thematic issues of current relevance are also discussed in detail; these concern recent crop sector dynamics and policy responses (Section VI), and labour market dynamics and performance (Section VII). The final section closes the report with some concluding remarks.

SECTION II. THE CURIOUS RELATIONSHIP BETWEEN PRIVATE INVESTMENT AND GDP GROWTH: REINVENTING THE WHEEL?

Bangladesh has been experiencing a peculiar situation whereby the modestly high 6 per cent plus GDP growth has been achieved and maintained with a sluggish growth in private investment. However, this type of situation is not uncommon in developing countries- indeed, Philippines had experienced 'rising growth with declining investment' in early 2000s (Boechi, 2008). In FY2016, the first year of the seventh Five Year Plan, private sector investment has failed to reach its target; if the needed initiatives are not taken to incentivise private investment, the target for 2020 (the closing year of 7FYP) set at 26.6 per cent of GDP, will be difficult to achieve. In this backdrop, it is important to examine the reasons behind low level of private sector investment in FY2016 in-depth, taking into account the performance over the previous years.

2.1 Sources of GDP Growth: Inefficient Use of Capital Weakened Growth Prospect

Bangladesh's economic growth over the last several years has been impressive when compared to that of LDCs and developing countries (Table 2.1). However, it is important to identify the sources of growth in order to understand how sustainable the growth will be. A simple econometric exercise has been carried out as part of the current study in view of this. Economic growth originates from two sources: a) factor accumulation, and b) factor productivity.[1] An attempt has been made here to capture to the extent to which Bangladesh economic growth can be explained by increased inputs of physical and human capital, and to what extent this is explained by the increased efficiency of using those inputs.

Table 2.1: Real GDP growth of economies from 2010-2014 (%)

Economies	2010	2011	2012	2013	2014	Average
World	4.1	2.8	2.2	2.3	2.5	2.7
Developing economies excl. LDCs	7.8	5.8	4.7	4.6	4.3	5.3
LDCs	6.0	3.9	4.1	5.5	5.1	4.9
Bangladesh	6.1	6.5	6.5	6.0	6.2	6.3

Source: Author's compilation from UNCTADSTAT.

For the purpose of this study, a growth accounting exercise has been conducted for the Bangladesh economy with help of data from the World Bank.[2] The model used for this exercise is derived from a Cobb-Douglas Aggregate Production Function, assuming constant returns to scale. The technological growth rate or the total factor productivity (TFP) growth rate is then calculated as the residual of the growth accounting for physical and human capital. To compare the strength of this figure, the same exercise was carried out for India. The methodology of this exercise is shown in Annex 2.1.

[1] According to neoclassical theory, the diminishing returns to capital inputs mean that capital driven growth is only achievable in the short run. In the long run, growth is achieved by the incremental efficiency of inputs that is the technological growth which is captured through the residual total factor productivity (TFP) growth (Solow, 1957).

[2] Data is taken for 24 years (1991-2014).

Table 2.2: Comparison of sources of GDP growth in Bangladesh and India, 1991-2014

Country	Physical Capital		Human Capital		Total Factor Productivity Growth[3]	GDP Growth
	Physical Capital Growth[4]	Contribution to GDP	Human Capital Growth[5]	Contribution to GDP		
Bangladesh	9.6	3.8	3.0	1.8	-0.3	5.3
India	9.4	3.8	2.5	1.5	1.3	6.6

Source: Nehru and Dhareshwar database of Physical Capital Stock; Barro-Lee database of mean years of schooling; WDI, World Bank.

According to Table 2.2, over the last 24 years, the growth of both physical and human capital of Bangladesh has been higher compared to India. Bangladesh's average physical capital growth was 9.6 per cent compared to India's 9.4 per cent average over the corresponding years. The annual average figures for human capital growth is 3.0 per cent for Bangladesh compared to India's 2.5 per cent, over the corresponding period. The concern relating to Bangladesh growth scenario arises when the growth of capital inputs (which include both physical and human capital) in the growth equation is accounted for. Assuming a physical capital share of 0.4[6] and constant returns to scale for both countries, the TFP growth for Bangladesh over the period 1991-2014 comes to an average of (-) 0.31 per cent per annum compared to India's 1.3 per cent (annual average). This implies that, although the growth rate of factor inputs have been quite high over the years, efficiency of the factor inputs should be a matter of concern for Bangladesh. In case of Bangladesh, it has been negative; meaning efficiency of input utilisation has decreased over the years. Growth of capital inputs contributed 5.6 per cent on average to GDP growth; however, this has adversely affected the actual GDP growth rate, pulling if down to 5.3 per cent. In contrast, India's capital inputs accounted for only 5.3 per cent of the average annual GDP growth, while the remaining 1.3 per cent is explained by increased efficiency of the capital inputs (TFP).

If Bangladesh were to efficiently use the physical and human capital inputs over the years at the same level as India, the average annual growth rate would have been approximately 7 per cent instead of the actual 5.32 per cent over the 1991-2014 period. The total loss from the relative inefficiency has been approximately USD 607 billion (at 2014 prices) over the 1991-2014 period.

The differences in the productivity of India and Bangladesh are reflected in the change in GDP per capita levels over the years. Table 2.3 shows the GDP per capita for India and Bangladesh at constant 2014 USD. In 1990, India's per capita GDP was 1.1 times that of Bangladesh. The gap between the two economies has increased over the years and in 2014, this ratio was 1.46. If Bangladesh were to have the same TFP as India over the last 24 years, the GDP per capita of Bangladesh would currently be USD 1,568 in 2014, compared to the actual figure of USD 1,087 in 2014 (according to BBS data, per capita income was USD 1,110 in FY2014), the GDP gap, in turn would have also decreased and the GDP per capita would have been very similar in magnitude. This call for necessary changes in national policies for, increasing FDI, improvement of ICT

[3] TFP growth is the portion of output not explained by the amount of inputs used in production. As such, its level is determined by how efficiently and intensely the inputs are utilised in production. TFP growth is usually measured by the Solow residual.

[4] Growth of physical capital is the gross capital formation as a percentage of capital stock in the respective year.

[5] Growth of human capital is the growth in the labour force (quality adjusted).

[6] A study conducted by Rondán et al (2005) has estimated the share of physical capital to be 0.39. Furthermore, Collins (2007) examined the sources of growth in South Asia, and assumed the share of physical capital to be 0.35. We assume 0.4 for simplicity.

infrastructure, institutional improvements, greater efficiency of public expenditure, amongst others.[7]

Table 2.3: Comparison of per capita GDP: Bangladesh and India (at constant 2014 USD)

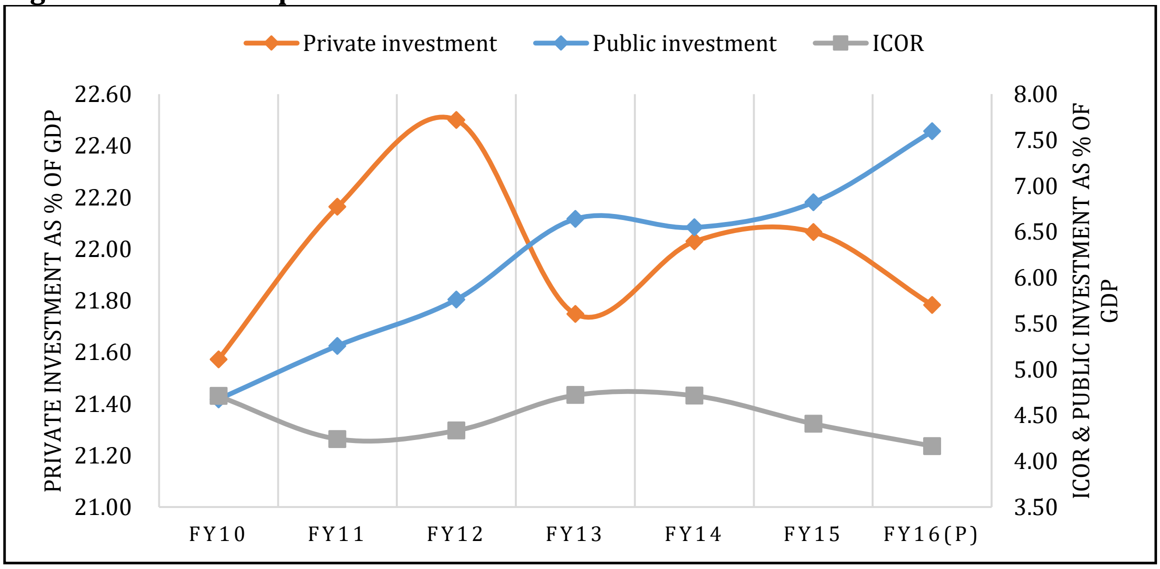
Country/Ratio	1990	1995	2000	2005	2010	2014
India	515.61	598.53	733.19	934.34	1294.88	1581.51
Bangladesh (Actual)	470.75	525.69	600.36	706.51	894.24	1086.81
Bangladesh (With India's level of productivity)	470.75	554.75	692.50	880.31	1257.23	1568.03
Ratio of India-Bangladesh (Actual)	1.10	1.14	1.22	1.32	1.45	1.46
Ratio of India-Bangladesh (With same level of productivity)	1.10	1.08	1.06	1.06	1.03	1.01

Source: Authors' compilation from World Development Indicators, World Bank.

2.2 Understanding the Recent Trends in Private Investment

2.2.1 Sluggish growth of private investment: During FY2016, private investment is estimated to be 21.78 per cent of GDP, and has decreased by about 0.3 percentage points since FY2015. Despite favourable macroeconomic environment (e.g. moderate level of inflation, reasonable balance of payment (BoP) and high forex reserve), private investment failed to pick up in FY2016. During the same period, public investment experienced a higher level of growth which contributed to the higher total investment-GDP ratio (Figure 2.1). Unlike 1990s and 2000s, relatively high GDP growth against moderate rise in investment-GDP ratio over last several years alludes to improvements in capital efficiency, as reflected in the falling Incremental Capital Output Ratio (ICOR) (Figure 2.1).

Figure 2.1: Trend in private investment-GDP ratio and ICOR



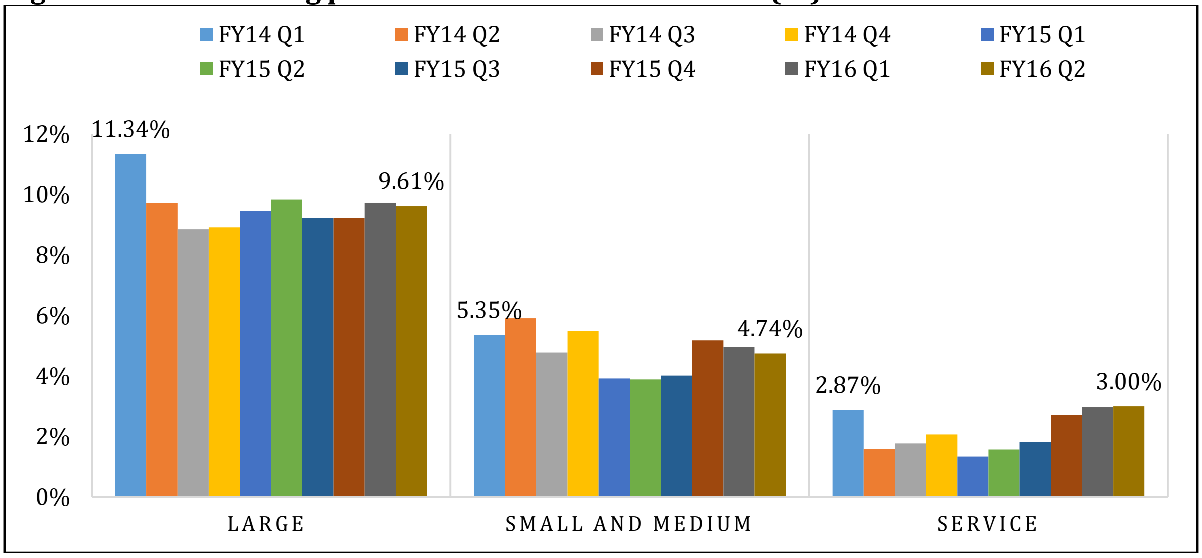
Source: Estimated from BBS data.

2.2.2 Composition of advances is changing: Overall advances made by the commercial banks, industrial term loan has gradually lost its share to other economic activities – the share has reduced from 19.5 per cent in Q1 in FY2014 to 17.3 per cent in Q2 in FY2016 according to

[7] Details can be found in an upcoming CPD Policy Brief: "Higher Inputs, Lower Returns: An Inquiry into the Factor Productivity Trend of Bangladesh".

Bangladesh Bank data. The share of advances (outstanding) to large, medium and small industries in total advances has somewhat decelerated in FY2016 which is indicative of the sluggish domestic private investment in the manufacturing activities (Figure 2.2). On the other hand, share of advances in service related activities has continued to rise since Q1 of FY2015 (from 1.34 per cent to Q1 FY2015 to 3 per cent, Q2 FY2016). This is both reflective of, and likely to contribute to, rising role of services in the growth of the GDP.

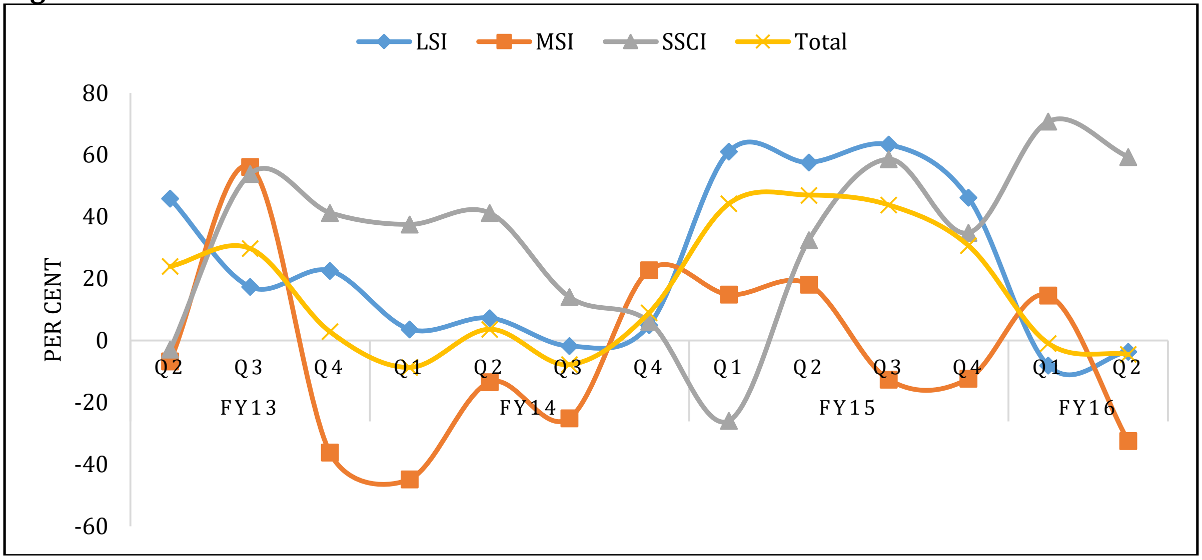
Figure 2.2: Outstanding position of term loans as a share (%) of total advances



Source: Bangladesh Bank.

2.2.3 Large industries determine the trend in industrial term loan growth: Large scale industries (LSI) account for the major share of industrial term loan disbursement (75.6 per cent of total term loan); followed by medium scale (MSI) (14.3 per cent) and small scale (SSI) industries (10.1 per cent). The composition has slightly changed in recent years because of targeted initiatives by the Central Bank to disburse more loan to the SME sector; as a result the gap between SSIs and MSIs in terms of share of term loan has reduced (since Q1 of FY2015). Until 2014, growth in term loan disbursement to different categories of industries had maintained a consistent trend; this trend has somewhat reversed since Q1 of FY2015 (Figure 2.3). Although there is a rise in disbursement of term loans for LSIs in Q2 of FY2016, total disbursement is lower than that of Q2 of FY2015. SSIs, on the other hand, have received significantly higher amount of term loan during FY2015 and FY2016 (growth in Q1 and Q2 in FY2016 is 70.8 and 59.4 per cent respectively). Loan disbursement to the MSIs did not show any consistent trend over the corresponding period.

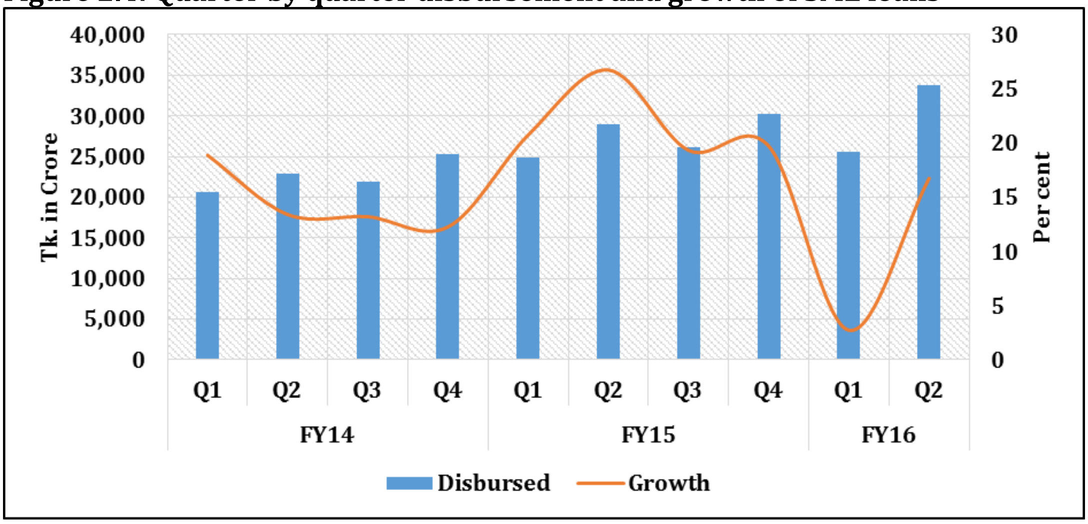
Figure 2.3: Growth in disbursement of industrial term loan



Source: Bangladesh Bank.

2.2.4 SME loan disbursement needs better targeting: Credit to the SME related activities has increased over the last several years thanks to targeted initiatives for disbursement of SME credit. Targets for 2014, 2015 and 2016 were Tk. 88,753 crore, Tk. 1,04,587 crore and Tk. 1,13,503 crore respectively. Growth in disbursement of SME loans barring Q1 of FY2016 has been quite significant in recent years (Figure 2.4). According to Moazzem and Basak (2016), macro-level performance as regards disbursement of SME credit resonated with what local level SMEs actually felt. Informal arrangements under which many of the SMEs at local and district levels operated, lack of customised financial products and services in response to the demand of different cluster-based industries and various other reasons have undermined availability and access to SME credit. It is important to monitor whether the disbursed credit is being availed by the targeted groups and whether targeted activities correspond to the demands of the SME entrepreneurs.

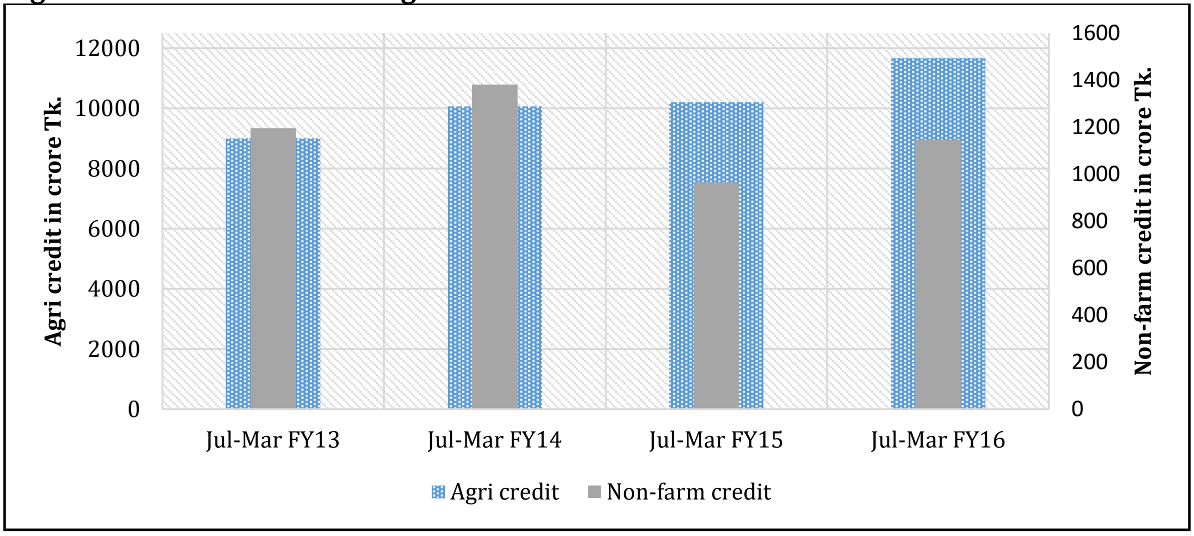
Figure 2.4: Quarter by quarter disbursement and growth of SME loans



Source: Bangladesh Bank.

2.2.5 Credit to agriculture sector should be supplemented by targeted post-harvest support: Disbursement of credit to the rural areas, particularly in agriculture and non-farm activities, has maintained a moderate level of growth over the last several years. While disbursement of agriculture credit has increased consistently during the FY2011-2015 period, growth of non-farm credit did not keep up with this pace. During July-March period of FY2016, a total of Tk.11,667.7 crore was disbursed as agricultural credit and Tk.1,144.99 crore was disbursed as non-farm credit; these amounts were 14.4 per cent and 18.8 per cent (respectively) higher compared to that of the previous year (Figure 2.5). Sluggish growth in disbursement of credit in FY2014-15 has partly contributed to this year's moderate rise. Given the high production cost against the depressed price in the harvesting season, special efforts should be taken by the central bank to reduce commercial bank's lending interest rate for agricultural credit (current rate is 9.68 per cent per annum). While government's various initiatives (including disbursement of credit) have facilitated pre-harvest agricultural production, given the depressed price in harvest season as observed in recent past and as of now, targetted post-harvest measures are needed in order to ensure fair price for farmers and efficient marketing of agricultural products both in domestic and foreign markets. In view of the emergent situation concerning agricultural price and profitability, CPD (2016a) has suggested that an 'Agriculture Price Commission' be set up to identify measures to address the concerns.

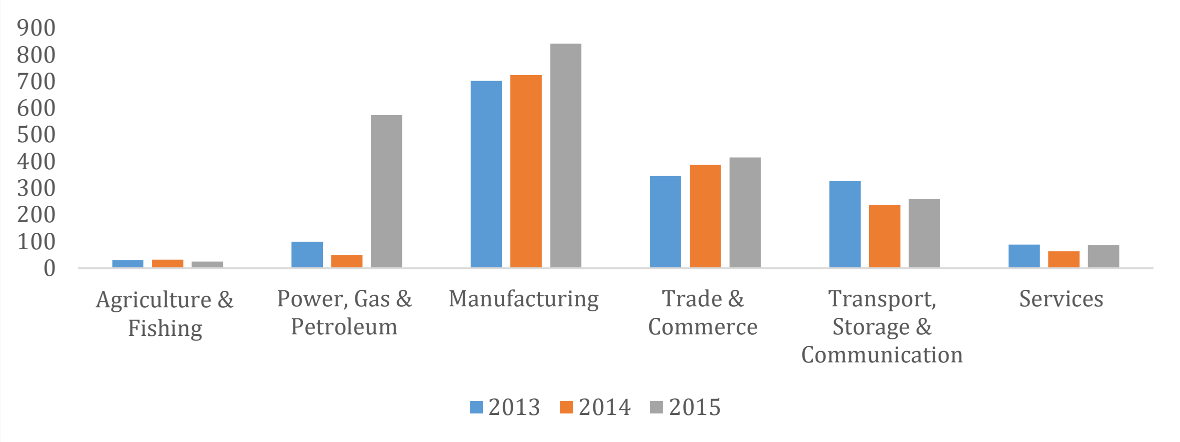
Figure 2.5: Disbursement of agricultural and non-farm credit



Source: Bangladesh Bank.

2.2.6 Changing composition of FDI should be supported through appropriate pre-establishment measures: Unlike domestic private investment, FDI has registered a considerable growth during 2015 (January-December). For the first time, inward flow of FDI has crossed the 2 billion USD mark in 2015 (USD 2,235 million) which was 44 per cent higher compared to 2014. According to Bangladesh Bank data, during July-February, 2016, FDI flow was USD 1,450 million which was 27.2 per cent higher compared to the same period of the previous year. A cross-sectoral analysis reveals that FDI flow in recent years was directed more to manufacturing and trade and commerce related activities (Figure 2.6); given the labour-intensive nature of most of manufacturing activities, this trend is a positive one from the vantage point of creating more job opportunities for professionals and skilled workers. After sluggish growth in earlier years, significant jump in FDI inflow in power, gas and petroleum sectors in 2015 transmitted a positive signal to the gas-starved energy sector. New investment is expected to go for exploration of new gas fields. A large share of recent FDIs are actually reinvestment by existing companies, this is may be taken as a positive sign since it is perhaps indicative of the growing confidence of foreign firms to continue doing business in Bangladesh. On the other hand, a deceleration in the contribution of equity capital in total share of FDI inflow is indicative of the continuing hesitance on the part of new investors to invest in Bangladesh. In view of this, more emphasis needs to be put on addressing pre-establishment barriers that face new foreign investors willing to set up business in Bangladesh.

Figure 2.6: Net FDI inflow in the selected sectors



Source: Bangladesh Bank (various years).

Registration of new investment evince a mixed scenario. The number of registration of new entities has slowed down both in case of local and foreign ones during 2015 – from 1676 in FY2013 the number came down to 1429 in FY2015. On the other hand, over the corresponding period the total amount of registered investment in 2015 has increased from USD 8,332 million to USD 12,715 million (Table 2.4). However, during January- March, 2016, both number and amount of investment have registered a rise compared to that in the same period of the previous year. Average size of proposed investment was larger for local investors compared to that of foreign ones.

Table 2.4: Number of local and foreign investment registration and value *(in million USD)*

Indicators		Local investment	Joint & 100% Foreign Investment	Total
FY2013	Number of projects	1457	219	1676
	Proposed Investment	5,599.0	2,733.0	8,332.0
	Prop. Investment/project	3.8	12.5	16.3
FY2015	Number of projects	1309	120	1429
	Proposed Investment	11,683.1	1,032.4	12,715.6
	Prop. Investment/project	8.9	8.6	17.5
Jan-Mar, 2015	Number of projects	336	24	360
	Proposed Investment	3,148.3	1,34.0	3,282.3
	Prop. Investment/project	9.4	5.6	15
Jan-Mar, 2016	Number of projects	409	35	444
	Proposed Investment	3,975.8	314.4	4,290.2
	Prop. Investment/project	9.7	9	18.7

Source: Board of Investment (BoI) (2013-2016).

2.3 Declining Role of Private Investment in GDP Growth

An analysis of incremental contribution of different sectors towards GDP growth in FY2016 shows that service sector has maintained its leading position as a contributor to the GDP growth.

In recent years, public administration, education and health services have been making increasingly larger contribution to GDP growth (Table 2.5). On the other hand, contribution of wholesale and retail trade has come down while the contribution of financial intermediaries remained stagnant. Contribution of industries has increased at a modest pace, while that of agriculture has decelerated. The rising contribution of service sector in GDP growth has originated in those sub-sectors which are relatively less capital-intensive in nature (e.g. public administration, and education). Given the nature of service sector led GDP growth, on account of mainly public sector services, with sluggish growth in investment in the manufacturing sector, the role of private investment in GDP growth is becoming rather weak.

Table 2.5: Incremental contribution to GDP growth in last five years

Industrial origin sector	FY12	FY13	FY14	FY15	FY16(p)
Agriculture Sector	0.52	0.41	0.70	0.53	0.40
Industries Sector	2.47	2.59	2.27	2.74	2.95
Manufacturing	1.69	1.80	1.60	1.93	1.99
Services Sector	3.43	2.88	2.92	3.00	3.44
Public Administration and Defense	0.24	0.21	0.22	0.32	0.53
Education	0.16	0.13	0.16	0.17	0.30
Health and Social Works	0.07	0.09	0.09	0.09	0.15
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	0.42	0.28	0.23	0.25	0.21
Financial intermediations	0.28	0.28	0.29	0.29	0.29
GDP Growth	6.52	6.01	6.06	6.55	7.05

Source: Calculated based on Bangladesh Bureau of Statistics (BBS) Data.
Note: p denotes provisional estimates.

A major share of private investment originates from the manufacturing sector. In the manufacturing sector, wearing apparels and textiles account for the major share of fixed assets – its share is 48.3 per cent in total fixed assets of the manufacturing sector (SMI 2012). Hence, apparels and textiles sectors are leading new investment in the manufacturing sector and creating new fixed assets. Lack of adequate infrastructural facilities including supply of quality electricity and gas (see below), relatively high rate of interest (as mentioned in the Box 1) and slow global indicate that new investment in the apparels sector has been rather slow. Apparels enterprises have been undertaking major works where significant amount of investment is required. Given the significant resources needed and the difficulty in accessing necessary infrastructural facilities, some entrepreneurs are yet to make good progress in this regard. According to the BGMEA, a total of 618 factories have closed down in last three years; on the other hand 250 new factories have been set up with state of the art technologies and better compliance assurance. FDI inflow to the apparels and textile sector has been rather discouraging.

Although gas supply has risen in recent times, the industrial sector did not benefit much from this. Instead, the sector has experienced a decline in supply of gas (from 4.52 per cent in FY2014 to 4.11 per cent in FY2015) (Table 2.6). In contrast, supply of gas has increased in household activities (from 13.15 per cent in FY2014 to 16.38 per cent in FY2015). Additionally, electricity supply has also failed to meet the growing demand. Consequently, entrepreneurs have been discouraged to set up new enterprises.

Table 2.6: Growth in consumption of gas by selected consumer groups (%)

Fiscal Year	Captive Power	Industry	Household	Total
2011-12	2.44	5.65	2.13	4.63
2012-13	8.02	5.80	0.57	6.37
2013-14	7.16	4.52	13.15	3.75
2014-15	4.37	4.11	16.38	5.94

Source: Bangladesh Power development Board (BPDB).

2.4 Growing Private Sector Confidence as regards Investment Prospects: CPD Rapid Assessment Survey, 2016

During February-April, 2016, CPD conducted an entrepreneurs' perception survey as regards current issues of concern and interest relating to the Bangladesh economy. The perception about business environment has improved in 2016 compared to 2015. About 37.1 per cent of all respondents indicated positive changes in business environment in 2016; 33.3 per cent mentioned the opposite. This was an improvement over 2015. However, the positive attitude was weaker than what was mentioned in 2014, which was the first year of the government following the elections in 2014 (Table 2.7).

The positive changes in perceptions noted above related to demand for firms' products. About 52.8 per cent of all respondents were confident about high demand for their product in 2016 (39.6 per cent in 2015); however, the perception level was much higher in 2014 (54.7 per cent). Majority of the business executives (67.7 per cent) were very confident that newly established SEZs will provide necessary infrastructural support to new investment. About 59.6 per cent entrepreneurs have mentioned higher level of investment during the calendar year 2016 when the comparable responses in 2015 and 2014 were quite low (37.9 and 31.3 respectively). This is indicative of the private sector's confidence and their willingness to commit resources for investment. However, it also transpires from the survey that this confidence is contingent on the government's ability to deliver on the promised services such as setting up SEZs, better access to gas, energy and other infrastructure.

Table 2.7: Perception survey on investment, demand and infrastructure (% of total number of respondents)

Questions	Comment	2014	2015	2016
The investment environment in Bangladesh will	Deteriorate	35.6	61.4	33.3
	Indifferent	23.3	18.2	29.6
	Improve	41.1	20.5	37.1
How do you assess the possible changes in the demand for your farm's product during 2016?	Poor demand	20.3	32.6	11.3
	Indifferent	25	27.9	35.8
	High demand	54.7	39.6	52.8
What is the plan/projection as regards your firm's investment?	No investment	36.4	44.2	13.5
	Indifferent	25.8	25.6	26.9
	High investment	37.9	30.3	59.6
Do you think that initiatives for developing the land and other necessary infrastructure and utilities in the SEZs would meet the need of the investors?	Not at all			16.1
	Indifferent			16.2
	To great extent			67.7

Source: Rapid Assessment Survey, CPD 2016

Box 2.1: Factors affecting private investment in developing countries: case of Bangladesh

A panel regression exercise covering 65 developing countries (screened on the basis of data availability) was carried out to identify the determinants of private investment. The dependent variable was investment per capita (at 2005 prices) and the regressors included real interest rate, previous years income per capita, tax rate, and a number of institutional variables which included government effectiveness, law and order and regulatory quality etc. It was found that only three of the variables were significant with expected signs which included real interest rate (negative), previous year's income per capita (positive) and law and order (positive). Not only was law and order evinced a positive causation, its magnitude was also found to be quite significant.

It was found that improving the law and order situation in Bangladesh will lead to a significant increase in per capita investment. The exercise made an attempt to estimate what would happen if law and order situation was similar to some selected countries. *It was found that by achieving the law and order situation similar to Sri Lanka, private investment in Bangladesh would rise by up to 33 per cent. If the law and order situation was same as that of India, private investment would more than double!* Thus, rule of law emerges as a very significant factor in driving private investment, which in turn is quite crucial for ensuring high growth.

According to CPD's Rapid Assessment Survey 2016, entrepreneurs have demanded changes in different policies, rules and regulations (Table 2.8). About 28 per cent mentioned the need for amendment in rules and regulations and reforms of related institutions; 24.7 per cent mentioned the need for changes in fiscal policies (tax and VAT), 19 per cent mentioned improvement in governance while another 15 per cent mentioned improvement in infrastructure. Government should give high priority to transparency and accountability, reforming public services and judicial system, reducing corruption, and improving public procurement system etc. Proper zoning of land and establishment of special economic zones across the country were also mentioned as important.

Table 2.8: Areas of concern

Areas and Issues	Responses (%)
Regulatory issues and related Institutions	28.0
Fiscal policies (Taxes including VAT)	24.7
Governance	19.4
Infrastructure (Land, Transport, Technology and Energy)	15.1
Foreign Exchange Regulation	7.5
Financial Access and Service	5.4

Source: Rapid Assessment Survey, CPD 2016

When top executives were asked about skills that are missing when they are looking for fresh employees, they felt that their top most concerns related to lack of personal qualities (e.g. work ethics, confidence, leadership, pro-activeness, innovativeness, etc.) (Table 2.9). Shortage of technical skill (need-based skill, IT, researchers, engineers, etc.) was the second most important concern for the businesses. Lack of communication skill, particularly on proficiency in English language among fresh graduates, was also highlighted as a major concern.

Table 2.9: Lacking skills among young job seekers

Areas of concern	Responses (%)
Personal Qualities	34.2
Technical Knowledge	24.8
Communication	19.7
Creativity and Critical Thinking	12.0
Experience and Training	9.4

Source: Rapid Assessment Survey, CPD 2016

SECTION III. FORMULATING FISCAL AND BUDGETARY MEASURES FOR FY2017

3.1 Revenue Mobilisation

Following a meeting of the Budget Monitoring and Resource Committee (BMRC), it was indicated that the revenue target for FY2016 was to be slashed by about Tk. 31,443 crore (including Tk. 26,370 crore for NBR) in the revised budget (CPD, 2016b). Indeed, this drastic revision became inevitable in view of the realities on the ground. In the first six months of FY2016, total revenue collection posted a growth rate of 15.8 per cent against the annual target of 42.8 per cent.[8] CPD (2016b) expressed the apprehension that the year-end revenue collection in FY2016 was likely to be about Tk. 6,500 crore less than the recently revised target for FY2016 if appropriate measures were not put in place to address the emergent constraints. In view of the situation, NBR has put in an extra effort to infuse momentum in revenue collection in the last two quarters of FY2016. According to NBR data, revenue collection growth was 15.9 per cent during the first nine months (July-March) of FY2016 (14.9 per cent in FY2015).[9] There are indications that for FY2017, the revenue growth target may be set at 37.3 per cent over the revised target for FY2016. Hence, the actual growth target for FY2017 (accounting for the possible shortfall over the revised target) may turn out to exceed the 40 per cent threshold. Attaining this is apprehended to be yet another uphill task whose success is highly doubtful.

Concerns relating to small tax base, low tax compliance and widespread tax evasion have continued to plague revenue mobilisation in Bangladesh. In this backdrop, options other than a serious revamping of the revenue mobilisation efforts and making this a policy priority are rather limited. In this connection, CPD (2016b) in its second interim report for FY2016 has put a number of proposals on the table: changes in current advance income tax (AIT) collection system through progressive withholdings-at-source tax rates; introduction of Benami Property Bill; strengthening transfer pricing cell. The attainment of revenue target in FY2017 will depend largely on amendments/implementation of VAT and SD Act. Regrettably, this reform agenda is being debated and no clear stance has been taken by the government till date.

Amendments/implementation of VAT and SD Act

The new VAT and SD Act 2012 is to come into force on 1 July 2016 with a uniform rate of 15 per cent for almost all goods and services.[10] However, the gap between government and other relevant stakeholders concerning implementation of this Act is yet to be bridged. In view of prior consultations with key stakeholders, the government had constituted a Joint Committee in

[8] Revenue collections from all major sources were well below the respective targets. Particularly, income tax collection growth was the lowest during (first half of) FY2016 in the last 14 years.

[9] It is however needs to be recognised that there is a large discrepancy between data provided by the NBR and MoF (CPD, 2016a). In FY2015, such discrepancy was to the tune of Tk. 12,765 crore. On a positive note, NBR has recently initiated some steps to reconcile such discrepancy.

[10] There are some exempted supplies and zero rated supplies. The exempted supplies and imports shall be as follows, namely a supply of the following services relating to social welfare activities, if the services are provided by a government entity or an approved charitable institutions (trust or wakf) — (a) Health care and medical services; (b) Education and training; (c) Child care activities and residential care facilities for aged, indigent, infirm, or disabled persons who need permanent care. Zero rated supplies applies only to the supply of: (a) immoveable property is zero-rated if the land to which the immoveable property relates is outside Bangladesh; (b) goods for export; (c) zero rated services excluding health and education services.

October 2014 that had included both the NBR and the FBCCI representatives. The mandate of this Committee was to deliberate on views and suggestions emerging from these consultations, particularly those voiced by the business community. As is known, the business community had called for a number of amendments to the Act. The Committee agreed to some of the suggestions voiced by .the stakeholders[11]. However, no follow-up steps have been taken as the date for presentation of the FY2017 budget approaches.

The Act envisages a number of significant changes including abolition of the truncated rates. At present, there are at least 20 service items where VAT is applied at truncated rates (See Annex 3.1). Applying a universal rate on these items will see a sharp rise in applicable tax and hence, in prices for these services. The resultant price rise of some commodities and services will have spill-over impacts on the economy including on inflation.

For example, on electricity bills consumers are currently paying VAT at the rate of 5 per cent. If the new Act is implemented without any amendments, electricity bill of a consumer (for equivalent amount of usage) will increase from 1 July 2016 by about 9.5 per cent. This is a significant rise in one year.

In the same vein, at present, manufacturers are currently paying Tk. 825 as VAT for each tonne of iron rod based on a tariff value system (specific tax), which comes to only about 2 per cent. Under the new Act, if a manufacturer cannot produce documents for VAT credit and apply the 15 per cent VAT on consumers, cost of construction including public infrastructure will go up.

As is known, the new Act will introduce an integrated online system for VAT registration, return submission, refund and payment. This requires development of necessary (soft and hard) infrastructure, human resource and skill development, training of VAT officials, and preparation of relevant stakeholders as regards compliance. Indeed, the business community, particularly the small business enterprises, have very little knowledge till date regarding this. Automation process for the new VAT regime call for test runs which have not been done as yet.

Without addressing the aforesaid concerns, it will be difficult to implement the new Act from July, 2016. It may be recalled here that, the aforesaid joint committee of the NBR and FBCCI have also proposed some other amendments a number of which are critically important. These include imposing a 4 per cent VAT on supply value for the service sector; differential treatment of bargaining shops and reduced VAT on a number of commodities including iron and steel.

The proposed VAT and SD Act will also need to be reconciled on an urgent basis. Towards this end, the recommendations of the joint committee should be addressed without delay. In this regard, all the preparations need to be done in a coordinated manner through participation of stakeholders and tax officials, at various levels. If it demands, a 2-3 years plan may be developed to implement this Act in a realistic and staggered manner.

Reform in advance income tax (AIT) collection system

As of now, no formal registration system exists for AIT withholding entities with the NBR. Greater transparency and higher tax mobilisation at source could be achieved through an integrated identification mechanism that links all aspects of the taxpayer's finances, to be achieved through

[11] The committee agreed to raise the limit of turnover tax for eligible traders, businesses and manufacturers, provide differential treatment to small traders, businesses and some specific sectors who were to pay VAT at a reduced rate (these will not be eligible to enjoy input VAT credit).

linking of the e-TIN with the involved party's national ID and/or business identification number.[12] Towards this end, the experience of India could serve as a useful example for Bangladesh (see Box 3.1).

Box 3.1: Advance income tax collection system in India

Advance income tax in India refers to paying a part of the due taxes before the end of the fiscal year, if the concerned tax liability is more than Rs. 10,000 (Batra, 2016). Ideally, this amount should be paid in the year in which the income is received and has to be paid on 15th day of September, December and March in instalments of 30 per cent, 30 per cent and 40 per cent respectively for self-employed and businessman. Companies, however, need to pay by the 15th day of June, September, December and March. For salaried employee, advance tax is not applicable as the employer deducts tax at source (TDS). The tax deducted at source by the payer is to be deposited with the income tax department account. Advance tax becomes applicable when an individual has sources of income other than his salary[13]. Similarly, Tax Collection at Source (TCS) arises for the seller of goods and here, tax is collected[14] at the source of income itself. Any individual who will collect the tax has to present a certificate which will specify if the tax has been collected, the amount collected and the rate of tax applied. This information has to be presented within 10 days from the date of debit or receipt of the amount to the buyer. The taxes collected must be dispatched to the income tax department's account.

For a TDS/TCS returns, an individual needs to quote Tax Deduction and Collection Account Number (TAN)[15] which can be applied through "Form No. 49B" (under Indian Income Tax Law) and submitted to any of the TIN facilitation centres which are responsible for receipt of e-TDS returns. TAN is assigned by the Income Tax Department based on the application submitted to TIN Facilitation Centres which is managed by National Securities Depository Limited (NSDL). The TAN is required for all TDS/TCS returns, all TDS/TCS payment challans and certificates that are issued. TDS/TCS returns will not be accepted by banks if TAN is not quoted. A penalty of Rs. 10,000 is applicable for failure to apply for TAN or not quoting TAN in the specified documents.

It may be noted that, if the amount paid as advance tax is higher than the total tax liability, there is scope for a refund. For instance, if the assesse has paid more than 10 per cent of the tax liability, then the assesse is entitled to receive an interest at 6 per cent per annum, paid by the Income Tax department, on the excess amount.

Strengthening transfer pricing cell to reduce illicit financial flows

Global studies indicate that, between 2004 and 2013, about Tk. 44,000 crore (6.2 per cent of current GDP) was siphoned out from of Bangladesh annually while over Tk. 76,000 crore (6.3 per cent of current GDP) was taken out from the country in 2013 alone (Kar and Spanjers, 2015).[16] Globally, international institutions such as multinational corporations (MNCs) have been found guilty of misreporting transfer prices in order to keep their tax burdens low. This phenomena has now caught up with Bangladesh. In view of this, the Transfer Pricing Cell of NBR should be further strengthened and steps should be taken so that the cell has access to global platforms and databases for tracing and tracking illicit flows and misinvoicing by MNCs and other business

[12] In addition, CPD (2016b) also called for introduction of progressive withholdings-at-source tax rates.
[13] Examples include when an assessee earns income through capital gains on shares, capital gains on house property, interest on fixed deposits, winning on lotteries, etc.
[14] The tax is collected at source from the buyer, by the seller, at the point of sale.
[15] Tax Deduction and Collection Account Number (TAN) is a 10 digit alphanumeric number issued to persons who are required to deduct or collect tax on payments made by them under the Indian Income Tax Act, 1961.
[16] In case of Bangladesh, the major share of the illicit flow is taking place on account of trade mis-pricing (Kar and Spanjers, 2013).

enterprises. The recent Panama Papers scandal, coupled with information provided earlier by Swiss banks, calls for appropriate investigation by concerned authorities in Bangladesh to stem illicit financial flow from the country (CPD, 2016b).

Introduction of Benami Property Bill

Recent information points out that the underground economy or black money economy is quite entrenched and of significant amount for a developing country of Bangladesh's size. Added to this, the number of tax payers is rather small and tax avoidance is widespread. These of course hurts the economy particularly through lower revenue generation. A large part of the money which flows out of the country is through various forms of illicit financial flows[17], aided by high level of corruption. As is known, in the past, legalisation of undisclosed income has been allowed in Bangladesh from time to time. As mentioned earlier in CPD (2016b), Under Sections 19BBBBB and 19C of the Income Tax Ordinance (1984) special tax treatment was allowed for investments in real estate as also in some other sectors[18] of the economy. These provisions, however, had only insignificant success. In view of early record, there is no justification to continue with such practices. In this backdrop, CPD recommends the introduction of a Benami Bill Act to bring undeclared assets within the purview of tax authorities.

A similar law has been enforced in the India, which maybe considered by Bangladeshi policymakers to follow. The Indian Benami[19] Transactions (Prohibition) Act, 1988 was fist enacted on 5 September 1988.[20] However, this Act could not be implemented due to absence of appellate mechanism and lack of provisions for vesting of the confiscated property. The Act was further amended on 13 May 2015 with the introduction of relevant authorities for purposes of this Act. These included: (i) Initiating Officer; (ii) Approving Authority; (iii) Administrator; and (iv) Adjudicating Authority. Apart from this law, India has introduced another Act targeting financial wealth stashed abroad by resident Indians, called the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

The Benami Bill seeks to particularly target the real estate sector where individuals hold black money in the form of benami property and generate black money in domestic arena.[21] Movable properties such as gold and company stocks would also come under the purview of benami transactions. It also seeks to ensure that if any individual enters into such transactions for the purpose of tax evasion or to avoid payment to creditors, the ultimate beneficiary owner and individuals who assist or encourage the individual to undertake such transactions will face penalties. The penalties imposed are quite severe; if it is proved that someone was involved in such transactions, then the person would face imprisonment for a minimum of one year. Indeed the term may be extended to seven years, in addition to a fine up to 25 per cent of the fair market value of the property. If any individual who is required to provide information under this Act knowingly furnishes false information, he/she will face rigorous imprisonment of at least six

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[17] According to Global Financial Integrity (GFI) report 2015, Bangladesh ranks 26 out of 149 countries with an average illicit financial flow of USD 5,588 million (2004-2013).

[18] Investment in government Treasury bonds (10 per cent tax) or investment in productive income generating sectors (10 per cent penalty and regular 25 per cent tax).

[19] Benami is used to define a transaction in which the real beneficiary is not the one in whose name the property is purchased. As a result, the person in whose name the property is purchased is just a mask of the real beneficiary.

[20] Not applicable for the state of Jammu and Kashmir in India.

[21] In India, misuse of public trust funds is often used to create benami property. This is possible because information as regards such funds are not compiled in a centralized repository.

months; this may be extended up to five years, along with a fine of 10 per cent of the fair market value of the property (Jain, 2015).

The Initiating Officer, initially may issue a notice to any individual whom s/he considers to be a benamidar[22], as to why the property should not be considered benami. Afterwards, the property may be attached[23] for a period of 90 days from the date of notice. The Investigating Officer in charge gathers evidence and then passes an order (within 90 days from the date of issue of the notice) with preceding approval of the Approving Authority. If, for instance, an order is passed in favour of continuation of holding of the property in question, the Initiating Officer's next task would be to refer the case to the Adjudicating Authority. The Adjudicating Authority would then issue notice and pass an order as to whether or not to hold the property as benami. If an order to hold the property as benami is made, then a confiscation order is to be issued. All title and rights in such benami property shall vest in the Central Government, free of all encumbrances, whilst the Administrator is to be tasked with the management of the property. There is also scope to hear appeal against the order passed by the Adjudicating Authority through the Appellate Tribunal. The Appellate Tribunal is made up of a Chairperson and at least two other Members (Judicial and Administrative Member).

One criticisms of the new Benami Bill is that it makes the manager of a company, (defined as per the Companies Act, 2013), liable for tax recovery. For any offence under this Act, all responsible individuals serving the company has to prove that the offence was committed without his/her knowledge; otherwise, s/he will be held accountable and punished. Also determination of the fair market value has turned out to be challenging (Thakurta, 2015).

Although, in Bangladesh, there is already mention of prohibition of benami transactions in Chapter III of the Land Reforms Ordinance 1984, under the title Prohibition of Benami Transaction of Immovable Property, this alone is not enough to tackle and prevent illegal activities. The upcoming budget session may like to address this issue; the Law Ministry and Parliament Standing Committee can discuss the issue for introduction of suitable a bill in this regard.

3.2 Public Expenditure

Public expenditure framework needs to be redesigned to make effective use of the policy space in FY2017

Public expenditure framework needs to be redesigned to make effective use of the policy space in FY2017. Growth of public expenditure in early months of FY2016 was well below the target. Expenditure for major two sources of non-development spending, i.e. 'Subsidies and Current Transfers' and 'Interest Payments' was well within the limit during July-December of FY2016. Expenditure for Annual Development Programme (ADP) was also lower than the past trends of low rate of implementation. In addition, the government has disbursed Tk. 1,200 crore for recapitalisation of the state-owned commercial banks (SCBs) till December 2015; the money went mainly to the scam-hit BASIC Bank. As may be recalled, a budgetary provision of Tk. 5,000 crore was set aside in the budget for FY2016 for purposes of recapitalistion.[24] Further, the

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[22] The person in whose name the benami property is held or transferred,

[23] The prohibition of transfer, conversion, disposition or movement of property, by an order issued under this Act.

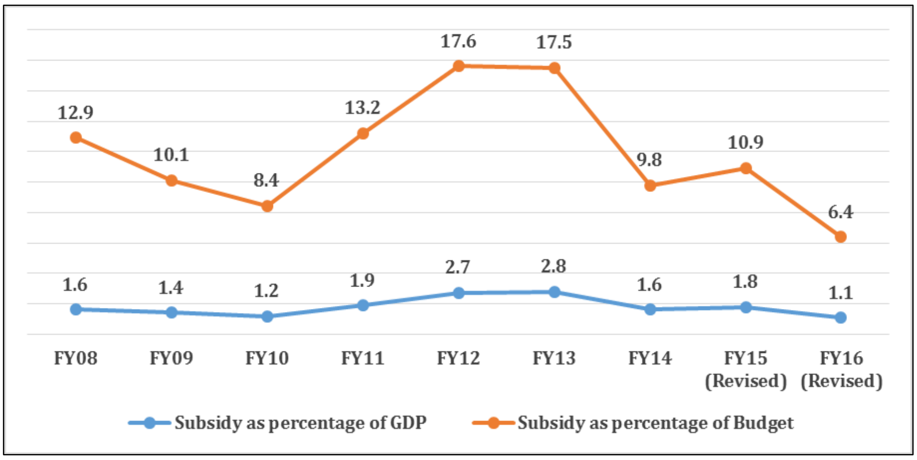
[24] In FY2015, government spent Tk. 1,716 crore on this account.

government has indicated that Tk. 500 crore may be given to a few banks from the remaining allocation. However, Basic Bank has again sought Tk. 2,600 crore afresh to meet its capital requirement under Basel II for FY2017.

Lower subsidy demand will provide fiscal space in the next fiscal year

Subsidies are set to be reduced by about 26.0 per cent in the revised budget for FY2016 thanks to the fall in fuel and fertiliser prices in the international market; this would provide some fiscal space to the government for the upcoming budget. Thanks to the drastic fall in the international fuel prices, BPC moved on the profit terrain in FY2015 and continued to earn profit in FY2016. BPC will not be in need of further subsidy in FY2017, releasing some pressure on the upcoming budget.[25] Furthermore, since the fuel prices fell and the electricity prices at the retail level were raised, the government was able to cut subsidies in these areas. The allocation for subsidy in the revised budget (RB) has been slashed to Tk. 18,940 crore, which is 1.1 per cent of GDP (1.8 per cent of GDP in FY2015) and 6.4 per cent of RB for FY2016 (10.9 per cent in RBFY2015). Subsidy allocation began to fall since FY2014, both as percentage of GDP and that of budget and reached the lowest levels in last nine years.

Figure 3.1: Subsidy as percentage of GDP and budget



Source: Author's compilation from Ministry of Finance and various newspapers.

Recent administered price adjustment of petroleum products

It may be recalled here that, earlier CPD (2016a) analysis had borne out that a reduction in administered prices of petroleum product will be of benefit to the economy by way of raising the GDP, creating employment opportunities and containing inflation.[26] In adjusting the fuel prices, CPD in January 2016 had called for relatively lower reduction in prices of petrol and octane compared to diesel, furnace oil and kerosene, on grounds of equity consideration. As may be recalled, the government has stayed away from downward adjustments of administered prices of petroleum products in the domestic market for a long time to allow the BPC to repay its loans and recoup the losses it had incurred between fiscal years FY2000 and FY2015. In April, the government went for cautious reduction in prices of major petroleum products, ranging from 4.4

[25] Subsidy allocation to the tune of Tk. 800 crore was kept in the original budget for FY2016 which has been withdrawn in RBFY2016.

[26] Indeed, CPD estimates showed that a 10 per cent reduction in prices was likely to lead to 0.3 per cent gain in terms of GDP growth.

per cent to 10.4 per cent, about two years following the start of global oil slump.[27] However, this type of price adjustment failed to generate any pass-through. For example, price of transport services had hardly seen any reduction (reduction of only 3 paisa/km). Further, agriculture famers were not able to get benefits from this reduction in the Boro season. In addition, kerosene, used by around 10 per cent of the poor households in Bangladesh as a source of fuel and lighting BBS (2011), has seen a reduction in price of only Tk. 3. Diesel price was reduced similar to kerosene; this will lead to higher subsidy demand for power in the upcoming budget. On the one hand, revenue will be generated from BPC, while on the other, subsidy as percentage of GDP was likely to rise. An option is to increase, price of electricity. In the upcoming budget, the Government should clearly specify the phases of fuel price reduction that would take place in future. To this end, the disclosure and transparency as regards BPC finances are urgent needs. At the same time, any adjustment as regards energy and electricity prices should be calibrated by taking into cognisance prices of all three related items (fuel, gas and electricity), overall impact of the price-change mix for major stakeholder groups and the burden of government's subsidy related expenditure.

Emphasise allocation for social sectors and implement National Social Security Strategy (NSSS) targets

Public expenditure in Bangladesh for social sectors is quite low compared to international standards. Indeed, Bangladesh is ranked 155th among 161 countries and 189th among 190 countries respectively as regards its public spending (as percentage of GDP) on education and health respectively.

Allocation for social safety net has failed to gain adequate attention in the budgetary framework in recent years (CPD 2016a). Over the last five years, allocation for social safety net programmes, which also include pension-related expenditures for government employees, remained about 2 per cent of the GDP. In the 6FYP, the government's target was to raise the allocation to 3 per cent of the GDP. As is known, the General Economic Division (GED) of the Planning Commission has recently prepared a National Social Security Strategy (NSSS).[28] In order to attain the target level in terms of GDP, the strategy document proposes to increase both allocation and coverage over the next five years (FY2016- FY2020).

As may be observed from earlier trends, budgetary targets did not consider proposals set out in the NSSS. For example, allowance for Old Age Scheme was Tk. 1,440 crore in FY2016 while the NSSS targets are Tk. 2,010 crore (See Annex 3.2). This is also reflected in case of per month allocation for the beneficiaries who received lower than what the NSSS proposed.[29] Recently, after a meeting with the Finance Minister, it was agreed to raise the coverage of 18 programmes under social safety net schemes by over Tk. 1000 crore, from the existing Tk. 5,364 crore, for the

[27] The prices of octane and petrol have been lowered by Tk. 10 per litre to Tk. 89 per litre and Tk. 86 per litre respectively. The price of diesel and kerosene has been reduced by Tk. 3.0 in both cases. Earlier the government had announced reduction of the administered prices for fuel in three phases.

[28] The NSSS document has put emphasis on the need for a strong social security system in Bangladesh by following a 'life-cycle' approach (GED 2015).

[29] NSSS target is to distribute Tk. 500 per month to the beneficiaries under the Old Age Scheme, but currently it is affixed at Tk. 400 per month in the budget.

upcoming FY2017. This proposal is likely to raise the per month allocation of several major safety net programmes, but will still be short of the NSSS targets.[30]

Comparing the NSSS target allocation to the budget allocation of FY2016, it is seen that there was a significant gap of at least Tk. 570 crore for the old age allowance, Tk. 2,711 crore for child school stipends, Tk. 616 crore for the allowance dedicated to widowed women and Tk. 720 crore for disabilities schemes. Even though, GoB has planned to increase the allocation per month for the schemes, the total allocation will still be lower than the target level as stated in the NSSS document. Similarly, comparing the NSSS financing target with the proposed budget allocation for FY2017, it appears that there will be a financing gap.[31]

Government efforts for social safety net programmes are not only inadequate in monetary terms but also from the perspective of coverage. For example, although the NSSS has proposed to raise the coverage of the beneficiaries under the Old Age Scheme to 55 lakhs by FY2018, according to MTBF for FY2016, it was expected to remain at 30 lakhs in both FY2017 and FY2018; number of beneficiaries for the Old Age Scheme is proposed to be 31.5 lakhs in the upcoming fiscal year (See Annex 3.3). The coverage for widow's allowances is expected to rise to 11.7 lakhs, though still lower than the NSSS target (32 lakhs). The increase is not significant, though the proposed increase exceeds the MTBF projections. Similarly, the eligible beneficiaries of the disability scheme is anticipated to stand at 7.5 lakhs in FY2017 as against the target of 10 lakhs set in the NSSS by FY2018.

One of the major reasons given for GoB's inability to provide adequate allocations for social safety net programmes, aimed at the relatively more vulnerable and marginalised groups of the population, is resource constraint. Curiously, over the last six years, between FY2011 and FY2016, the budget has never been able to reach the target level. For example, in FY2015, the budget deficit was Tk. 9,893 crore lower than the target. Similarly, this same phenomenon may be observed for FY2016. The targets set forth by the NSSS may appear to be very ambitious; but in reality government spending and implementation are far behind the required levels.

ADP expenditure against allocation in FY2016 is the lowest in recent years

Expenditure on account of the ADP is yet to mark any significant breakthrough in FY2016. Indeed, the performance has indeed deteriorated and registered its lowest growth in FY2016 when compared to recent fiscal years. According to the first ten months' data, actual spending under ADP was 46.5 per cent of the originally planned allocation of Tk. 97,000 crore. This is the lowest level of expenditure since FY2009. Both taka (47.9 per cent) and project aid components (43.9 per cent) of the expenditure were the lowest in the recent past (since FY2008 and FY2012 respectively). When ADP was subsequently revised in April, 2016, a number of sectors (e.g. Agriculture, Water Resources, Oil, Gas and Natural Resources, Transport, Communication, Health, Nutrition, Population & Family Welfare, Public Administration, and Science, Information & communication Technology) was subjected to significant cuts due to their slow implementation rate. ADP for FY2016 was slashed by Tk. 6,000 crore (or 6.6 per cent) to bring the size down to Tk. 91,000 crore. Project aid component was reduced by Tk. 5,340 crore (or 15.5 per cent) while

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[30] Old Age Scheme is proposed to be increased to Tk. 500 in FY2017 while the NSSS target is around Tk. 650 for the corresponding fiscal year. Other than this, the widow's monthly allowance will also see an increase to Tk. 500 from the existing level of Tk. 400, whilst the allowance dedicated for the financially insolvent disabled will rise to Tk. 600 from the current level of Tk. 500.

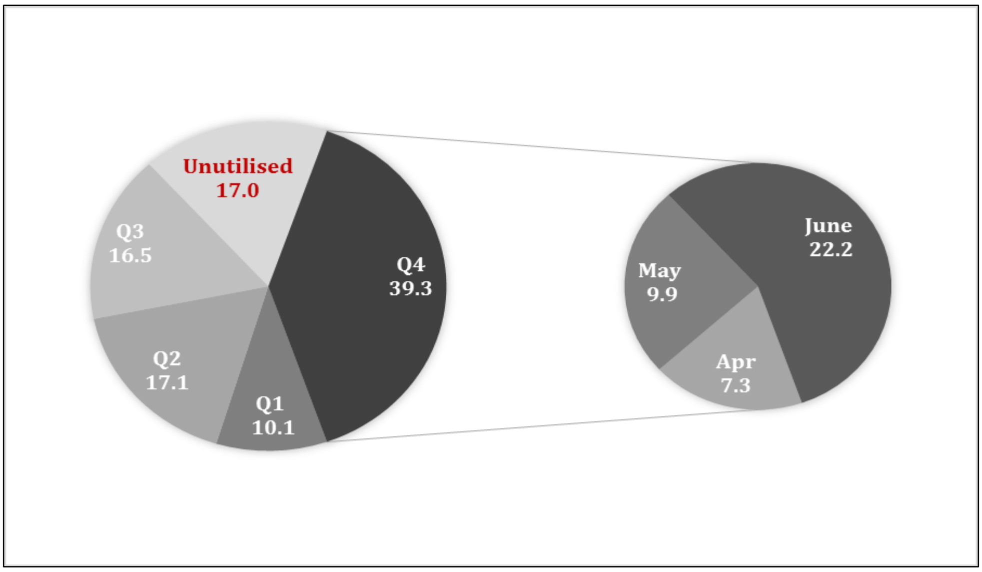
[31] The expected gap is approximately Tk. 1,640 crore for old age allowance, Tk. 1,339 crore for allowances for widowed women and Tk. 1,370 crore for the disability scheme for FY2017.

GoB (Government of Bangladesh) allocation was reduced by only Tk. 660 crore (or 1.1 per cent). Given the implementation status of the ADP, one would have expected a higher reduction in the ADP allocation. Besides, the number of unapproved ADP projects that get allocation in RADP has been rising in successive fiscal years. However, the reduction in total allocation has also been increasing in the RADP as compared to the ADP which is contradictory (Annex). Some projects are included in the RADP due to political considerations but remain unimplemented for reasons of inadequate resources; this deteriorates the overall quality of ADP planning.

Fourth quarter syndrome

There is a chronic problem that concern the fact of low budget execution during the first three quarters of the financial year, followed by a large spike in expenditures in the last quarter, particularly in June. This raises the question about the quality of spending. Figure 3.2 shows that on an average 39.3 per cent of the total ADP expenditure is spent in Q4 (April-June) of the fiscal year while only 10-17 per cent is spent in Q1-Q3 during FY2006-15. The last month (June) of the fiscal year alone contribute to 22.2 per cent of the spending on an average; this is more than the spending of any of the previous three quarters. It should be noted that on average about 17 per cent of the total ADP allocation remained unutilised over the period of past 10 years.

Figure 3.2: Quarterly pattern of ADP implementation (10 years average) as against original allocation



Source: Author's calculation from the Implementation, Monitoring and Evaluation Division (IMED) data.

The 'fast track' projects are not fast enough

The government has prioritised eight mega projects under the 'fast track' initiative. These projects include: Padma Multipurpose Bridge (PMB), Dhaka Mass Rapid Transit Development Project (DMRTDP) known as Metro Rail project, 2x1200 MW Ruppur Nuclear Power Plant (RNPP), Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project (MUSCCFPP), 2x660 MW Moitri Super Thermal Power Project (MSTPP), LNG gas terminal for importing liquid gas project, Deep Seaport at Sonadia in Cox's Bazar and Deep Seaport at Paira, Patuakhali. CPD (2015a) in May 2015 provided a detailed discussion concerning these projects. Among these the Sonadia deep sea port project has been scrapped recently.

In addition to the seven projects (excluding the Sonadia deep sea port project), two new projects were included in the 'fast track' project list in a recent ECNEC meeting held on May 2016. These are: Padma Bridge Rail Link (PBRL) project and Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border. The present analysis seeks to explore the current situation of these priority projects based on available data as a follow up of the previous analysis. Only four out of these eight projects has initially received allocation in the ADP for FY2016. The present status of these projects are:

a) The PMB project made 34 per cent progress in financial terms up to end March 2015 while the physical progress was 31 per cent. In addition, about 21 per cent of the main bridge construction was reported to be completed. This implies that only 5 per cent financial and 7 per cent progress has been made (of total project plan) financial and physical terms during the first nine months of FY2016.
b) DMRTDP project attained a cumulative financial progress of 3.3 per cent up to March 2016; of which only 1.6 per cent progress could be made during the first nine months of FY2016.
c) RNPP project has attained 79.3 per cent cumulative progress up to November 2015. But, 79.2 per cent progress in financial terms was made till June 2015 meaning that only 0.1 per cent could be added to the cumulative financial progress over the first five months of FY2016.
d) MUSCCFPP project is still in its early implementation phase and has attained only 0.9 per cent cumulative progress till November 2015 which was 0.8 per cent till June 2015.[32]
e) Based on the initial cost, the cumulative progress of Dohazari Ramu Cox's Bazar and Ramu to Gundam Rail Track project (meter gauge) till November 2015 was 16.9 per cent; the project is already well behind deadline.
f) MSTPP's (Rampal power plant) main plant fencing work has already been completed. The project received allocation in the RADP for FY2016 for land development, protection and construction of boundary walls.
g) Construction of the LNG terminal in Moheshkhali is at a very early stage. Excelerate Energy Bangladesh Ltd, the joint venture (JV) company, is currently carrying out geophysical works.
h) ECNEC has recently approved an amount Tk. 1,128 crore to develop primary infrastructures and facilities to make Paira port operational. The feasibility study of this project has been submitted. Some limited scale infrastructures such as pontoon, crane and security building have already been developed on a 16-acre piece of land and remaining preliminary infrastructure works are scheduled to be completed by June 2018.
i) For implementation of PBRL project an agreement has been signed between China Railway Group Limited (CREC) and Bangladesh Railway on January 28, 2015.

Based on the assessment above, one may conclude that the overall progress of the 'fast track' projects has been below the respective targets and not up-to-the-expectation (See Annex 3.4). Although four of the eight projects have made visible progress, majority of the projects are behind the schedule, with some degree of uncertainty (i.e. Sonadia Deep Sea Port). As a result, the distinction between 'fast track' projects and other projects is not so clear from the perspective of project implementation. It is to be seen whether a separate detailed budget for these projects, which is expected to be presented before the parliament alongside the national budget for FY2017, will be helpful in accelerating the pace of implementation.

[32] The land acquisition work of the project was completed in August 2014. Work of other project components such as survey, master plan lay-out, drawing, design etc. for residential & township development and boundary pillar are in progress.

Intensive monitoring of priority projects, which are close to being completed, should remain a priority

In view of the low level of private investment and significant infrastructure deficit, better (in terms of quality) and timely implementation of the ADP, particularly that of growth enhancing infrastructure projects, should remain a policy priority. CPD (2015b) selected a set of 26 projects under the ADP for FY2015 which were expected to help boost growth and employment. CPD's second interim review on the state of the Bangladesh economy in FY2015 (CPD 2015c) urged for close scrutiny and tracking of progress of these projects. Share of allocation for these projects in the ADP for FY2016 was 17.6 per cent. 14 of these 26 projects were supposed to be completed in FY2015 (or even earlier). Cost and completion deadline of number of these projects were revised; for a few, more than once. Among these 14 projects[33], 13 were not completed in FY2015 and were carried forward in the ADP for FY2016 (CPD, 2015d). Analysis of the progress of these 25 priority projects also suggests that majority of these will not be completed within FY2016; 23 out of these 25 projects experienced time extension in RADP of FY2016 (See Annex 3.5).

Actual combined spending for these 25 projects was somewhat lower than (39.9 per cent during July-March of FY2016) the average for all ADP projects (41.1 per cent during the same period). If these 25 projects are excluded, the rate progress for all ADP projects improves only marginally (41.4 per cent) during the first ten months of FY2016. Further, within this group, performance has varied.[34] Only nine projects had more than 41.1 per cent implementation rate while one project (Mubarakpur Oil/Gas Well Exploration Project) had zero implementation during July-March of 2015. Only four[35] projects are closer to being completed.[36] But, apart from 'Augmentation of Gas Production under Fast Track Program' project, the remaining three projects had below average implementation record during July-March FY2016 period. It is to be noted that, three out of four (could be completed) projects were already in the 'carryover' list.[37]

In case of the 10 projects which were supposed to be completed in FY2016 as per revised timeline provided in the Revised Annual Development Programme (RADP) for FY2016, a total allocation of Tk. 8,771 crore was needed for timely completion. However, only Tk. 3,116 crore has been earmarked for these projects in RADP for FY2016. Combined progress in financial terms as regards these projects till March of FY2016 was 56.8 per cent. Considering the revised allocation that was made for FY2016, there are at least four projects (Joydebpur-Mymensingh Road Development, Shahjalal Fertilizer Project, Mubarakpur Oil/Gas Well Exploration Project, and Augmentation of Gas Production under Fast Track Program) which could perhaps be completed if a 'final push' could be given for their completion. However, it appears that the majority, if not

[33] Only one, 'Construction of Haripur 412MW Combined Cycle Power Plant and Associated Substation', was completed by FY2015.

[34] The standard deviation of these 25 projects is 48.1 which suggests large variance in execution rate of these projects.

[35] These are: Joydebpur-Mymensingh Road Development, Dhaka-Chittagong Railway Development Project, Shahjalal Fertilizer Project and Augmentation of Gas Production under Fast Track Program

[36] Considering the cumulative completion rate being more than 75 per cent.

[37] These projects were scheduled to be completed within FY2015 as per project timelines. The 'Production of Electricity by Co-generation and Establishment of North Bengal Sugar Mill' project has posted more than 100 per cent cumulative progress rate and exceeded the project cost before the timeline; the project has received allocation once more under the ADP FY2016

all, of these projects will not be completed according to their timelines and will be carried forward to the ADP for FY2017.

Cost-escalation and time extension have undermined overall ADP implementation

Cost and time overrun in the implementation of the ADP projects has become more pervasive in recent years. CPD analysis based on IMED data showed that of the 233 projects completed in FY2014, only 14.2 per cent projects were completed within the stipulated time and planned allocation (See Annex 3.6). This is the lowest since FY2001. About half (48.9 per cent) of the completed projects experienced time overrun which is also the highest since FY2001. This type of time overrun led to 51.1 per cent increase of average cost of all completed projects which is the highest in last eight years.

Cost escalation and time extension is also observed for flagship infrastructure projects. For example, the timeline of PMB increased by 42.9 per cent due to successive revisions which led to an increase in cost by 183.3 per cent. Dhaka-Chittagong 4-lane project also faced cost (77.8 per cent) and time escalation (22.2 per cent) while JMRIP faced a 100 per cent increase both in cost and timeline. The increase in cost and time reduces the efficacy of public investment and private sector and users are deprived of timely benefits. Because of non-completion of these projects within stipulated time and cost, the crowd-in effect as regards private investment does not take place.

Table 3.1: Cost and time overrun of major projects

Project Name	Cost (Crore Tk.)			Timeline (Years)		
	Initial Cost	Revised Cost	% increase	Planned	Revised (Expected date of completion)	% increase
Padma Multipurpose Bridge	10,162	28,793	183.3	7	10	42.9
Dhaka-Chittagong 4-lane project	2,147	3,817	77.8	9	11	22.2
Joydevpur-Mymensingh Road Improvement Project (JMRIP)	902	1,815	101.2	3	6	100.0

Source: Author's compilation from Planning Commission.

Furthermore, a good number of projects in the top five sectors of the ADP in terms of their share in total allocation (65 per cent in FY2016), have seen cost escalation. These include: Rural Development & Institutions; Power; Transport; Education & Religious Affairs; and Health, Nutrition, Population & Family Welfare (See Annex 3.7). Transport sector encountered the highest proportion (42 per cent) of extension of their projects followed by Power (28.8 per cent), Health (28.3 per cent) and Rural Development 17.1 per cent). In addition, six out of the top ten power sector projects, which have the potential to add about 4,000 MW to the national grid, have faced escalation in respective project completion timeline due to slow pace of implementation.

Strengthening IMED by putting in place follow-up mechanisms to realise recent initiatives/policy decisions

Recently the government has taken a number of initiatives to accelerate ADP implementation. A policy as regards Project Preparatory Fund (PPF) which aims to facilitate timely and successful implementation of the development projects has been drafted. The main objective of the PPF is to provide funds for completion of preliminary activities before the launch of any development project.[38]

One may recall that a number of proposals relating to expediting ADP implementation was announced last year by the Planning Minister. These include: (i) appointing PDs through direct interviews by the line ministries and divisions[39]; (ii) assigning a dedicated official to each government agency for monitoring and evaluating respective projects and (iii) delisting the longstanding 'non-operational' projects from the ADP[40]. However, these are not being adequately followed up. It is suggested that the upcoming budget reports progress as regards these proposed actions.

As is known, the IMED provides, on a regular basis, a number of recommendations in the annual progress reports based on the challenges faced during the project cycle. But, these are often not adequately followed up with concrete measures. Regrettably, majority of these recommendations tend to be ignored by ministries and divisions as the IMED lacks legal authority to command compliance. These recommendations should be discussed and followed up in the quarterly progress meetings to monitor ADP progress. These proposals need to be implemented by the line Ministries and other concerned entities.

3.3 Budget Deficit

Budget deficit financing needs an optimum mix

As has been the case for the last four years, budget deficit was well within the planned limit, when the first six months of FY2016 is considered. Although a significant revenue shortfall can be envisaged, it will be offset by the lower public expenditure. The structure of financing was characterised by low net intake from foreign financing sources as against a heavy reliance on domestic financing sources. Within domestic financing structure, buoyant sale of high benefit yielding national savings certificates was the key feature in FY2016. One of the major challenges for budget FY2016 will be to bring a balance in financing budget deficit structure back. Since a large share of the financing has already been secured from the sale of NSD certificates, the need for of bank borrowing may be rather limited. However, lack of capacity to use foreign resources remained an issue of serious concern.

Composition of outstanding public debt of Bangladesh

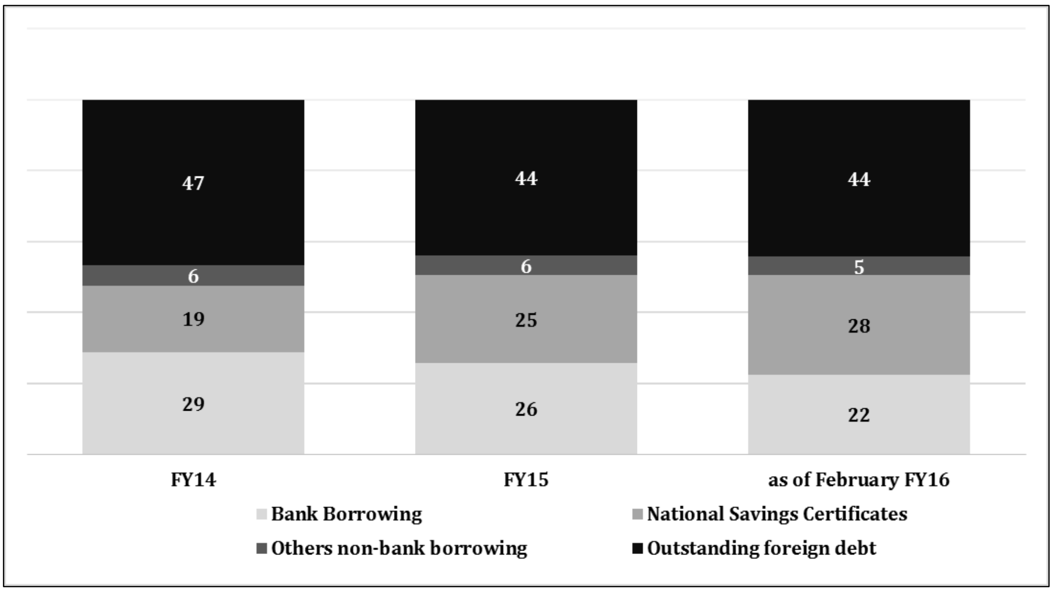
As regards public debt, Bangladesh's position was generally comfortable. Total public debt is expected decline from 35.8 per cent in FY2014 by 34.9 per cent in FY2018 (MoF, 2015). Currently about 56 per cent of the public debt is attributable to domestic source and 44 per cent to foreign finance. Thus, much will depend on government's ability to use low-cost borrowings – which is not observed in recent years.

Within the domestic source, debt from non-bank sources is increasing, led by net sales of NSD, while debt from bank sources is decreasing. This has led to a gradual shift in the overall composition of public debt situation. Indeed, as of February 2016, debt against sale of NSD

[38] Preliminary activities include land acquisition, feasibility study and environmental impact assessment (EIA).
[39] Developing guidelines to this end was also planned.
[40] In this connection, it was planned that the concerned ministries and divisions would be served letters on 1 October every year to send the list of non-performing projects to the Planning Commission.

certificate accounted for 51.3 per cent of the total outstanding domestic debt liability of the government (Tk. 125,021 crore). A year ago, the corresponding figure was about 43.5 per cent (Tk. 97,581.58 crore). In comparison, the proportion of outstanding foreign debt in the overall debt portfolio has been rather steady.

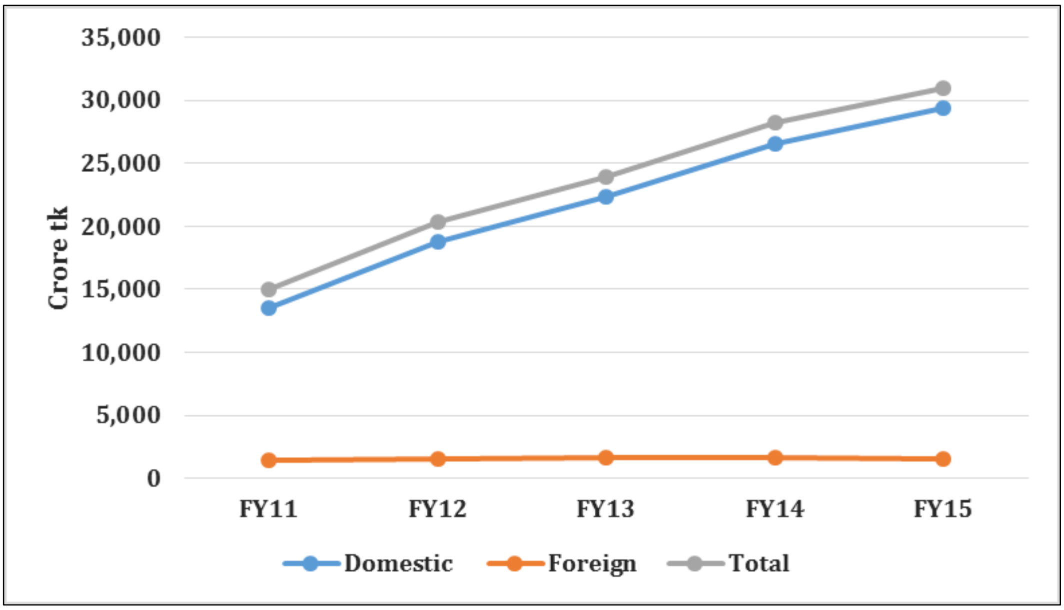
Figure 3.3: Composition of outstanding public debt



Source: Estimated from the Economic Relations Division (ERD) and Bangladesh Bank (BB) data.

As is known, the debt incurred from domestic sources comes with a relatively high interest rates. Interest rate of banks was 11.7 per cent while 15.1 per cent for non-bank financial institutions (NBFIs) as of end June 2015. Although, both of these interest rates have reduced in recent times, still these remained higher than those of foreign sources. Due to the high cost borrowing from the domestic sources, the overall interest payment burden of the government has been on the rise over the past years.

Figure 3.4: Interest payment expenditure



Source: Author's calculation based on Ministry of Finance (MoF) data.

More transparency in fiscal and budgetary processes should be one of the key areas of economic reforms. Similar to a number of other developing countries, Bangladesh practices a budgetary process which is both complex and complicated, and sometimes inconsistent. In this connection, more focus is needed on implementing 'second generation' reforms by ensuring higher levels of transparency and independence of regulatory bodies to generate efficiency, competitiveness and distributive justice.

In successive IRBDs, CPD has strongly suggested in favour of undertaking a number of needed reform measures with a view to improve macroeconomic and sectoral performance. The recommendations were:

(i) establish a Public Expenditure Review Commission (PERC);
(ii) Formulate appropriate follow up mechanism for monitoring government tax incentives;
(iii) disclose financial accounts of state-owned enterprises including BPC;
(iv) establish transparency in government's asset acquisition;
(v) ensure transparency in defence budget;
(vi) bring transparency in local government financing;
(vii) formulate a renewed foreign aid policy in view of the changing dynamics of global aid architecture and debt structure, as Bangladesh is now enlisted in the (lower) middle income country category; and
(viii) keep NGO financing in purview while crafting development financing.

SECTION IV. FINANCIAL SECTOR: VEERING OFF THE TRACK?

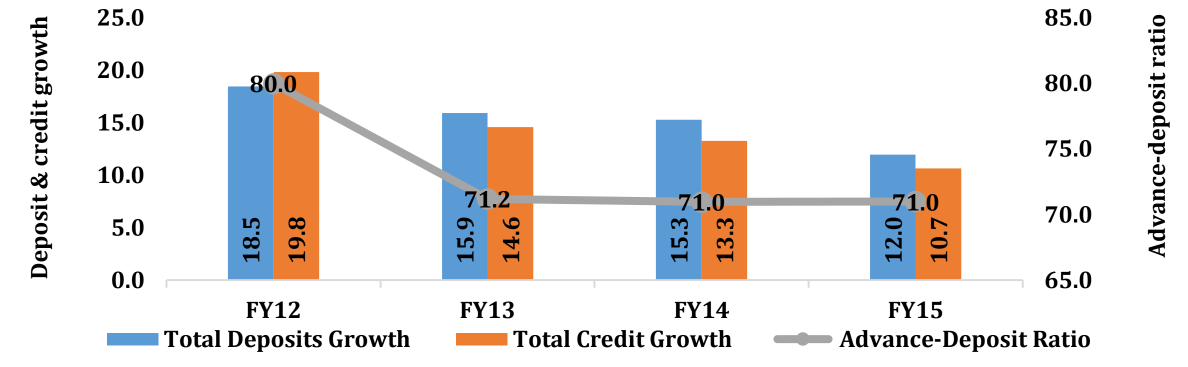
Bangladesh's global ranking, in terms of financial market development, has fallen sharply over the recent past - from 66th in 2010-11 to 90th in 2015-16 (World Economic Forum, 2010 & 2015). Availability and affordability of financial services, ease of access to loans, soundness, regularly measures guiding the financial sector, state of securities and exchanges – in terms of all these indicators Bangladesh's performance experienced a deteriorating trend. Progress of implementation of the BASEL III provisions has also been slow, particularly in case of state-owned commercial banks (SCBs). In a similar vein, non-bank financial institutions are also being confronted with challenges in such areas as maintaining standards of management, efficient operation and good governance. The capital market is yet to gain an image as a reliable investment opportunity; it is faced with various systemic challenges. In this backdrop, there is a need to take an in-depth look at the performance of Bangladesh's financial sector.

4.1 Performance of the Banking Sector

4.1.1 Disbursement of loans and advances is afflicted by demand side constraints: The majority of the commercial banks have not seen credit expansion in the recent period. Credit-deposit ratio (CDR) has been declining since 2011 and reached 69.8 per cent in September, 2015 when safe limit of CDR has been set at 85 per cent for conventional banks and at 90 per cent for Sharia-based Islamic banks. Most banks are experiencing of low demand for advances – among the reasons are slowdown in demand, in some of the major export markets, lack of infrastructure and related facilities which discourage private sector investment and rising cost of doing business (Figure 4.1). Consequently, growth of advances and deposits have decelerated; in FY2015, these rates were 10.7 per cent and 12.0 per cent respectively. Under such a scenario, cash management by the commercial banks will be an issue of growing concern. Excess liquidity with commercial banks, as a share of total asset, has doubled over the last five years – from 8.4 per cent in 2011 to 16.9 per cent in 2015 (Figure 4.2). There has been a sharp rise in excess liquidity, particularly in SCBs and Foreign Commercial Banks (FCBs) and partly in Private Commercial Banks (PCBs) during 2013-2015. A part of this rise is influenced by increasing amount of external borrowing by the private sector at relatively low interest rate (Table 4.1).[41] Outstanding balance of external borrowing at the end of 2015 was USD 3.2 billion which was a lowly USD 849 million at the end of 2011.

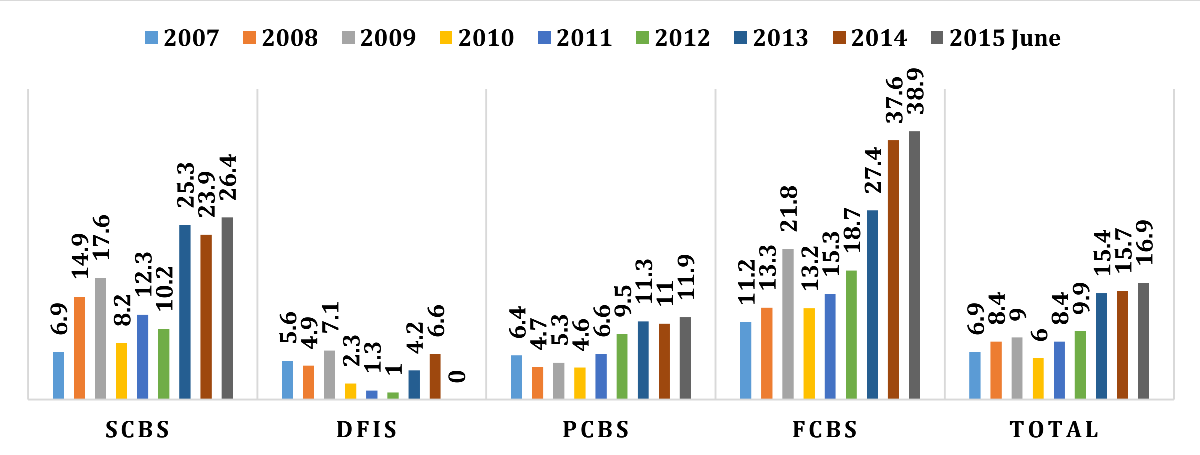
[41] Interest rates for external borrowing tend to range between as low as less than 2 per cent (21.1 per cent of total advances) to as high as 10 per cent and above (0.07 per cent of total advances). However, a large part of the loan was disbursed at a rate of 4 to 6 per cent (47 per cent).

Figure 4.1: Advance-deposit ratio and growth of deposit and credit (%)



Source: Bangladesh Bank (2014), Bangladesh Bank (2015a) and Bangladesh Bank (2015b).

Figure 4.2: Excess liquidity as % of total asset in commercial banks



Source: Bangladesh Bank (2016).

Table 4.1: Disbursement of private sector external debt (MLT) *(in USD million)*

Calendar Year	Amount
2011	452.8
2012	430.3
2013	861.9
2014	1,374.1
2015	708.3

Source: Statistics Department, Bangladesh Bank.

The rate of interest of commercial lending is largely influenced by cash management of the commercial banks. Although average lending and deposit rates have declined in commercial banks, there is significant difference in interest rates on deposits and advances across, and within, various categories of banks. While the difference in rates of advances and deposits is relatively low between different categories of banks, it is much higher in case of banks belonging to particular category (Table 4.2). Bangladesh Bank ought to focus more on operation of individual banks to assess their performance with respect to deposit collection and advances. The informal understanding that interest rate spread would be kept below 5 per cent was not adhered to by many banks although on average this has been the case. There are two extreme cases as regards interest rate spread – specialised banks have maintained spread that was much lower than the 5 per cent level, while in case of foreign banks the spread was significantly higher. The Central Bank should examine how banks set their respective interest rates, and the extent to which rate-setting processes follow market based mechanism.

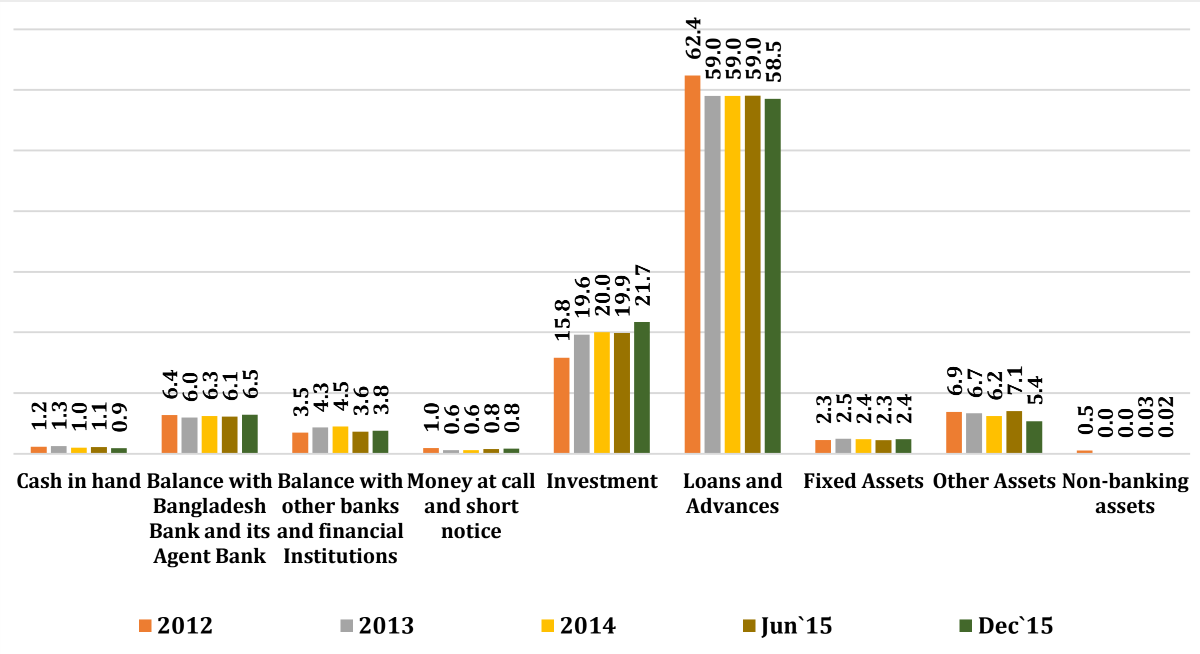
Table 4.2: Interest rate spread by type of bank, March 2016 (%)

Type of Bank	Advances		Deposits		Spread	
	Weighted average rate	Differences between highest and lowest rates	Weighted average rate	Differences between highest and lowest rates	Weighted average rate	Differences between highest and lowest rates
SCB	9.93	4.28	6.07	1.64	3.86	4.49
SB	9.48	0.10	7.46	0.92	2.02	1.02
FCB	9.53	7.93	2.19	6.31	7.34	11.97
PCB	11.14	7.58	6.05	6.55	5.09	6.55
All banks	10.78	10.42	5.92	9.32	4.86	12.05

Source: Calculated from Bangladesh Bank Data.

4.1.2 Sluggish growth of loans and advances has changed the composition of bank assets: Asset growth in the banking sector was sluggish in 2015 (12.2 per cent, lowest since 2012); slow growth of loans and advances mainly contributed to this trend. Consequently composition of banking assets have also changed (Figure 4.3). Loans and advances which is the predominant component in banks' assets, has seen a decline in share while the share of banks' investment has experienced a rise. In the backdrop of lack of demand for the banking sector credit, the rise in bank's investment calls for better clarity – particularly with respect to the kind of investment that has been made, the time period and what is the rate of return from this investment etc. It is likely that a significant part of this investment was made in 'unencumbered approved securities' of Bangladesh Bank, with low returns. This comprised about 70 per cent of banking sector's total liquid assets. If this be the case, it may have detrimental impact on banks' profitability.

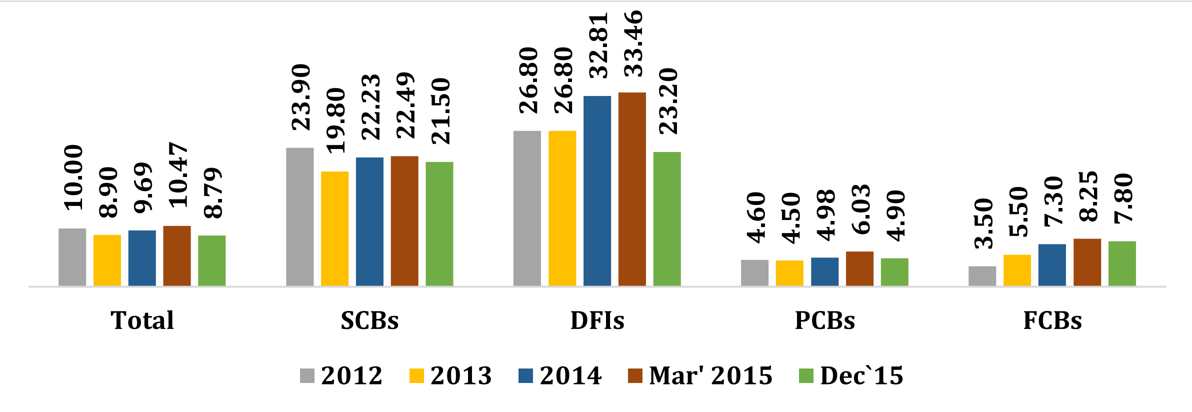
Figure 4.3: Changes in composition of banking assets (%)



Source: Calculated from the data available with Bangladesh Bank (2015a) and Bangladesh Bank (2015b).

4.1.3 Quality of asset is a concern: High level of non-performing loan (NPL) has emerged as a major concern putting the quality of banks' assets under question. Till March, 2016 total NPL was about Tk.59,411 crore which was 9.9 per cent of total loans. The NPL has thus crossed the recent peak of December 2014 (9.69 per cent) when the level of NPL had declined thanks to rescheduling of big corporate loans (Figure 4.4). A number of measures were undertaken including appointment of observers in 14 commercial banks in order to improve respective banks' NPL situation, and to improve the quality of management and raise operational efficacy.[42] These measures had little impact on performance of these banks as evidenced by recent NPL situation. Indeed, total NPL of six SCBs during the January-March, 2016 period, has risen to Tk. 27,289 crore (from Tk. 23,744 crore); for the 39 PCBs NPL has increased to Tk. 25,331 crore (from Tk. 20,760 crore). For the FCBs, loan default has come down to Tk. 1,822 crore (from Tk. 1,897 crore).

Figure 4.4: NPL as % of total loans



Source: Bangladesh Bank data.

As a matter of fact, NPL in most of the South Asian countries has increased in recent years (Table 4.3). However, in none of the South Asian countries situation is similar to Bangladesh excepting for Pakistan. NPL in Bangladesh is above the average level in South Asia and is more than double compared to that of India and Sri Lanka. The urgency to take corrective steps is obvious.

Table 4.3: NPL of banking sector to total gross loans (%)

Country Name	2012	2013	2014	2015
Bangladesh	9.73	8.64	9.37	8.79
India	3.37	4.03	4.35	4.23
Pakistan	14.47	12.99	12.27	12.45
Sri Lanka	3.63	5.58	4.23	4.33
South Asia	4.96	5.58	7.78	8.39

Source: World Development Indicators.

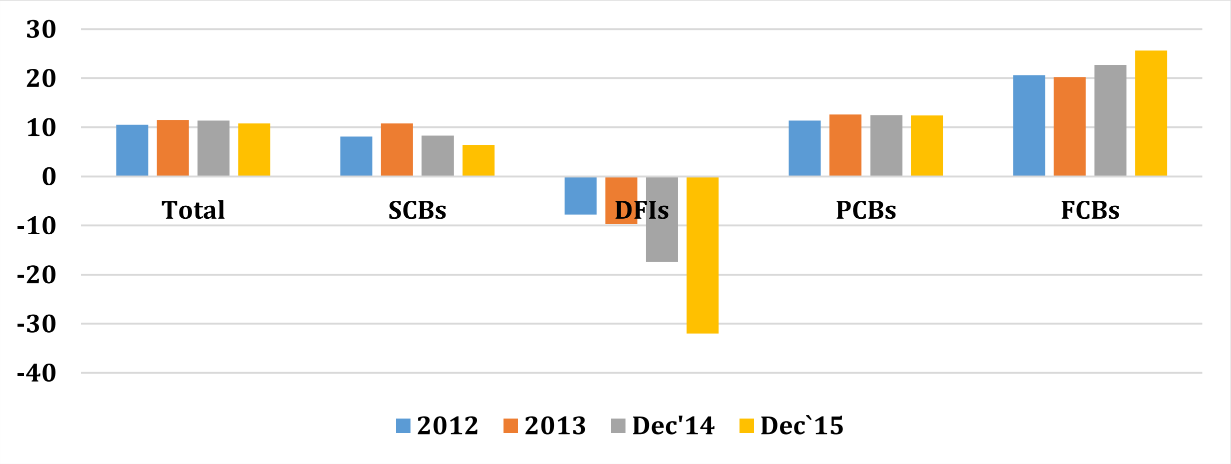
4.1.4 Capital adequacy of many banks behind BASEL III requirements: As per BASEL III, capital adequacy ratio (CAR) of banks is to be raised from 10 per cent in 2015 to 12.5 per cent in 2019. The average level of CAR at present is just above the minimum threshold level (10.8 per cent in December, 2015); this has declined compared to December, 2014 (11.4 per cent). However, performance of different categories of banks and banks within particular categories are quite divergent. Performance of SCBs has deteriorated in recent years. As of December 2015, capital adequacy ratio of SCBs came down to only 6.4 per cent against the minimum required level of 10 per cent. Curiously, CAR for DFIs is negative for last several years and has deteriorated further in recent years (-32 per cent in 2015). Both SCBs and PCBs have maintained the required level,

[42] Bangladesh Bank had appointed observers for the following banks: Sonali, Janata, Agrani, Rupali, BASIC, ICB Islami Bank, Islami Bank, Mercantile Bank, National Bank, Farmers Bank, Bangladesh Krishi Bank (BKB) and for two non-banking financial institutions (NBFIs).

particularly in case of FCBs CARs have shown significant rise (25.6 per cent in December, 2015) (Figure 4.5).

Both SCBs and DFIs need to undertake energetic efforts to increase the CAR in the coming years. During the last three years, government has spent about Tk.14,477 crore towards recapitalization of SCBs with in order to meet their capital shortfall. This injection of capital has evidently had no tangible impact in terms of improving the CAR and operational efficiency of the concerned banks. In other words, recapitalisation of SCBs, without addressing the major structural, operational and political concerns, (CPD, 2012), has given rise to questions as regards the justification of government's initiatives. Stress test analysis carried out by the Bangladesh Bank (Bangladesh Bank, 2015) indicates that eight banks have failed to meet the minimum requirement of 10 per cent; these included all four SCBs and two DFIs. According to this report, possibility of three biggest borrowers defaulting was likely to make 21 banks non-compliant in terms of maintaining minimum required CAR.

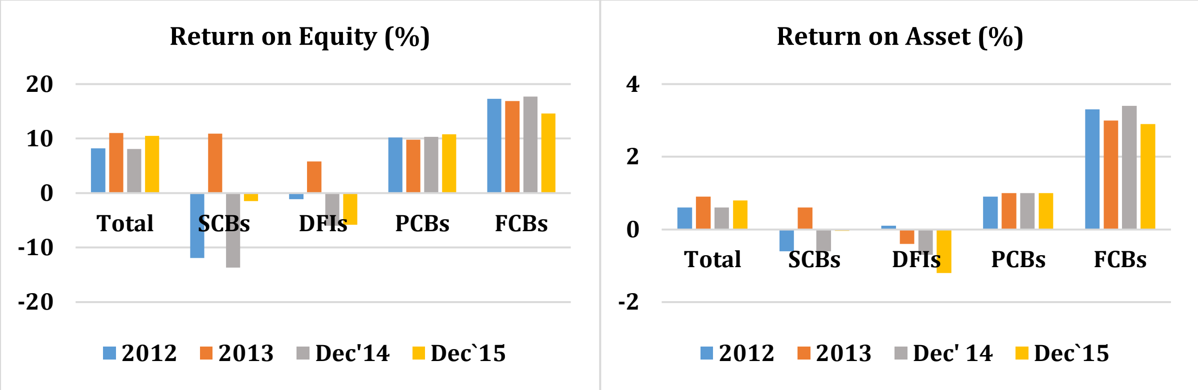
Figure 4.5: Capital to risk weighted asset (%)



Source: Bangladesh Bank.

4.1.5 Mixed performance in terms of profitability: Despite the aforesaid challenges, banking sector has evinced resilience as regards addressing various market risk shocks including interest rate risks, exchange rate risks and equity price risks. Banks' profitability measured in terms of return on asset and return on equity, has shown a divergent pattern. Both return on asset and return on equity are negative for past several years, both for the SCBs and the DFIs (Figure 4.6). Both these returns, for the PCBs, did not change much over the past several years. However, intra-PCB differences remain significant. FCBs fare better in terms of ensuring higher level of returns both for asset and equity. It is important to assess the performance of individual banks as regards return on assets and equity. This will help take appropriate measures to improve their performances.

Figure 4.6: Return on asset and equity (%)



Source: Bangladesh Bank.

4.1.6 Underperformance of new banks: A total of nine new banks have started operation in 2013, of which one bank is conducting Sharia-based banking and the rest practice conventional banking; of the later group, three are sponsored by Non-Resident Bangladeshis (NRBs). Within two years, these banks have expanded their branches by about four times. However, these new banks are yet to make break-even (Table 4.4). According to latest available data, profitability of most of new banks in 2014 was much lower compared to that of other established banks. Net interest income to total asset in 2014 was higher than the average banks thanks mainly to new banks not facing the NPL problem. The CAR is very high for new banks compared to that of other banks; this is owing to the need to comply with maintaining the minimum required capital for initiating operations. All the new banks maintain higher lending and deposit rates compared to that in case of average for the PCBs; interest rate spread is not necessarily below the level of 5 per cent for all the new banks.

Table 4.4: Performance indicators of new banks and overall banking sector (%)

Indicator	Year	New bank	Banking industry
Return on Assets (ROA)	2014	0.3	0.7
Return on Equity (ROE)	2014	1.3	8.7
Net Interest Income to Total Asset	2014	2.1	1.5
Non-Interest Income to Total Asset	2014	1.5	2.8
Capital Adequacy Ratio (CAR)	2013 (Dec)	79.4	11.5
	2014 (Dec)	29.9	11.4
Advance Deposit Ratio (ADR)	2014	64.5	70.9

Source: Bangladesh Bank.

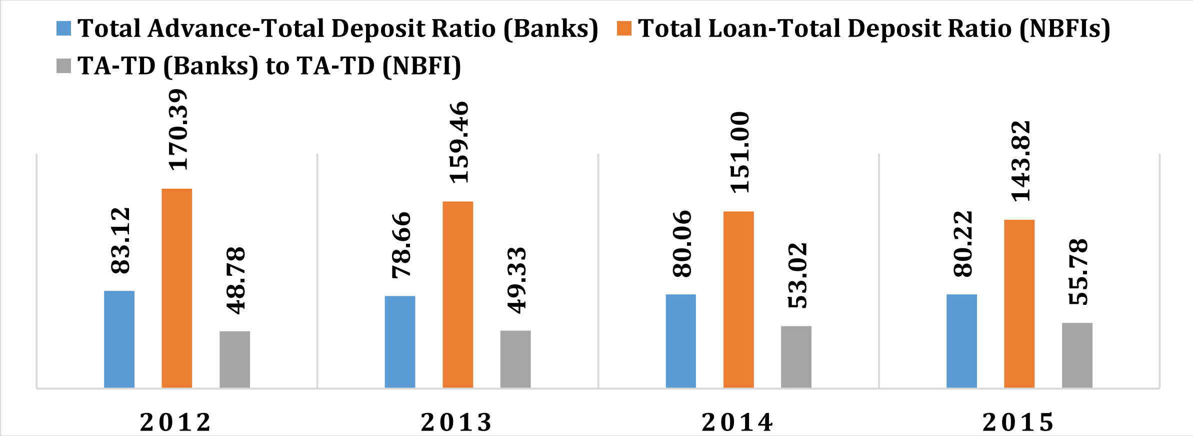
4.2 Performance of Non-bank Financial Institution (NBFI)

4.2.1 Access to credit to NBFIs: Performance of the NBFIs vis-à-vis that of the banks is rather mixed. The advance-deposit ratio (ADR) is found to be quite high when compared to those of banks (Figure 4.7). However, the ADR has slowly declined over the years. Growth of loans and leases in case of NBFIs has experienced volatility over the last several years; their performance was better than that of banks particularly in 2013 and 2015 (growth of loans was 21.7 percent during December, 2015 as against 11.3 per cent for banks in December, 2015) (Figure 4.8). Major sectors where NBFI loans have been disbursed include housing (17.5 per cent), trade and commerce (16.4 per cent), power, gas (10.5 per cent) and textile (4.7 per cent). Besides, a sizable amount of the loan has been directed to merchant banking and as margin loan.[43] Such a structure

[43] Based on the 2014 data available with the Bangladesh Bank (2015a).

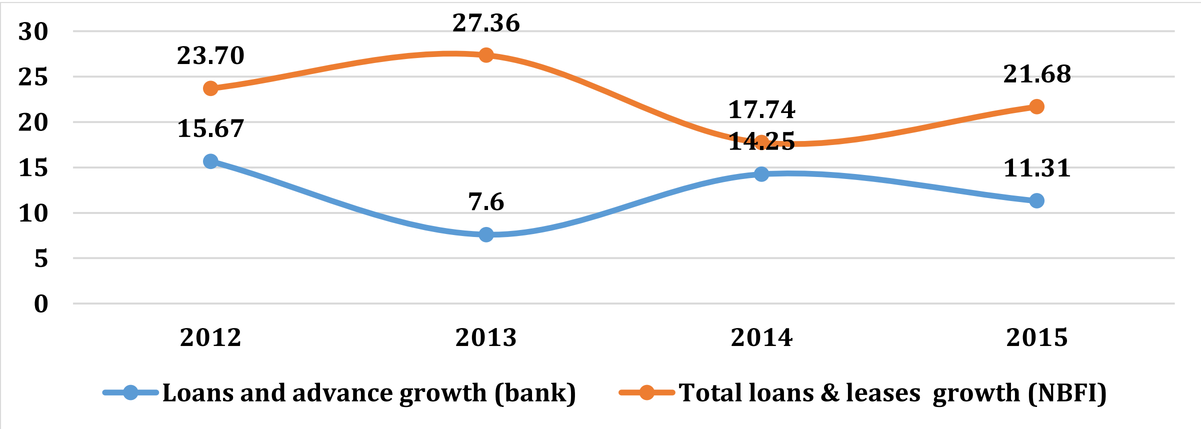
of NBFI loans portrays different levels of risks involved in invested assets. NBFIs will need to manage the risks effectively; in absence of this their NPL could rise and this will adversely affect their returns on assets.

Figure 4.7: Comparison of total advance-deposit ratio between banks and NBFIs (%)



Source: Calculated from data of available with Bangladesh Bank' website and the data available with Bangladesh Bank (2015a).

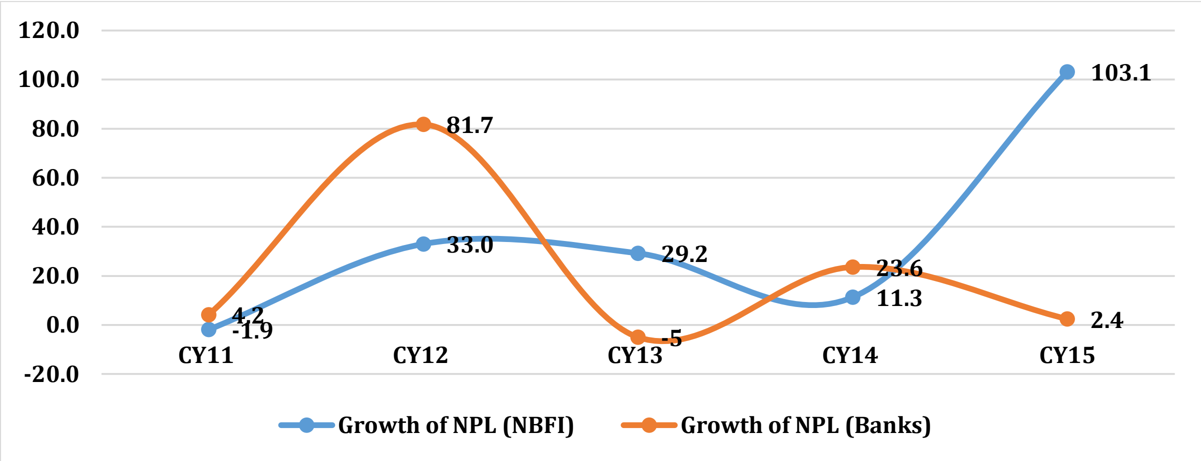
Figure 4.8: Growth of total loans between banks and the NBFIs (%)



Source: Calculated from the data available with Bangladesh Bank (2015a) and Bangladesh Bank (2015b).

4.2.2 Rise of NPL is a growing concern for NBFIs: Rise of non-performing loans is a major concern for the NBFI; indeed, this is increasing at a higher pace compared to the banks. In December 2015, NPL in NBFIs has increased by about 103 per cent compared to that in December of the previous year (Figure 4.9). The rate of NPL was 8.9 per cent for NBFIs while it was 8.8 percent in case of banks. More importantly, if the NPL of SCBs is excluded, performance of private banks (FCBs and PCBs) (4.9 and 7.8 per cent respectively in December, 2015), was way better than that of NBFIs. Significant amount of loans and leases were disbursed in relatively risky ventures – loans to crisis–prone housing sector, advances made through margin loans to the volatile capital market; advances made to merchant banks. All these may cause NPL in the NBFIs to rise. Given the fact that concerns as regards housing sector and capital market have been persistent over the past several years, there is a need for a more in-depth investigation of the recent jump in NPL of these banks.

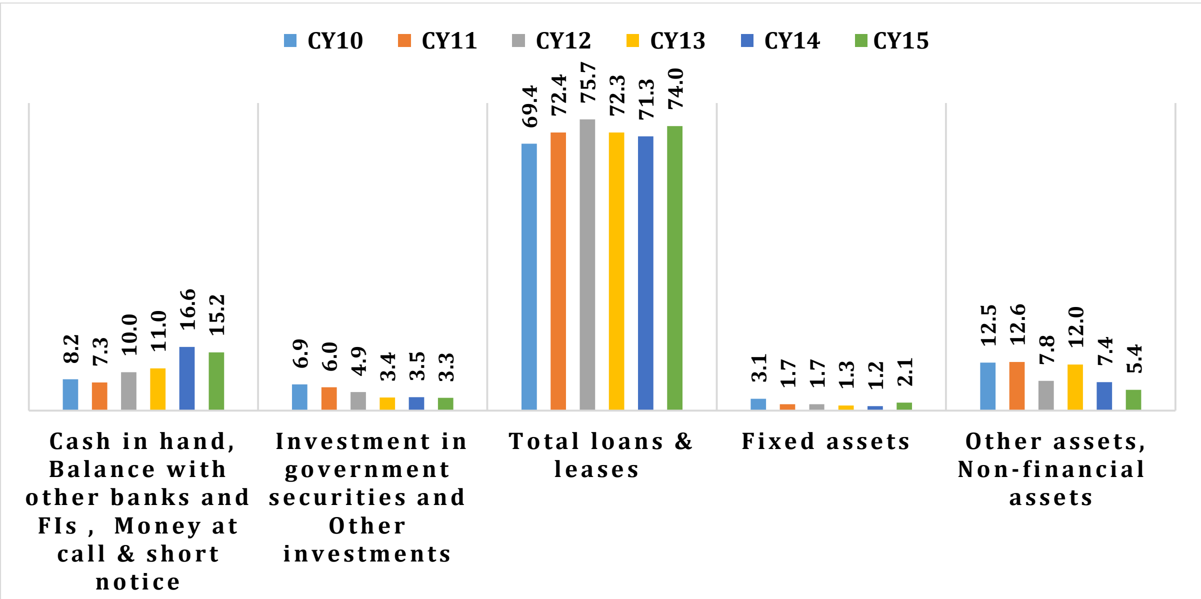
Figure 4.9: Growth of NPL among banks and NBFIs (%)



Source: Calculated from the data available with Bangladesh Bank (2015a) and Bangladesh Bank (2015b).

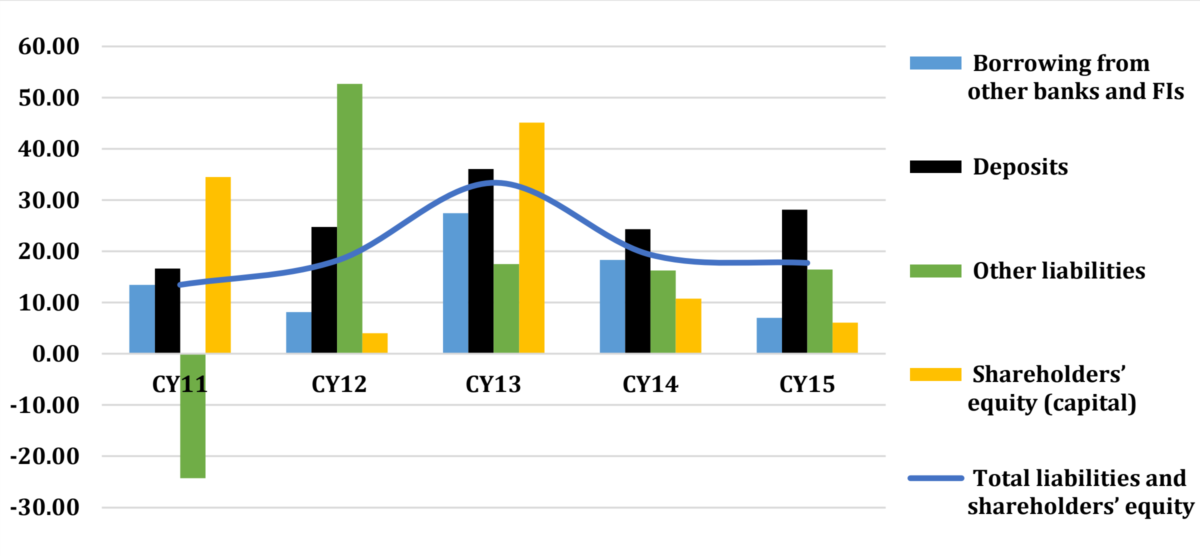
4.2.3 Asset structure of NBFIs poses questions: There is no surprise in the asset structure of NBFIs. Its composition shows highest share going for loans and leases, followed by cash in hand and balance with other banks and financial institutions (Figure 4.10). However, high rate of NPL and high cash in hand raise question as regards the quality of assets. Unless the various assets ensure an adequate return, the high-cost deposit collected by the NBFIs (as shown in Figure 4.11) could turn out to be a burden from the perspective of maintaining the expected level of return on assets.

Figure 4.10: Asset structure of NBFIs (% of total asset)



Source: Calculated from the data available with Bangladesh Bank (2015a) and Bangladesh Bank (2015b).

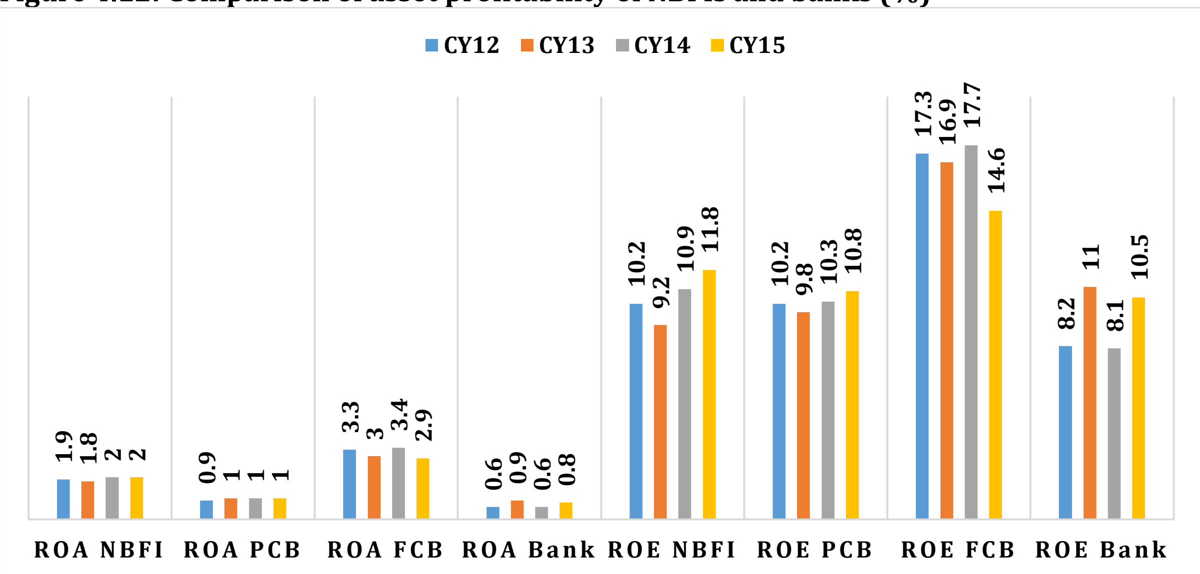
Figure 4.11: Growth of liabilities and capital of NBFIs (%)



Source: Calculated from the data available with Bangladesh Bank (2015a) and Bangladesh Bank (2015b).

4.2.4 Profitability is surprisingly high: Profitability of NBFIs' assets was found to be higher than that of banks. However, the situation changes if profitability of NBFIs is compared with private banks (PCBs and FCBs) only. The return on assets of NBFIs was higher than that of banks while return on equity of NBFIs evinced a mixed scenario when compared to banks (Figure 4.12). NBFIs are found to be in better state both in terms of return on asset and equity compared to that of PCBs; however, they do not compare favourably with FCBs, in the both cases. Given the recent rise in NPLs in the NBFIs, whether these will continue to enjoy profitability in the future remains a haunting question.

Figure 4.12: Comparison of asset profitability of NBFIs and banks (%)

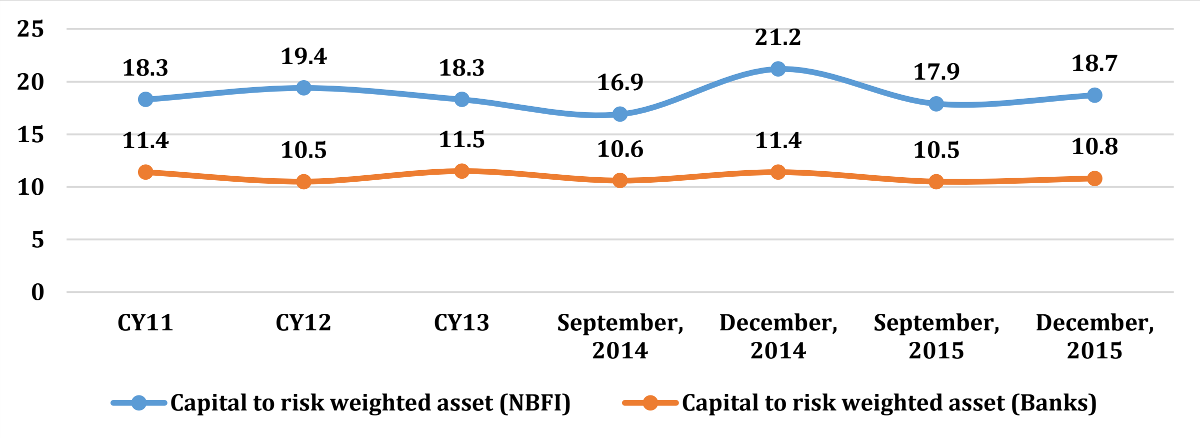


Source: Calculated from the data available with Bangladesh Bank (2015a) and Bangladesh Bank (2015b).

4.2.5 Risk management: NBFIs are in better shape in terms of risk management compared to the banks. Capital adequacy ratio in NBFIs has been maintained at a higher level against the BASEL III requirement– it has been near about double compared to that of the banks for the last five years (Figure 4.13). In December, 2015 capital to risk weighted assets for NBFIs was 18.7 per cent while for the banks this was 10.8 per cent on average. However, the NBFIs are still far behind the

FCBs in this regard as capital to risk weighted assets for the latter was 25.6 per cent in December, 2015.

Figure 4.13: Comparison of capital to risk weighted asset between NBFIs and banks



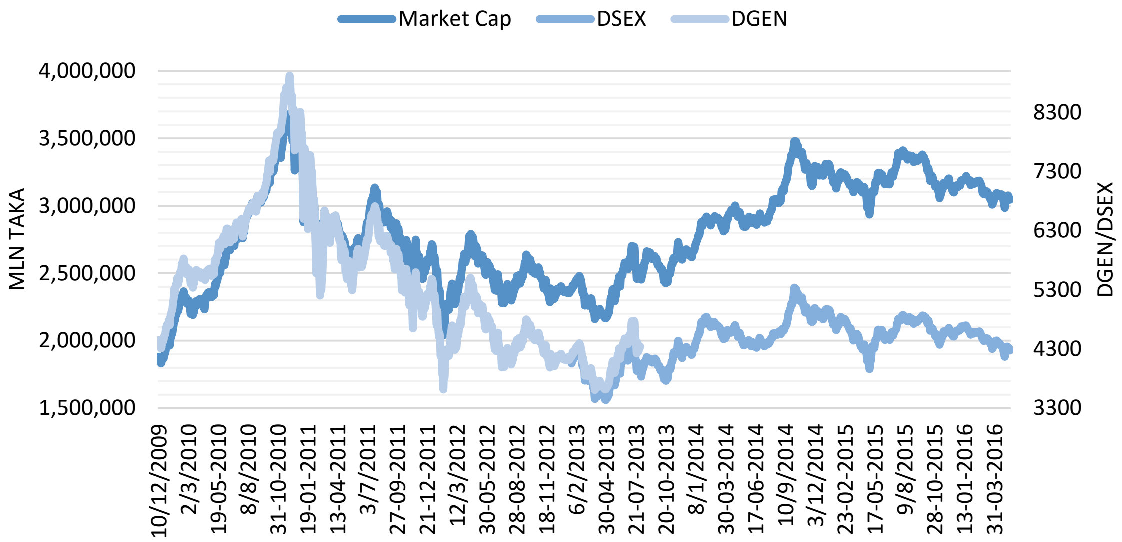
Source: Calculated from the data available with Bangladesh Bank (2015a), Bangladesh Bank (2015b).

4.3 Capital Market

Despite the various initiatives undertaken following the boom and bust of December, 2010, the capital market has yet to regain its lost momentum. Major indicators related to primary and secondary markets project a rather depressed scenario. The DSE index (DSEX and DGEN) has been hovering around 4,000-5,000 level for over last two years; has been observed a decelerating trend in the associated indices since early June, 2015. Declining confidence among investors has impacted adversely the daily market turnover. In July-May, FY2016, daily turnover came down to less than Tk. 3,000 million on a number of occasions; there is a declining trend in the monthly turnover as well (Tk. 86.4 billion, Tk. 79.9 billion and Tk. 75.1 billion for February, March and April of 2016 respectively). A part of this depressed story is explained by sluggish growth of private investment in real sectors, particularly on the part of large scale enterprises (discussed in Section 2). Besides, the volatility seen in the secondary market is difficult to explain through market-based approach. Questions have also been raised as regards efficacy of the various initiatives and approaches undertaken by the SEC to stabilise the market.

4.3.1 Market indices and market capitalisation hover around unchanged levels: Since the beginning of FY2016, DSEX index fell by 283.94 points and it is currently standing at 4,288.65 (15th May) (Figure 4.14). In 2014, DSEX reached the peak of 5334.04 in October but continued to fall afterwards; the index fell below 4000 points by June 2015. Market capitalisation has also suffered during this period and experienced a decelerating trend since October, 2014. Market capitalisation stood at Tk. 3,048.5 billion in 15 May, 2016 which is about 17.6 per cent of the estimated GDP of the country for FY2016 (at market price). The number of BO accounts operating in the capital market fell significantly after the market collapse (from 3.40 million in March, 2011 to 2.79 million in December, 2013); since 2015 it has experienced a gradual rise. At present the number of BO accounts is 3.22 million. However, a good number of Beneficiary Owners (BO) account is either almost non-functional or conduct only limited transactions owing to the significant amount of past unpaid debt incurred against these accounts.[44]

Figure 4.14: Trend in market capitalisation and DGEN/DSEX indices



Source: Dhaka Stock Exchange (DSE).

4.3.2 Changes in sectoral composition of market capitalisation: The capital market has experienced some compositional changes in terms of market capitalization since the collapse in December, 2010. Banking sector, which contributed the lions' share to market capitalisation in June, 2010 (41 per cent), has lost its ground because of the rising share of other sectors such as pharmaceuticals and telecom. The high concentration in market shares that was seen before the market crash is gradually changing; other sectors are coming up (Table 4.5). As a matter of fact, a large part of this adjustment has happened on account of market corrections.

[44] Anecdotal information indicates that the number of BO accounts that become non-functional each year was about 0.1-0.2 million.

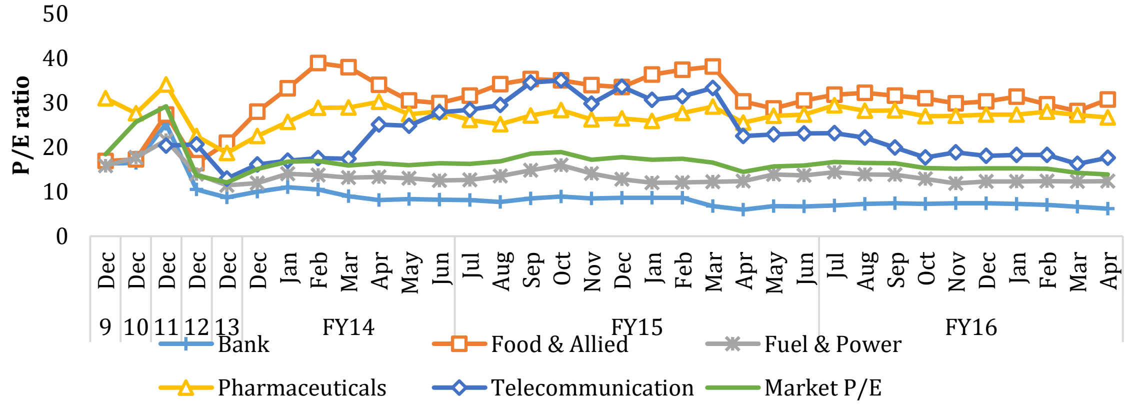
Table 4.5: Share of market capitalisation in the DSE (%)

Sectors	2010 (Nov)	2016 (Apr)	Change
Banks	30.53	14.48	▼
NBFIs	13.06	5.35	▼
Fuel & Power	10.61	14.16	▲
Telecommunications	10.49	14.32	▲
Pharmaceuticals	7.41	16.49	▲
Insurance	6.23	2.89	▼
Textile	4.16	3.24	▼
Engineering	4.11	5.81	▲
Cement	2.56	5.06	▲
Food	2.16	9.62	▲
Ceramic	1.94	0.99	▼
Mutual Funds	1.21	1.09	▼
Service & Real estate	1.16	0.72	▼
Tannery	0.62	0.89	▲
Travel	0.48	0.73	▲
IT	0.14	0.38	▲
Jute	0.04	0.03	▼
Paper	0.04	0.06	▲
Miscellaneous	2.92	3.46	▲

Source: Based on the data available in the DSE website

4.3.3 Investment decision in the secondary market is hardly influenced by price earnings ratio (P/E ratio) of shares: The gradual fall in the average market P/E ratio indicates that the environment for investing in the capital market is becoming favourable. The average P/E ratio had reached the peak in October, 2015 (18.91); since then it has come down (13.86 in April, 2016) (Figure 4.15). In case of sectoral P/E ratio, a mixed trend is observed for the corresponding period. The consistently low P/E ratio of the shares of the banking sector discouraged potential investors in those shares. The P/E ratio is high but consistent for power and fuel and pharmaceuticals sectors. Previously, food and allied and telecommunication sectors have experienced high volatility in terms of P/E ratio; however, the ratios have been consistent since early 2015.

Figure 4.15: Trend in P/E ratio for major selected sectors



Source: Dhaka Stock Exchange (DSE).

4.3.4 Offloading of IPOs: At present, 291 companies are listed in the capital market. Since the collapse in December, 2010, the number of new companies that were listed in the capital market was 73. During the calendar year of 2016, a total of 6 IPOs have off-loaded their shares which included companies belonging to manufacturing, insurance, IT, fuel & power and other sectors (Table 4.6). The size of the IPO in recent years indicate that medium size companies are taking an interest to get listed in the market; this is a positive sign since entry of relatively smaller sized companies is most welcome. On the other hand, this is also indicative of big established groups not showing an interest to be listed in the bourse. Listing of state owned commercial enterprises has been a longstanding issue; despite various efforts not much progress has been made in this regard.

Table 4.6: Number of IPOs and total size

Year	Number	IPO size (million Tk.)	IPO size per unit (million Tk.)
2009	11	6,358	578.0
2010	5	4,116	823.2
2011	9	13,774	1530.4
2012	10	7,743	774.3
2013	17	12,584	740.2
2014	17	9,893	581.9
2015	14	10,768	769.1
2016*	6	2,277	379.5

Source: Dhaka Stock Exchange (DSE).

Note: * Information up to May 2016.

The depth of the capital market of Bangladesh is still shallow compared to that of other neighboring countries such as India. The number of companies listed in the Bombay Stock Exchange (BSE) is 5835; number of new companies listed in 2015-16 period is 229 (Table 4.7). Since 2011, total number of listed companies in BSE was 885 compared to 73 in DSE. It is to be noted that, a good number of companies has been delisted from the BSEs over the recent years, for various reasons. This is, however, quite rare in case of Bangladeshi bourses. Despite various allegations against a number of companies, none of the listed companies was delisted since the market collapsed in 2010.

Table 4.7: Number of enlistment of newly enlisted companies in the BSE

Fiscal year	New listings	Delisted companies	Total companies
2009-2010	77	32	4975
2010-2011	128	36	5067
2011-2012	97	31	5133
2012-2013	101	23	5211
2013-2014	147	19	5336
2014-2015	311	23	5624
2015-2016	229	18	5835

Source: Bombay Stock Exchange, India. Retrieved from: http://www.bseindia.com/markets/keystatics/Keystat_Companies.aspx?expandable=1 (Accessed on 15 May 2016)

Overall, Bangladesh's capital market has continued to remain at a melancholic subdued state for the two years. Lack of strong monitoring and supervision, poor record in terms of enlistment of new companies, significant amount of loans having been invested in 'bad' shares, weak performance of institutional investors who have large amount of bad shares with them – all these have created a 'vicious circle' a breakthrough from which will call for radical steps on the part of regulators as well as all concerned stakeholders.

4.4 Challenges Facing the Banking Sector: Beyond Traditional Issues in Digital Era

In the recent past Bangladesh's banking sector has experienced new risks associated with cyber security. These include ATM scams concerning four commercial banks during January, 2016 followed by Bangladesh Bank's reserve heist in March, 2016 and, very recently, ATM scams involving a number of other commercial banks. These are indicative of the vulnerability of Bangladesh's financial banking institutions in this digital age when threats to cyber security has emerged as a growing menace. According to various reports published recently, cyber security in the banking sector has been facing multiple challenges in areas ranging from adequacy of infrastructure, safety of operation, regularity of maintenance and adequacy of required human resources. According to Kaspersky, of all the computers used in Bangladesh 60.5 per cent are affected by 20 different types of malwares. Knowledge and expertise about cyber security is acutely wanting. The Bangladesh Institute of Bank Management (BIBM) (2016) which conducted a survey covering 25 banks found that, local banks are facing at least 300 malware attacks everyday of which 60 per cent is carried out by local hackers. The study found that about 8 per cent among senior management in banks were not interested in investing in IT and 24 per cent are waiting for the directives from the Central Bank. On the other hand, about 70 per cent banks have no dedicated IT security and risk management department. Bank's spending for development of IT sector is mostly concentrated in buying hardware and software. Despite the huge annual spending made by commercial banks, only an insignificant share is spent on IT related activities - only 4 per cent of the total IT budget is spent for cyber security management of which 2 per cent is spent for training.

Recent heist of USD 101 million from Bangladesh Bank's reserves has exposed the weaknesses in cyber security and cyber governance concerning the operation of the Central Bank of the country. As is known, only USD 20 million has been retrieved from Sri Lanka, the fate of the remaining USD 81 million which ended up in casinos in Philippines is unknown. A number of investigations is currently going on to retrieve the stolen fund, to identify those responsible and a portion responsibilities of different parties involved, both in Bangladesh and abroad, including Bangladesh Bank, SWIFT and Federal Reserve Bank of New York. The investigation committee formed earlier has submitted its interim report and the Chairman of the committee has stated that whilst SWIFT system was mainly to blame, the Bangladesh Bank and Federal Reserve Bank of New York could not avoid responsibility.

4.5 Conclusion

The financial-banking sector of Bangladesh stands at cross-roads. Whilst, the public sector institutions are afflicted with major problems, the private sector ones are also not devoid of those, albeit may be to a lesser degree. Now the vulnerabilities of the central bank have also been exposed through cyber-attacks. Be it the banking sector, or the capital market, weak state of governance is having severely adverse impact on performance and efficiency. A major overhaul is needed. The burden of high NPL is resulting in interest rate not coming down enough, and is weakening the soundness of bank. The capital market has also failed to attract equity through listing of good companies. To address the attendant problems and identify remedial actions, for quite some time CPD has been arguing for setting up of an Independent Financial Sector Reform

Commission. The proposed banking commission may like to suggest ways to restructure the SCBs including rationalization of branches, offloading of shares and handing over the SCBs under private management. Energetic steps are needed if the financial sector's health is to be restored. Good governance, transparency and accountability should be the watchwords in undertaking the needed corrective measures.

SECTION V. EXTERNAL SECTOR: PERFORMANCE AND POTENTIALS

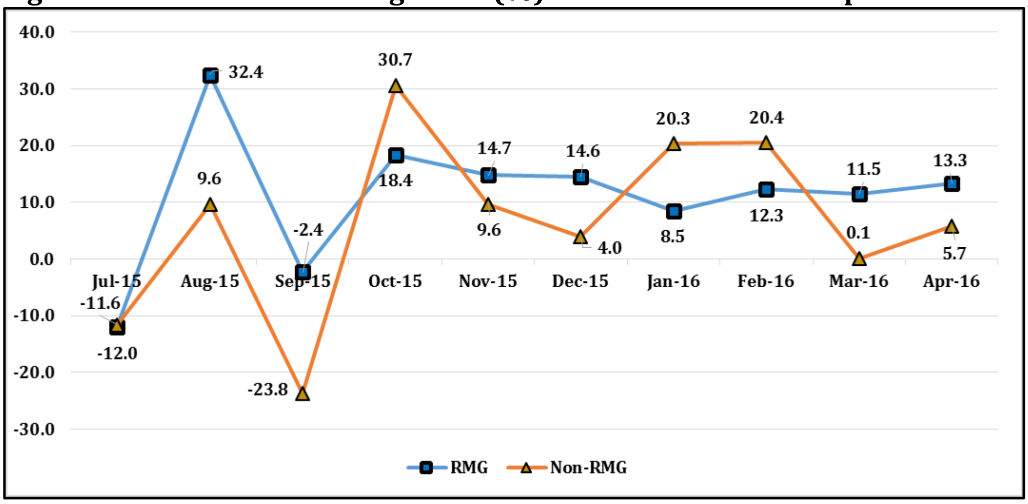
With growing reserves, upturn in export growth performance and positive current account balance, Bangladesh's external sector transmitted satisfying signals in FY2016. However, depressed performance of import sector, along with negative growth in remittance flow, continued to remain disquieting features of FY2016. Bangladesh Bank carried on with its policy of active intervention in the forex market to keep the taka from appreciating, in the process accumulating ever larger amount of forex reserves.

5.1 Export

Export earning during the first ten months of FY2016 was robust and recorded a growth rate of 9.2 per cent, exceeding the annual target of 7.3 per cent set for FY2016. It is, however, pertinent to mention here that, the 7FYP has set an export target of USD 54.1 billion by FY2020 which called for exports to grow by 12 per cent per annum over the plan period. So from this vantage point the task of accelerating the pace of export growth continues to remain a challenge for the upcoming years.

A sustained 10.1 per cent growth of RMG export during July-April FY2016 suggests further product concentration in the backdrop of slower growth of non-RMG exports (5.5 per cent growth against an annual target of 7.2 per cent growth) over the same period (Figure 5.1). Intra-RMG growth decomposition indicates further ascendancy of woven-apparels which recorded a 12.7 per cent growth.

Figure 5.1: Month-on-month growth (%) of RMG and non-RMG products in FY2016



Source: Estimated from EPB data.

Market-wise analysis reveals that, after registering high growth in the first quarter, export growth in the US market has continued to fall and came down to single digit (9.2 per cent) for the period of July-April FY2016. Indeed, in the month of April, export growth to US was negative ((-) 1.4 per cent). During the July-April period, RMG and non-RMG exports to US recorded growth of 8.2 per cent and 20 per cent respectively. On a positive note, according to United States International Trade Commission (USITC) data (available for the period of July 2015-February 2016), the RMG growth was mainly volume driven (Table 5.1). RMG export of Vietnam, one of the closest competitors of Bangladesh in the US market, has also experienced a good volume induced growth over the matched period.

In the EU market, export growth during July-April, FY2016 was 8.5 per cent – largely due to 17.3 per cent growth in woven export. This was helped by some depreciation of BDT against the Euro. However, contrary to the US market, growth of exports of both knit and woven to the EU market was price-driven (Table 5.1). It is to be also noted that, non-RMG export growth to EU market was negative over the corresponding period.[45]

Table 5.1: Price impact of Bangladesh and Vietnam's export growth (%) (July 2015-February 2016)

Country	Knit (61)			Woven (62)		
	Value	Quantity	Price	Value	Quantity	Price
US market						
Bangladesh	22.5	27.4	-3.8	26.7	16.9	8.4
Vietnam	11.4	15.0	-3.1	24.8	9.5	13.9
EU market						
Bangladesh	16.5	5.2	10.8	19.2	2.2	16.6
Vietnam	27.6	2.1	25.0	16.4	0.8	15.4

Source: Computed from the United States International Trade Commission (USITC) and EuroStat data.

Data on direction of exports indicates a gradual shift from traditional market[46] (8.7 per cent growth) to non-traditional markets (11 per cent growth). The non-traditional markets currently account for about 24.3 per cent of total exports from Bangladesh. Of the major non-traditional destinations, exports to Australia (18.6 per cent), Japan (18.3 per cent) and India (27.5 per cent) posted notable growth during July-April FY2016. In other major destinations such as China and Turkey exports have posted negative growth.

In the non-traditional markets, non-RMG products experienced a 12 per cent growth[47] whilst RMG products registered about 10 per cent growth during July-April FY2016. However, it should be noted that, leading destinations of Bangladesh's promising non-RMG products were often oriented to the same traditional markets. For example, major destination of shrimp is the EU whilst home textile products are mainly exported to the US, Germany and the UK. However, there are significant opportunities for market diversification here (Annex Table 5.1 for details).

Export diversification has been identified as a key challenge in the 7FYP.[48] To address this issue, the government has identified 12 priority sectors in the Export Policy Order (EPO) 2015-18. These are: apparel and garments accessories; software and ICT; pharmaceutical; ship building; leather and footwear products; jute goods; plastic products; agro and agro-processed products; furniture; home textile, and home furnishing and luggage. These are industries with great promise and high export potentials but face formidable challenges which need to be addressed. Leather industry is currently going through a transitional phase because of relocation of tanneries from Hajaribag to Savar.[49] Reluctance on the part of many entrepreneurs, inadequate infrastructure and limited facilities for industrial setup have led to delayed relocation and full-

[45] Non-RMG constitutes only 8 per cent of total exports from Bangladesh to the EU.
[46] Traditional market comprises of the US, the EU and Canada.
[47] It may be noted that, share of non-RMG products in these markets is about 48 per cent.
[48] Of the 25 background papers prepared to formulate the 7FYP, one was dedicated to identify priorities and set strategies for export diversification.
[49] The government has allocated Tk. 250 crore to tannery owners as compensation for the shift whilst Bangladesh bank announced concessional loan at 5 per cent rate for tanneries which will be setup in the Savar leather industrial estate.

fledged production in the new industrial estate. It is hoped that this highly promising sector will be able to take advantage of this relocation. The prices of jute products have fallen in the international market following the political unrest in the Middle East countries; economic recession in the Euro zone area did not help either. Government banned export of raw jute to ensure adequate supply of jute for the local jute mills. This was lifted in April 2016.

To support exporters, and help them maintain competitiveness in the global market, government has continued with various fiscal measures – notably, in the form of export subsidy (cash incentives), additional incentives, bonded warehouse facility (allowed selectively), soft and concessional short-term commercial loans, support from export development fund, export retention quota, import duty exemption on raw materials, tax rebate, special income tax rate and reduced tax rate etc. Government has separate budgetary allocations to support cash incentives given to exporters and backward linkage industries. In FY2016, government had allocated Tk. 3,500 crore on account of export subsidy.[50] At present, 14 sectors[51] with over 150 product categories are availing many of these facilities. The structure of the support has been questioned, some arguing that this particularly favoured the RMG industries more – over 50 per cent of the incentives were availed by these industries. Appropriate targeting and use of the support provisions remain an issue. For promoting the cause of efficient use of resources and for stimulating effective product diversification and exploration of new markets, reassessment and more specifically, rationalisation of these incentives and support measures is needed. It is to be appreciated that the government is at present revisiting the fiscal incentives provided to the exporters. This exercise should ensure allocative efficiency and implementational efficacy. Incentive and support measures should also target services industry in a strategic way, so that Bangladesh is able to take full advantage of the services waiver facility accorded to the LDCs in the WTO.

5.2 Import Payments

Import payments reached some degree of stability towards the end of the third quarter after hovering in the negative terrain in the first quarter and experiencing spikes in the second quarter. Import payments increased by 6.5 per cent in July-March 2016, compared to the corresponding period of the previous fiscal year.[52] Nine of the 23 products recorded growth higher than 6.5 per cent.[53] Intermediate goods contributed the most (53.9 per cent) to the incremental growth in import payments, propelled by payments for petroleum products (23.2 per cent) and textile articles (20.1 per cent). Curiously, prices of crude oil and edible oil have fallen, on an average, by (-) 44.9 per cent and (-) 9.7 per cent respectively during the same period[54] – implying that growths in imports of these products noted above was mostly quantity driven. Growth of investment inducing imports showed signs of improvement during the third quarter of FY2016

[50] As reported in anecdotal sources, government is going to increase export subsidy by another Tk. 1,000 crore from existing 3,500 crore; of which Tk. 500 crore will be reserved only for jute products.

[51] The sectors are namely: RMG industries, handmade eco-friendly products, agro and agro-processing industries, bone powder, light engineering products, meat products, shrimp, leather, ship building, potato starch, plastic and jute sector.

[52] During July-March of FY2015, the import payment growth was (-) 0.1 per cent.

[53] Top five imported products with highest growth rates were: pharmaceutical products (64.1 per cent), edible oil (57.4 per cent), oil seeds (37.1 per cent), petroleum products (34.9 per cent), and crude petroleum (15.6 per cent).

[54] Cotton price remained stable in the global market.

(Table 5.2). The substantial fall in rice imports[55] was the main reason for the decline in import of foodgrains in the course of the fiscal year.

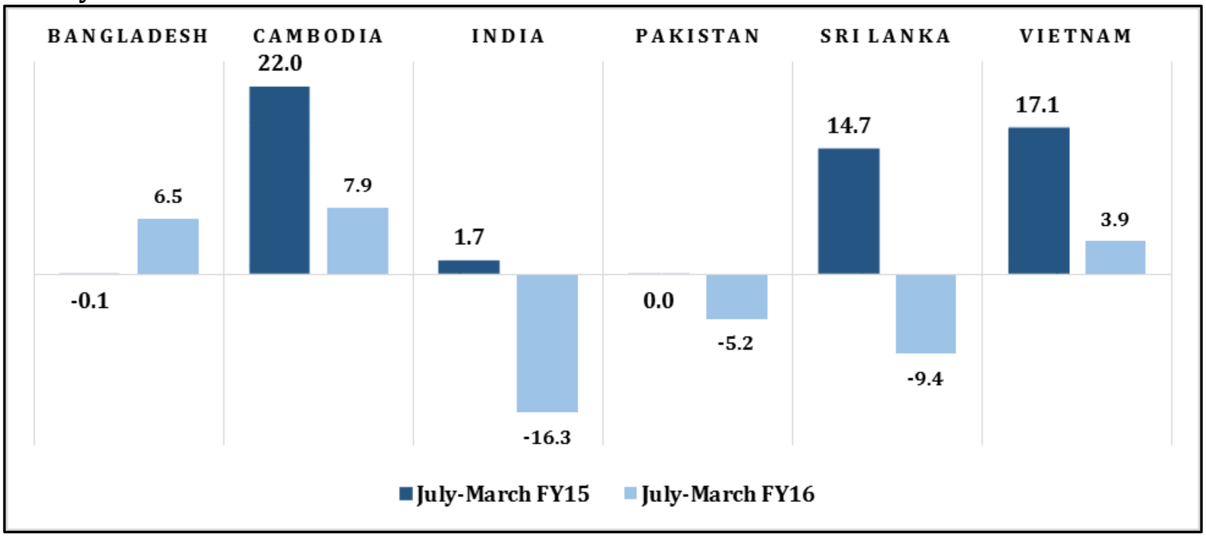
Table 5.2: Growth (%) in selected imports in FY2016

Products	Jul-Dec FY16	Jul-Mar FY16
Capital machinery	-14.8	-5.6
Raw cotton	-9.9	-2.5
Yarn	2.1	5.5
Textile and articles thereof	8.6	9.3
Dyeing and tanning materials	-10.1	-4.4

Source: Computed based on Bangladesh Bank data.

A cross country comparison was carried out to analyse whether Bangladesh's import performance was in tandem with competing or similar economies for the reported period. India, Pakistan and Sri Lanka experienced negative import growth in July-March FY2016 period compared to the corresponding period of the previous fiscal year (Figure 5.2). In case of India, the large negative growth of import was mainly attributed to the decline in oil import bills.[56] On the contrary, Cambodia and Vietnam showed positive growth, but lower than the high benchmarks achieved in July-January FY2015.

Figure 5.2: Cross-country comparison of import growth for the period July-March over fiscal years



Source: Authors' compilation from various sources. Bangladesh Bank, National Bank of Cambodia, Reserve Bank of India, State Bank of Pakistan, Central Bank of Sri Lanka and Vietnam Customs (Customs Trade Statistics).

Note: Import data for Cambodia, Sri Lanka and Vietnam is available only till January 2016.

Opening of letter of credit (L/C) for July-March FY2016 declined by (-) 2.3 per cent compared to corresponding period in FY2015.[57] L/C opening for petroleum products experienced negative

[55] Imposition of import duty and regulatory duty on rice, 10 per cent each, can be pinpointed as a possible reason for the low imports.

[56] India has witnessed a falling rally in import payments for the last 7 months, as a consequence of lagged impact of falling oil prices (oil import bills has been in the negative terrain for the last 16 months), and also because of lower prices of non-oil import commodities such as gold and steel.

[57] The growth of L/C opening for July-March FY2015 was 9.0 per cent higher than that of corresponding period in FY2014.

growth ((-) 40.2 per cent). Growth in L/C opening for industrial raw materials was positive (2.9 per cent). Growth of back to back L/C opening (9.5 per cent) was consistent with previous year during the aforesaid period.[58] Opening of L/C in favour of capital machineries rose by 13.9 per cent during the first three quarters of FY2016. Whether this was indicative of any resurgence in private sector investment will need to be seen.

5.3 Exchange Rate

Nominal Exchange Rate (NER) of BDT against the USD has remained stable between Tk. 77.80 and Tk. 78.40 throughout FY2016. This is largely due to open market operations of the Bangladesh Bank in the form of large scale foreign exchange purchases of USD, a policy being pursued consistently, in recent years in order to strategically arrest appreciation of the Taka. This policy of exchange rate interventions through foreign currency purchase, enacted towards the end of FY2012, has helped Bangladesh maintain export competitiveness in the global market reflected in the high growth in exports (22.3 per cent, Bangladesh Bank) over the past four years. The trade deficit is projected to decrease to USD 4,642 million by the end of the current fiscal year (similar to FY2015 end-year numbers) thanks to recent recovery of knitwear and woven garment exports to the US and the EU and soft global commodity prices (Hussain *et al.*, 2016).

While Bangladesh's ongoing exchange rate policy has helped maintain export competitiveness, concerns have been voiced as regards its sustainability. The value of the USD, against other major currencies, has shown significant volatility over the past ten months; the Euro appreciated during the first half of the fiscal year. It has steadily weakened since then. This has largely helped maintain export competitiveness in the EU market. However, exchange rate policies of Bangladesh's trade competitors and recent geo-trade partnerships threaten to weaken Bangladesh's export competitiveness in the near term future. Export competitor nations, such as Vietnam, is maintaining a stable exchange rate policy under which the Dong is pegged to a composite currency basket. This has allowed the Dong to move organically with Vietnam's major trading partners' currencies.[59]

Potential concerns regarding current exchange rate regime

Some consideration should be given to the potential pitfalls of the policy to aggressively purchase USD to maintain exchange rate stability of the BDT. Regular foreign exchange intervention entails high opportunity costs entailed in forsaking resource which has to be diverted from more productive purposes. Foreign exchange reserves have grown by 43.6 per cent (Bangladesh Bank) over the last 24 months, achieved in part through Bangladesh Bank dollar purchases from the local market. In turn this has caused a substantial increase of over 25 per cent in broad money supply over the same time period. In going for forex replenishment through purchase of dollar, there is a need to be cautious about its inflationary implication. Annual average inflation started to decline since January 2014 to reach 6.04 per cent in April 2016 which was less than the target for June 2016 (6.07 per cent). However, a rising trend can be observed in case of non-food inflation; which was 7.21 per cent in April 2016. Besides growth of broad money supply (13.5 per

[58] Back to back L/C opening growth in July-March FY2015 was 9.9 per cent compared to corresponding period in FY2014.

[59] This could potentially hurt Bangladesh in the long run, as the Trans-Pacific Partnership (TPP) comes into play, as Vietnam will not only enjoy free-moving currency but also gain preferential access to major markets in USA, Canada, Japan and Australia (which account for nearly 20 per cent of Bangladesh's exports).

cent as of March 2016) was below the monetary policy statement (MPS) target of 15 per cent. In view of above, inflationary pressure is not a concern at present. However, it will be advisable to keep a close eye on movements of these monetary correlates so that the current policy of buying dollars to maintain nominal exchange rate does not lead to inflationary pressure. While the underlying policy eliminates exchange rate volatility, it only provides advantages to Bangladesh exporters who have pursued USD-based contracts with major trade partners. Returns from exports to the EU market fell sharply in FY2015 due to the relative weakening of the Euro as roughly 20 per cent of all income were made via contracted payment in Euros. Careful consideration should inform currency-specific contracts in order to limit potential losses.

Should Bangladesh pursue alternatives to monetary aggregate targeting exchange rate policies?

A more appropriate currency metric that is implicitly tied to export and import performance is the REER, which should be considered alongside the NER for trade policy purposes. While the NER of BDT has remained fairly steady in recent times, the REER has steadily appreciated in value over the last three years and peaked during the last quarter. The gap between the two rates displays the relative weakening of the Taka against major trading partners, which is particularly important given Bangladesh's efforts to increase its foothold in the EU market.

The impact of REER appreciation on export competitiveness, however, remains unclear (World Bank, 2016); it is significantly dependent on the current (and previous period) inflation rate, money supply, and relative price-elasticities of exports and imports (Branson, 1981).[60] A number of studies (Arize, 1994), using cointegration methodologies, have found positive and significant long-run relationships between trade balance and real effective exchange rate in Asia for 1980s and 1990s. In recent years, other studies (e.g. Perara, 2009) have found this relationship to be insignificant for Sri Lanka, while Dhasmana (2012) observed a positive association for India.[61] In the context of Bangladesh, Younus & Chowdhury (2014) shows that from 2003 to 2014 the REER has had no significant effect on trade balance or exports and imports when other major macroeconomic indicators are taken into account.[62] Hossain and Ahmed (2009) show that lower REER volatility in the 2000s was associated with a positive impact on exports, and argue for policies centered on the stabilization of the REER in order to boost export competitiveness; the study also argue in favour of larger currency basket for REER estimation.

Time series analysis carried out for this study, using a combination of monthly REER estimates (138 currency basket, Bruegel Center)[63] and macro-economic data for the past 25 years, provide some useful insights. First column of Annex Table 5.2 (results from an auto-regression model of trade balance determinants) shows that the absolute sum of import and export price elasticities have no statistical effect on the REER after controlling for inflation. This implies that global, rather than country, level prices play a determining role in Bangladesh's trade movement. The second column shows that, a large part of Bangladesh's trade balance movement can be explained by

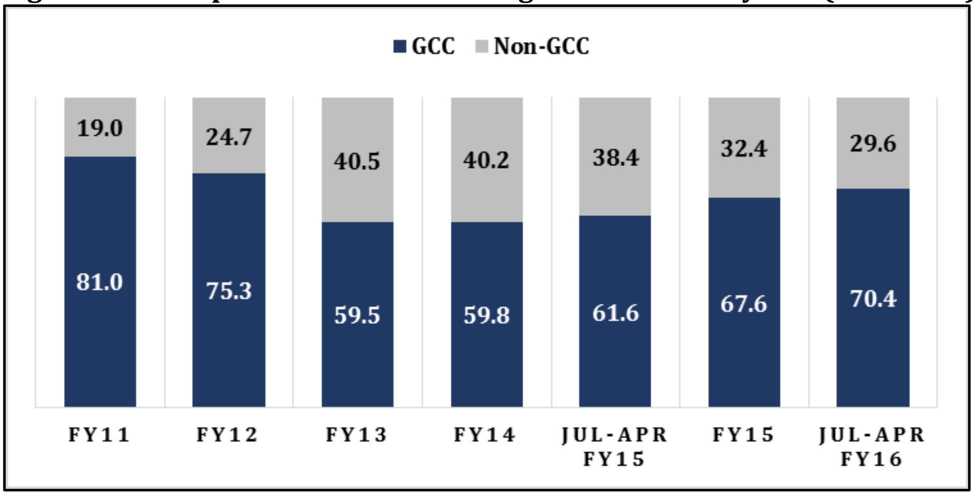
[60] Arresting REER appreciation requires reducing the inflation rate, which is already experiencing a consistent decline over the current fiscal year.
[61] Sri Lanka, as of 2001, has employed a similar monetary aggregate targeting exchange rate policy involving USD purchases, while India maintains a floating currency regime.
[62] This result, however, was contingent on using an 8 currency basket for REER calculations.
[63] Bangladesh Bank's REER estimates stem from a 10 country currency basket which accounts for over 80 per cent of Bangladesh's total trade. While countries used for Bruegel Center's currency basket constitute over 99 per cent of Bangladesh's total trade, it is observed that both estimates show near identical movements over time, indicating the countries which are not considered by the Bangladesh Bank estimate and used by the Bruegel Center have not played a substantial role in Bangladesh's overall trade movement.

fluctuations in the REER. This would imply that the REER could be considered as an alternative basis for Bangladesh's trade policy. Consequently, using a basket of trading partners' currencies as a benchmark for intervention, rather than implicitly pegging the BDT against the USD, could help Bangladesh pursue a more preferred exchange rate regime. This would help maintain export competitiveness in markets other than the US. In combination with structural reforms to address cyclical as well as structural factors concerning the external and internal fronts, such a policy could help sustain Bangladesh's export competitiveness from a broader perspective. In this regard, CPD recommends that Bangladesh Bank expand its currency basket for REER estimation so that it is able to factor in Bangladesh's current and future trade directions and the emerging trading environment.

5.4 Migration and Remittances

Over the period of last two years number of international migrant workers have risen from 222 million (2010) to 244 million (2015) (UNDESA, 2016). Bangladesh has also benefitted from this trend. Bangladesh is experiencing a phenomenal rise in international migration in FY2016 – the number of migrants going abroad during the first 10 months of FY2016 reached about 5.6 lakh. This was 51.2 per cent higher than corresponding period of FY2015. Indeed, since October 2015, on an average, every month more than 50 thousand migrants went abroad for jobs from Bangladesh. About 70.4 per cent migrants went to the Gulf Cooperation Council (GCC) countries in this period (Figure 5.3). Among the destinations, Saudi Arabia accounted for the highest incremental share (39.9 per cent) in this phenomenal growth. However, a significant number went to Oman (1.4 lakh), Qatar (1.2 lakh) and Malaysia (50.2 thousand). Migration to Singapore has been steady (about 5 thousand workers on a monthly basis). During the aforesaid period, female migration continued to surge. According to BMET data, number of female migrants have passed 1 lakh mark (during July-April FY2016) for the first time in a single fiscal year since FY1992. 78 per cent of the female migrants were destined for GCC countries –more specifically to Saudi Arabia (more than 50 per cent is going to GCC).

Figure 5.3: Composition of outward migration over the years (% of total)



Source: Computed from BMET data.

However, inward remittances growth did not match with current trend of outmigration. During July-April FY2016, remittance inflow to Bangladesh declined by (-) 2.4 per cent over the corresponding period of FY2015. Indeed, globally remittance inflow in 2015 had registered a mere 0.4 per cent increase compared to 2014 – the slowest ever growth since the global economic crisis of 2008-09 (WB, 2016). As can be seen from Table 5.3, other regional partners also experienced subdued/negative growth in remittance in the recent past.

Table 5.3: Comparative analysis of remittance growth (%)

Countries	FY16			
	Jul-Sep	Jul-Dec	Jul-Jan	Jul-Feb
Bangladesh	-1.9	0.0	-1.1	-1.5
Pakistan	4.0	6.3	6.0	6.1
Philippines	2.2	0.3	0.7	1.6
Sri Lanka	1.1	-3.0	-1.7	-0.6
Nepal	18.5	12.8	11.2	10.4

Source: Bangladesh Bank (www.bb.org.bd), Nepal Rastra Bank (www.nrb.org.np), State Bank of Pakistan (www.sbp.org.pk), Central Bank of Sri Lanka (www.cbsl.gov.lk), The Bangko Sentral ng Pilipinas (www.bsp.gov.ph). Accessed on 19 May 2016.

Remittance inflow to Bangladesh from GCC countries declined by (-) 4.6 per cent for three quarters of FY2016.[64] However, , global reports reveal that, following the recent fall in oil prices, remittance outflow from GCC countries (Saudi Arabia and Qatar[65]) increased by 7 per cent during July-September 2015.[66] GCC countries have used their substantial reserves to maintain spending levels and their currencies have remained stable.

There is a need for greater gender sensitive policies in view of the rising number of female migrants from Bangladesh in recent times. This is needed both from the perspective of home country (Bangladesh), and host countries (in the GCC). Rules, laws, institutions and programmes should be designed in view of this. Targets as regards ensuring safe, orderly, and regular migration; limiting exploitation and abuse of migrants of all status; reducing the costs of recruitment and remittances; and improving data have also been included in the Sustainable Development Goals (SDGs).[67] In view of the SDGs, Bangladesh will need to do a lot. Indeed, Bangladesh does not have any data on the number of returnee migrants so as to promote policies towards existing overseas migrants. Anecdotal information indicate that many Bangladeshi migrant workers had to return home - due to tightening labour markets, stricter visa regimes in major destinations including Saudi Arabia, the UAE, Kuwait and Malaysia. However, the actual number is not available. As of now Bangladesh is enjoying benefits of relatively cheaper cost of sending remittances. However, a large number of migrants remained outside the formal financial system and tools available in host countries. Bangladesh is currently chair of the Global Forum on Migration and Development (GFMD) in 2016. This is thus an opportunity for Bangladesh to contribute to good governance in global migration taking advantage of its position.

5.5 Foreign Exchange Reserve

Following Asian Clearing Union (ACU) payment of USD 880 million, foreign exchange reserves of Bangladesh stood at USD 28.5 billion as of 18 May 2016. Bangladesh Bank's continued

[64] Indeed, remittance from other non-GCC countries recorded positive growth of 2.4 per cent after three quarters of FY2016.
[65] These two countries comprised about 50 per cent of total outward remittances from GCC.
[66] See http://m.gulf-times.com/Story/494006.
[67] These are included in SDG8.8, SDG 10.7, SDG10.c. and SDG 17.18 targets.

intervention strategy reflected through buying of USD[68] from the commercial banks with the aim to stabilise the foreign exchange market has resulted in growing reserve accumulation. This accelerated reserve accumulation is of course important from the perspective of providing safeguard and cushion with respect to external shocks and uncertainties. Major part of the official reserve assets was kept in the form of convertible foreign currencies (87.3 per cent), of which 38.1 per cent was invested in securities and 49.2 per cent was kept in foreign national central banks.[69] Bangladesh Bank has been consistently maintaining this particular composition of foreign exchange reserve, keeping the major part in safe but low-yielding foreign government securities with high liquidity. India has 93.4 per cent of its foreign exchange reserves as foreign currency assets and 5.5 per cent as gold.

The current reserve is equivalent to more than 7 months worth of imports. According to World Development Indicator (WDI) data, Bangladesh's foreign exchange reserve in 2014 was capable of ensuring 5.4 times the full-coverage of short-term debt (STD), same as her RMG-sector competitor Cambodia.[70] The ratio was 1.1 for Sri Lanka, 2.6 for Vietnam, 3.8 for India and 4.9 for Philippines. From the import dependency perspective, Bangladesh's import was equivalent to 27.5 per cent of GDP in 2014. It is observed that other countries with approximately similar extent of import dependency[71] tend to maintain same reserves to GDP ratio as Bangladesh. From these perspectives Bangladesh's reserve does not appear to be significantly high. On the other hand, the reserves is capable of providing cushion in case of any surge in import or other payments.

[68] Bangladesh Bank has bought USD 3.76 billion in FY2015, USD 5.15 billion in FY2014 and USD 4.54 billion in FY2013. During the ongoing FY2016, Bangladesh Bank has bought USD 2.16 billion as reported on 5th January, 2016.

[69] Special Drawing Rights (SDRs), gold and export development fund are the other major elements which account for 4.3, 1.9 and 6.4 per cent of the reserve respectively.

[70] This is one of the most widely-used standards of adequacy: Greenspan-Guidotti rule of 100 per cent coverage of STD or "reserve to short term external debt ratio" greater than 1.

[71] Indonesia (22.7 per cent), India (27 per cent) and Sri Lanka (29.4 per cent). Reserve to GDP ratio of these countries are 0.13, 0.16 and 0.1 respectively. Approximately similar to 0.13 ratio of Bangladesh.

SECTION VI. AN ASSESSMENT OF RECENT DYNAMICS OF CROP SECTOR AND POLICY RESPONSES

Bangladesh's crop sector has always played critically important role from the perspectives of meeting food security and job creation. As is known, the sector is dominated by rice cultivation. Thanks to considerable rise in cropping intensity and significant technological progress, Bangladesh has achieved near self-sufficiency in rice production. In FY2005, cropping intensity was 177 per cent which increased to 190 per cent in FY2013. During this period rice production rose by about 40 per cent while other crops also experienced a rise in production. In recent years, there has been widespread claim that increasing cost of irrigation, higher cost of agricultural labour and higher return from cultivation of alternative crops are discouraging farmers to remain engaged in rice cultivation. This has also been corroborated by research (Lagos & Hossain, 2016 and IAPP, 2013). These apprehensions gain merit also in view of the growing concern that sustaining rising productivity in rice cultivation will become more challenging in the future than it has been in the past. Boro rice cultivation, which was the main driver of crop productivity in Bangladesh, is nearing the limits of existing technological potential. Land expansion is no longer a feasible option in Bangladesh; rather land available for cultivation is expected to decline with growing urbanisation. Expansion of irrigation is also reached a certain degree of limit. According to World Bank (2016), the most significant challenge facing agriculture is the overuse, degradation, and change in quality of critical natural resources including land and water. These challenges have been recognised in the 7FYP of Bangladesh and a number of policies have been put forward to address those. In view of the above, this section revisits the recent trends in acreage of rice cultivation as also other major crops to identify any major shift in cultivation pattern. Existing government policies relating to the crop sector has also been discussed in this connection. The section also examines current fiscal-budgetary policies and their implications for the crop sector.

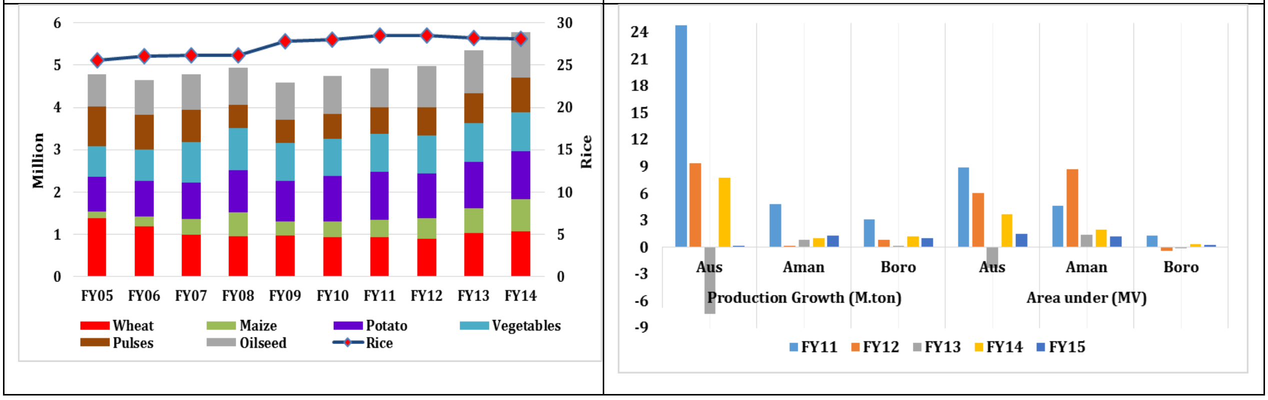
6.1 Recent Trends in Crop Sector

As is known, rice cultivation plays the most important role in Bangladesh's crop sector. Other crops that are gaining importance include root crops, jute, maize, and, to some extent, wheat and vegetables. Curiously, area under rice (total including Aus, Aman and Boro) cultivation has declined since FY2013. In FY2012, total land under rice cultivation was to the tune of 28,487 thousand acre which came down to 27,907 thousand acre in FY2016, a fall by about (-) 2.0 per cent (Figure 6.1). The area under rice cultivation dropped by (-) 1.1 per cent (303 thousand acres) in FY2016 compared to FY2015. This was largely attributed to (-) 3.2 per cent decline in area under Boro cultivation (by 383 thousand acres)[72]. On a welcome note, combined production of Aus and Aman in FY2016 rose by 1.6 per cent. Anecdotal information suggests that Boro production in FY2016 will also be close to last year's. Hence, despite a decline in area under rice cultivation, total production in FY2016 may remain similar to the preceding year (FY2015).

[72] Cultivated area under Aman increased by 148 thousand acres while that for Aus decreased by (-) 67 thousand acres.

Figure 6.1: Recent dynamics of crop sector

Cultivated Area (in million acre)	Rice: Growth in production and area under MV



Source: Estimated from BBS and DAE data.
Note: Modern variety indicates high yielding varieties (HYV) and hybrid varieties together.

More precisely, over the last five years, in case of rice crop, growth rates of production of Aus and Aman were comparatively higher than that of Boro, although a higher volatility is also visible. The trend perhaps indicate the following: i) Bangladesh has nearly reached the existing technological frontier for Boro[73] cultivation (World Bank, 2016); ii) a higher adoption of modern varieties during Aus and Aman season; iii) volatility of climatic variables e.g. maximum temperature[74] has significantly increased in the last decade (since 2002) relative to the previous decade. In contrast, average annual rainfall[75] has decreased over the same period, showing a higher degree of volatility in months of monsoon (April-October). Assuming no immediate advancement in technology, any scope for further increase of rice cultivation may only happen through expansion of modern varieties during Aman and Aus season while maintaining the existing level of Boro production. Recent incentive policies pursued by the government also is indicative of support towards Aus and Aman[76]. As it is, climate variability has added to uncertainties faced by farmers in cultivating rice during Aus and Aman seasons. In addition, excessive use of water for irrigation is causing groundwater table to fall further; this is making irrigation more costly (Alauddin & Sharma, 2013; Alauddin *et al.* 2014).

In this backdrop, ensuring incentive prices for rice farmers has become a major challenge for the policymakers. Recent reports from various sources suggest that farmers are not being able to even recover the cost of production, let alone make profits. According to Lagos and Hossain (2016), on an average, Boro farmers had to incur a loss of about 18 per cent in producing Boro in FY2015. In view of this emergent scenario, farmers may be induced to switch to more profitable crops, particularly maize and wheat. In this backdrop, the government will need to calibrate its strategies and policies to maintain a balance between rice security and crop diversification keeping in view the imperative of ensuring food security and nutrition.

[73] According to BBS estimate, in 2014-15 cultivable land under modern variety (MV) for Boro, Aman and Aus are 99 per cent, 78 per cent and 73 per cent respectively.
[74] Average annual maximum temperature were 33.54 and 33.97 degree celsius during 1989-2001 and 2002-2013 respectively.
[75] Average annual rainfall were 2485 mm and 2416 mm during 1989-2001 and 2002-2013 respectively.
[76] This can be observed from various circulars by the Ministry of Agriculture (MoA).

6.2 Analysis of Plan and Policy Documents

Policy actions and initiatives by the government in facing the aforesaid challenges will be guided by existing medium term plans and strategies. A review of plan and policy documents including the Seventh Five Year Plan (7FYP), the Sixth Five Year Plan (6FYP), the National Agriculture Policy (NAP) 2013, and Medium Term Budgetary Framework of MoA indicates four broad policy stances of the government. Brief elaborations of these policies are presented below.

Crop zoning and climate change adaptations

In the 7FYP, government has put an emphasis on expanding cultivation of agri-crops in adverse agro-ecological zones (AEZ[77]) including in the hill tracts. To encourage crop zoning and climate change adaptations, the plan document also recommended promotion of modern farm practices in drought, submergence, and salinity prone areas, support to green growth agriculture by intensifying organic farming, raise coverage of cultivable land under high yielding and hybrid varieties, and diversification of crop cultivation in line with nutritional demand.

Input support

Taking cue from policies and strategies set out in the 6FYP and the NAP, the 7FYP also has continued to emphasise efficient and balanced utilisation of land, water and fertiliser use. The importance of using more surface water for irrigation has been reiterated. In addition, use of deep tube wells for irrigation purposes was discouraged while the use of force mode pump was encouraged instead of suction mode pump in water scarce regions. Installation of solar panels for small scale irrigation in rural areas was given priority.

Price support

Besides continuation of price support to farmers through existing procurement policy, other measures which were given priority in the 7FYP and NAP included: ensuring agricultural machineries at affordable prices for the farmers through tax rebate and other measures, granting soft loans for the cultivation of selected crops, and incentivising farmers through easy and better access to credit. Though in the 7FYP there was mention of crop insurance for farmers, till date no significant progress has been made in this connection.

Research and institutions

The 7FYP pledged to increase budgetary allocation for agriculture – related research. Scientific research to improve and discover genetic modification technology at farm level, research for the promotion of AEZ specific crops, and efficient and balanced use of water for irrigation have received more heightened attention compared to previous plan documents. In addition, establishment of a detailed collective database by agricultural research institutes was also planned in the NAP.

Indeed, in the 7FYP, crop diversification, as part of the nutrition strategy, was given special attention. Utilising the AEZs, the government has continued to support crop zoning to promote market based agriculture. Besides, surface water use for irrigation was given priority while balanced use of fertiliser has been reiterated once again. Easy and better access to credit for farmers have also been talked of. In addition, increased allocation for R & D in agriculture budget has received priority in an attempt to stimulate higher valued crop production. It should be noted,

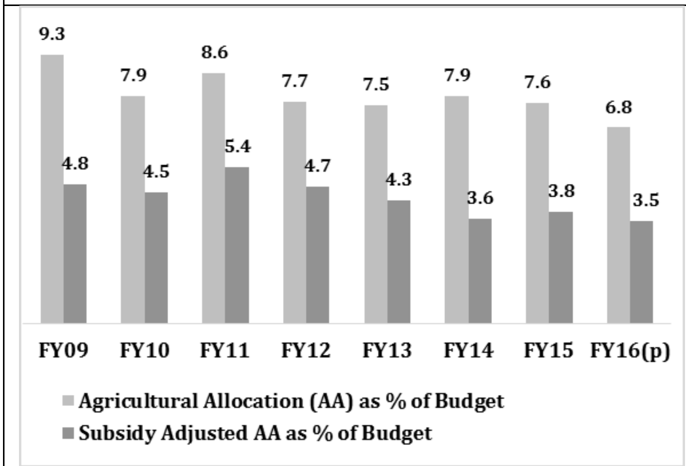
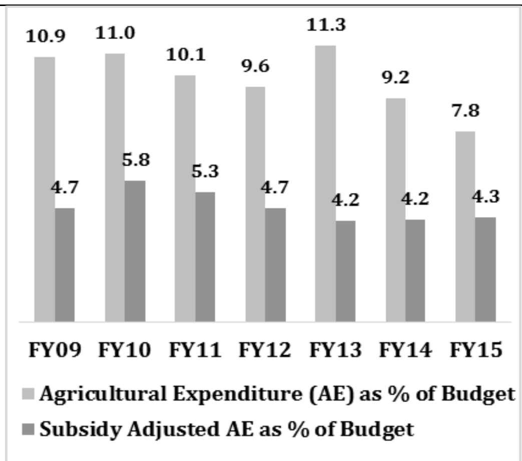
[77] Bangladesh has identified 30 AEZs, considering soil quality and river hydrology, to promote crop zoning.

however, that rather than a rise, a gradual decrease in budgetary allocation for the agricultural sector is clearly discernible.

6.3 Budgetary Allocation and Market Interventions for Agriculture

Since FY2009, budgetary allocation and actual expenditure for agriculture sector as share of total budget has been declining (except for one or two odd years) (Figure 6.2). Subsidy (for fertiliser and irrigation) is a major share of total allocation for agriculture. The decline in relative share of allocation for subsidy is understandable as international prices of fertiliser were at lower levels. The government did not reduce fertiliser prices in response to the lower international prices; however, the fiscal space thus gained was not redirected to other heads of the agriculture sector. Adjusted for subsidy, allocation for agriculture also experienced a decline – from 5.4 per cent of budget in FY2011 to 3.5 per cent in FY2016. It is to be noted, however, that in terms of actual expenditure, share of agriculture sector was found to be relatively high for most years since other sectors had systematically failed to spend their respective allocations over the corresponding period.

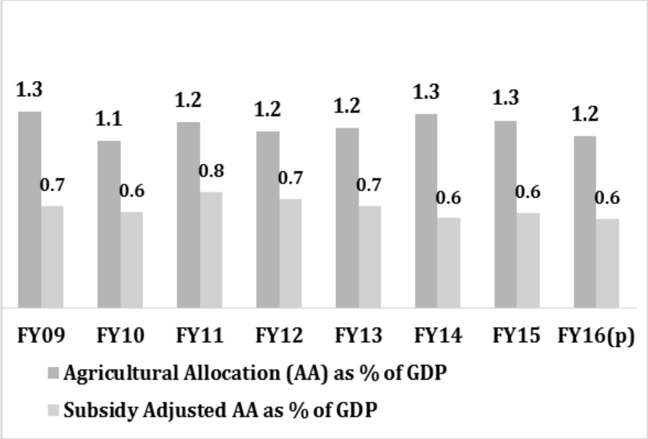
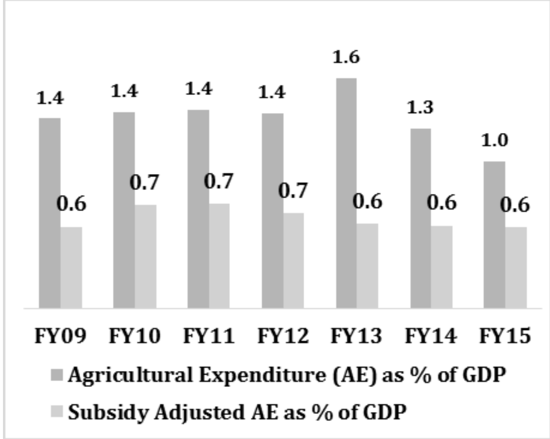
Figure 6.2: Trend of budgetary allocation and expenditure for agriculture (as % of total budget and expenditure respectively)

Allocation in Budget	Actual Public Expenditure
	

Source: Estimated from MoF data.

Since FY2009, budgetary allocation for agriculture as a share of GDP, both with and without subsidy, remained more of less unchanged at about 1.2 per cent and 0.6 per cent respectively (Figure 6.3). With exception of the last two fiscal years (FY2014 and FY2015), total public expenditure figures for agriculture as share of GDP were higher than respective allocations. This trend was largely influenced by higher demand for subsidies. As international prices of commodities including those for agriculture fell, demand for agricultural subsidies was lower than the ones earmarked for FY2014 and FY2015. This is likely to continue in FY2016 as well.

Figure 6.3: Trends in budgetary allocation and expenditure for agriculture (as % of GDP)

Budgetary Allocation	Actual Budget Expenditure
	

Source: Estimated from MoF data.

A window of fiscal space

In order to safeguard the interest of farmers, the government usually allocates lion's share of agricultural subsidy for fertiliser. As Bangladesh meets most of its fertiliser demand by importing from the international market, in recent times lower global prices have provided some fiscal space for the government. From FY2014 to FY2016, international price for urea, TSP, DAP and MOP has witnessed an average annual decrease of about 13.4 per cent, 6.2 per cent, 6.1 per cent and 8.5 per cent respectively[78]. From FY2014 to FY2016, for each year, government's subsidy allocation for agricultural sector was about Tk. 9,000 crore. However, actual expenditure on agricultural subsidy was Tk. 7,095 crore in FY2015 which is about Tk. 2,000 crore less than the original allocation. The actual figure for FY2016 is also likely to be similar. Early indication suggests that, in the budget for FY2017, Tk. 9,000 crore will be earmarked for subsidy in the agriculture sector. According to CPD estimates, the requirement for agricultural subsidy in FY2017 should not exceed Tk. 7,000-7,300 crore. Hence, the government could in the end will have a fiscal space equivalent to nearly Tk. 1,700 to Tk. 2,000 crore in FY2017. This is an opportunity for enhancing budgetary allocation for other heads under the agriculture sector. It is, however, not certain whether such an opportunity will be taken advantage of by the government. Availing this will call for appropriate planning and enhancement of utilisation capacity of the MoA.

Implementation of selected ADP projects for crop sector

There is a need to prioritise and align implementation of agricultural projects in line with medium to long term strategies set out for the agriculture sector. In this backdrop, an analysis of a selected number of projects under the agriculture sector from the RADP for FY2016 was undertaken. In the course of this analysis, out of 149 agricultural projects, 56 concerning crop sector and irrigation were selected. Cost involvement of these projects was Tk. 12 crore or more. Among these projects, 30 projects are related to input management while 16 projects concern crop zoning and climate change adaptation. Among other projects, nine were related to research and institution and one to price mechanism. Based on their implementation status and possible

[78] TSP refers to Triple Superphosphate, DAP refers to Diammonium phosphate, and, MOP refers to Muriate of Potash.

completion date, the selected 56 projects were further disaggregated into five categories: a) carryover and to be completed beyond FY2016, b) carryover and to be completed by FY2016, c) to be completed in FY2016, d) continuing beyond FY2016, e) newly adopted in FY2016.

Among the 56 projects, eight were initially planned to be completed by (or before) FY2016; these have already received time extension beyond FY2016. The thirteen projects (six carryover projects and seven completing projects) which are supposed to be completed within FY2016 (according to the RADP for FY2016) are still far away from completion. Only one project (related to surface water based irrigation system development) received adequate allocation for being completed within the stipulated time (by FY2016). However, the project could spend only 70 per cent of its total project cost till November 2015. It is highly unlikely that this project will be completed within FY2016. Indeed, time overrun is quite common for agricultural projects. The fifteen projects which received time extension (for one or more times), had an average project life of about 42 months. These projects, on average, have already received an additional 35 months extension (83.6 per cent). Similarly, average project cost overrun was estimated to be about 21 per cent. Indeed, among the selected 56 projects (of which 16 projects are newly adopted), in case of 14 projects there was need for one revision, while in case of 11 others two revisions had to be carried out. Project off-take is also found to be delayed. Among the 16 new projects (adopted in ADP for FY2016) nine projects could not spent a single taka during the first five months of FY2016. Project implementation performance was relatively better for projects related to input support, followed by research and institution, and crop zoning and climate change adaptation.

In summary, whilst the government has made plans, initiated projects in line with the medium to long term strategies, because of institutional and administrative weaknesses, particularly at the implementation stage, the projects are not being completed on time. Consequently, farmers as well also the sector is deprived of the envisaged benefits.

Delayed interventions by government

Over the period of last one year or so, the government has undertaken a number of market interventions to protect the interests of the farmers. On 11 May 2015 (during the third week of Boro harvest according to the crop calendar of the BBS), the government imposed a 10 per cent regulatory duty (RD) on rice import in view of high import of rice and lower price in the domestic market. However, the initiative had insignificant impact. Boro farmers were not able to cover the cultivation cost. Later on, a second round of additional 10 per cent RD was imposed on import of rice on 7 December 2015 (in the first week of Aman harvest). As is known, diesel is one of the main inputs in the irrigation process. In the backdrop of low global prices, government has recently adjusted the fuel prices (on 24 April 2016, first week of Boro harvest). However, the price of diesel was decreased by just over 4 per cent whereas the prices of octane and petrol was reduced by about 10 per cent. Indeed, farmers failed to reap any benefit of this reduction at least this year, since the irrigation period of Boro cultivation was already over by this time. One day later, on 25 April 2016 the government announced its plan to procure 7 lac tons of paddy at Tk. 23/kg and 6 lac tons of rice at Tk. 32/kg during the current Boro season. The procurement timeline has been set from 5 May 2016 to 31 August 2016; during the first month (May 5 to June 5) only paddy will be collected. The target and price for Boro paddy procurement was increased to ensure fair price at the farmers' level.[79] The government has prioritised the collection of Boro paddy from genuine farmers instead of middlemen. This is indeed a welcome initiative. However, according to field level information, the government was not able to start procurement process on time. This absence of the government in the paddy market has resulted in low paddy price for the producers in the harvesting season. Consequently, farmers, particularly those who are having to go for distress selling will likely once again incur considerable loss from Boro cultivation. There is, thus, a need to expedite the government procurement process, on an urgent basis.

6.4 Policy Perspective

Although the area under rice cultivation has dropped in FY2016, this may not significantly affect the overall rice production in this year. However, since there is an apprehension that rice production in Bangladesh has already reached the technological frontier, energetic measures will be needed to go for higher productivity and more productive technology. It is true that there is some scope to adopt modern varieties in case of Aus and Aman cultivation; however, Boro being the dominant crop, the opportunities here are rather limited. The increase in the area of cultivation for potato, maize, wheat and vegetables is being dictated by farmers' commercial interests. So there is hardly any option other than ensuring further rise in yield. In the backdrop of the adverse impact of climate change, fall in ground water table, and increasing cost of crop cultivation, government will be required to design appropriate policy incentive and support to safeguard Bangladesh's food security. The government should make the best use of the fiscal space provided by reduced subsidy demand for fertiliser.

Additionally, a further reduction in the administered price of diesel may be considered. The government has already decided to allow export of rice which may induce some (higher price adjustment). Adequate stocks, however, should be maintained for emergency support and market interventions when needed. The procurement process need to be expedited to ensure that farmers do get the benefits of the price support provided by the government. The emerged fiscal space may be utilised to incentivise Aus and Aman cultivation as also towards agricultural diversification initiatives. Balanced use of fertilisers should be encouraged through calibration of subsidies to different types of fertiliser. Higher subsidies could be given to granular urea compared to the powdered one.

[79] In the previous Boro season the government procured 1 lac ton paddy at Tk. 22/kg and 10 lac ton rice at Tk. 32/kg.

SECTION VII. RECENT TRENDS IN LABOUR MARKET: SLOW UPTAKE IN EMPLOYMENT IN SPITE OF IMPRESSIVE GDP PERFORMANCE

According to the projections made by the Bangladesh Bureau of Statistics (BBS), GDP growth of Bangladesh, for the first time in recent past, could exceed 7 per cent. However, nature the services and pay-hike driven nature of this growth has already given rise to concerns about its implications for job creation. In a country like Bangladesh going through a period of potential demographic dividend, labour market dynamics and employment situation remain issues of heightened importance. Employment elasticity to GDP, which is a measure of how employment varies with growth of economic output, appears to have fallen sharply over the last five years, from 0.58 in 2010 to 0.08 in 2015 (Table 7.1).80 High GDP growth has not been reflected in new job creation, raising questions about nature of growth and the need to understand key bottlenecks that impede higher employment generation in the economy. As the share of working age population in Bangladesh increases, with concomitant rise in the size of this population, there is a growing needs to find jobs for these people. Skills upgradation and productivity enhancement are becoming increasingly important issues if Bangladesh is also to make the transition from factor-driven to efficiency-driven economy which will enable it to take full advantage of its recently earned middle-income status.

Table 7.1: Employment to GDP elasticity (% change in employment for a corresponding 1 % increase in GDP)

Year	2010	2013	Jul-Sep 2015
Elasticity	0.5776	0.3307	0.0796

Source: BBS Labour Force Surveys, 2010-2015.

In this backdrop, the present section seeks to give an overview of the current labour market situation, based on information generated by the inaugural Quarterly Labour Force Survey (QLFS)81 carried out by the BBS. Comparison has also been made with to previous rounds of survey (annual LFS), to identify some of the key areas that call for further discussion and policy initiatives.

Labour force and employment experienced slow growth while labour force participation rate remained stalled

A generally impressive economic performance since the early 2000s was accompanied by a strong growth in Bangladesh labour force, up to 2013. This was discerned particularly in case of females. This trend, however, is currently showing signs of stagnation. As data shows LF has only grown by 0.7 million over the last two years.[82] The urban LF, which experienced significant growth due to surge in internal migration between 2006 and 2013, indicates signs of recent stabilisation due to a combination of increased male and reduced female urban LF participation (Table 7.2). From 2002 to 2013, jobs rose at an impressive rate (1.36 million per year), however,

[80] In an era where growth is primarily dominated by low-skill industries, over-reliance on low-skill workers could potentially result in under-competitiveness of human- capital intensive exports when competing with high-skilled labour from developed trade competitors.
[81] A major advantage of the QLFS over prior surveys is that the sample is a quasi-panel, which provides scope for dynamic analysis of employment trends.
[82] BBS has reported that the large shift of unpaid family workers to paid employment between 2013 and 2015 explains why overall employment figures did not grow.

this growth appears to have fallen to only 0.3 million since 2013.[83] The LF Participation Rate (LF-PR) has remained fairly stable over time; however, the peak rate of 56.6 per cent in 2010 has not been achieved since. This is largely driven by the fall in the female LF-PR from 34 per cent in 2010 to 31.6 per cent in 2015 (September), as only 0.1 million new females entered the workforce each year.

Table 7.2: Size of the labour force *(in millions)*

Year	2002-03	2005-06	2010	2013	Jul-Sep 2015
Male	36	37.3	39.5	42.5	43.1
Female	10.3	12.1	17.2	18.2	18.3
Urban	11.3	11.7	13.3	17.1	17.2
Rural	35	37.8	43.4	43.5	44.2
Total	**46.3**	**49.5**	**56.7**	**60.7**	**61.4**

Source: BBS Labour Force Surveys, 2002-2015.

Table 7.3: Size of the employed population *(in millions)*

Year	2002-03	2005-06	2010	2013	Jul-Sep 2015
Male	34.5	36.1	37.9	41.2	41.8
Female	9.8	11.3	16.2	16.8	17.0
Urban	10.7	11.3	12.4	16.2	16.4
Rural	33.6	36.1	41.7	41.9	42.4
Total	**44.3**	**47.4**	**54.1**	**58.1**	**58.7**

Source: BBS Labour Force Surveys, 2002-2015.

Table 7.4: Labour force participation rate (% of employed adults in the labour force)

Year	2002-03	2005-06	2010	2013	Jul-Sep 2015
Male	83.8	83.9	79.2	79.2	79.9
Female	24.7	24.8	33.9	31.0	31.6
Urban	53.9	53.6	53.5	53.5	53.3
Rural	55.1	56.8	57.6	55.1	56.4
Total	**54.8**	**56.0**	**56.6**	**54.7**	**55.3**

Source: BBS Labour Force Surveys, 2002-2015.

Unemployment has remained steady, but gender disparities continue to prevail

As the data indicates, the national unemployment rate worsened between 2002 and 2010, peaking at 4.5 per cent; it has since remained steady at 4.3 per cent over the last two years. Rural-urban variations are also becoming explicit – reduction in the urban unemployment rate was met with a corresponding rise in the rural unemployment rate (which is currently at a ten year high), possibly due to increased rural-to-urban migration in recent years. Female unemployment rate has fallen marginally recently, but remains more than twice the male unemployment rate.

[83] However, the reference period for the QLFS was when rural farm-based employment opportunities were low, possibly indicating seasonal variance in employment.

Table 7.5: Unemployment rate (% of respective labour force)

Year	2002-03	2005-06	2010	2013	Jul-Sep 2015
Male	4.2	3.2	4.1	3.0	3.1
Female	4.8	7.4	5.8	7.2	7.0
Urban	5.3	4.3	6.8	5.8	4.7
Rural	4.0	4.2	3.9	3.7	4.1
Total	**4.3**	**4.2**	**4.6**	**4.3**	**4.3**

Source: BBS Labour Force Surveys, 2002-2015.

Addressing labour market issues is emerging as a major policy concern

In order to identify potential areas for a labour-centric growth, it is reckoned that a number of concerns emerging from the latest QLFS demand particular attention from policy perspectives.[84]

Composition of employment – a shift favouring tertiary sector

Between 2013 and 2015 the number of unpaid family workers has declined by 31 per cent during the same period (Table 7.6); possible reasons include the general reduction in agricultural farm-based employment, which is often family-operated.

Table 7.6: Employment status *(in millions)*

Year	2002-03	2005-06	2010	2013	Jul-Sep 2015
Self-employed/own account workers	19.8	19.9	22	23.6	26.7
Employer	0.2	0.1	0.1	0.5	1.7
Employee (including day labourer)	15	15.2	18.4	22.5	22.8
Unpaid family helpers	8.1	10.3	11.8	10.6	7.3
Others	1.2	1.9	1.4	0.9	0.2
Total	**44.3**	**47.4**	**54.1**	**58.1**	**58.7**

Source: BBS Labour Force Surveys, 2002-2015

Employment by industry has displayed some diverse patterns. Decline in agricultural and industrial employment has been compensated for by a surge in jobs in the services sector. It is observed that the share of female employment in agriculture has recently increased, balanced by the drop in male agricultural employment; possible reasons could stem from increased domestic and international migration (which has till now been mainly male-dominated), and improved non-farm opportunities in the rural areas.

Within the secondary sector, the manufacturing industry has experienced a strong decline in jobs from 2013 to 2015, in a reversal to the sharp growth experienced earlier. The data indicates that job losses in manufacturing almost entirely affected female LF participants (Annex Table 7.1). The combination of 600 factory closures in the last three years and a projected closure of 319 more by the end of FY2016[85] is likely to exacerbate this situation.[86]

[84] It is perhaps important to note that interpretation of quarterly results needs to consider seasonal variations in employment trends. As the QLFS only covers the months of July to September, a comprehensive overview of FY2016's labour market situation may not be fully reflected in the data.

[85] See http://www.thefinancialexpress-bd.com/2016/05/14/30184/BGEMA-seeks-reduction-of-tax,-VAT--for-RMG-sector

[86] This could be, in part, because of the slowdown in (female) employment opportunities, in the export-oriented RMG sector following the Rana Plaza disaster in April, 2013.

Almost all service sectors experienced decent job growth; growth in construction, transportation and other urban-area centric services accounted for the share of labour that has moved out of the primary sector (Annex Table 7.1). Evidence also suggests that the LF has been slowly moving out of the secondary sector. Whether this is because new jobs are not being created in manufacturing sector in large number or whether jobs there are becoming relatively more capital-intensive need to be examined.[87] In view of this, a more in depth greater analysis of labour, capital and total factor productivity in the manufacturing sector is called for. There is also a need for improving survey indicators pertaining to inter-sectoral labour mobility to capture emerging job opportunities and occupational shifts in order to better understand the push-pull factors concerning internal labour migration.

Table 7.7: Employment by broad economic sectors

Year	2010	2013	Jul-Sep 2015	2010	2013	Jul-Sep 2015
Sectors	***Employed by broad economic sector (million)***			***Composition by broad economic sector (%)***		
Total	**54.1**	**58.1**	**58.7**	**100.0**	**100.0**	**100.0**
Agriculture	25.7	26.2	25.8	47.6	45.1	43.9
Industry	9.6	12.1	11.5	17.7	20.8	19.6
Services	19.1	19.8	21.5	25.5	26.4	28.6

Source: BBS Labour Force Surveys, 2010-2015.

Employment is still largely informal

Recent GDP growth was primarily dominated by industries that required low-skilled labour. The relatively large size of the informal economy (Table 7.8) indicates that a reversal of this trend in near-term future is unlikely. A large part of rural male LF participants, particularly the youth, have gone for formal employment over the last two years. The opposite trend was observed amongst urban female LF participants, as strong growth in informal employment was observed there. Because female urban LF constitutes over a quarter of all female LF participants, this is a potential cause for concern as increased informality means larger number of female workers going for jobs with lower real wages and poor working conditions.

However, there is also some evidence indicating increased formalisation of the job market. Informal employment has shrunk amongst higher educated labourers, as the share of informal workers with higher-secondary and tertiary education has decreased significantly by 18 per cent and 21 per cent respectively, indicating that the demand for skilled manpower is on the rise. The economy has also observed an overall decline in informality across agricultural and industry sectors industry since 2013. Services sector has observed a small rise in the number of informal jobs,[88] but a significantly larger increase in formal service sector employment indicates a general shift towards formality. As the share of labour moves out of the primary sector and the economy experiences strong growth in the tertiary sector, the scope for provision of ‘decent work’ will grow in the medium-term. Labour force surveys could think of identifying jobs that may be called

[87] The 2013 World Bank Enterprise Survey shows that private sector firms experienced negative annual labour productivity growth of -4.7 per cent from 2010 to 2013; in light of near zero global annual labour productivity growth in recent years, continuation of this trend would provide some evidence of the relatively growing importance of capital in the secondary sector.

[88] This was largely driven by the increase in informal urban employment, as observed through increased employment in construction, transportation and similarly low-skilled work.

'decent jobs'[89] so that policymakers are able to understand to what extent good jobs are being created in the economy, and address the associated challenges.

Table 7.8: Share of informal employment (% of respective labour force)

Year	2010	2013	Jul-Sep 2015
Male	32.4	35.6	34.0
Female	14.9	15.2	15.7
Urban	9.3	12.1	12.7
Rural	38.0	38.6	37.1
Total	**47.4**	**50.8**	**49.8**

Source: BBS Labour Force Surveys, 2010-2015.

Regressive trends in employment by skill level

Adult literacy rate in Bangladesh improved from 47.5 per cent in 2002 to 61.5 in 2015. This is primarily driven by significant rise in female education in recent years. The need to go for skill upgradation has now become more urgent, particularly in the secondary and tertiary sectors. Table 7.9 shows that unemployment among the LF participants with secondary, higher secondary and tertiary education has risen over the last two years, while for uneducated LF participants without education the opposite is true. Policy measures are needed to create job opportunities that corresponds to the skill and educational levels of the LF. In this context, there is a need to enhance the number of LF participants through increased resource mobilisation for Technical and Vocational Education and Training (TVET). Proper incentives should be created for this and there is a need to put in measures so that these are jobs for them in the job market.

Table 7.9: Unemployment rate by education level (% of respective labour force)

Year	2010	2013	Jul-Sep 2015
No education	2.8	3.2	2.1
Primary	3.8	2.7	2.9
Secondary	6.6	4.4	5.2
Higher secondary	13.7	7.9	11.8
Tertiary	8.3	6.7	5.7
Total	**4.5**	**4.3**	**4.3**

Source: BBS Labour Force Surveys, 2010-2015.

Youth unemployment – rising concerns

There is growing evidence of underutilisation of the youth labour force in Bangladesh (ages 15 to 29). Indeed, youth unemployment rate has risen steadily between 2010 and 2015. This is more so for female youth between the ages of 15 to 24. As of September 2015, nearly one in every ten youth LF participants remain unemployed (Table 7.10), which is more than twice the national overall unemployment rate. The share of youth unemployment amongst secondary and higher-secondary educated LF participants is almost three-times higher than that of youth LF participants with only primary-level education (Table 7.11). Some decline in the youth employment rate (as a share of the respective population group) may be because of higher access to education which has kept some youth in school; this is also reflected in rising literacy rate.

[89] The International Labour Organization (ILO) classifies decent work as opportunities for work that are productive and deliver a fair income, security in the workplace, freedom for people to express their concerns, and equality of opportunity and treatment for all men and women.

Female youth unemployment has increased sharply for primary, secondary and higher secondary educated persons, which indeed a worrying trend.

As youth constitute over a quarter of Bangladesh's population, and youth employment is emerging as a growing concern heightened attention will need to be given for imparting training and incentivising private sector to create more jobs that correspond to the skills of young people. Particular attention should be given to job creation for female youth.

Table 7.10: Youth unemployment rate by age group (% of respective labour force)

Year	2010	2013	Jul-Sep 2015
15-19 - total	10.6	10.2	13.9
15-19 - male	10.2	10.4	11.5
15-19 - female	11.4	9.8	19.5
20-24 - total	7.1	9.0	10.9
20-24 - male	6.8	9.0	9.2
20-24 - female	7.7	9.1	14.0
25-29 - total	5.4	6.3	6.0
25-29 - male	4.3	4.1	4.5
25-29 - female	7.3	10.4	9.0
Total	**7.4**	**8.1**	**9.5**

Source: BBS Labour Force Surveys, 2010-2015.

Table 7.11: Distribution of youth unemployment by education level (% of total unemployed youth)

Year	2010	2013	Jul-Sep 2015
No education - total	15.7	12.8	7.5
No education - male	13.4	5.1	6.2
No education - female	18.8	7.7	9.1
Primary - total	21.4	17.2	15.1
Primary - male	22.2	9.0	14.3
Primary - female	20.3	8.2	15.9
Secondary - total	49.0	34.7	40.0
Secondary - male	51.4	20.2	38.8
Secondary - female	47.4	14.5	41.5
Higher secondary - total	10.4	25.6	33.3
Higher secondary - male	10.3	12.4	36.1
Higher secondary - female	10.5	13.3	30.0
Tertiary - total	2.8	9.7	4.0
Tertiary - male	2.8	5.2	4.4
Tertiary - female	2.9	4.5	3.5

Source: BBS Labour Force Surveys, 2010-2015.

Falling real wages increases the burden of poverty for low-income workers

Data shows that nominal monthly wages have increased between 2013 and 2015, both for men and women. However, after adjusting wages for purchasing power parity using Consumer Price Indices (CPI), it is observed that real wages have fallen by 15 per cent over this period. This change is more prominently visible for the urban labour market which suggests a growing supply of low-skilled labour in urban areas. Falling real wages has a greater marginal impact on the lower end of the income distribution, which in turn could increase inequality through a rise in relative poverty. As is known, in October 2015, the World Bank officially updated the international poverty line to USD 1.90 (Tk. 148) per day; in other words the average worker must earn at least Tk. 4,400 (per dependant) a month to survive. Salaries have therefore not risen sufficiently in real terms to cover the rising cost of living for many LF participants. This is particularly a concern for female urban workers, whose real wages have fallen by 19.4 per cent since 2013 (Table 7.13).

Given that the dependency ratio in Bangladesh is more than two, wages, particularly in lower-skill industries, must rise so that, a worker's wage could allow the family to live decently (and above the poverty line). Low wages largely stem from lower productivity jobs being of an informal nature, absence of contractual arrangements and low bargaining power of the employee. A push for increase in wages in low to semi-skill industries has the potential to increase female LF, particularly those from low income households with little or no education, by lowering the opportunity cost of entering the workforce. A governmental push for increased formalisation of the workforce is needed. Formalisation of jobs will call for formalisation of enterprises. This is also essential to enforce various policies including the newly proposed VAT law. Increased formalisation would also provide grounds for increased protection of workers' rights and improved working environments.

Table 7.12: Average nominal monthly income from employment *(in Tk.)*

Year	2013	Jul-Sep 2015	Change (%)
Male	11,621	11,918	2.6
Female	11,136	11,228	0.8
Urban	13,605	13,706	0.7
Rural	10,294	10,545	2.4
Total	11,493	11,774	2.4

Source: BBS Labour Force Surveys, 2010-2015.

Table 7.13: Average real monthly income *(in Tk., adjusted for 2015 purchasing power)*

Year	2013	Jul-Sep 2015	Change (%)
National			
Male	14,007	11,918	-14.9
Female	13,423	11,228	-16.4
Total	13,853	11,774	-15
Urban			
Male	17,103	14,406	-15.8
Female	14,840	11,968	-19.4
Total	16,399	13,706	-16.4
Rural			
Male	12,420	10,576	-14.8
Female	12,372	10,379	-16.1
Total	12,408	10,545	-15

Source: BBS Labour Force Surveys, 2010-2015.

Some recommendations for improving labour market outcomes

In order to further accelerate Bangladesh's economic progress, labour-centric drivers of growth must be prioritised, building on Bangladesh's impressive track record in areas of education. This will call for more energetic efforts to develop human capabilities, incentivise job creation by private sector, upgrade skills endowment, raise labour and capital productivity and strengthen of underlying infrastructure (Rahman, Khan and Al Amin 2014). Creating decent jobs with higher real wages and enforcing labour rights could have positive impact on productivity; this will also help raise Bangladesh's competitiveness in both domestic and global markets.

In light of the discussion above, it is important for the government to put emphasis on improved LF participation and better employment outcomes with the vision of medium to long-term economic growth in mind. The government must focus on increasing both the number of jobs crated and the quality of employment. More jobs are now being created in the services and tertiary sector. Accordingly, policies will need to be tuned to this labour market dynamics. Emerging opportunities in the global market should also inform policy initiatives. Incentives should be there to promote self-employment and promote entrepreneurship that leads to new job creation. In all these, the particular needs and opportunities as regards to female labour force participation ought to receive special attention.

To under the aforesaid task and initiatives, there is a need for higher resource allocation. Funds should be adequate and appropriately targeted. Institutions and incentives will need to be designed in view of the emerging opportunities and challenges, some of which can be discerned from the latest survey. Turning Bangladesh's labour force into a skilled-labour force, capable for meeting the demands of the domestic and global labour markets, has emerged as a major challenge for the country's policymakers. The NSSS is a good and timely initiative of the government in this regard. However, adequate budgetary allocation and targeted initiatives will be needed to implement this strategy to seize the opportunities of realising the demographic dividends over the next three decades.

SECTION VIII. CONCLUDING REMARKS

As Bangladesh economy moves to the closure of FY2016, one may wonder how this fiscal year will be remembered from the perspective of macroeconomic management. Will this be remembered as the year when Bangladesh economy surpassed the threshold of 'seven per cent'? Admittedly, there has been debate, if not criticism, about the GDP growth figure which has been provisionally estimated for FY2016. This discussion, however, does not assess the technical and factual aspects of this year's GDP growth rate estimation. Rather, it focuses on quality of GDP growth in FY2016 which remained a contentious issue and attempts to relate this achievement with dynamics of movements of the relevant macroeconomic variables. As is observed, the expected rise in GDP growth is not corroborated in the movements of other relevant macroeconomic correlates such as private investment, term loan off-take, import of capital machineries, tax collection from the domestic sources or growth in consumption.

The analysis in this report reveals that due to low level of TFP, Bangladesh is not being able to extract the potential benefits from the observed GDP growth. Besides, private investment failed to make any headway in FY2016 despite enhanced inflow of FDI and some recovery in private sector credit. Besides, large entrepreneurs in Bangladesh are gaining increasing confidence in terms of going for large-scale private investment. To seize this opportunity, delivering necessary infrastructural facilities according to planned timelines will be critically important.

It is also a matter of concern that the attained higher level of GDP growth rates (as per official estimation) did not create adequate employment opportunities in the economy. Indeed, the pace of job creation has slowed down considerably during 2013-2015 period. It is rather surprising to find that despite attaining a double digit value addition growth rates in the manufacturing sector in last two years, (in net terms) more than 12 lakh jobs were lost in this sector. Indeed, a GDP growth with very weak employment generating capacity will not be able to serve the development ambitions of Bangladesh.

On a welcome note, there was a number of positives to take from the macroeconomic performance of FY2016. Headline inflation continued to decline from last year. Beating the annual target that was set for, export earnings rose at a faster rate compared to import payments. This has helped to secure positive BoP for yet another year, leading to augmented foreign exchange reserves. Lower international prices released the pressure on the subsidy requirements. Budget deficit has also been restrained. Overall, the fiscal year will close with a maintained macroeconomic stability.

There were also variables where performance was rather mixed. For example, nominal exchange rate of BDT against USD remained stable, but it made gain against currencies of Bangladesh's major competitors in the export sector. As a result, there is a concern as regards erosion of export competitiveness of the country. Again, rising non-food inflation has led to some discomfort. Output of rice may decline only marginally, but low returns from rice cultivation has emerged as a concern. Besides, delayed delivery of policy support in this regard did not help much. To everyone's surprise, the overdue rationalisation of administered petroleum prices was carried out in a way that favoured the richer sections of the society.

As is known, during this fiscal year, the country's central bank's cyber security was compromised. FY2016, thus, may also be marked by many as the year of 'central bank heist'. However, this may not be primarily a macroeconomic management issue. Regrettably, there were several areas which may put negative shade to the portrayal of the current fiscal year.

In FY2016, implementation of national budget was one of the weakest areas from the perspectives of macroeconomic management. Weaknesses became visible in a number of areas including revenue mobilisation, implementation of the ADP and maintenance of balance in financing of the deficit. Income tax collection rose at slowest pace in recent history. Overall, ADP implementation was weak, whilst the special ADP projects – the fast track projects – did not progress at a pace which one would have thought they would. Implementation of foreign aided projects was as usual below par.

Persistent weakness in establishing good governance in the financial sector has continued to hurt the economy. Repeated recapitalisation of state-owned banks at the expense of people's tax money is difficult to justify when the state could not provide adequate support to the poorest and marginalised sections of the country due to scarcity of resources. At the same time, bringing the responsible people for banking scam to justice has not been possible till date. NPL continued to rise while commercial banks remained flooded with excess liquidity. Fall in average interest rate on lending is welcome as it should reduce cost of capital and attract private investment. Regrettably, this is attained in the backdrop of declining interest rate on deposits with unchanged interest rate spread. These weaknesses will continue to create challenges for implementation of budget and macroeconomic management in FY2017.

The confusion and uncertainty regarding implementation modality and timeline of the VAT and SD Act 2012 will not be helpful from the perspective of stimulating private sector investment. Indeed, diverse approaches that continue to inform the discourse will need to be reconciled without delay, while if necessary a staggered implementation plan may be developed. Administered prices of diesel and kerosene need to be readjusted to share the benefit with the entrepreneurs and poor people. A restructured public expenditure stance needs to be formulated favouring the social sectors and programmes to support the marginal people. The fiscal space created from lower subsidy requirement should be best utilised through reallocation of resources to important sectors (e.g. agriculture, education, health, social protection) which received scant attention in recent years. To deliver the public investment on time and within affordable cost, administrative capacities of the government agencies need to be enhanced. Alongside, the 'mega projects' (of future), important ongoing ADP projects, which are close to completion, should receive heightened attention from the policymakers.

Slow progress as regards the reform agenda is creating obstacles in addressing and overcoming the aforesaid challenges. The government will need to most energetically pursue a number of institutional and policy reforms including in areas of revenue mobilisation, public expenditure management, budget transparency and financial sector.

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ANNEXURE

Annex 2.1

For estimating the sources of economic growth for Bangladesh, the following aggregate production function was assumed:

$$Y_t = A_t{}^{\gamma} K_t{}^{\alpha} H_t{}^{1-\alpha} \quad \ldots\ldots\ldots\ldots\ldots (1)$$

Where:

Y_t: Output level at time t

A_t: Level of technology

K_t: Physical Capital stock at time t (Data: Nehru and Dhareshwar 1993 database)

H_t: Human Capital stock at time t

[$H_t = L_t e^{R\times MYS_t}$, where L = labour force, R is the return to schooling and MYS is the mean years of schooling. (Data: Labour force is taking from WDI, World Bank. R = 5%. MYS is taken from Barro-Lee Database on Years of Schooling)]

γ: Returns to scale. It is assumed to be equal to 1 (Constant returns to scale).

α: Share of physical capital to output

$(1-\alpha)$: Share of human capital to output

Equation (1) can be written as

$$\frac{\Delta Y_t}{Y_t} = \alpha\frac{\Delta K_t}{K_t} + (1-\alpha)\frac{\Delta H_t}{H_t} + \gamma\frac{\Delta A_t}{A_t}$$

Where,

$\alpha\frac{\Delta K_t}{K_t}$: Contribution of physical capital growth to real GDP growth

$(1-\alpha)\frac{\Delta H_t}{H_t}$: Contribution of human capital growth to real GDP growth

$\gamma\frac{\Delta A_t}{A_t}$: Contribution of total factor productivity (TFP) to real GDP growth. TFP is the portion of output not explained by the amount of inputs (in this case, physical and human capital) used in production. As such, its level is determined by how efficiently and intensely the inputs are utilized in production.

Estimation of TFP Growth: Assuming α=0.4, $\frac{\Delta A_t}{A_t}$ is calculated as the residual after plugging in the other values in the equation. This residual is the TFP growth.

Annex Table 3.1: Truncated VAT rates as of September 2015

Sl. No.	Service Name	Truncated VAT Rate
1	Non-AC Restaurant	7.5%
2	Motor garage and workshop	7.5%
3	Dockyard	7.5%
4	Construction Firm	5.5%
5	Land Developer	3.0%
6	Real Estate Business (Flat Seller)	1-1,100 sq. ft.: 1.5% 1,101-1,600 sq. ft.: 2.5% 1,600 sq. ft or above.: 4.5%
7	Furniture	In Factory: 6% In Showroom: 4%
8	Goldsmith	5.0%
9	Procurement Provider	5.0%
10	Transport Contractor	For Petroleum Products: 2.25% For other goods: 7.5%
11	Electricity Supplier	5.0%
12	Purchaser of Auctioned Goods	4.0%
13	Immigration Adviser	7.5%
14	English Medium School	7.5%
15	Private University	7.5%
16	Private Medical and Engineering College	7.5%
17	Lessee of Floor, space, Establishment etc.	9.0%
18	Branded Ready-Made Garments Seller	5.0%
19	Information Technology Enabled Services (ITES)	4.5%
20	Sponsorship Services	7.5%

Source: http://vatbd.com/?page_id=53
Note: VATs on private university and private medical and engineering college were later withdrawn.

Annex Table 3.2: Allocation of safety net programmes

Programmes	Budget			NSSS target	Projection vs Target		
	FY14	FY15	FY16	FY16	Proposed FY17	NSSS FY17	NSSS FY18
Old Age Allowance	980	1,307	1,440	2,010	1890	3,530	3,740
Child School (Primary and Secondary) Stipend	1,000	971	1,159	3,870	N/A	6,830	7,240
Allowances for the Widowed, Deserted and Destitute Women	364	486	534	1,150	701	2,040	2,160
Programmes for people with disabilities	132	240	360	1,080	540	1,910	2,020

Source: Calculated from GED (2015).

Annex Table 3.3: Coverage of the beneficiaries

Programmes	Budget			Proposal	Projection (MTBF vs NSSS)		
	FY14	FY15	FY16	FY17	MTBF FY17	MTBF FY18	NSSS FY18
Old Age Allowance	27.0	27.0	30.0	31.5	30.0	30.0	55.0
Child School (Primary and Secondary) Stipend	78.0	78.0	88.0	N/A	78.0	78.0	179.0
Allowances for the Widowed, Deserted and Destitute Women	10.0	10.0	11.0	11.7	11.0	11.0	32.0
Programmes for people with disabilities	3.2	4.0	6.0	7.5	6.0	6.0	10.0

Source: Calculated from GED (2015) and MTBF.

Annex Table 3.4: Implementation status of 'fast track' projects

Project Name	Project Cost in crore Tk. (Financial progress[1])	Allocation in FY16 ADP (crore Tk.)	Start and end dates	Source of Fund	Comments
Projects in Implementation Phase					
Padma Multipurpose Bridge (PMB)	28,793 (34.0%)	7,400	Jan 2009-Dec 2018	GoB	Cost of the project has been revised twice.
Dhaka Mass Rapid Transit Development Project (DMRTDP)**	21,985 (3.3%)	385	Jul 2012-Jun 2024	GoB, JICA	JICA will provide 75 per cent of the total cost. Currently at the execution phase, following completion of all planning-related activities.
2x1200 MW Ruppur Nuclear Power Plant (RNPP) - Phase-I	5,087 (79.3%)	1029	Mar 2013-Jun 2017	GoB, Russia	Total cost of the (full) RNPP project is estimated to be Tk. 101,200 crore (USD 12.65 billion) and is expected to be completed by 2022.
Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project (MUSCCFPP)	35,984 (0.9%)	234	Jul 2014-Jun 2023	GoB, JICA	JICA will provide 43 per cent of the total project cost. This is one of the costliest power projects of its size in the world that will come with its own deep sea port to facilitate import of coal.
Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border	18,034 (0.1%)	605.63	Jul 2010-Dec 2022	GoB, ADB, China	Included as a 'fast track' project through upgrading it to a dual gauge from meter gauge. Due to this, project cost jumped to Tk. 18,034.48 crore which was previously estimated to be Tk. 1,852.35 crore. Asian Development Bank (ADB) will bear 73 per cent of the total project cost.
Projects in Pre-approval or Pre-execution Phase					
2×660 MW Moitree Super Thermal Power Project	14,510	-	Deal signed in Jan 2012.	GoB, India	70 per cent by National Thermal Power Corporation (NTPC) India, to be generated through commercial borrowing. After

Project Name	Project Cost in crore Tk. (Financial progress[1])	Allocation in FY16 ADP (crore Tk.)	Start and end dates	Source of Fund	Comments
Projects in Implementation Phase					
(MSTPP) in Rampal			Will begin operation in 2019.		initiating the project in 2010, the project suffered a delay of two years. The project is targeted to begin its operations in 2019.
LNG terminal	Build-own-operate and transfer (BOOT)	-	Deal signed in Jan 2015. Expected to be in completed by 2016.	GoB, IFC	In January 2015, Petrobangla signed a contract with Excelerate Energy-Astra Consortium for the purposes of building the terminal. Excelerate will build the floating, storage and regasification unit (FSRU) under build-own-operate and transfer (BOOT) basis and charge USD 0.5 per Mcf (1,000 cubic feet) against its service. The additional USD 0.1 per Mcf cost which include the costs for fuel, tag boat operation, port facility etc. will be covered by Petrobangla. The project was initially set for completion in 2013. The government will spend USD 1.5 billion a year to import 500 million cubic feet of LNG per day from Qatar from 2017.
Deep Sea Port at Paira	1,128	-	Jul 2015. Expected to be in operation by 2023.	GoB	Initial activity began in 2013. The Paira Port Authority was constituted in August 2013.
Padma Bridge Rail Link	34,989	-	Deal signed in Jan 2015. To be completed by June 2022	GoB, China	PMB project. About 29 per cent of the total project cost will come from the state exchequer while 71 per cent will come as project assistance from the Chinese government.
Deep Sea Port in Sonadia	55,000	-	NA	NA	Recently it has been declared following an ECNEC meeting that there will be no deep sea port in Sonadia.

Source: ADP for FY2016, Daily Newspapers, websites of the relevant government agencies.
Note: 1/ Progress was reported up to December 2015 for PMB while up to March 2016 for DMRTDP. For other three projects i.e. RNPP, MUSCCFPP, and Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border, progress was reported up to November 2015.
2/ '-' refers to no allocation while 'NA' refers to not applicable.

Annex Table 3.5: Implementation status of 25 priority projects under ADP for FY2016

Sl. No	Project Name	Project Cost	Implementation rate Jul-Mar FY16	Cumulative Progress up to March 2016	Maximum possible completion by FY16	End date
Transportation						
1	Padma Multipurpose Bridge project	28,793	22.6	34.4	41.1	31/12/18
2	Dhaka-Chittagong 4-Lane	3,817	48.9	71.2	80.9	31/12/16
3	Joydebpur-Mymensingh Road Development	1,815	39.2	90.8	97.6	30/06/16
4	Construction of Third Karnaphuli Bridge (Revised)	683	17.6	69.7	70.7	31/12/18
5	Support to Dhaka Elevated Expressway PPP Project	3,217	18.1	14.2	59.9	31/12/16
6	Dhaka-Chittagong Railway Development Project	2,601	21.8	84.7	89.6	30/06/16
7	Construction of Bypass Road in Satkhira town connecting Bhomra Land Port	142	15.0	62.7	62.7	30/12/17
Power						
8	Ashuganj 450 MW CCPP	3,400	90.4	38.1	41.4	30/06/17
9	Construction of Bibiana-3,400 MW Combined Cycle Power Plant	3,358	27.6	4.8	12.8	30/06/16
10	Construction of Ghorashal 365 MW Combined Cycle Power Plan	2,512	12.3	16.7	34.3	31/12/16
11	Siddhirganj 335 MW PP	4,144	16.8	57.1	58.0	30/06/17
12	Shahjibazar 330 MW Combined Cycle Power Plant	2,844	152.2	56.3	53.1	31/12/16
13	Shikalbaha Dual Fuel 225 MW Combined Cycle Power Plant	2,022	27.9	17.9	55.2	30/06/16
14	Bhola 225 MW Combined Cycle Power Plant	2,001	50.2	39.1	49.8	30/06/16
15	Chapainawabganj 100 MW HFO based Power Plant	1,113	31.4	16.2	33.9	30/06/17
16	Veramara Combined Cycle Plant (360 MW) Development	4,140	212.0	42.7	47.8	31/12/17
17	Providing Electricity Connection to 18 lakh clients through Rural Electricity extension	6,426	74.7	70.0	79.7	30/06/18
Industry						
18	Shahjalal Fertilizer Project	4,874	27.9	95.1	99.7	30/06/16
19	Production of Electricity by Co-generation and Establishment of North Bengall Sugar Mill	371	2.3	23.4	25.4	31/12/18
20	Tannery Industrial Estate, Dhaka (Second Revised)	1,079	8.9	33.0	72.5	30/06/16
Oil, Gas and Mineral Resources						
21	Mubarakpur Oil/Gas Well Exploration Project	89	0	63.0	95.0	30/06/16
22	Augmentation of Gas Production under Fast Track Programme	1,301	83.5	82.1	94.8	30/6/16
23	Establishment of Gas Compressor Station in Ashuganj and Elenga	1,494	8.7	65.3	65.7	31/3/16

Sl. No	Project Name	Project Cost	Implementation rate Jul-Mar FY16	Cumulative Progress up to March 2016	Maximum possible completion by FY16	End date
Rural Development & Institutions						
24	Construction of 950m long PC Guarder Bridge over Dharla River at Phulbari Upazila of Kurigram District	207	60.0	33.9	41.1	30/6/16
25	Construction of 520m long bridge in Nagarpur-Mirzapur via Mokna over Dhaleswari River under Nagarpur Upazila of Tangail District	76	73.5	44.6	63.1	30/6/17

Source: Author's calculation from the Implementation, Monitoring and Evaluation Division (IMED) data.

Annex Table 3.6: Number of new projects vs. cut in allocation in RADP

Fiscal year	ADP	RADP	Number of new projects	Reduction
FY09	904	1,040	136	2,600
FY10	886	1,062	176	2,000
FY11	916	1,185	269	2,620
FY12	1,039	1,231	192	4,920
FY13	1,037	1,205	168	2,634
FY14	1,046	1,254	208	5,872
FY15	1,034	1,204	170	5,315
FY16	999	1,315	316	6,000

Source: Author's compilation from Planning Commission.

Annex Table 3.7: Number of projects with time extension in RADP from ADP FY2016

Sectors	Number of projects in ADP	Projects with time extension in RADP	Proportion (%) of projects with time extension
Rural Development & Institutions	96	25	26.0
Power	66	19	28.8
Transport	157	66	42.0
Education & Religious Affairs	105	18	17.1
Health, Nutrition, Population & Family Welfare	46	13	28.3

Source: Author's compilation from Planning Commission.

Annex Table 5.1: Top destinations, market share and competitor countries of top non-RMG exports of Bangladesh in 2015

Product (HS Code)	Bangladesh's export Jan-Dec 2015 (mln USD)	Leading export destinations (Bangladesh's share as % of total export)	Export competitors (% share of destination's total import)
Leather (41)	300.8	Hong Kong (22.0)	Italy (17), China (14.3), India (11.4), Bangladesh (2.7) ranked 11th
		Korea DR (19.8)	US (43.3), Italy (10.7), Brazil (8), Bangladesh (6.4) ranked 5th
		China (16.5)	US (21.2), Brazil (10.8), Australia (9.5), Bangladesh (0.7) ranked 25th
		Italy (16.2)	France (11), Brazil (9.5), US (6.3), Bangladesh (1.3) ranked 20th
Leather Products (42)	185.5	US (24.6)	China (63), Vietnam (8), Italy (7.3), Bangladesh (0.3) ranked 17th
		Japan (18.4)	China (50.3), Italy (17.3), France (8.8), Bangladesh (0.6) ranked 12th
		Germany (14.3)	China (39.7), Italy (11.4), India (10.1), Bangladesh (0.6) ranked 21st
Leather Footwear (6403)	546.6	US (20.4)	China (53.6), Vietnam (15.2), Italy (9), Bangladesh (0.8) ranked 10th
		Germany (19.9)	China (14.1), Vietnam (13.2), Italy (12.7), Bangladesh (2.5) ranked 12th
		Japan (17.4)	Italy (19.3), China (18), Vietnam (15.1), Bangladesh (7.3) ranked 5th
Raw Jute (5303)	90.4	India (52.5)	Bangladesh (99.8) ranked 1st
		China (16.6)	Bangladesh (99.2) ranked 1st
Jute Yarn & Twine (5307)	422.0	Turkey (46.4)	Bangladesh (99) ranked 1st
		China (20.6)	Bangladesh (99.7) ranked 1st
		India (14.0)	Bangladesh (99.9) ranked 1st
Jute Sacks & Bags (630510)	79.0	India (64.4)	Bangladesh (71.2) ranked 1st
Shrimps (0306)	499.0	UK (17.9)	India (19.6), Bangladesh (16.6) ranked 2nd
		Netherlands (16.1)	India (23.5), Bangladesh (17.9) ranked 2nd
		Germany (15.8)	Netherlands (19), Bangladesh (17.6) ranked 2nd
Bed, Kitchen toilet lines (6302)	536.9	US (14.1)	China (36), India (33), Pakistan (18), Bangladesh (1.3) ranked 6th
		Germany (12.7)	Turkey (24.3), Pakistan (17), China (13.3), Bangladesh (4.6) ranked 7th
		UK (9.8)	Pakistan (41.1), China (19.5), India (12.1), Bangladesh (4.5) ranked 6th

Source: Calculated from ITC Trade Map Data.

Annex Table 5.2: Model of real effective exchange rate and trade balance determinants

Variables	Ordinary Least Squares	Auto-regression (Integrated moving average)
	Real Effective Exchange Rate	Trade Balance (Exports f.o.b. – Imports f.o.b.)
Exchange Rate (BDT:USD)		-7.24e+07***
		(2.49e+07)
Real Effective Exchange Rate (138 country currency basket)		6.66e+07***
		(1.44e+07)
GDP per capita		9442473
		(7101096)
Export Volume Index (UNCTAD, 2000=100)		2367517
		(6935707)
Import Volume Index (UNCTAD, 2000=100)		-2.78e+07**
		(1.25e+07)
Absolute sum of import and export price elasticities	0.096	-826445
	(0.063)	(4996903)
Inflation (adjusted for CPI)	-0.551	-7.03e+07
	(0.551)	(4.30e+07)
Foreign Direct Investment inflows (Current USD)		-0.252
		(0.458)
Constant	115.95***	-6.48e+09***
	(3.31)	(2.26e+09)
Observations	23	23
R-squared	0.0706	-
p-value	0.0603	0.00
Wald Chi-squared	-	518.6
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1 Years: 1991-2014		

Source: Author's estimation.

Annex Table 7.1: Employment by major occupation industry

Year	2010	2013	Jul-Sep 2015	2010	2013	Jul-Sep 2015
Sectors	**Employment by major industry (million)**			**Employment by major industry (% of labour force)**		
Total	54.08	58.07	58.72	100.00	100.00	100.00
Agriculture, forestry and fishing	25.73	26.19	25.77	47.57	45.10	43.88
Mining and quarrying	0.11	0.23	0.07	0.20	0.40	0.12
Manufacturing - total	6.74	9.5	8.23	12.46	16.36	14.02
Manufacturing - male	4.82	5.72	5.72	8.92	9.85	9.74
Manufacturing - female	1.91	3.78	2.51	3.53	6.51	4.28
Electricity, gas, steam and air condition	0.10	0.12	0.12	0.18	0.20	0.20
Water supply, sewerage, waste management	0.03	0.08	0.10	0.05	0.14	0.16
Construction	2.62	2.14	2.98	4.84	3.69	5.08
Wholesale and retail trade, repair of	7.56	7.52	7.74	13.97	12.95	13.18
Transportation and storage	3.98	3.75	4.58	7.36	6.45	7.79
Accomodation and food service activities	0.83	0.87	0.96	1.54	1.50	1.63
Information and communication	0.06	0.14	0.21	0.10	0.25	0.36
Financial and insurance activities	0.36	0.45	0.48	0.67	0.77	0.82
Real estate activities	0.04	0.07	0.10	0.06	0.13	0.18
Professional, scientific and technical	0.12	0.35	0.29	0.21	0.59	0.49
Administrative and support services	0.49	0.42	0.33	0.90	0.73	0.57
Public administration and defense	0.54	0.76	0.94	1.00	1.32	1.61
Education	1.27	1.88	2.09	2.34	3.23	3.55
Human health and social work activities	0.43	0.75	0.55	0.8	1.29	0.93
Arts, entertainment and recreation	0.07	0.05	0.07	0.12	0.09	0.13
Other service activities	2.36	1.6	2.13	4.36	2.75	3.63
Activities of households as employer	1.01	1.17	0.96	1.86	2.01	1.63
Activities of extraterritorial organisation	0.004	0.027	0.024	0.007	0.046	0.041

Source: BBS Labour Force Surveys, 2010-2015.