



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2016-17

First Reading

Dhaka: 7 January 2017



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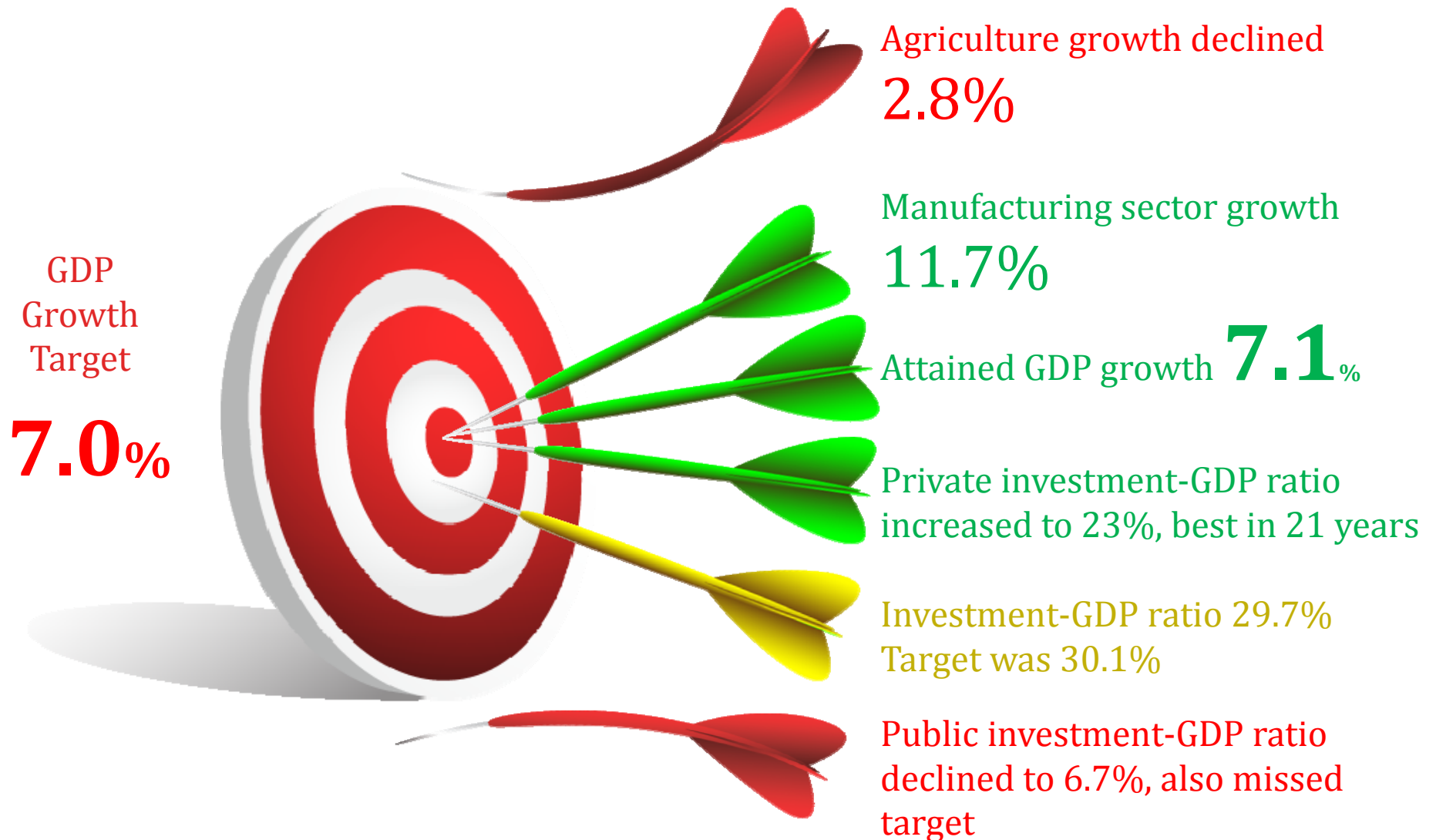
The CPD team is grateful to all the participants at the consultation held on 29 November 2016 for sharing their views, insights and comments on the study

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Revisiting Macroeconomic Trends in FY2016

Revisiting Macroeconomic Trends in FY2016



Revenue-GDP ratio 9.9%
Target 12.1%

Revenue earnings shortfall
Tk. 37,057 cr

CPD projection was
Tk. 38,000 cr

NBR revenue growth 18%
Target 42.3%
CPD projection was 17.8%



Revisiting Macroeconomic Trends in FY2016

Achieved 13.0%

Total Expenditure-GDP Ratio

Target 17.1%

Annual Development Programme

'Last quarter syndrome' aggravated for ADP expenditure

Highest in last 11 years

First three quarters 56%

Last month 29%

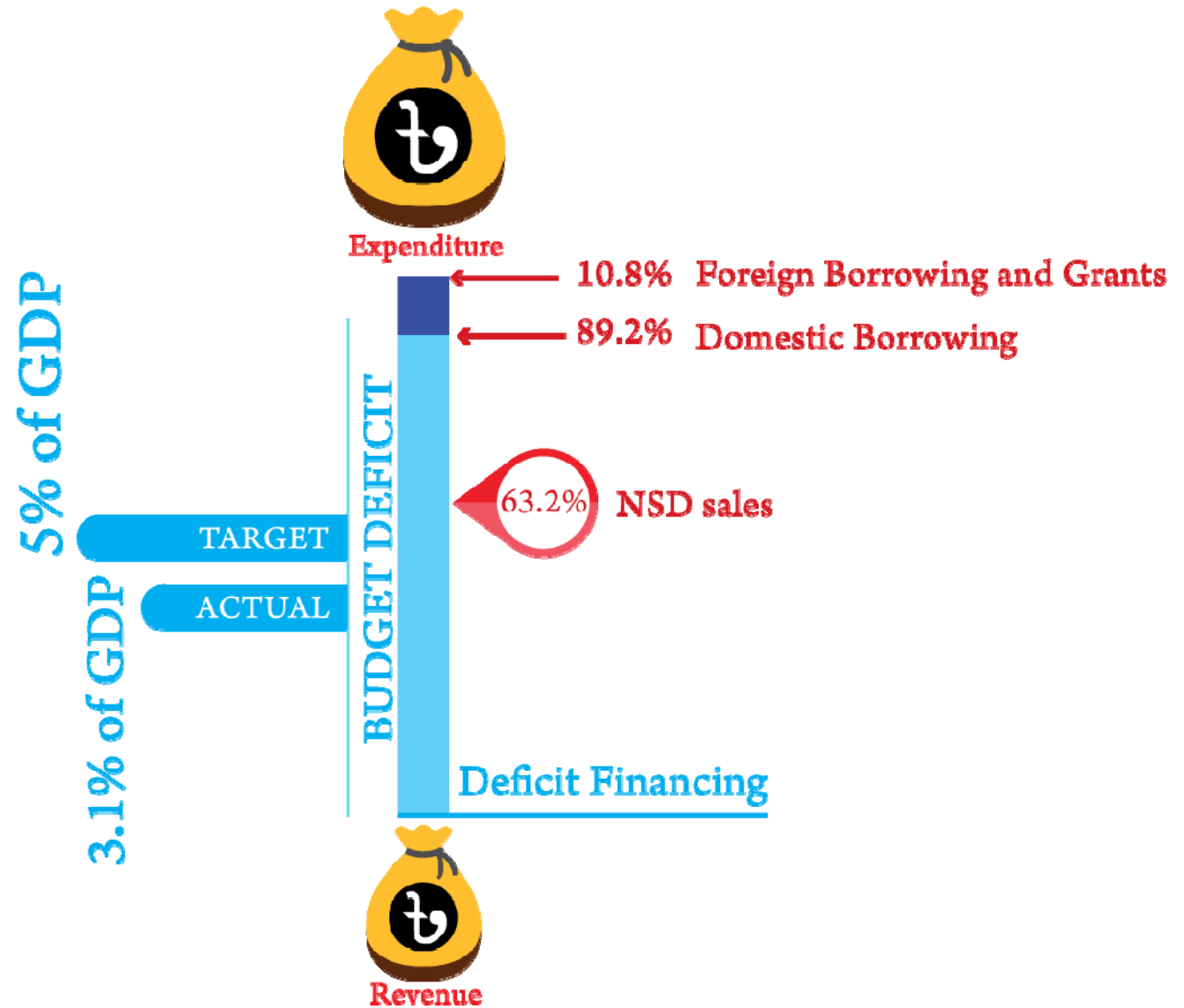
Last quarters 44%

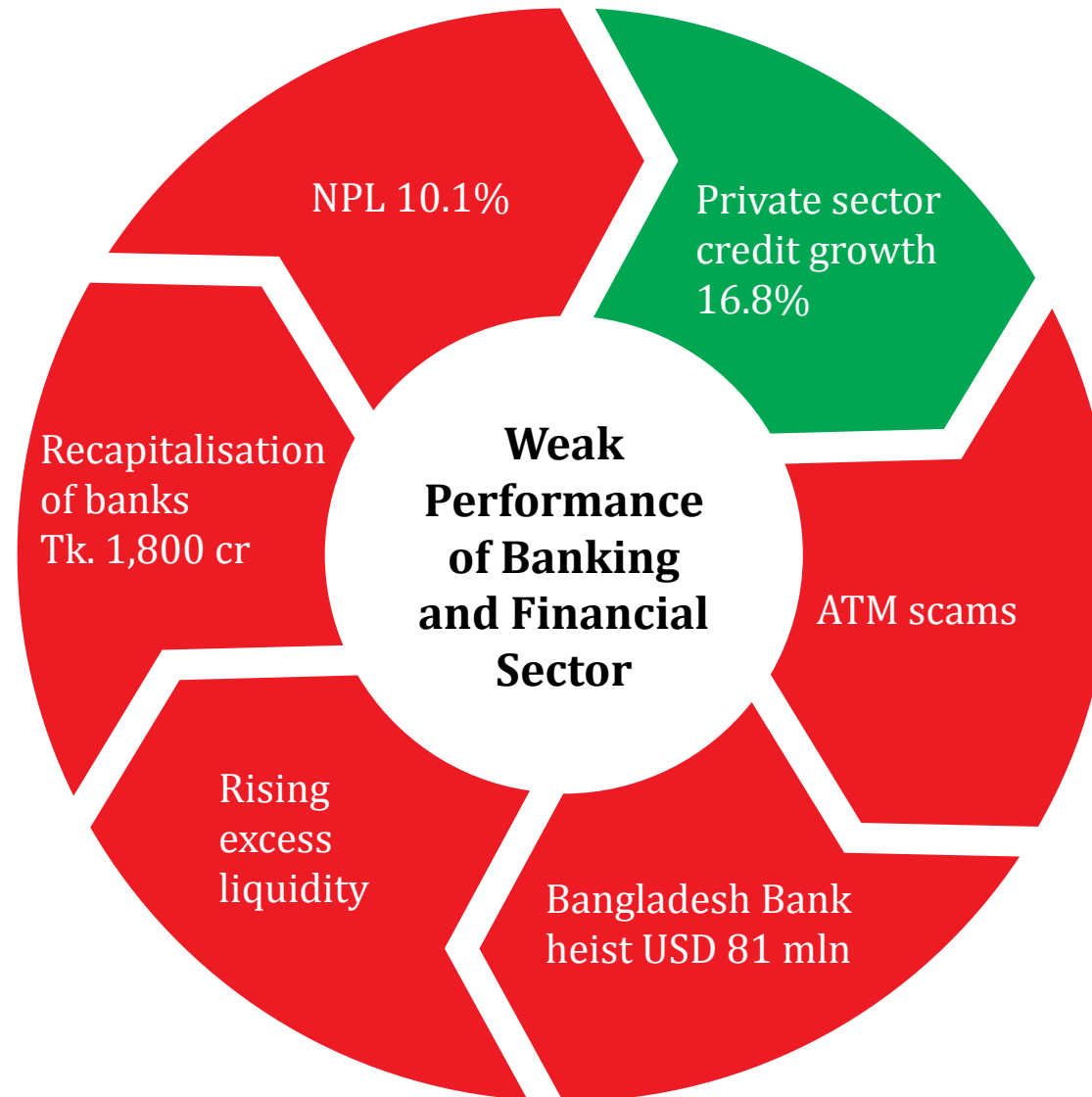
Non-Development Expenditure Growth

Actual 15.1%

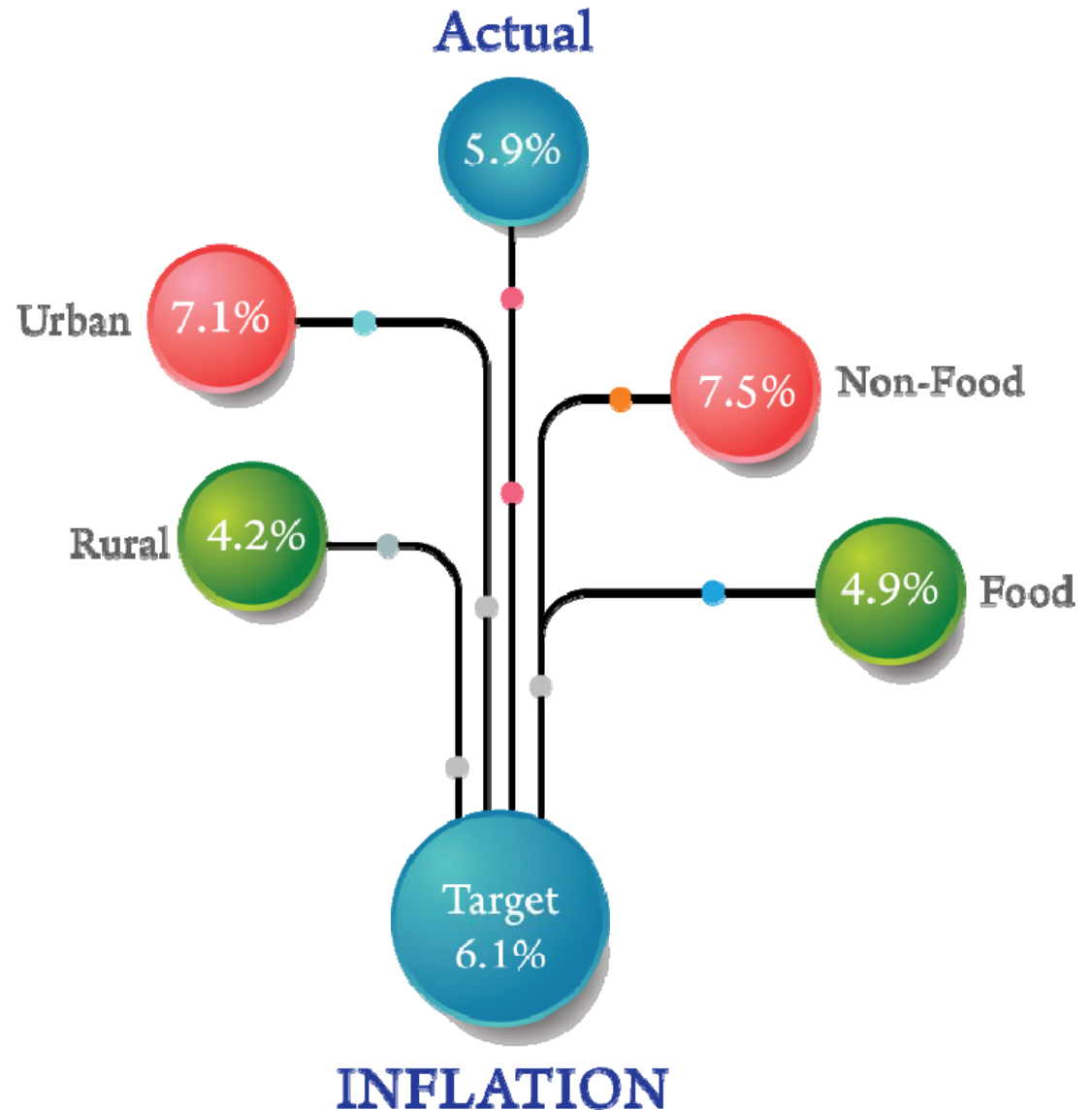
Target 44.3%

Revisiting Macroeconomic Trends in FY2016





Revisiting Macroeconomic Trends in FY2016



Revisiting Macroeconomic Trends in FY2016



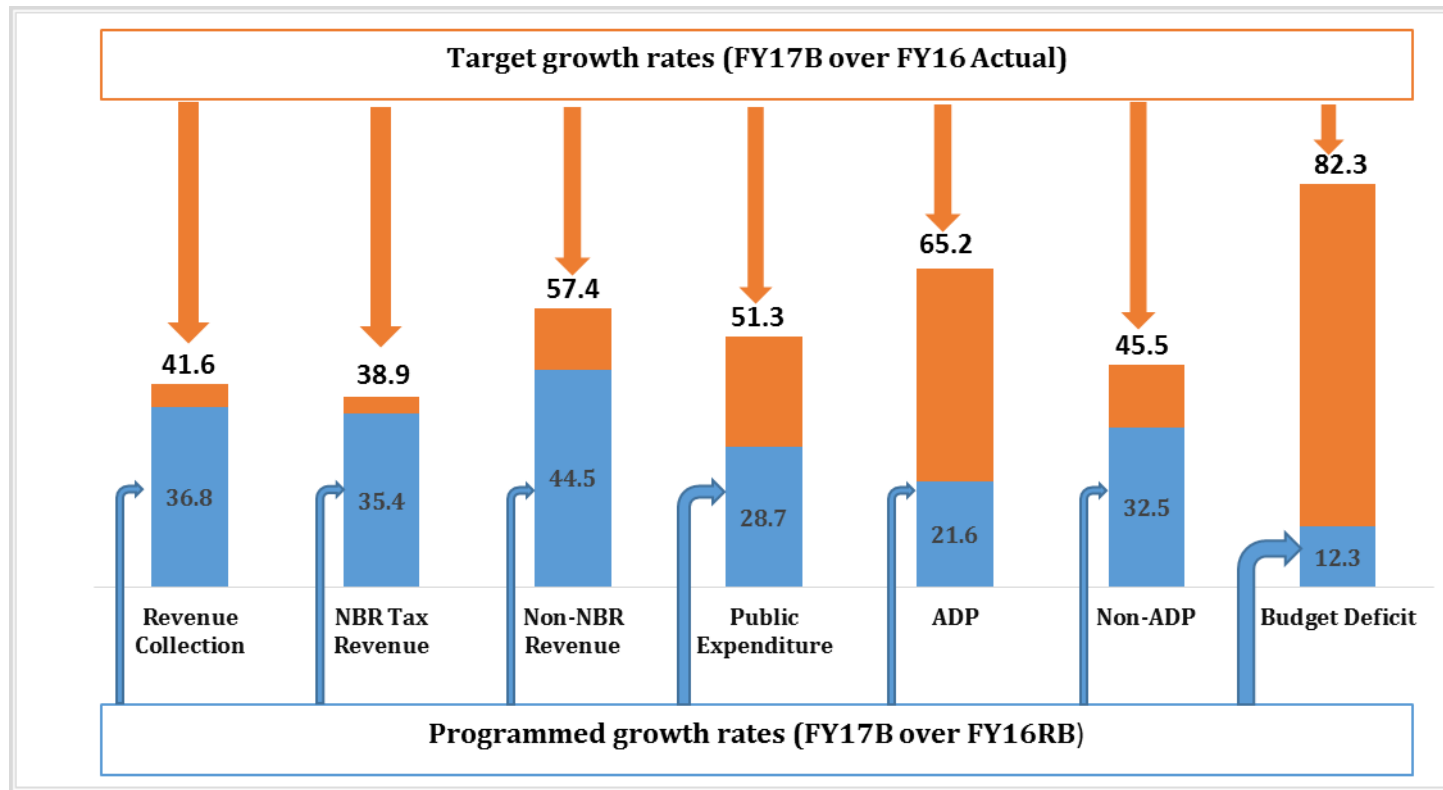
Revisiting Macroeconomic Trends in FY2016





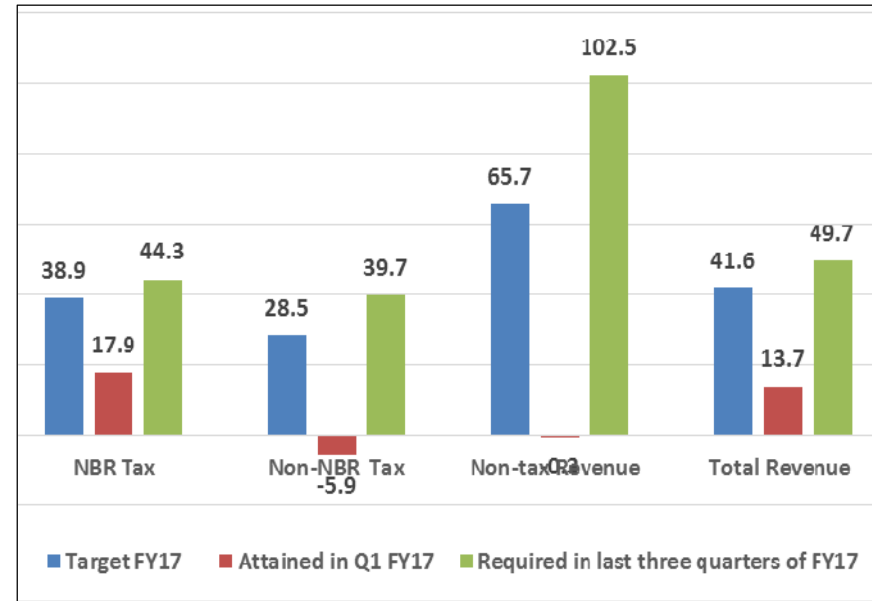
Macroeconomic Performance in FY2017: Early Signals

As apprehended during CPD's Analysis of the National Budget for FY2017
all major parameters of fiscal framework programmed in the budget for FY2017 would eventually require to register higher growth rates

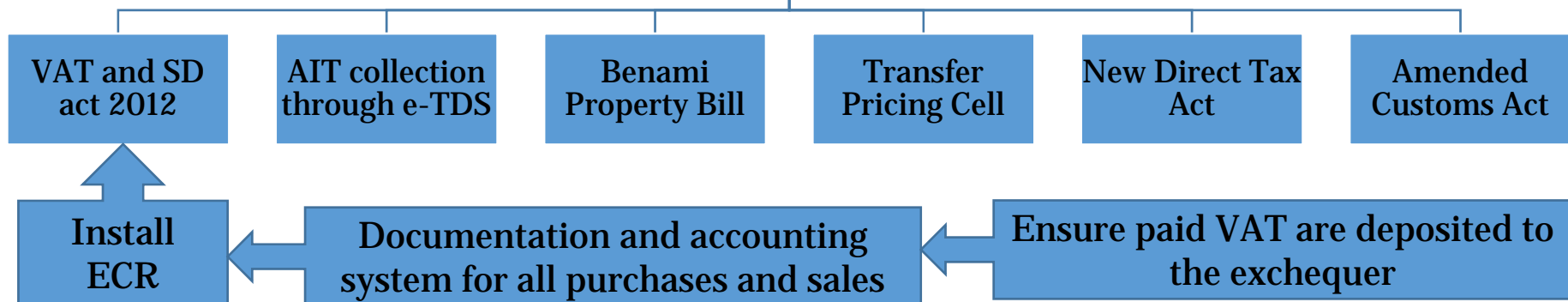


If the status quo persists, then the possible revenue shortfall in FY17 could be about Tk. 40,000 crore

With a more optimistic scenario, if revenue collection succeed to register the highest growth (26.3% in FY08) of the last 16 years, overall revenue shortfall in FY17 will be Tk. 26,000 crore



Reform agenda for revenue mobilisation needs to be accelerated



❑ Discrepancies of statistics regarding fiscal parameters are increasing

Possible explanations:

- Different methodologies
- Different tools and techniques
- Different accounting practices

Year	Difference		
	MRFP vs NBR (NBR Revenue Collection)	MRFP vs IMED (ADP Expenditure)	MRFP vs BB (Budget Deficit)
FY12	3,464	490	-5,508
FY13	5,820	562	-3,969
FY14	9,092	1,586	-11,645
FY15	12,765	8,528	-8,888
FY16	9,298 (6.4%)	16,478 (24.6%)	5,223 (9.8%)
Q1 of FY17	1,172	2,762	10,416

Figures in the parenthesis are departure from MRFP in %

Causes an adverse impact on the budgetary monitoring, and the quality of fiscal and budgetary planning is thus compromised

Need a reconciliation and consolidation between these estimates for the sake of ensuring efficacy of public finance management

Public expenditure growth

Q1: 12.8%
Annual target: 51.3%

Non-development expenditure growth

Foreign interest: 14.6%
Subsidy and transfer: 33.2%

ADP expenditure

27.6% of allocation
in Jul-Dec of FY17
(23.5% in FY16)

ADP expenditure was driven by Power Sector (47.7%)

- Performance of the 'fast track' projects was not very promising
- PMB project could spend only 10.4% in first four months

Reform agenda was not properly followed up

Buoyant sale of high interest bearing NSD

Budget deficit was well within the planned limit, when the first three months of FY2017 is considered

Needs to address this before the national budget for FY2018

Wider difference between interest rates of bank deposit and NSD certificates influenced the savers

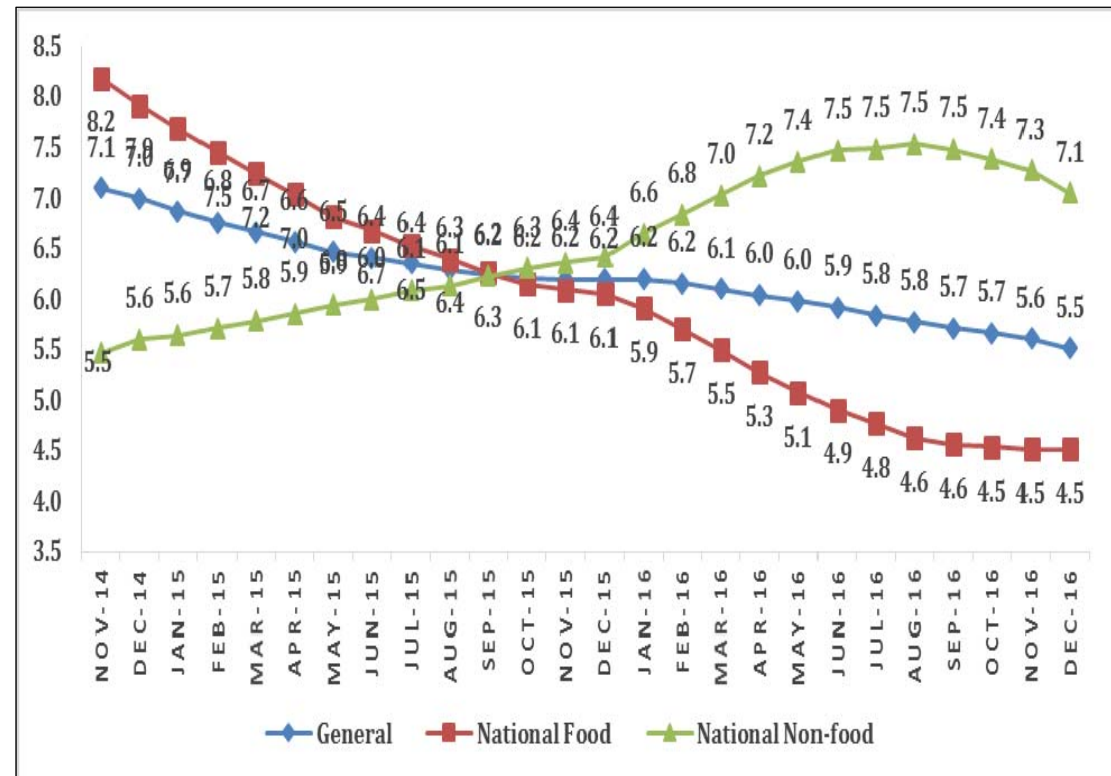
Macroeconomic Performance in FY2017: Early Signals

Declining general inflation

- Mainly through food inflation – particularly rice
- Also through lower global commodity price, restrained growth of broad money supply, stable exchange rate of the BDT

Rising non-food inflation

- Mainly through gross rent, fuel and lighting
- Urban inflation higher on aforesaid items



What is the outlook for the coming days of FY2017?

Prices of all utility items have gone up or expected to increase in FY2017

Price of supplied WASA water for Dhaka dwellers increased twice in FY2017

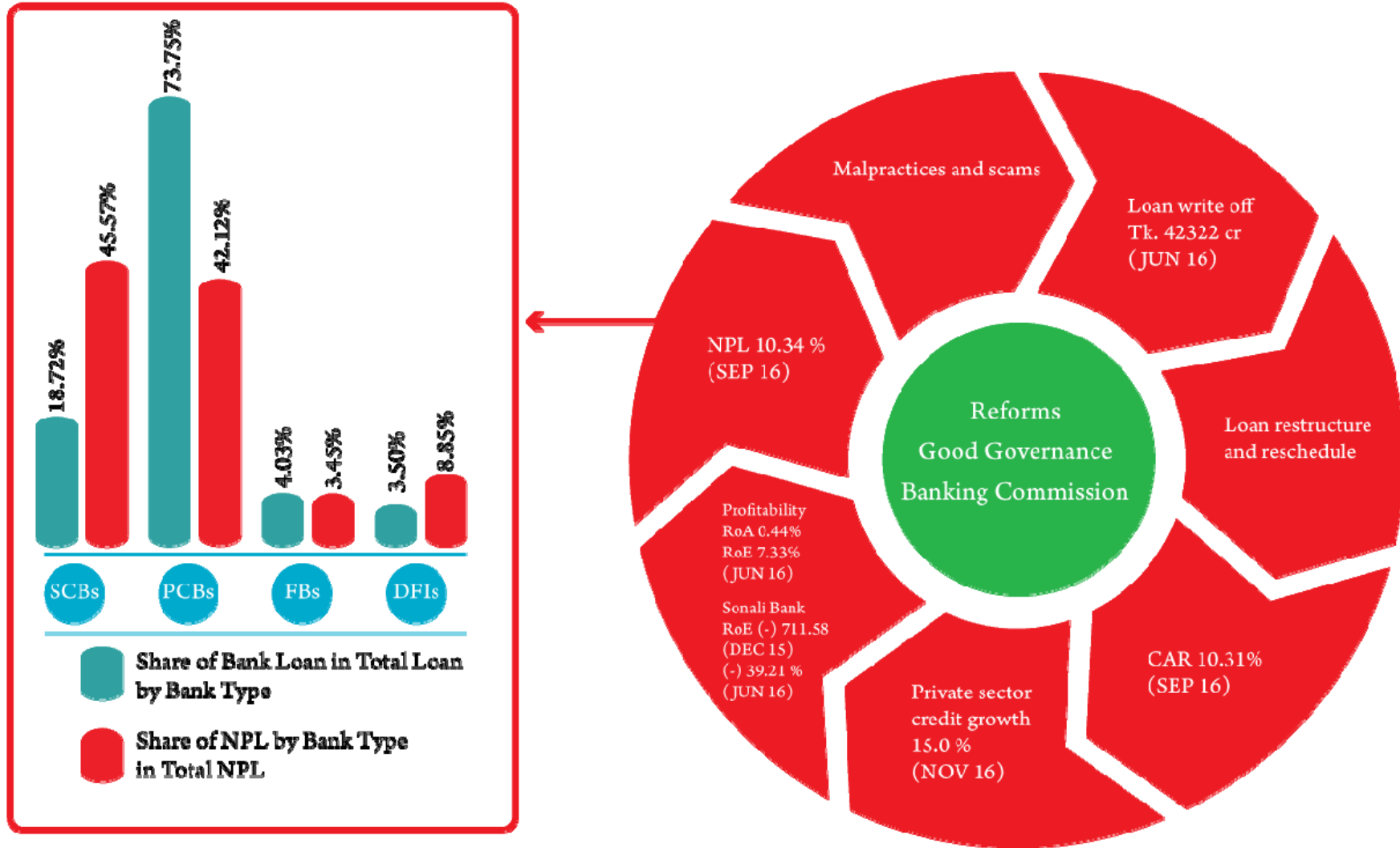
Price of gas used in households could be raised by 50 % from the beginning of 2017

Energy and non-energy commodity prices are forecasted to increase by 24 % and 2 % respectively in 2017

Inflation may creep up a little in the later part of FY2017 due to the expected rise of global commodity prices

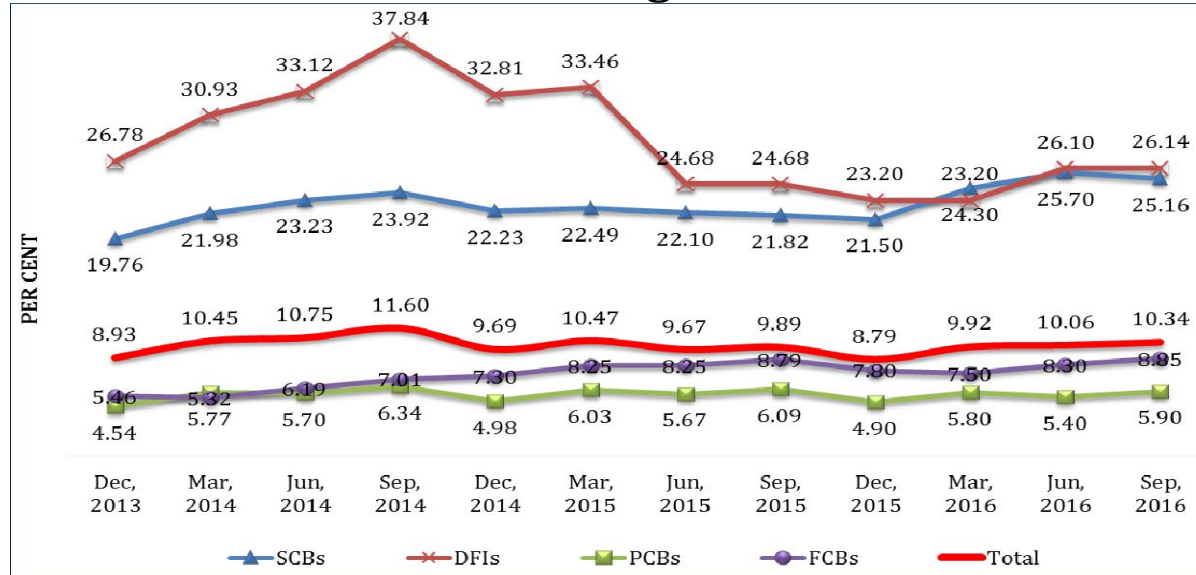
Petroleum price adjustment has to be done properly in a win-win manner

Rather than increasing the price of gas, government should opt for meter-based gas use policy at the household level



Macroeconomic Performance in FY2017: Early Signals

NPL as % of Total Outstanding Loan



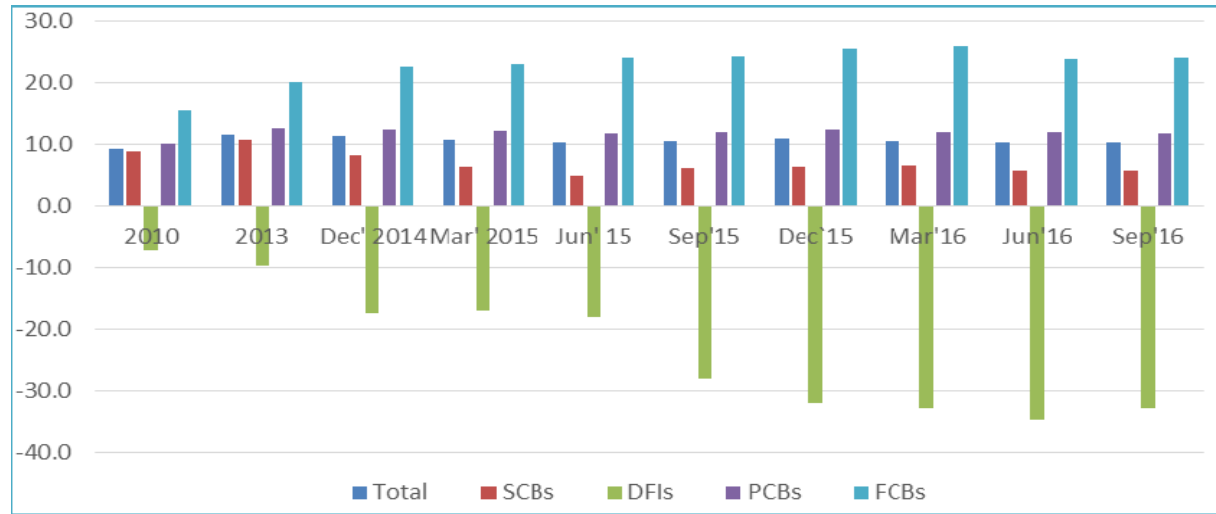
The major contributor to the rise in bad loans are the SCBs

In December of each year NPL comes down but starts to rise afterwards

NPL increased to 9.9% in Mar, 10.1% in Jun & 10.3% in Sep in 2016 from 8.8 % in Dec 2015

Writing off bad loans help to heal wounds superficially

Capital to Risk Weighted Asset (%)



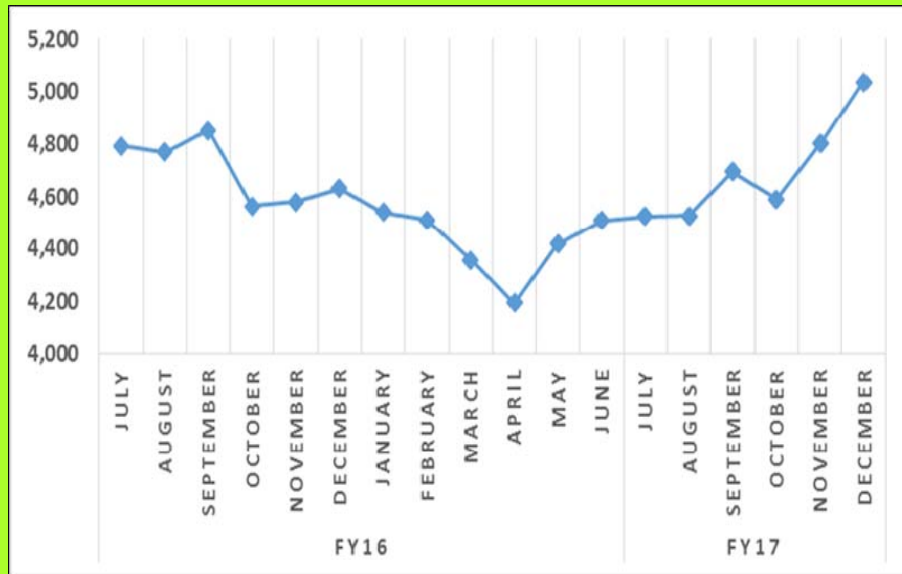
GoB is planning to release bond particularly for the scam-hit BASIC, Sonali & Rupali banks to meet the capital shortfall

Bangladesh is in the process of full implementation of Basel III from January 2020

Capital Adequacy Ratio (CAR) had to be 10.625% as of Dec 2016 (10.3% as of Sep 2016)

In Sep 2016, SCBs' CAR was 5.6 % & DFIs' was CAR (-) 32.9%

Macroeconomic Performance in FY2017: Early Signals



Stock market upbeat for the first six months of FY17

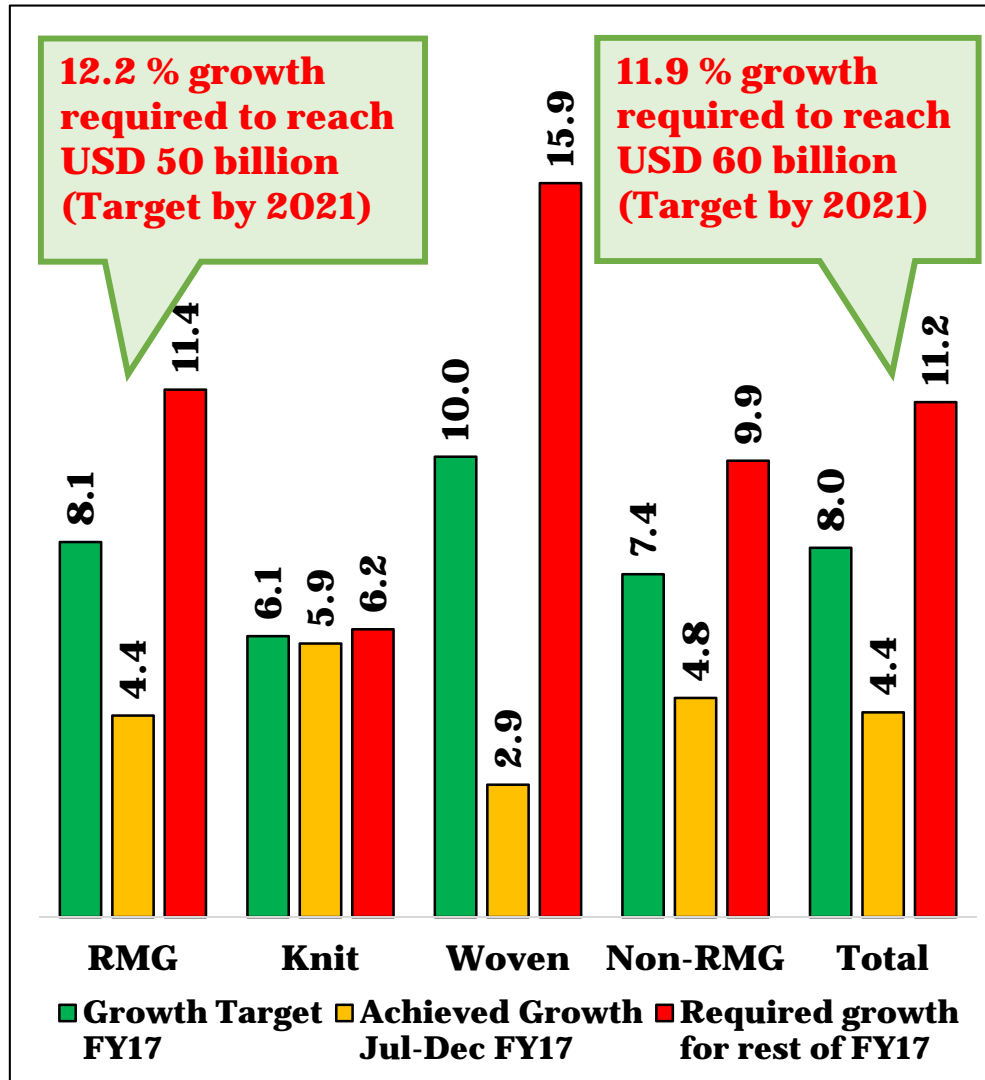
Key reasons: Increasing local and foreign investment, growing market confidence, consolidation of stock prices, low global price level, higher corporate earnings, lower interest rate

Sectoral composition of market capitalisation is changing

- From banking sector to thrust sectors such as pharmaceuticals, telecom, food and the IT sector. Market concentration is decreasing

2 out of 3 IPOs offloaded by manufacturing companies

Macroeconomic Performance in FY2017: Early Signals



❑ Export earnings well below the target

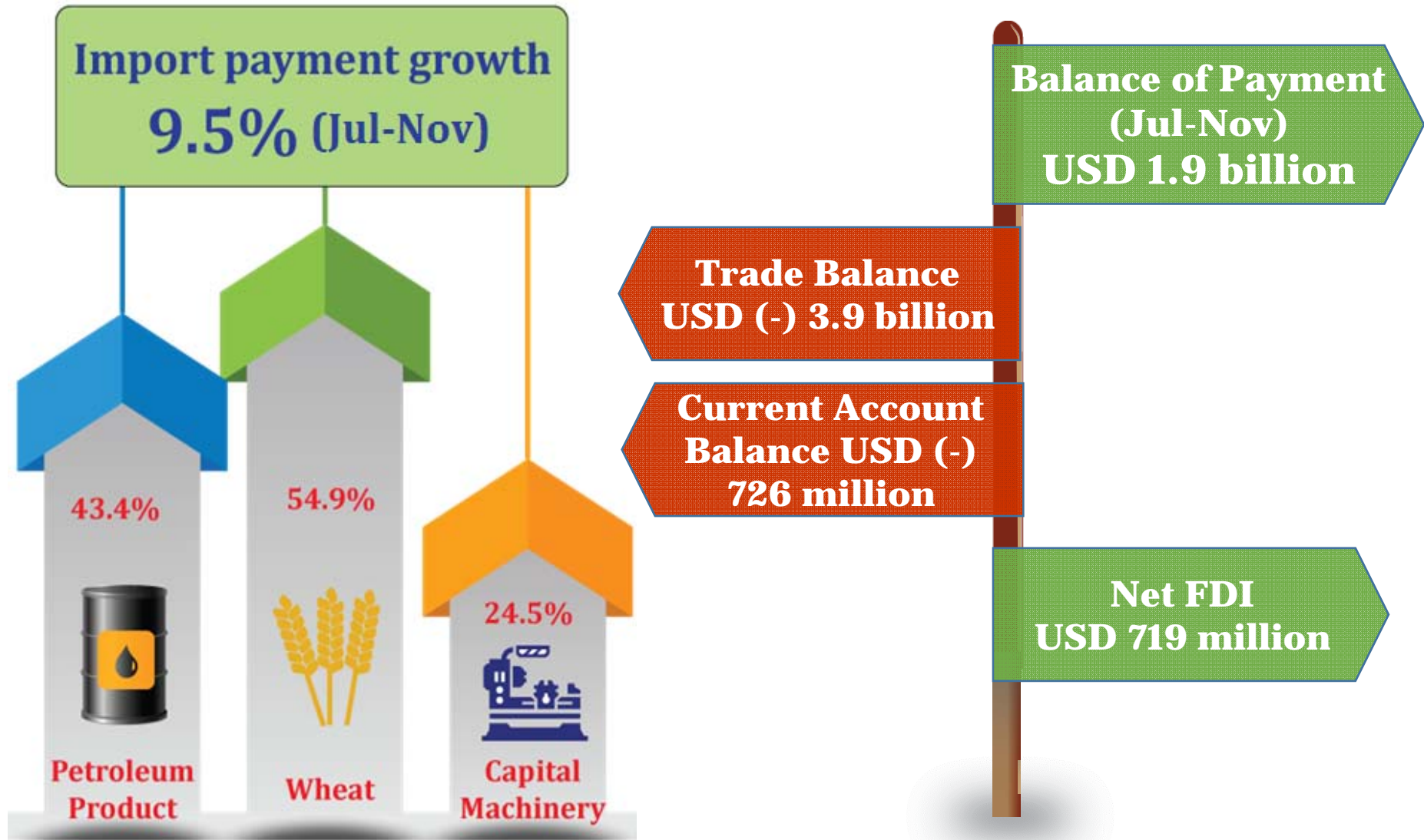
Major setbacks:

- Non-traditional markets
- US market
- EU market in December

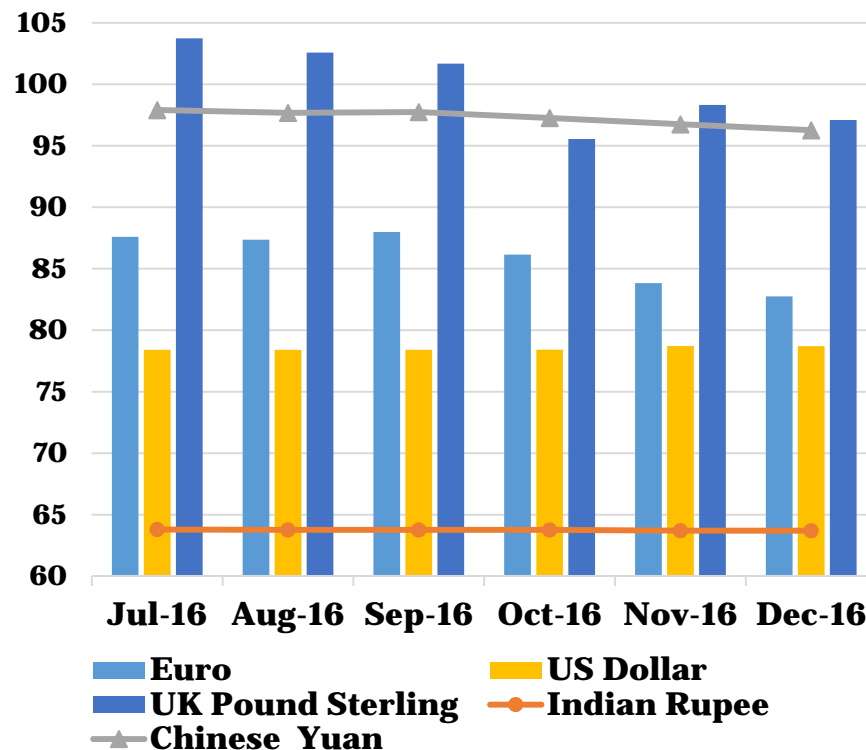
❑ Changing dynamics in global trade regime



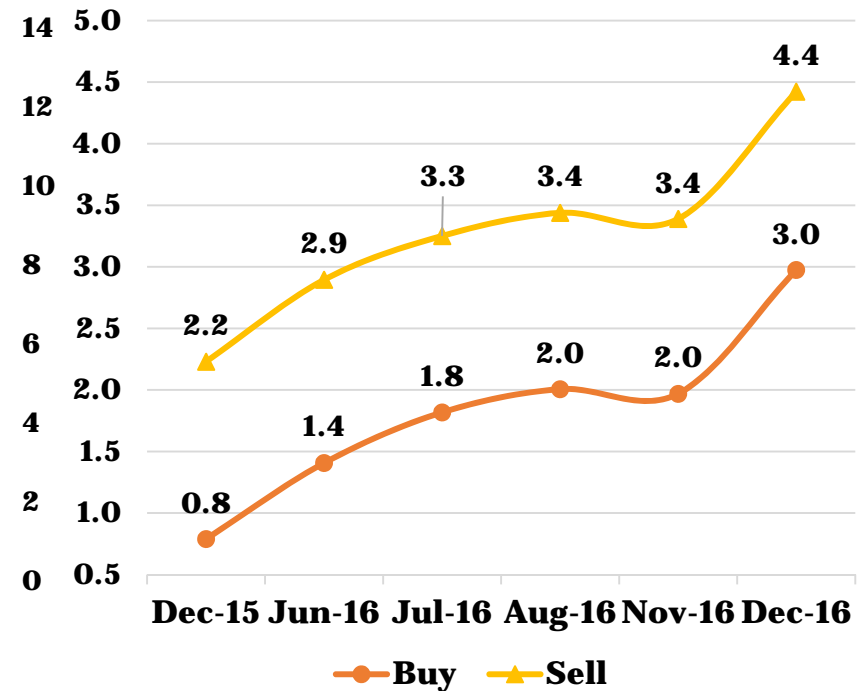
Macroeconomic Performance in FY2017: Early Signals



- Exchange rate of BDT against USD remained stable but volatile with others



- Growing gap between cash and headline rate for BDT-USD exchange



- Consideration of real effective exchange rate for trade policy purposes due to its implicit tie to export and import performance

- ❑ **Foreign exchange reserve maintained upward trajectory**
 - **USD 32.1 billion at the end of December FY17**
 - **USD 2 billion increase between July and December 2016**



- ❑ **What to do with this growing reserve?**
 - **Sovereign Wealth Fund (SWF) for infrastructure??**
 - **Relevant concerns:**
 - **Low return from infrastructure**
 - **Long gestation period**
 - **Political goodwill**
 - **Monitoring governance**

Private Investment: A Mixed Scenario!

Rising excess liquidity in the banking system may indicate lack of investment demand

Industrial term loan disbursement was only 2.7% in Jul-Sep

Non-farm rural credit increased by only 0.9% in Jul-Sep

Capital machinery import registered a significant growth (24.5% in Jul-Nov)

Net FDI inflow increased by 9.6% in Jul-Nov

Investment registration with BIDA: USD 14 billion by 641 projects

To realise the proposed investments, deliver the needed infrastructure and policy support required in a timely manner: SEZs and other infrastructure projects, medium term solution to ensure gas supply and raising capacity of port facilities



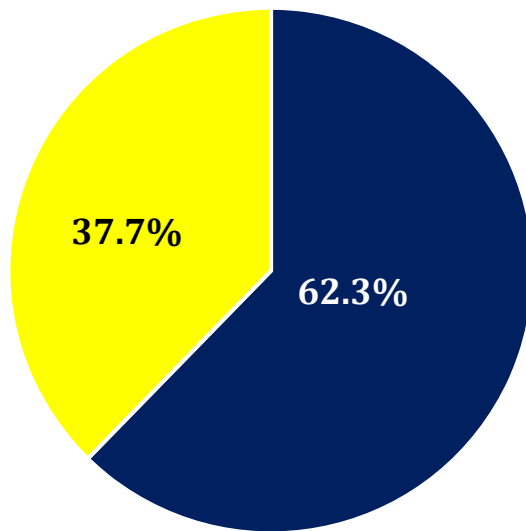
**Is Bangladesh Rolling Towards A Debt Stress?
*An Exploration of Debt Sustainability of
Bangladesh in the Context of Recent Development
in External Financial Flow***

Is Bangladesh Rolling Towards A Debt Stress?

Context

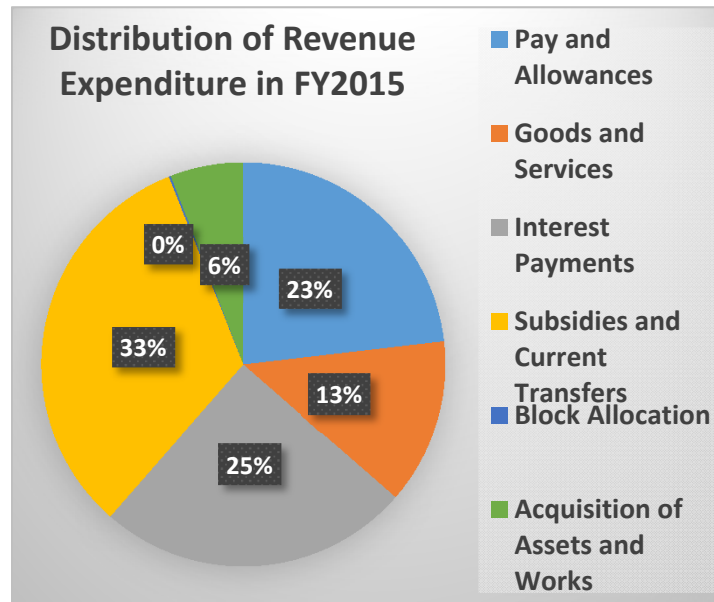
- ❖ Bangladesh's public debt situation, encompassing both external and domestic debt, comfortable according to conventional debt sustainability tools

Attainment of Public Debt in FY2015



■ Domestic Source ■ External Source

Distribution of Revenue Expenditure in FY2015



Possible emergence of public debt distress due to new dynamics, which are:

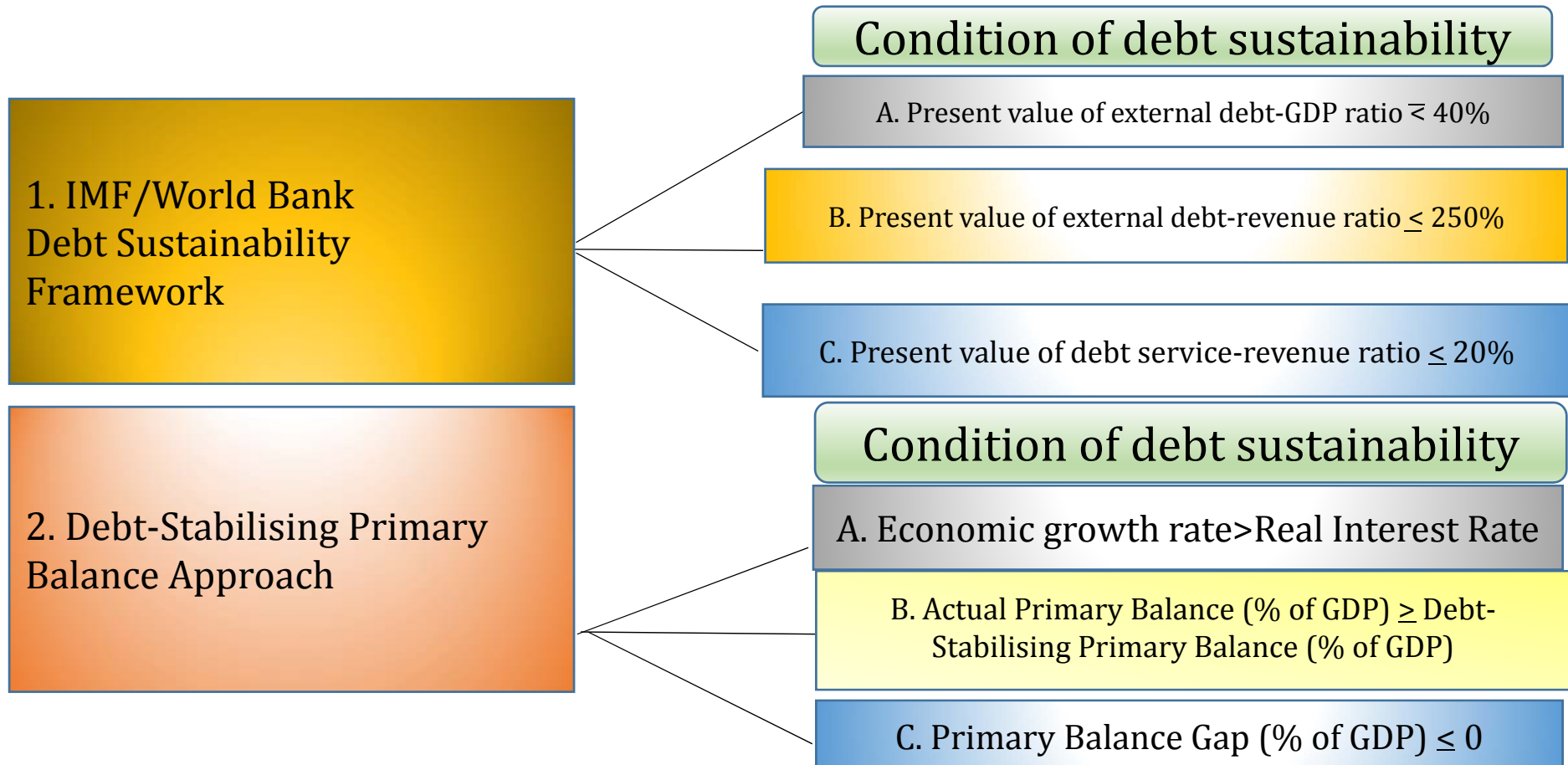
1. New flow of external finance, subject to higher interest rates and currency mismatch problem.
2. Increasing dependence on NSD instruments
3. Ineligibility to access concessional loans

- ❖ High possibility of rise in debt servicing because of the advent of these evolving dynamics

Is Bangladesh Rolling Towards A Debt Stress?

Adopted Methodology

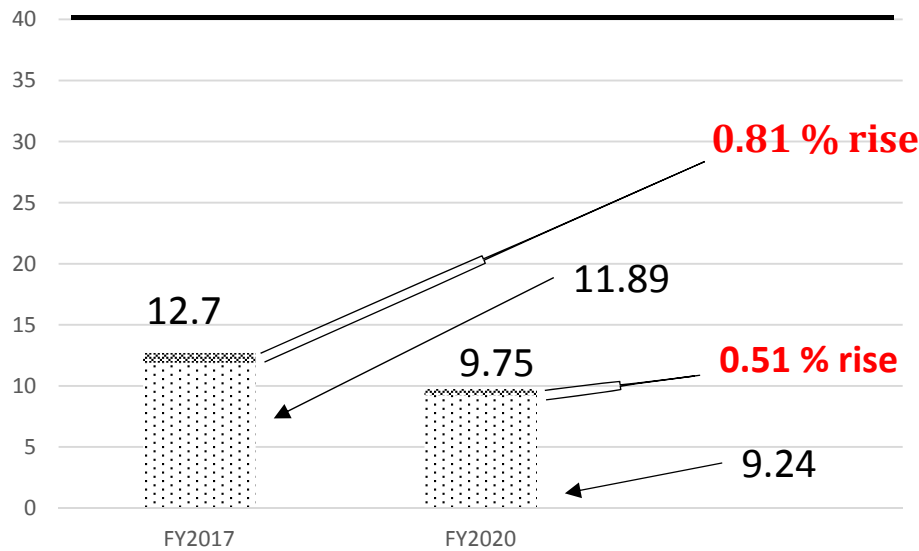
- In the wake of these new dynamics, CPD undertaking data analysis of debt sustainability in Bangladesh and carrying out simulation exercise by injecting external flows, interest rate and exchange rate shocks according to two methodologies



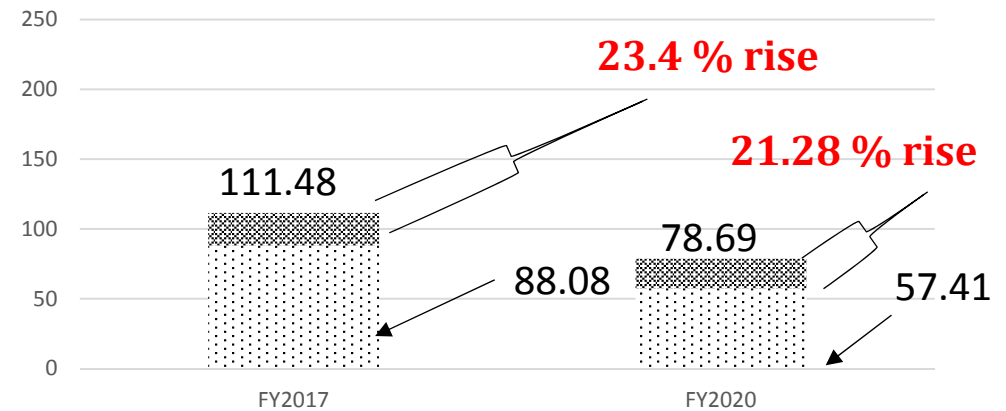
Is Bangladesh Rolling Towards A Debt Stress?

Scenario One: Simulation Using IMF/World Bank Debt Sustainability Framework

Present Value of External Debt-GDP Ratio (%)



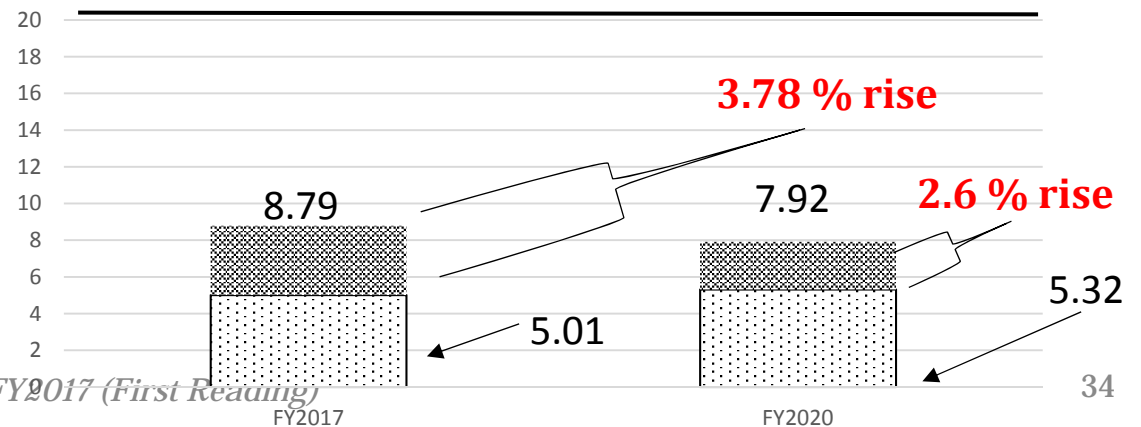
Present Value of External Debt-Revenue Ratio (%)



Shocks (Compared to Baseline Scenario)

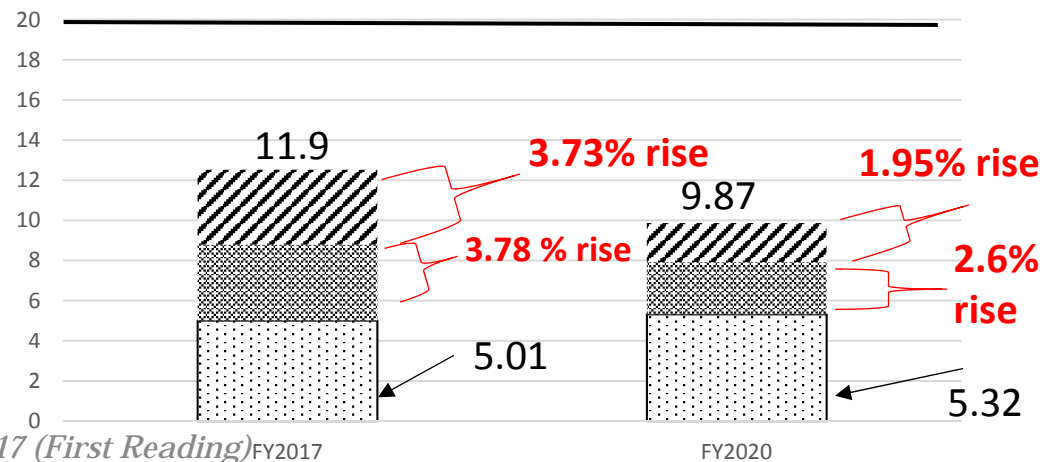
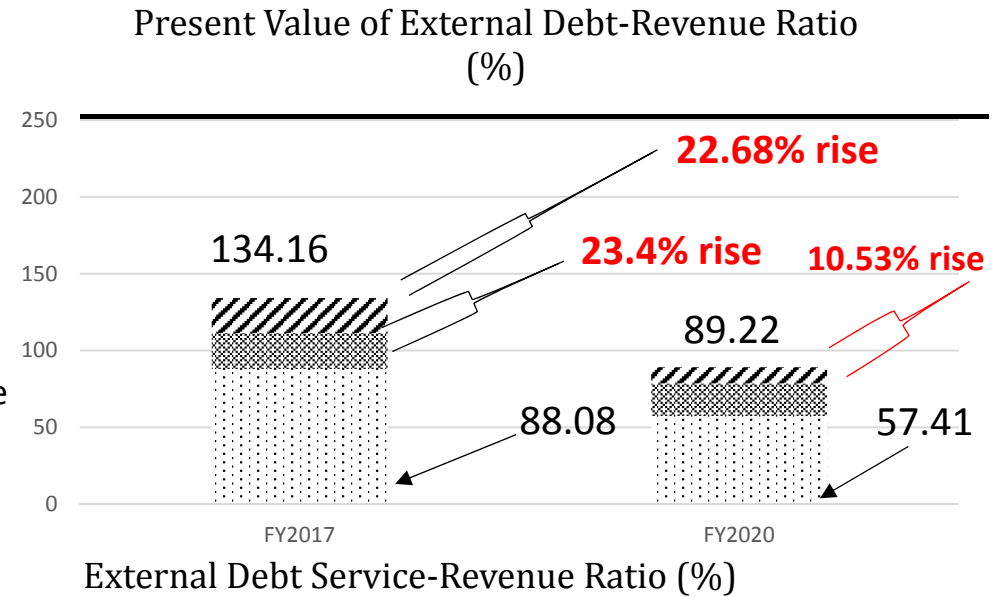
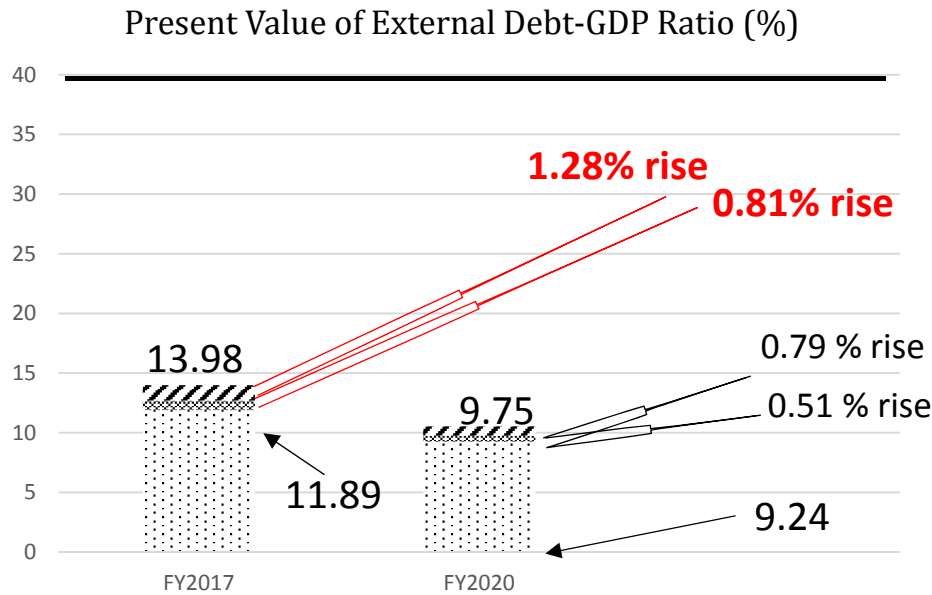
- i. Annual USD 2 bln financial flow
- ii. 2 % exchange rate depreciation
- iii. 3 % rise in nominal interest rate
- iv. Tk. 30,000 crore shortfall in revenue collection

External Debt Service-Revenue Ratio (%)



Is Bangladesh Rolling Towards A Debt Stress?

Scenario Two: Simulation Using IMF/World Bank Debt Sustainability Framework

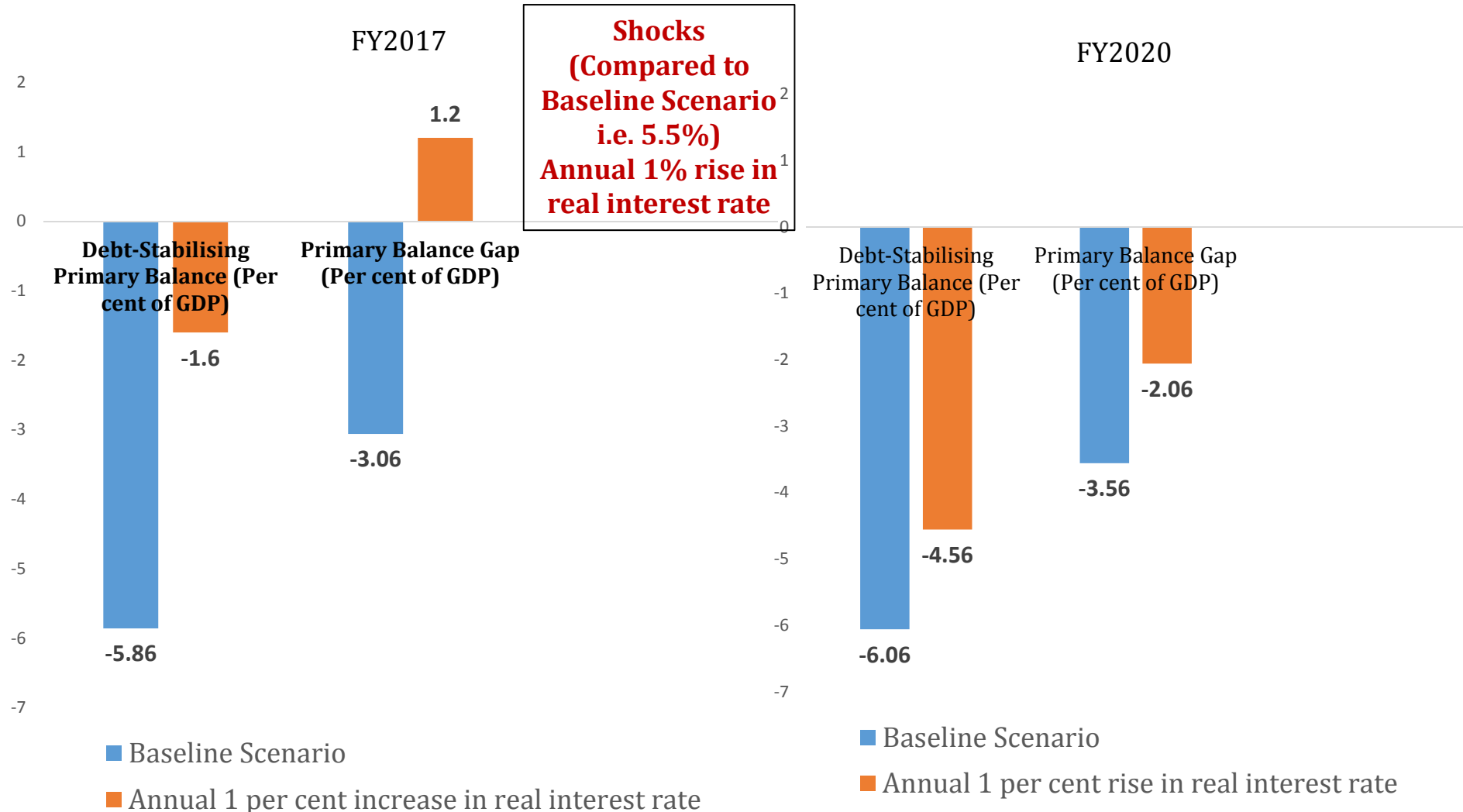


Shocks (Compared to Baseline Scenario)

- Annual USD 5 bln financial flow
- 5% exchange rate depreciation
- 5% rise in nominal interest rate
- Tk. 50,000 crore shortfall in revenue collection

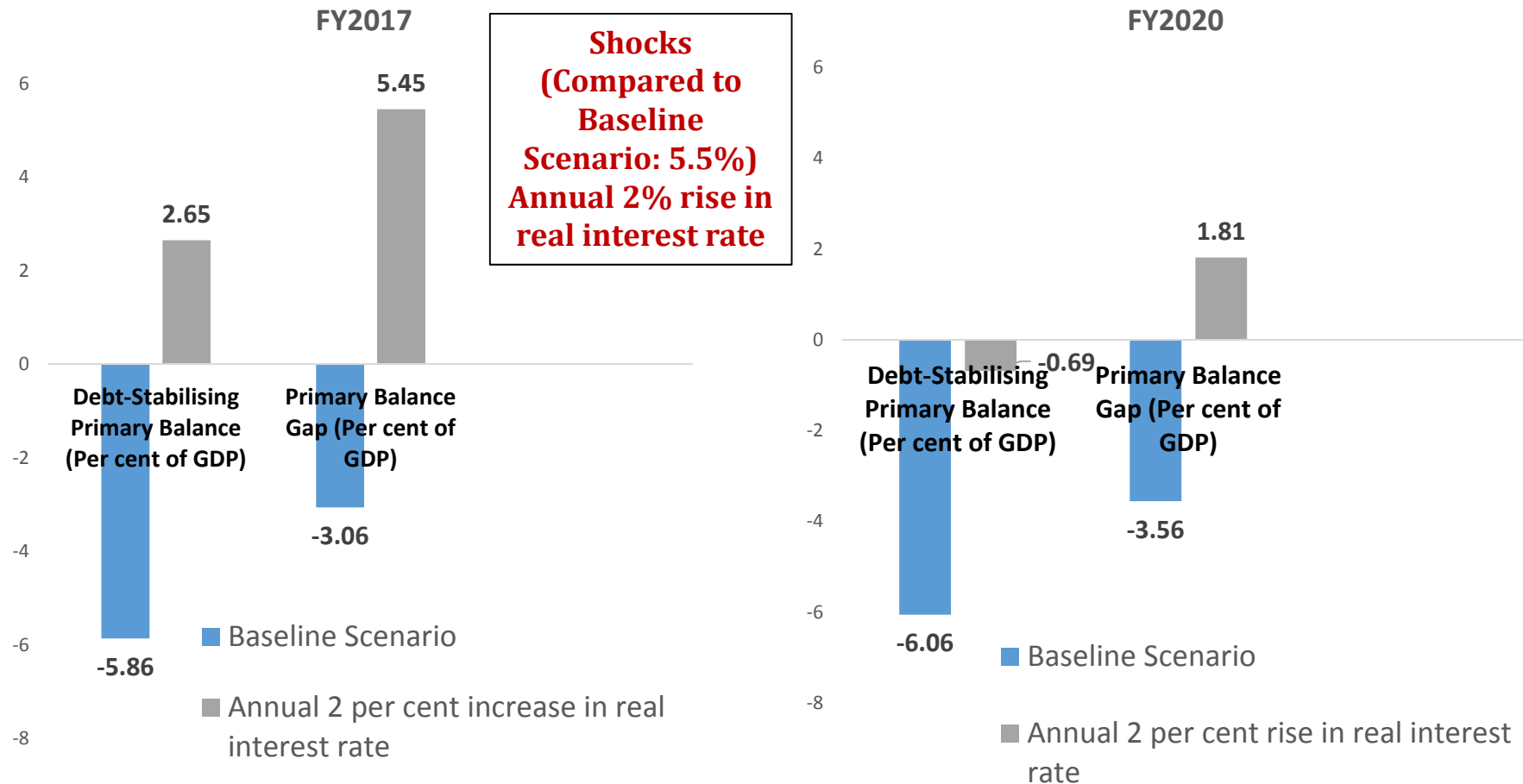
Is Bangladesh Rolling Towards A Debt Stress?

Scenario One: Simulation Using Debt-Stabilising Primary Balance Approach



Is Bangladesh Rolling Towards A Debt Stress?

Scenario Two: Simulation Using Debt-Stabilising Primary Balance Approach



If the value of the debt-stabilising primary balance increases, the government needs to maintain higher budget surplus (or lower budget deficit)

Policy Perspective

❖ Concerns for sustaining public debt due to new flow of foreign finance, which are

1. Shorter maturity of these flows, entailing greater debt service payment
2. “Tied” nature of foreign loans
3. Risk of currency mismatch
4. Unknown generation of Internal Rate of Return
5. Maintaining quality, timeliness and good governance in debt-financed projects' implementation

- ❖ Likelihood of facing debt distress if projects fail to realise anticipated benefits
- ❖ Significant portion of revenue expenditure already pledged to debt servicing
- ❖ Necessity of devising Medium-Term Debt Management Policy regarding changes in borrowing mix and nature of new foreign financial flows



‘Food-friendly Programme for the Ultra-poor’: A Populist Initiative with Positive Impact but Multiple Shortfalls

Food-friendly Programme for the Ultra-poor

- A total of 4.91 million people has been enlisted as beneficiary against the target number of beneficiaries of 5 million



Cover five million families with a monthly allocation of 30 kg of rice to be distributed at a subsidised price of Tk.10 per kg



The MoF has made an allocation of 750,000 tonnes of rice for this programme

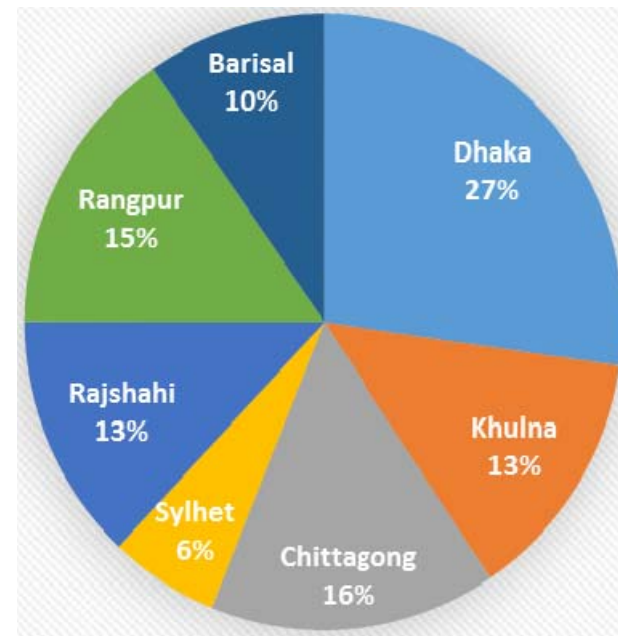
- A total of 9,878 dealers has distributed about 388,695 mln tonnes of rice

Review of Food-Friendly Programme for the Ultra-poor

- ❑ The term 'ultra-poor' is a subset of the 'people under the poverty line' (not 'mutually exclusive')
- ❑ Risk of misidentification ('inclusion', 'exclusion', 'duplication' and 'fake' identity)
- ❑ Concerned authorities partly addressed 'selection' problem through **cancellation** of 4.5% of beneficiaries and 1.3% dealers
- ❑ Gap between actual received and targeted rice was on average 11 kg per beneficiary: indication of inefficiency and weakness in the distribution process

- ❑ The Division-wise distribution of rice under the FFP is not fully overlapped with the national level distribution of ultra-poor: there is scope for improvement in targeting at national level planning

Division-wise Distribution of Rice under the FFP



Implications

- ✓ The FFP was even not announced or included in the national budget for FY2017
- ✓ Coarse rice price increased during the time of operation of the programme
- ✓ Lack of adequate stock caused Ministry of Food to stop selling rice under OMS programme
- ✓ Despite the rise in overall allocation for the SSNPs, it is still below the target set in the national strategy for the Seventh Five Year Plan (3% of GDP)
- ✓ An approximate estimate shows that the government has to allocate an additional Tk.1.74 crore to commence this programme

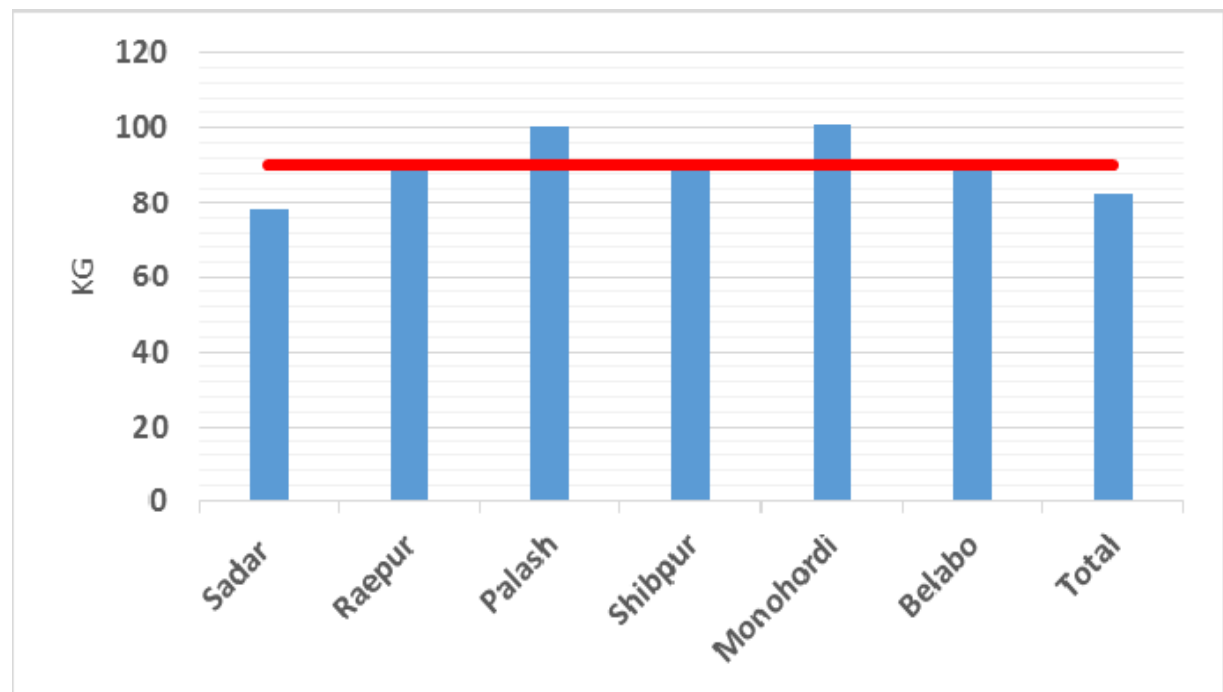


Narshingdi District's Food-friendly Programme: A Case Study

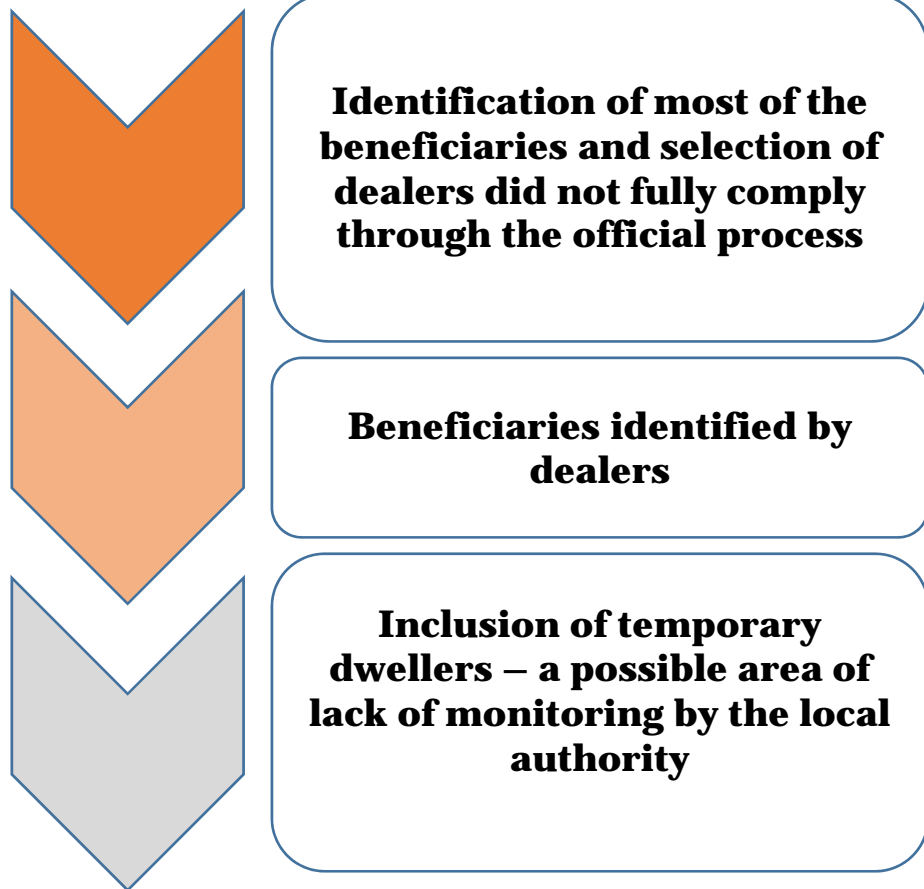
- ❑ The average quantity received by each of the beneficiaries was 82 kg against 90 kg for three months: a part of the allocated quantity was perhaps with the vested quarters including the dealers who benefited from this



Gap between Target and Actual quantity received by beneficiaries



Narshingdi District's Food-friendly Programme: A Case Study



Wider coverage of beneficiaries by a single dealer: leads to face additional transportation cost for beneficiary to collect rice

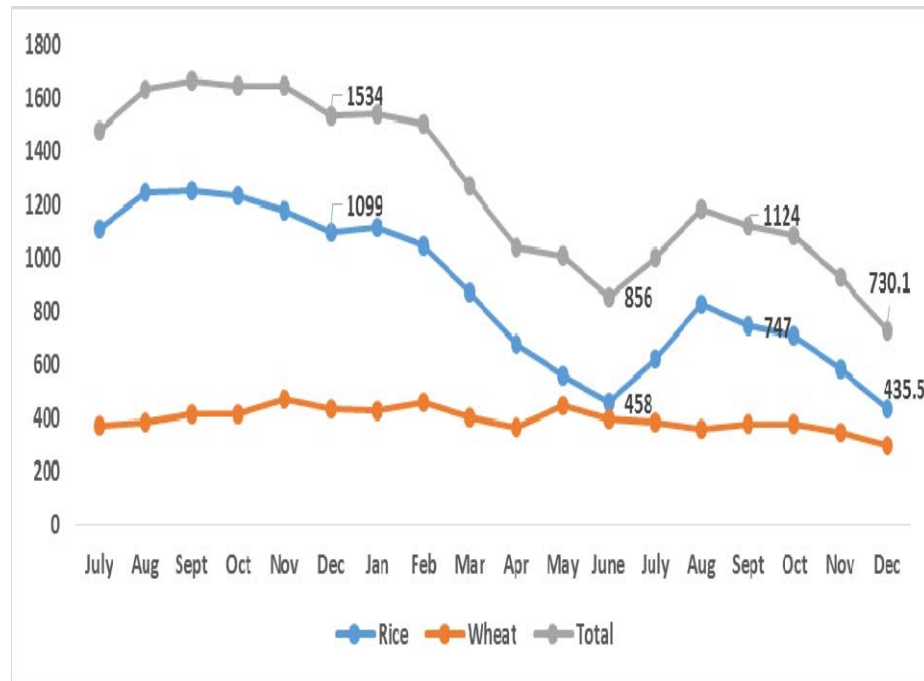
Use of traditional bucket instead of automated weighting machine may lead to rise in discrepancy in the quantity of rice received by the beneficiaries.

Poor commission charge for dealers (would receive approximately TK 67,500)

Food-friendly Programme for the Ultra-poor

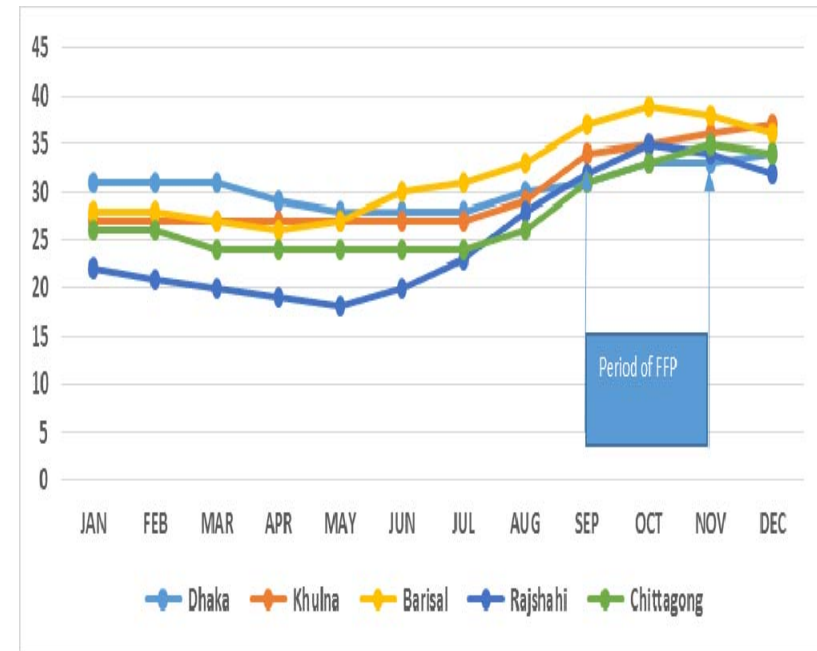
- ❑ The total stock after the end of the programme was at a lower level (7.30 lac MT as of December, 2016) which is significantly less compared to the required quantity of stock for meeting the emergency needs

PFDS Stock during 2015 and 2016 (Rice and Wheat)



- ❑ The programme may have an impact on **stabilising** the market price at the end of the programme at a higher level in the major districts

District-wise Monthly Average Retail Price of “Boro-HYV-Coarse” (per kg in taka)



What can be done to improve FFP?


Corrective measures for better transparency in management and operations

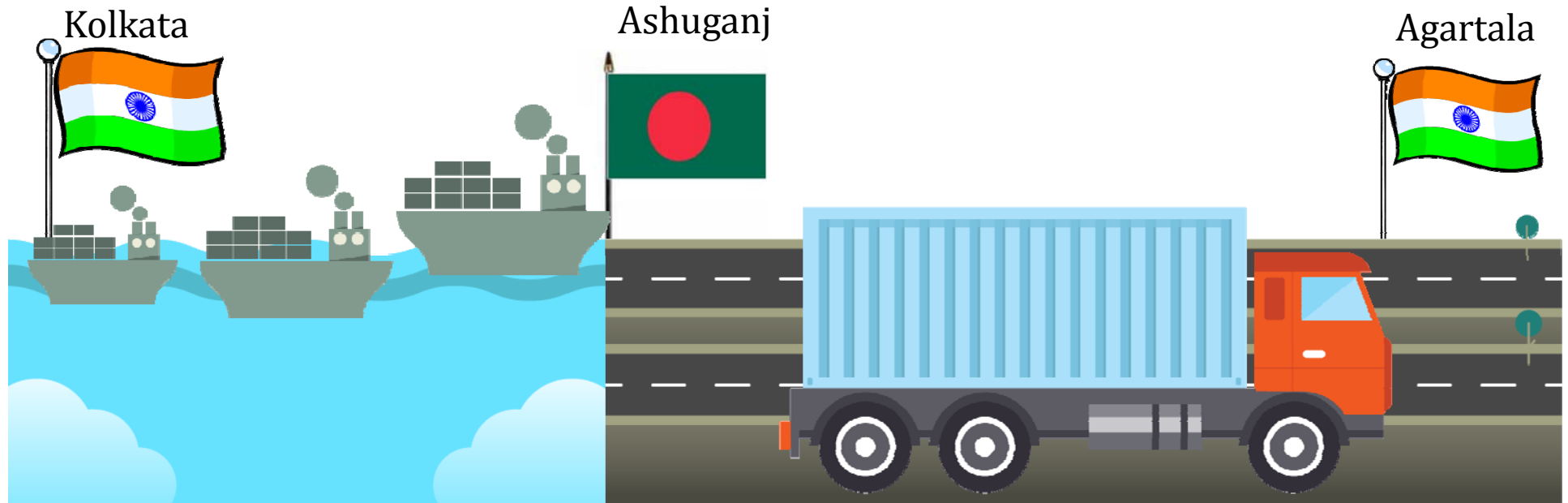
Determine a proper definition for ultra poor for appropriate policy actions

Better planning & targeting of beneficiaries. Also, following poverty mapping in selected districts

Strengthening the monitoring process stage for more appropriate selection of the dealers and reducing leakages

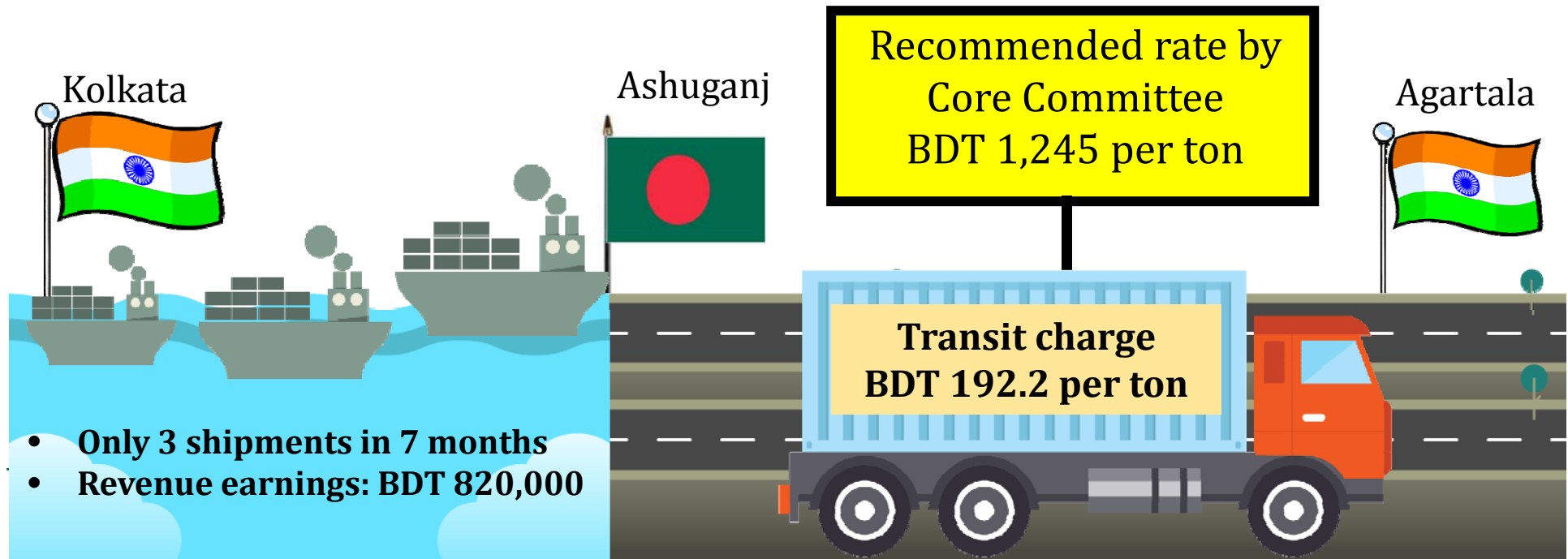
The effect of the FFP in terms of its impact on **price stabilisation** and stocks should be closely monitored

Important to  stock of rice **sufficiently** before initiating the second phase of the FFP, (possible demand for rice would be 3.62 MT)



Current State of Bangladesh-India Connectivity: A Case of Low Level Equilibrium

Current State of Bangladesh-India Connectivity



Isn't the rate too low?

I guess... there are infrastructure gaps

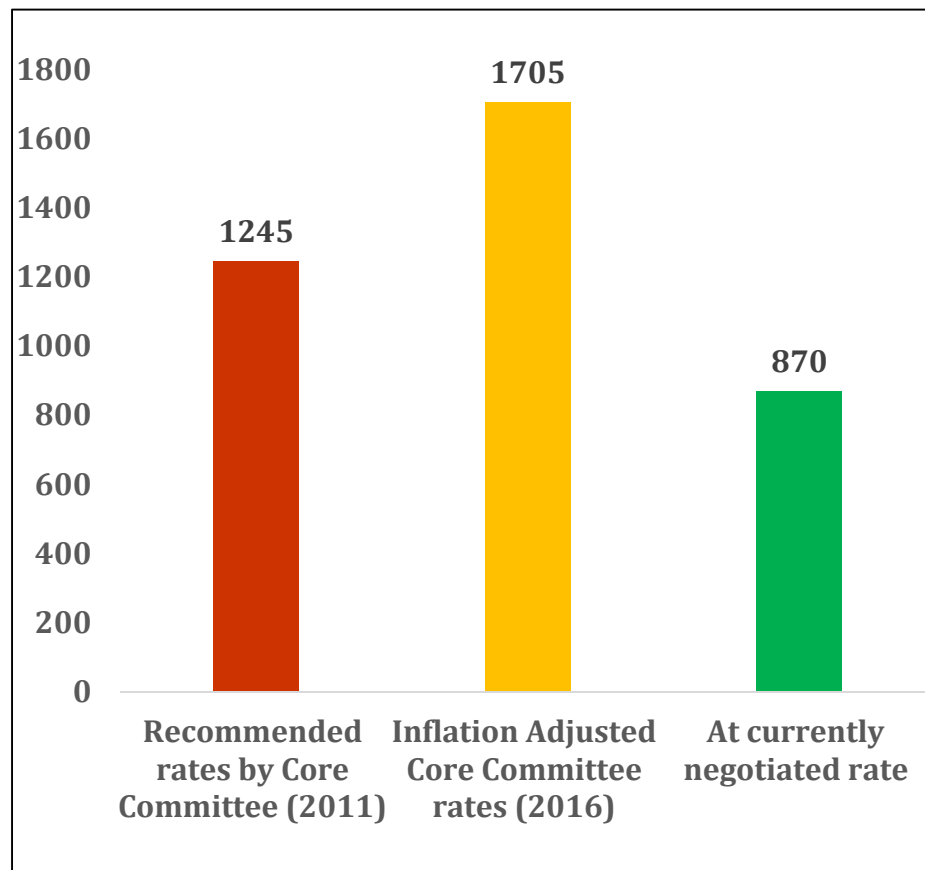
I think...negotiated rate is underestimated

But! little confused.... why only 3 shipments?

Let's Check.....

Scenario A: If All Facilities were Installed

Per ton in BDT



- According to CCT-2011, Bangladesh would earn 6 times more revenue compared to what is the case now, and it would be 9 times higher if the charges were inflation-adjusted.
- The cost of transshipment would however, increase respectively by USD 13.4 and USD 19.3 per ton.
- This will have implications for the expenses to be incurred for using the Kolkata-Ashuganj-Agartala corridor.

Current State of Ashuganj International River Port (AIRP) and Road Condition between AIRP and Akhaura Land Custom (ALC) Station



RCC dockyard



Berthing place



Water level



Godown



Proposed location for ICT



Road quality AIRP to Sorail Bishwaroad



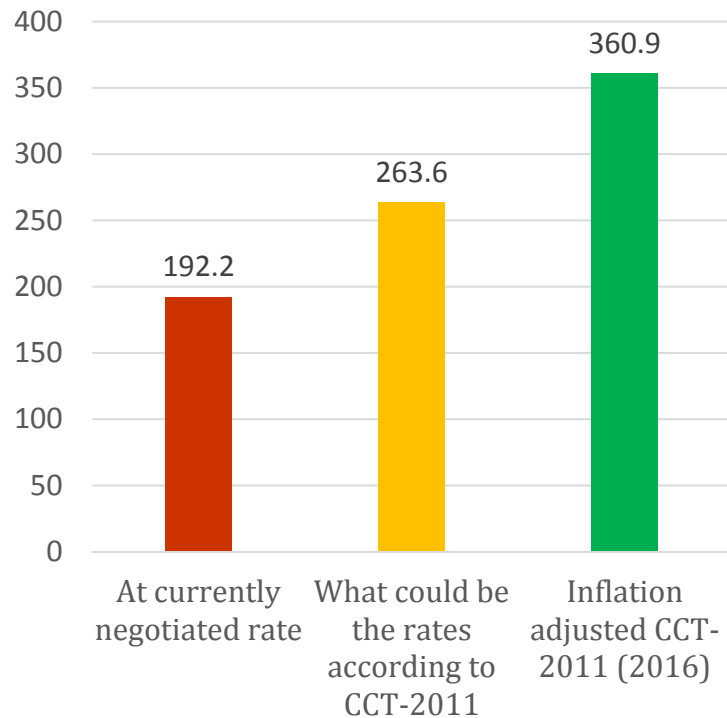
Road quality Sorail Bishwaroad to Sultanpur



Narrow bridge in Sultanpur to ALC station

Scenario B: Charges with Current Port and Road Capacity

Per ton in BDT



- Even at current condition of port and road capacity, if the comprehensive recommendations of the CCT-2011 were taken into consideration, about 27 per cent more revenue would be earned (through addition of congestion and water pollution charges) compared to what had currently been realised.
- If inflation adjustment was made, this would result in doubling of the current revenue earnings. This would raise the cost of transshipment by approximately USD 1 and USD 2.1 per ton respectively
- Charges for congestion and water pollution as was suggested in the CCT-2011 report needs to be factored into the costing.

Number of Transshipments and Status of Revenue Earnings

Vessel Name	Product	Quantity (in MT)	Revenue ('000 BDT)	Berthing period (in days)	Lead time (in days)
MV Newtek 6 (BD)	Iron Sheet and Steel	1004.4	193.1	17	27-28
MV Avi (IND)	Rice	2272.5	436.8	13	22-23
MV Sumon 1 (BD)	Rice + Iron Sheet/Steel	338.2 + 648.6	189.7	12	21-22
Total	--	4263.7	819.7	--	--

Few highlighting facts:

- Average berthing period at Ashuganj is 14 days
- Average turnaround time is 23-24 days
- At present, the port has no facility such as way bridge scale, scanning machine, crane, designated truck stand. In addition, covered van facility is also not available
- No permanent customs officer at the AIRP as well as in Angtihar boarder (Khulna)
- Godown (4,400 sqr. feet) facility is available, but remained unused till date
- Government has plan to charge for scanning, ICT (automation), merchant overtime and other administrative functions once these services will be installed

□ Concluding Remarks

- 1 • Make use of the alternative paradigm of “Benefit-Sharing” as the core principle in negotiating connectivity and transit issues including fees and charges
- 2 • Undertake the needed investments for developing infrastructure, logistics and trade facilitation to effectualise the connectivity
- 3 • Consider wider implications while negotiating the service charges: issues of reciprocity, BBIN-MVA, guaranteed buybacks
- 4 • Design a comprehensive approach and framework to negotiating transit issues, service and user charges: not discrete, piecemeal, episodal and case by case approval

Remittances: Delving into Causes of Depressed Trend



Remittances: Delving into Causes of Depressed Trend

❑ *Global remittance inflow in 2016 projections*

- LMICs: USD 442 bln (0.8% growth)
- South Asia: (-) 2.3%
- Bangladesh: USD 14.9 bln (0% growth)

❑ *Remittance trends*

- Jul-Dec FY17 growth: (-) 17.6%; Annual growth FY16: (-) 2.5%
- **Monthly receipt went below USD 1 bln in Nov and Dec 2016 (Last experienced in Nov 2011)**
- Growth slowed down to: Pakistan (-3.8%), Nepal (4.3%), Sri Lanka (0.9%);
 - Revived: in Philippines (3.3%)
- Remittance sending cost rose for 6 of 8 sending countries
 - From KSA, cost came down for all countries except for Bangladesh

❑ *Migration trends*

- Jul-Dec FY17: 28.2%; Annual growth FY16: 48.2%
- **Highest outflow in Nov 2016: 81,483 (record highest since July 2008)**
- Female migrant growth: (-) 12.5%; Annual growth FY16: 39.9%

Exploring the factors for the sharp decline in remittances

- **Hypothesis 1: Increase in informal channel transfer**
- **Hypothesis 2: Economic slowdown in the GCC countries**

Hypothesis 1: Increase in informal channel transfer

- ❑ Economy is prone to fall into informal channel transfers, during
 - Special situations: festivals and political instability
 - Introduction of a new financial mechanism or policy changes
 - Volatility in currency exchange rates
- ❑ **All these changes may influence both money inflow to, and outflow from the economy**

Remittances: Delving into Causes of Depressed Trend

❑ What Bangladesh economy experiences?

- Large difference between USD's bank rate and the curb market rate
- Supply shortage and high demand of cash USD
- Hoarding tendency: expectations of further appreciation of USD

❑ What are the consequences?

- Remittance transfer through formal exchange houses dropped by 50% in Malaysia
- Mainly small remitters resorted to informal channel transfer
- *Hundi* traders network expanded freely near every household
- Some of the mobile banking agents in Bangladesh may be involved
- In Singapore, *Hundi* traders have introduced scratch cards

❑ The same exchange houses do not find any such major problems when sending money to India or Nepal

- ❑ The above situation needs case by case investigation
- ❑ **Bangladesh Bank relaxed some policy spaces –**
 - measures, until now, have proved to be inadequate

Hypothesis 2: Economic slowdown in the GCC countries

- Respective governments adopt austerity measures and scaled down government spending
- Witnessed a sharp slowdown in their GDP growth
- Nationalises labour market by replacing foreign workers
- Capital flight could also be a factor for lower remittance flow
- Remittances could be diverted from the country of origin to other countries

Recommendations

- Cost of sending money should be reduced
- Better investment opportunities and benefits may be offered to both the diaspora and remitters
- Bangladesh Bank Committee to investigate malpractices on remittances needs to strengthen through involving experts and use of technology
- Regulatory measures and policy framework may be revisited
- Reliable estimates of the migrant workers' stock should be there – coordination among Ministries, missions abroad, Wage Earners' Welfare Board (WEWB), immigration police is recommended



CONCLUDING REMARKS

Concluding Remarks

Comfortable macroeconomic environment

- Robust GDP growth and rebounded investment in FY16
- Low inflationary pressure
- Declining interest rates
- Rising foreign exchange reserve
- Manageable fiscal deficit
- Positive outcome in capital market

Mixed performance

- Challenging budgetary targets
- ADP expenditure had recovered, but could not surpass the historical trend
- Favourable BoP, but current account balance in deficit
- Export earnings growth started to decline
- Comfortable debt situation over the medium term, but need cautionary approach
- Corrective measures for FFP
- Comprehensive approach in dealing with transit issues
- Private investment

Areas of concerns

- NSD sale biased financing mix of the budget deficit
- Rising NPL
- Weak governance amid new scams in Banking sector
- Inadequate CAR
- Lower remittance inflow

Institutional and policy reforms in the areas of revenue mobilisation, public expenditure management, financial sector and private investment will need to be rigorously pursued, if needed, by taking bold steps



Thank You