CHAPTER 1

State of the Bangladesh Economy in FY2008-09

1.1 INTRODUCTION

By any measure FY2008-09 was a challenging period for Bangladesh, for several reasons. During the first half of the fiscal year it was the caretaker government (CTG) which was in charge of macroeconomic management of the country; the newly elected government steered the economy over the second half. The global financial crisis, with its attendant challenges and implications, impacted on the performance of the economy through the various transmission channels. High commodity prices of the early months of FY2008-09 were followed by a general collapse in the commodity prices as the crisis deepened and became more encompassing. The government assumed power at a conducive time, when the inflationary pressure experienced in the domestic economy had already started to ease, and export and remittance growth had continued to sustain the momentum in spite of the global economic crisis. However, in managing the economy over the next half of the fiscal year (January-June 2009), the government faced a number of challenges in the form of sluggish investment, increasing export volatility, fall in the number of workers going abroad and the urgency of ensuring food security with a good Boro harvest. A Global Financial Crisis Task Force was set up to provide policy advice in view of the emergent global situation and its impact on the economy. A stimulus package was announced in March 2009, and the design of the subsequent budget (for FY2009-10) also had to take into cognisance the possible implications of the crisis.

The global financial crisis, with its attendant challenges and implications, impacted on the performance of the economy through the various transmission channels

Overall, it may be safely stated that navigating the Bangladesh economy through the turbulent waters of FY2008-09 was, by any measure, a highly challenging task, which was shared by the CTG and the newly elected government. The following sections make an attempt to review how these tasks were addressed, what were the outcomes in terms of performance by major macroeconomic indicators and what were the major emerging challenges that needed to be addressed as the economy moved into FY2009-10.

Navigating the Bangladesh economy through the turbulent waters of FY2008-09 was, by any measure, a highly challenging task

1.2 MACROECONOMIC BENCHMARKS AT THE BEGINNING OF FY2008-09

Consecutive natural disasters and high commodity prices made FY2007-08 a challenging year from the perspective of economic management. Two successive floods were followed by the catastrophic cyclone *Sidr*, posing threat to food security of the country. The situation was further aggravated by a significant hike in prices in the global markets, particularly of food, fuel and fertiliser - three essential items of import for Bangladesh. Global high prices transmitted quickly to the domestic markets in Bangladesh where risk of a price hike was already a concern in the backdrop of apprehensions about lower food production owing to natural disasters. The annual average rate of inflation (12-month annual average consumer price index (CPI), 1995-96 = 100) increased to 9.94 per cent in June 2008 from 7.49 per cent in July 2007.

Consecutive natural disasters and high commodity prices made FY2007-08 a challenging year from the perspective of economic management

Despite the aforesaid adverse developments, Bangladesh economy demonstrated significant resilience with the gross domestic product (GDP) posting a respectable growth rate of 6.19 per cent in FY2007-08. This growth was underpinned by a 6.06 per cent growth in foodgrain production attained in the face of the natural disasters, primarily thanks to the commendable success in the production of Boro, country's major crop. Industrial production, however, registered a modest growth of 6.9 per cent in FY2007-08; 3.1 percentage points lower compared to that of FY2006-07. Stagnation in domestic savings rate remained a major concern as domestic savings as a percentage of GDP continued to hover around 20.3 per cent

in FY2007-08, akin to the previous year. At the same time, the gross investment rate declined as per cent of GDP for the second consecutive year, falling to 24.2 per cent in FY2007-08 from 24.5 per cent in FY2006-07. The incremental capital-output ratio (ICOR) increased marginally from 3.8 in FY2006-07 to 3.9 in FY2007-08, implying some fall in capital productivity. Lower levels of domestic investment needs to be seen in tandem with the fall in foreign direct investments (FDI) (by 18 per cent).

Inadequate power supply remained a major bottleneck to investment and business activities in Bangladesh

Fall in investments was underpinned by poor implementation of annual development programme (ADP). In fact, the deteriorating trend of ADP implementation observed in the recent past continued and rate of implementation in FY2007-08 was the poorest ever. In FY2007-08, actual ADP as percentage of GDP stood at only 3.4 per cent. At the same time inadequate power supply remained a major bottleneck to investment and business activities in Bangladesh.

On the other hand, revenue mobilisation was one of the success stories of FY2007-08. Total revenue collection increased significantly by 24.3 per cent over the earnings of FY2006-07. Actual achievement of FY2007-08 was in fact 1.6 per cent higher than the target set in the budget for the fiscal year, a unique record. However, this was accompanied by high expenditure growth due to higher subsidy requirement. Consequently, at the end of the fiscal year, actual deficit stood at 4.9 per cent of GDP, highest since FY1999-00.

External sector of the economy demonstrated robust performance in FY2007-08

External sector of the economy demonstrated robust performance in FY2007-08. Bangladesh's total export earnings during FY2007-08 stood at USD 14.1 billion, registering 15.9 per cent growth over FY2007-08. On the positive side, remittance flow continued to be buoyant, with total inflow during the year amounting to USD 7.9 billion, which was about USD 1.9 billion more than that of FY2006-07 (32.0 per cent growth). Number of workers leaving the country was also significant, easing somewhat the pressure on domestic labour market. Foreign aid flow during FY2007-08 was also significantly higher (by 25.2 per cent) compared to FY2006-07, which however, was primarily underwritten by higher aid inflow in support of disaster rehabilitation efforts.

The extraordinary fiscal (government's earnings and expenditure) and inflationary developments in FY2007-08 distinguished this particular year as an outlier when juxtaposed with recent macroeconomic trends. Performance evaluation of macroeconomic indicators for FY2008-09 ought to take into account the aforesaid distinctive features of FY2007-08 which sets out the benchmark against which the assessment is to be made.

1.3 GROWTH, SAVINGS AND INVESTMENT

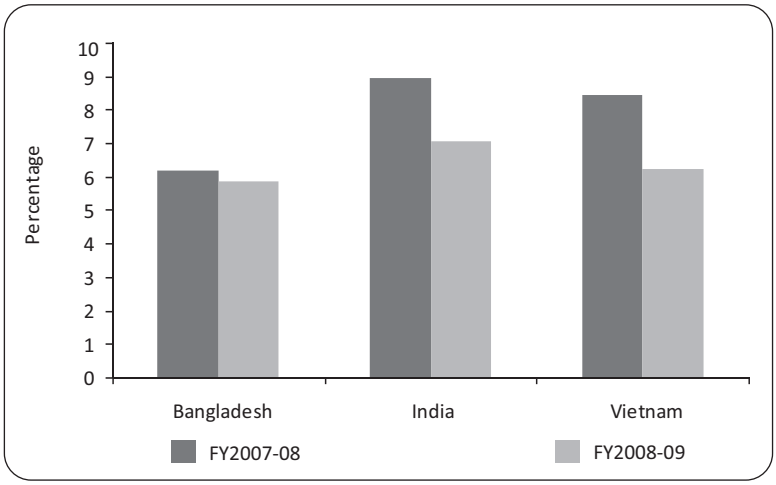
1.3.1 GDP Growth

In view of the global recession, high inflation during the early months of FY2008-09, low investors' confidence and uncertainties regarding political transition with the change of government in January 2009, this growth rate merits to be accepted as respectable

Preliminary estimates prepared by the Bangladesh Bureau of Statistics (BBS) reports that, GDP is expected to post a growth of 5.88 per cent in FY2008-09. If this actually turns out to be the case, this would be the lowest GDP growth rate of the recent past five years, and will be considerably less (0.62 per cent) than the targeted growth of 6.5 per cent set out for FY2008-09. However, in view of the global recession, high inflation during the early months of FY2008-09, low investors' confidence and uncertainties regarding political transition with the change of government in January 2009, this growth rate merits to be accepted as respectable. As a matter of fact, adverse factors which informed macroeconomic performance in FY2008-09 led to considerably lower GDP growth projections of around 5.0 per cent or even lower by many quarters, including the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB).

However, a bumper crop harvest, resilience of the service sector, ability to contain deceleration of export growth and sustained high levels of remittance flow helped the economy to attain a near-six per cent growth rate, which was less than the target but higher than expectations.

Figure 1.1: GDP Growth in Asian Countries



Source: Bangladesh Bureau of Statistics (BBS); Ministry of Finance, India; and Ministry of Finance, Vietnam.

As is known, global slowdown has affected all Asian economies including the emerging, developing and less developed economies. However, compared to her Asian counterparts, Bangladesh's growth rates declined at a slower pace (by 0.3 percentage point) compared to target rates. In case of, for example, India and Vietnam projected growth rates were lower by higher margins than their previous year's attainment (by 1.9 and 2.3 percentage points respectively) (Figure 1.1).

Admittedly, any deceleration in the growth rate is likely to have a knock-on impact on the Bangladesh economy in terms of resource mobilisation, poverty alleviation and employment creation. The downward revision in the projected GDP growth for FY2008-09 (from 6.5 to 5.9 per cent) would imply that this would have adverse implications for the number of people coming out of poverty, other things remaining the same. However, using growth elasticity of poverty mentioned in the Second Poverty Reduction Strategy Paper (PRSP II), a GDP growth of 5.88 per cent should still result in 1.76 million people coming out of poverty in FY2008-09. However, this estimation is based on PRSP II, which does not take into cognisance the increase in poverty incidence owing to high inflation of the recent past. Indeed, a number of studies have indicated either deceleration in the pace of poverty reduction (World Bank), or reversal of poverty reduction trends and rise in poverty levels (Centre for Policy Dialogue (CPD)). Following the International Labour Organization (ILO) methodology, with 5.88 per cent growth in GDP, the projected level of employment generation during FY2008-09 should be around 2.0 million. The PRSP II projected that, during 2009-2011, every year on average 1.8 million people would be added to the labour force. Relatively high growth of agriculture in Bangladesh perhaps had a positive impact from labour absorption perspective; on the other hand, lower than projected GDP growth was likely to have adverse impact on labour absorption capacity of the economy than it would otherwise be. However, a note of caution is called for in this context to the effect that the validity of such conjectures should be tested through more in-depth investigation and household level survey.

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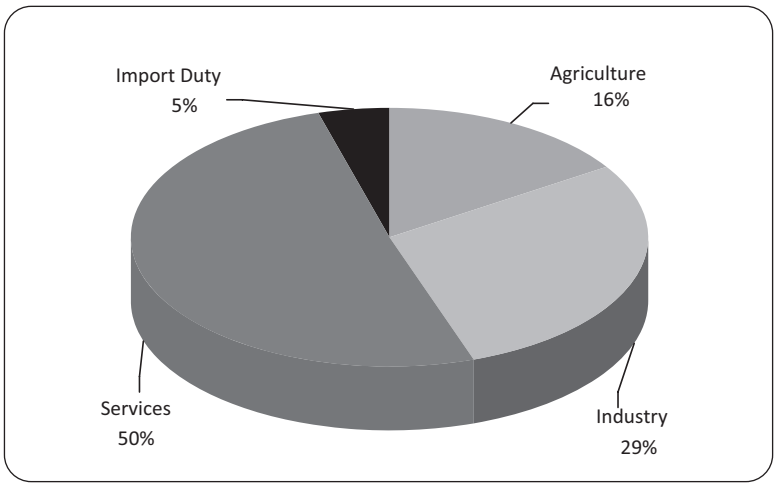
It is pertinent to recall here that, the provisional GDP estimate was also revised downward, albeit by small margin in FY2007-08, from 6.21 per cent to 6.19 per cent. Interestingly, growth rates of agriculture, manufacturing as well as service sectors were revised downward in FY2007-08. However, upward revision made for import duty component of the GDP restrained the fall in GDP growth estimates. In absence of this, the GDP growth rate would have been revised downward by another 0.2 per cent. This is important to note from the point of view that import duty was the only component of GDP that does not have a direct employment effect. This would mean that even though the GDP growth rate estimates did not change in any significant way in FY2007-08, employment generation is perhaps about 0.1 million less than would otherwise be as a consequence of this compositional change.

1.3.2 Sources of Growth

Agriculture sector responded to positive policy initiatives of the government

Despite the notably robust performance of country's agriculture sector, as a group, the tangible sectors of the economy[1] posted a moderate growth of 5.38 per cent while intangible sectors recorded a somewhat higher growth of 6.20 per cent. Global recession had an adverse impact on the manufacturing sector of Bangladesh which failed to achieve the projected targets. In the incremental GDP of FY2008-09, industrial sector contributed only 28.8 per cent whereas services sector remained the front-runner with a share of 50.7 per cent. Agriculture sector responded to positive policy initiatives of the government with its contribution to incremental GDP being to the tune of 15.96 per cent (Figure 1.2). Overall, agriculture sector posted an impressive 4.68 per cent growth; more than 1 per cent higher than the target set at PRSP II. Within the agriculture sector, crop sub-sector had posted an impressive 5.93 per cent growth, contributing to ensuring country's food security in the backdrop of the inflationary pressure on prices of food items experienced over in the recent past.

Figure 1.2: Sources of Incremental Growth



Source: CPD-IRBD estimate.

It is to be noted that the targeted industrial growth of 11.70 per cent in FY2008-09 was significantly higher than the actual growth of 6.78 per cent in FY2007-08. The sector's performance was particularly afflicted by domestic uncertainties and the ongoing economic crisis. Industrial sector as a whole could actually manage a growth rate of 5.93 per cent in FY2008-09. Within the industrial sector, growth rate of the manufacturing sub-sectors (contributing 17.24 per cent in the incremental GDP) experienced significant slowdown, posting a growth of 5.92 per cent in FY2008-09 against 6.78 per cent in FY2007-08. However, good performance of exports helped export-oriented industrial sector to tide over the difficulties to a significant extent, thereby contributing to the overall performance of the sector.

Good performance of exports helped export-oriented industrial sector to tide over the difficulties to a significant extent

Historically, service sector has consistently experienced a moderately high performance, contributing to its increasing share in Bangladesh's GDP. In FY2008-09, service sector recorded a 6.25 per cent growth, which was lower than the PRSP II target of 6.87 per cent. Among the nine sub-sectors of the service sector, three experienced lower growth performance (wholesale & retail trade; transport & communication and financial intermediaries), while for others the growth rates were higher in FY2008-09 compared to FY2007-08.

1.3.3 Per Capita Income

Per capita GDP of Bangladesh was estimated to be about USD 620 in FY2008-09, while per capita gross national income (GNI) was to be about USD 690 in FY2008-09. In Taka terms (1995-96 constant prices) the projected growth would indicate a per capita GDP growth of about 4.5 per cent in FY2008-09 over the preceding year; per capita GNI growth was expected to be higher at 6.7 per cent (primarily attributed to high remittance flow). However, it should be noted here that these averages conceal the fact of worsening income distribution situation in

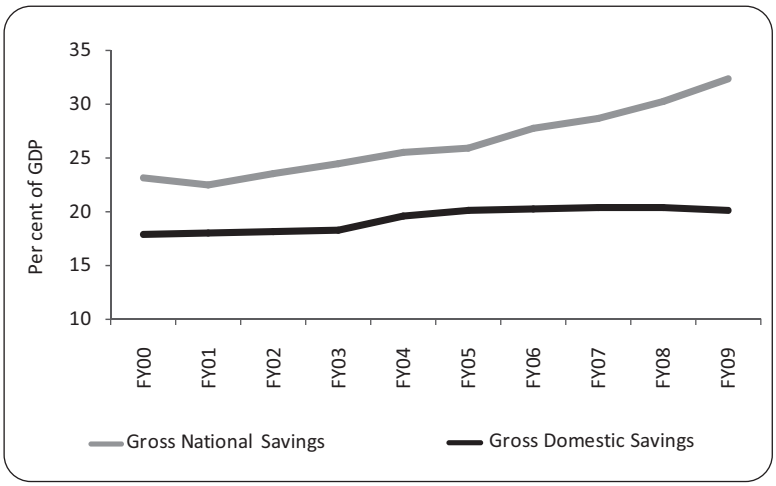
[1]Tangible sectors of the economy include agriculture sector (both agriculture & forestry and fisheries), mining & quarrying and manufacturing. The rest of the sub-sectors are defined as intangible.

Bangladesh. An increase in incremental share of farm sector in GDP may have helped contain the rise in income inequality seen in the past years. However, rising inequality continue to remain a serious problem with regional dimension of the inequality situation exacerbating the problem.[2]

1.3.4 Savings

Stagnating share of domestic savings in the GDP continued to persist in FY2008-09; as a matter of fact, domestic savings as a percentage of GDP somewhat declined from 20.31 per cent in FY2007-08 to 20.02 per cent in FY2008-09 (Figure 1.3). Rising prices of essential items in the first half of FY2008-09, particularly for food items, was perhaps a contributing factor as well.

Figure 1.3: Savings Rate as Percentage of GDP



Source: Bangladesh Bureau of Statistics (BBS).

In contrast, inspired by successive high growth in remittance inflow, national savings rates have registered higher growth in recent times. Share of national savings as percentage of GDP increased further in FY2008-09, to reach 32.36 per cent of GDP, as against 30.21 per cent in FY2007-08, registering a rise to the tune of 2.15 per cent of GDP. It is to be noted that, the gap between national and domestic savings in Bangladesh has been rising in a consistent manner over the recent past. This gap primarily originates from lack of investment demand and limited scope to channel remittances towards investment.[3] A continuation of this trend may result in further deterioration in income distribution, since remittance, whilst poverty alleviating, has also been found to be inequalising.

1.3.5 Investment

In absolute terms, gross capital formation in FY2008-09 would be about Tk. 148,840 crore in nominal terms (Tk. 92,002 crore at constant prices). Growth of gross capital formation made some progress, posting 5.72 per cent in FY2008-09 compared to only 1.80 per cent in FY2007-08. However, this is lower than the general trend which hovers between 8 to 9 per cent. Investment has suffered from both lack of infrastructure and continuing uncertainty in recent times. Ongoing recession also has had an adverse impact on investors' confidence. In spite of growth in absolute terms mentioned above, gross investment as percentage of the GDP has declined for the third consecutive year, recording 24.18 per cent of GDP in FY2008-09 compared to 24.21 per cent of GDP in FY2007-08 (Figure 1.4). This was somewhat lower than the Medium Term Macroeconomic Framework (MTMF) target of PRSP which was set at 24.40 per cent of GDP.[4]

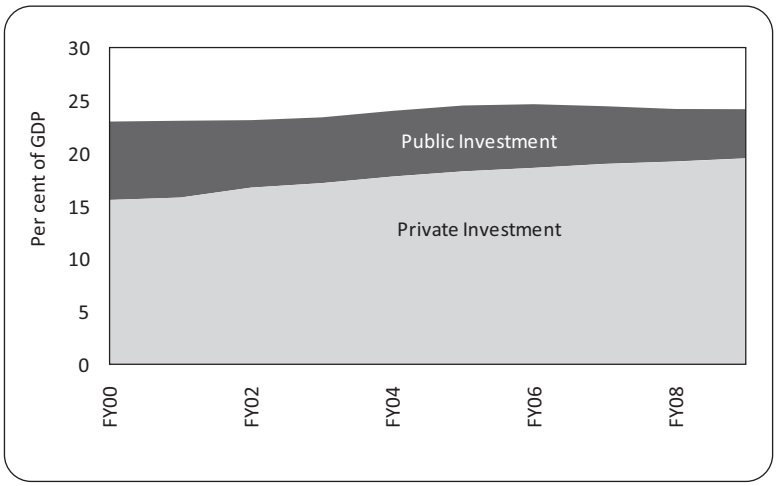
Investment has suffered from both lack of infrastructure and continuing uncertainty in recent times

[2]Gini coefficient of income distribution deteriorated from 0.45 to 0.47 between 2000 and 2005. As is evidenced by many recent studies, spatial inequality has also added another new dimension to this problem.

[3]There is, however, a debate with regard to the actual extent of this gap. Some economists have argued that the practice of including all of the remittance flow as savings is a flawed one, since a part of remittance goes to consumption. If this be it, national savings would be lower than what is generally shown to be the case.

[4]However, given the state of reliability of data on investment, it is hard to say whether these differences are statistically significant numbers. There is thus a need to be cautious in interpreting the relevant data and making conclusions out of those.

Figure 1.4: Investment as Percentage of GDP



Source: Bangladesh Bureau of Statistics (BBS).

Low implementation pace of the ADP is underwritten by low realisation of public investment. Public investment continued to plunge to record a historic low rate of 4.63 per cent of GDP in FY2008-09, lower even compared to the earlier low levels of 4.95 per cent in FY2007-08. Share of private investment in GDP which covers four-fifths of total investment of the country increased marginally to 19.55 per cent in FY2008-09 from 19.25 per cent in FY2007-08.

National savings rate (32.36 per cent) remains higher than the gross investment rate (24.18 per cent), indicating availability of investible surplus. This was estimated to be about Tk. 50,000 crore (more than 8 per cent of GDP). Compared to India and Vietnam, investment scenario in Bangladesh looks rather bleak; these countries invest around 40 per cent of their respective national incomes. Furthermore, the ICOR increased from 3.91 to 4.11 between FY2007-08 and FY2008-09, implying a fall in capital productivity for the third consecutive year. A continuation of this trend would either allude to a higher investment requirement in future to attain same growth rates, or result in lower growth rates if investment levels remained unchanged. Indeed, the need for ensuring higher rates of investment to attain higher GDP growth rate and the necessity of taking adequate measures to raise capital productivity cannot be over emphasised. This also underscores the need for the government to go for higher allocation of resources in large-scale infrastructure development projects which could crowd-in downstream private sector investment. In view of this, the recent moves by the Bangladesh Bank to influence downward revision of lending rate aimed at supporting private investment is a welcome initiative. However, this could also lead to lower interest rate on savings, which could have a dampening effect on domestic and national savings. From policy perspectives, maintaining a realistic spread between lending and deposit rate was an issue of critical importance in this context.[5]

Indeed, the need for ensuring higher rates of investment to attain higher GDP growth rate and the necessity of taking adequate measures to raise capital productivity cannot be over emphasised

Thus, a near 6.0 per cent growth in FY2008-09, in many ways is a respectable performance at a time of heightened global tensions and domestic uncertainties. However, the performance had been characterised by falling domestic savings, failure to translate surplus savings into investment, decelerating aggregate investment that was underwritten by fall in both public and private investment and deteriorating capital productivity. These later features evince the challenges that the Bangladesh economy faces in terms of taking the current growth rates one step higher which is so critical from the perspective of ensuring an accelerated pace of poverty reduction.

The growth performance had been characterised by falling domestic savings, failure to translate surplus savings into investment, decelerating aggregate investment that was underwritten by fall in both public and private investment and deteriorating capital productivity

1.4 PUBLIC FINANCE

Following the exceptional developments in FY2007-08, characterised by natural calamities, high prices, high revenues and high expenditures - leading to higher deficits, FY2008-09 once again turned out to be yet another extraordinary year, albeit somewhat in a reverse order. With no major incidence of natural hazard and with dramatic fall in global commodity prices particularly in the second half of

[5]This is particularly important in view of the persistent significantly large gap between the lending and deposit rates.

the fiscal year, leading to lower expenditure pressure (particularly in terms of import payments and subsidy requirements), FY2008-09 have been a relatively easier year from the perspective of macroeconomic management. However, lower import prices in many cases affected revenue earnings of the government, leading to a revenue shortfall. Budget deficit at the end of the year remained low, primarily because of low ADP implementation which has now become a common feature of the fiscal structure of Bangladesh.

1.4.1 Revenue Receipts

Overall revenue target for FY2008-09 was set at Tk. 69,338 crore, 17.3 per cent higher than the actual revenue of FY2007-08. During the early months of the fiscal year, revenues at the import stage benefited from the then prevailing high prices in the global markets; although prices were sliding, they were still on the high side at the end of FY2007-08 as prices were historically high globally. However, the scenario changed quite radically towards the later months of FY2008-09 when significant fall of prices was observed as a consequence of the global crisis, pulling the price level below to what was at the beginning of FY2007-08. Fuel prices in the global market could be a good example to cite in this regard. At the beginning of FY2007-08 (July 2007), oil price hovered around USD 70/barrel. This price reached its peak at USD 144 in mid-July, 2008 (beginning of FY2008-09). Following this global oil price started to fall and rose up to around USD 35 by the middle of FY2008-09 (end December 2008); prices recovered to reach about USD 70/barrel by the end of the fiscal year. Average price in FY2007-08 was about USD 95/barrel, which was about USD 71/barrel in FY2008-09 (about 34 per cent lower). Such developments in the global markets led to lower than the anticipated revenue collection at the import stage in Bangladesh.

Developments in the global markets led to lower than the anticipated revenue collection at the import stage in Bangladesh

National Board of Revenue (NBR) Revenue at the Import Stage

As was indicated above, revenues at the import stage mostly suffered from lower collection in the form of import duties. Against a target of Tk. 10,862 crore, Tk. 9,351.9 crore of import duty was collected. This implied a shortfall of Tk. 1,666 crore from its target, posting a negative (-) 2.6 per cent growth over the matching figure of FY2007-08 (Table 1.1). The budget aimed for 13.1 per cent higher import duty collection in FY2008-09 over FY2007-08. Compared to import duties, revenue collected from value added tax (VAT) (import) was less adversely affected by falling prices, 8.2 per cent growth was recorded, which was however, lower than the target of 12.6 per cent. VAT (import) collection missed its target by Tk. 375.1 crore. On the other hand, supplementary duty (SD) (import) posted a high growth of 32.9 per cent, surpassing its target by Tk. 219.4 crore.

Table 1.1: NBR Revenues at the Import Stage

Type of Duty	Actual Growth FY2008	Target Growth FY2009	Actual Growth FY2009
Import Total	26.7	13.5	5.2
Import Duty	17.7	13.1	-2.6
VAT Import	34.5	12.6	8.2
SD Import	46.6	20.4	32.9

Source: National Board of Revenue (NBR).

Local Level NBR Revenue

VAT (local) collection went beyond its target

Among the major components, collection of SD (local) fell short of its target by Tk. 1,242.6 crore, achieving a mere 2.9 per cent growth over FY2007-08 in view of the targeted growth of 23.6 per cent (Table 1.2). However, VAT (local) collection went beyond its target by Tk. 284.4 crore, achieving 19.5 per cent growth (against the target of 16.4 per cent), and income tax collection exceeded its target (by a substantial amount of Tk. 804.1 crore) for the second consecutive year. As opposed to 11.1 per cent growth target for FY2008-09, growth attained for

Table 1.2: Targets and Achievements in Local Level NBR Revenues

Type of Duty	Actual Growth FY2008	Target Growth FY2009	Actual Growth FY2009
Local Total	26.2	17.0	14.1
Excise Duty	16.8	17.1	11.2
VAT Local	22.9	16.4	19.5
SD Local	23.8	23.6	2.9
Turnover Tax	-14.7	17.2	-3.1
Income Tax	34.7	11.1	18.0
Travel Tax	35.6	24.9	-6.4
Import Total	26.7	13.5	5.2
Grand Total (NBR)	27.4	14.9	10.7

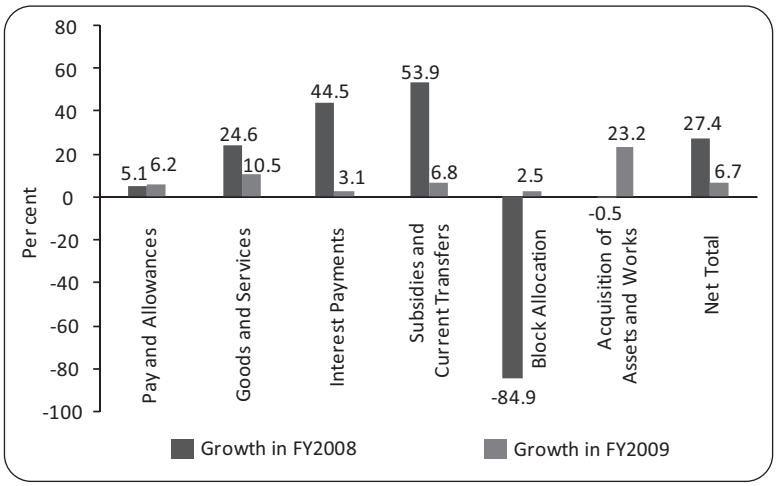
Source: National Board of Revenue (NBR).

Table 1.3: Non-NBR Tax and Non-tax Revenue

Source of Revenue	Actual Growth FY2008	Target Growth FY2009	Actual Growth FY2009
Non-NBR	24.8	-1.0	14.7
Narcotics & Liquor	15.9	-2.0	7.8
Vehicles	24.0	6.4	26.7
Land	19.3	20.5	-4.3
Stamp	26.9	-9.2	15.3
Non-tax Revenue	5.4	14.1	-0.1
Dividend & Profit	24.4	62.2	46.4
Post Office & Railway	-24.3	79.9	24.4
T&T	-8.1	-100.0	-99.7
Interest/Fees/Tolls & Other receipts	6.4	19.6	5.4

Source: Ministry of Finance (MoF).

Figure 1.5: Growth in Revenue Expenditure: FY2007-08 and FY2008-09



Source: Ministry of Finance (MoF).

income tax collection was 18.0 per cent. 0.03 million more individual tax return submissions were recorded in FY2008-09 compared to FY2007-08, taking total number of submissions to 0.67 million.[6]

Non-NBR Tax and Non-Tax Revenues

Non-NBR tax component posted 14.7 per cent growth in FY2008-09 against a negative target of (-)1.0 per cent (Table 1.3); collection exceeded its target by Tk. 364 crore. On the other hand, non-tax component fell short of its target by Tk. 1,560 crore and posted a negative (-)0.1 per cent growth. Original growth target was of 14.1 per cent. Such low non-tax revenue collection was mostly due to the low revenue collection on the account of interest/fees/tolls and other receipts, where a shortfall of Tk. 987 crore was recorded.

Overall, revenue collection during FY2008-09 missed its target by an amount of Tk. 3,170.4 crore (4.6 per cent). However, such a shortfall did not result in a higher deficit since lower expenditure pressure had offset the effect, to a large extent, reinforced by a low ADP implementation.

Revenue Expenditure

Other than interest payments, revenue expenditure in FY2008-09 experienced lower than projected rise for all major indicators. Expenditure on pay and allowances posted 6.2 per cent growth against the original target of 21.6 per cent (Figure 1.5). Subsidies and current transfers also recorded much lower rise of 6.8 per cent compared to its target of 30.2 per cent. This was mostly owing to the fact that subsidy demands for FY2008-09 were calculated in the budget based on the price level that was prevailing during the last months of FY2007-08. In case of block allocations, only Tk. 215.6 crore was spent for which an allocation of Tk. 1,098.1 crore was made in the budget. Goods and services recorded 10.5 per cent growth (target was of 16.5 per cent).

[6] As is known, this is a dismally low figure in a country with 31 million households. Even when the fact of about 40 per cent people living below the poverty line is taken into consideration, Household Income and Expenditure Survey (HIES) results indicate that this number ought to be significantly higher.

Importantly, interest payments were higher than targeted expenditure. In fact, according to the budgetary targets, interest payments were set to decline in FY2008-09 by 7.5 per cent compared to that of FY2007-08. Targets for both domestic interest payments and foreign interest payments were projected to decline in FY2008-09 (by 7.5 per cent and 7.7 per cent respectively) in the budget. Foreign interest payments did come down by (-)4.1 per cent, but domestic interest payments recorded a positive growth of 4.0 per cent. This could perhaps be explained by the high government borrowing from the banking system during FY2007-08 (posting 178.6 per cent growth over FY2006-07) to finance the disaster rehabilitation efforts and higher subsidy requirements.

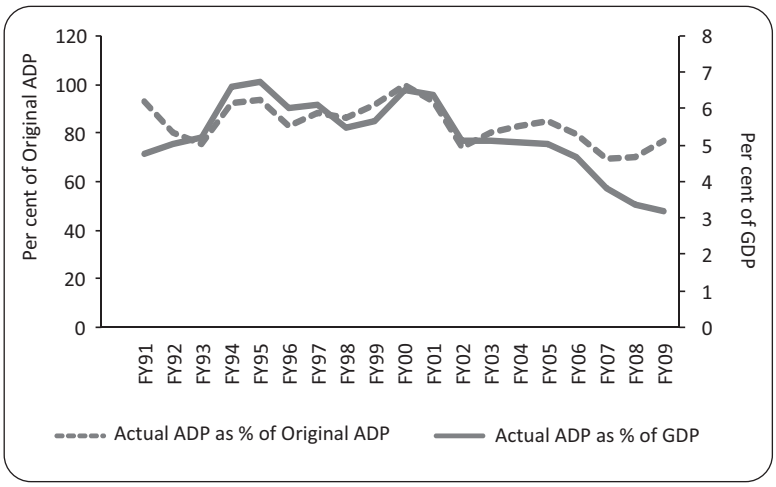
Overall revenue expenditure at the end of FY2008-09 amounted to Tk. 57,431.3 crore, posting a marginal growth of 6.7 per cent, for which a 20.8 per cent growth was projected in the budget. It may be noted in this connection that growth rate of revenue expenditure in FY2008-09 was much lower compared to the average growth recorded during the previous five years (16.7 per cent).

The investment needs emanating from the economy and the implementation capacity of the government appears to be at loggerheads

1.4.2 Annual Development Programme (ADP)

Gradual decline in ADP expenditure as a per cent of GDP and successive failures to achieve reasonable level of ADP implementation have led to the debate as regards the optional ADP target size that Bangladesh should set for herself. The investment needs emanating from the economy and the implementation capacity of the government appears to be at loggerheads. While a trend growth in targets would suggest an ADP of about Tk. 28,000 crore in FY2008-09, a Tk. 25,600 crore ADP was fixed for the year. This was in fact lower than the original ADP of FY2007-08 (of Tk. 26,500 crore). While actual expenditure of FY2008-09 did mark some improvements in achieving absolute growth over FY2007-08, it was not enough to record a real growth (if adjusted for inflation). Consequently, ADP as percentage of GDP fell further to only 3.2 per cent (3.4 per cent in FY2007-08) which happened to be the lowest ever level of performance (Figure 1.6).

Figure 1.6: Trend in ADP Implementation



Source: Implementation Monitoring and Evaluation Division (IMED).

Between FY2000-01 and FY2007-08, actual ADP spending increased by, on an average, 2.6 per cent per year. In FY2008-09, a higher growth of 6.4 per cent was achieved (albeit lower than the average inflation of 6.6 per cent for FY2008-09). Implementation rate also registered some improvement, with 76.8 per cent of the allocated fund utilised in FY2008-09 (this was 69.6 per cent in FY2007-08 and 68.9 per cent in FY2006-07). The size of the realised ADP stood at Tk. 19,668 crore (Tk. 18,455 crore in FY2007-08). It is to be noted that in view of the low implementation rates achieved during the first three quarters of the fiscal year, ADP target was later revised downward to Tk. 23,000 crore (a reduction by 10.2 per cent).

Performance of the Top Five Ministries

The top five ministries/divisions in terms of ADP allocations were Local Government Division, Power Division, Ministry of Communication, Ministry of Health & Family Welfare (MoHFW), and Ministry of Primary & Mass Education.

Table 1.4: Performance of the Top Five Ministries in FY2008-09

Sector	Allocation as % of Total Original ADP	Expenditure as % of Revised Allocation	Expenditure as % of Original Allocation
Local Government Division	20.3	96.1	96.3
Power Division	13.6	82.4	63.4
Ministry of Communication	11.6	77.1	59.4
Ministry of Health & Family Welfare	9.4	76.7	83.0
Ministry of Primary & Mass Education	9.3	97.2	86.7

Source: Implementation Monitoring and Evaluation Division (IMED).

These ministries/divisions were allocated about two-thirds (64.2 per cent) of the total original ADP allocation in FY2008-09. Three of them were able to record higher than average utilisation rates: Local Government Division managed to spend 96.3 per cent of its allocation (Table 1.4); Ministry of Primary & Mass Education and Ministry of Health & Family Welfare also recorded above average utilisation rate of 86.7 per cent and 83.0 per cent respectively.

On the other hand, Ministry of Communication utilised only 59.4 per cent of its allocation. Notably, Power Division spent only 63.4 per cent of its allocation at a time when power crisis emerged as the overriding constraining factor in terms of attracting investments, both domestic and foreign.

Utilisation of Project Aid

Actual ADP of FY2008-09 in quantitative terms remained unacceptably low, particularly in view of the need of the economy and its role in crowding in private investment

Original ADP of FY2008-09 targeted 46.9 per cent (Tk. 12,000 crore) to be financed from project aid. However, in view of the low progress observed in projects with aid component during the initial months, project aid target was subsequently revised downward to Tk. 10,200 crore in the revised ADP (RADP). At the end of the fiscal year, only Tk. 7,913 crore project aid (65.9 per cent of the original target) was utilised. It is to be kept in mind that availability of project aid is subject to periodic review of progress in implementation.

Overall, actual ADP of FY2008-09 in quantitative terms remained unacceptably low, particularly in view of the need of the economy and its role in crowding in private investment. It is also important to note that of the total ADP expenditure, 40 per cent was spent during the last two months of the fiscal year. Rushed utilisation of funds during the end of the fiscal year has been a common feature in ADP implementation of Bangladesh and FY2008-09 was no exception in this regard. This creates a serious concern as regards quality of project implementation in Bangladesh.[7]

1.4.3 Budget Deficit and Financing

High prices were prevailing in the global markets when the budget for FY2008-09 was prepared

As was mentioned earlier, high prices were prevailing in the global markets when the budget for FY2008-09 was prepared. Keeping the high price level in mind, the budget for FY2008-09 projected a deficit of Tk. 30,580 crore (5.0 per cent of GDP). The revised budget for FY2008-09 projected a deficit of Tk. 24,960 crore (4.0 per cent of GDP). However, at the end of the fiscal year, a deficit of Tk. 20,000.4 crore (3.3 per cent of GDP) was observed (Table 1.5), notwithstanding the fact that revenue earnings fell short of its target by 4.6 per cent. This has happened more by default owing to the low ADP utilisation, although lower than projected growth in revenue expenditure also had consequence in this regard.

It may be noted here that the projected deficit for FY2008-09 in the original budget was 42.5 per cent higher compared to the actual deficit of FY2007-08. But the actual deficit was in fact lower than that of FY2007-08 (by 6.9 per cent).

[7]The pace of disbursement of project money generally accelerates following the review exercise carried out in March. Experience indicates that the review exercise ought to be carried out after six months, around January, to enable the policymakers to make mid-course corrections.

In financing the deficit, government had to rely mostly on domestic sources as foreign financing was not available to the tune that was originally anticipated. Of the projected Tk. 6,346.0 crore in grants and Tk. 11,456.7 crore as loan, only Tk. 1,273.5 crore (20.1 per cent of the target) in grants and 6,149.7 crore (53.7 per cent of the target) in loans were actually realised. After adjusting for amortisation payment of Tk. 4,665.4 crore, net foreign financing stood significantly lower at Tk. 2,757.9 crore, compared to the budgetary target of Tk. 13,582.0 crore. The realised net amount was only 20.3 per cent of the target and was (-)68.1 per cent lower compared to the actual net inflow of FY2007-08.

However, in order to offset the low inflow of aid the government was not required to take recourse to higher borrowing from domestic sources (bank and non-bank), since the overall expenditure requirement was low. Actual borrowing from the banking and non-banking sources were more or less aligned to the targets. Consequently, a compositional change took place in deficit financing, with domestic sources contributing 86.2 per cent to the total financing (59.8 per cent in FY2007-08) whilst the share of foreign financing declined to 13.8 per cent (40.2 per cent in FY2007-08) (Figure 1.7).

It may be expected that the declining trend in foreign debt (as percentage of GDP) observed over the last several years will be supported by the lower share of foreign financing in FY2008-09. However, the fact remains that a significant amount of the aid was not realised owing to the low implementation of ADP. This remains, as was mentioned earlier, a serious concern, particularly at a time when stimulating domestic demand was argued to be the best way to deal with the adverse consequences of the ongoing global economic crisis.

1.5 MONETARY SECTOR

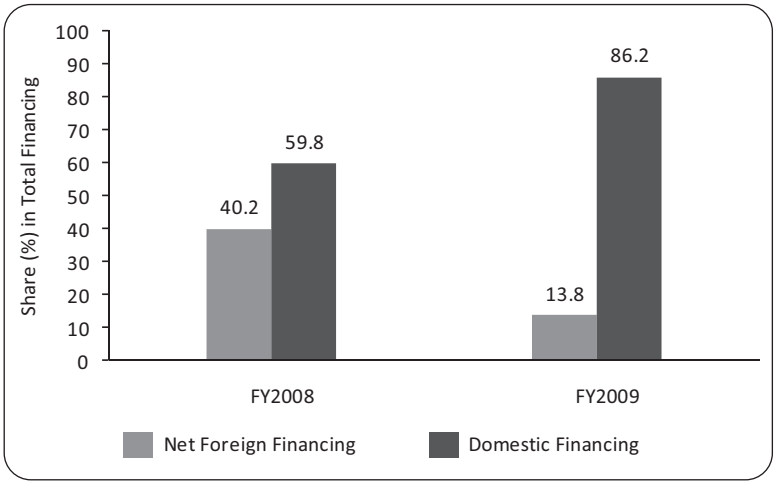
Though the rate of inflation has been showing a benign trend in recent times (Figure 1.8), underwritten largely by falling commodity prices in the global market, keeping the growth momentum on track in view of the global economic meltdown

Table 1.5: Budget Deficit and Sources of Financing

Sources	FY07	FY08	B09	FY09
Net Foreign Financing	3336.9	8639.9	13582.0	2757.9
Grant	1085.8	2413.1	6346.0	1273.5
Loan	6288.6	10599.3	11456.7	6149.7
Amortisation	4037.5	4372.5	4220.8	4665.4
Domestic Financing	15400.4	12854.3	17041.1	17242.6
Non-Bank Borrowing	4281.2	2500	3500.0	3504.4
Bank Borrowing	11048.6	10329.5	13498.0	13606.4
Sale of Assets	70.7	24.8	43.1	131.8
Total Financing	18737.3	21494.2	30623.0	20000.4
Total Financing as % GDP	4.0	4.0	5.0	3.3

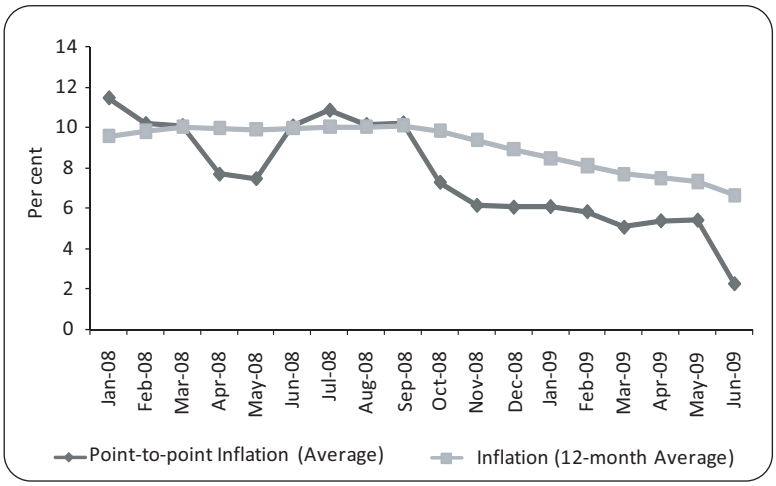
Source: Ministry of Finance (MoF).

Figure 1.7: Structure of Deficit Financing: FY2007-08 and FY2008-09



Source: Ministry of Finance (MoF).

Figure 1.8: Inflation Rate



Source: Bangladesh Bank.

continues to remain a daunting task for the policymakers. In order to tackle this, monetary policy will need to focus mainly on three major areas. First, ensuring higher credit to the productive sectors; second, managing the interest rate in a manner that is able to maintain real interest rates stable for both lenders and depositors; third, balance the apparently conflicting interests of exporters and importers through prudent management of the exchange rate regime. In addition to these, efforts have to be made to keep the inflation rate contained to avoid erosion of income and contraction of purchasing power of the common people. Monetary policy measures using various tools such as Repo, Reverse Repo, cash reserve ratio (CRR) and statutory liquidity ratio (SLR) have to be undertaken in a prudent manner to facilitate growth.

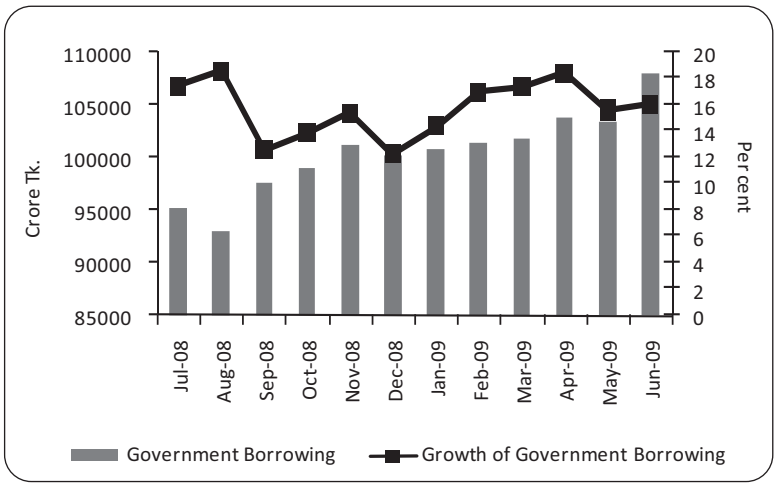
Efforts have to be made to keep the inflation rate contained to avoid erosion of income and contraction of purchasing power of the common people

Some of the trends observed in the monetary sector during the FY2008-09 are highlighted below.

1.5.1 Low Credit Expansion may Dampen Investment Scenario

In the backdrop of the global financial crisis and the resulting international economic downturn, domestic credit to various sectors has slowed down. Though total domestic credit increased by 16.03 per cent during FY2008-09 this growth is lower than FY2007-08 (20.91 per cent) (Figure 1.9). The private sector credit has taken a significant hit as total private sector credit grew only at 14.62 per cent during FY2008-09, compared to a growth of 24.94 per cent during the same period of FY2007-08. Net credit to the public sector, also grew at a lower rate during FY2008-09 than FY2007-08 (Figure 1.10; Table 1.7).

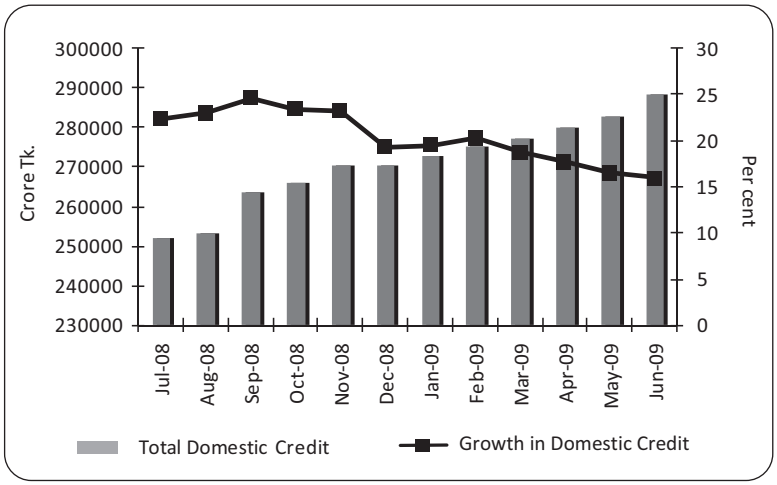
Figure 1.9: Government Borrowing



Source: Bangladesh Bank

In terms of sectoral credit disbursement, agriculture sector posted a positive but lower growth (8.2 per cent for FY2008-09 against 62.13 per cent during FY2007-08) (Figure 1.11). Given the emphasis of Bangladesh Bank on agricultural credit and instructions to the commercial banks to increase disbursement of agricultural credit it is expected that agricultural credit will show improvements in the next fiscal year. Industry sector has also experienced a major downturn as disbursement of term loan posted a negative growth by (-)0.88 per cent during FY2008-09 as opposed to a growth rate of as high as 62.58 per cent in FY2007-08. Disbursement of working capital decreased significantly by 12.67 per cent during FY2007-08 compared to 26.96 per cent in FY2008-09 (Figure 1.12). Low demand for industrial term loan will have a major setback on the industrial development of the country during the current fiscal year. Lack of confidence among the business community due to the

Figure 1.10: Domestic Credit



Source: Bangladesh Bank

global financial crisis coupled with lack of infrastructural support, particularly inadequate power supply have contributed to this decline in industrial term loan.

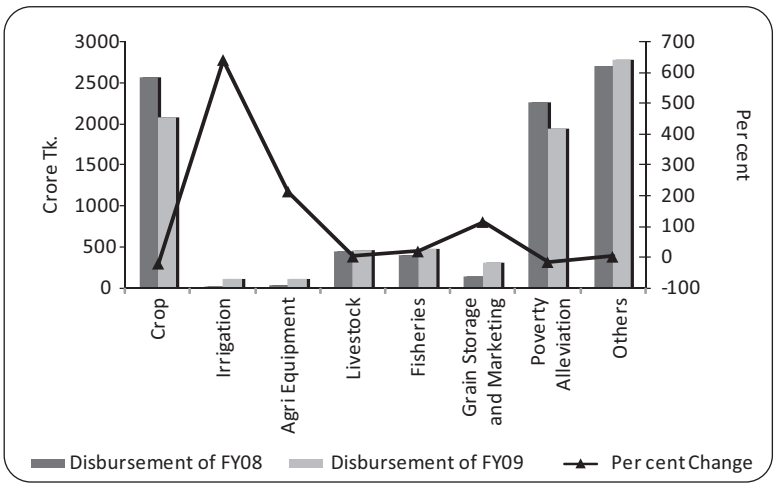
Lower demand for domestic credit has resulted in excess liquidity in scheduled banks which amounted to Tk. 34,762.08 crore as of end June 2009 (Figure 1.13), which is 167.64 per cent higher compared to end of June 2008. The increase of excess liquidity during FY2007-08 and FY2006-07 was 9.04 per cent. The lack of demand for cash from the banking channel is reflected through the historic low call money rate which went to as low as 0.25 per cent at a point of time during FY2008-09. In June 2009, the weighted average rate of call money was 1.71 per cent compared to 9.74 per cent in June 2008. The excess liquidity situation has been compounded by several factors in the face of the ongoing global financial crisis.

Firstly, a large share of the bank credit in Bangladesh goes towards letter of credit (L/C) opening. Prices of all main commodities have gone down in the global market since September 2008, which would imply that less money would be required to import the same amount. This has reduced the requirement for import credit. Secondly, because of the financial crisis the business community has been prone to taking conservative steps with regard to business decisions. This is evident through the decline of L/C opening for capital machineries. Thirdly, government expenditure during FY2008-09 has also been low.

1.5.2 Capping of Interest Rate to Improve Investment

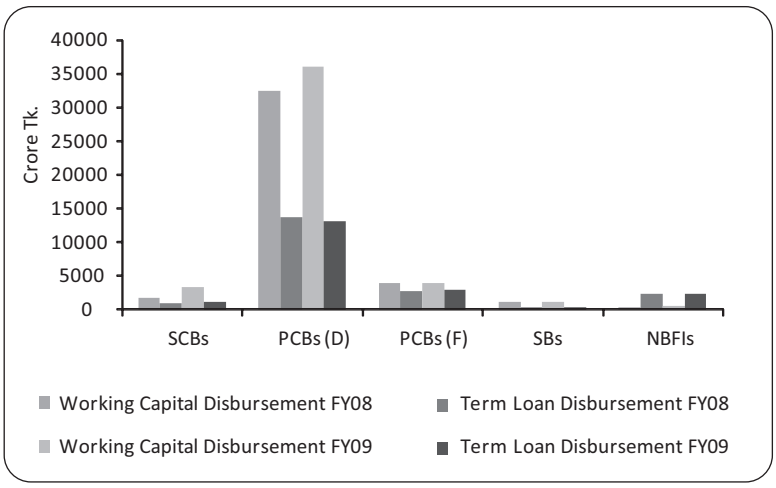
In line with its objective of providing adequate credit for production-oriented activities, the Bangladesh Bank has reduced the Repo and Reverse Repo in March 2009 by 25 basis points to 8.5 per cent and 6.5 per cent respectively from 8.75 per cent and 6.75 per cent respectively in December 2008. As is known, the Bangladesh Bank has recently asked the commercial banks to limit the lending rate to within 13 per cent from an

Figure 1.11: Agricultural Credit



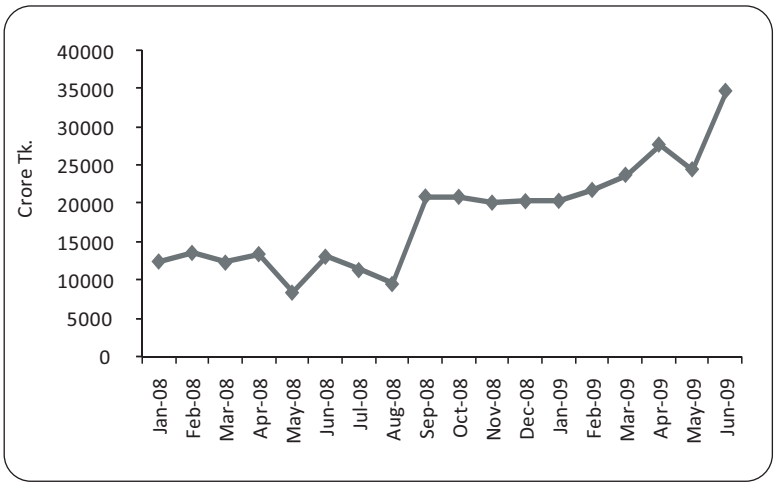
Source: Bangladesh Bank.

Figure 1.12: Industrial Loan



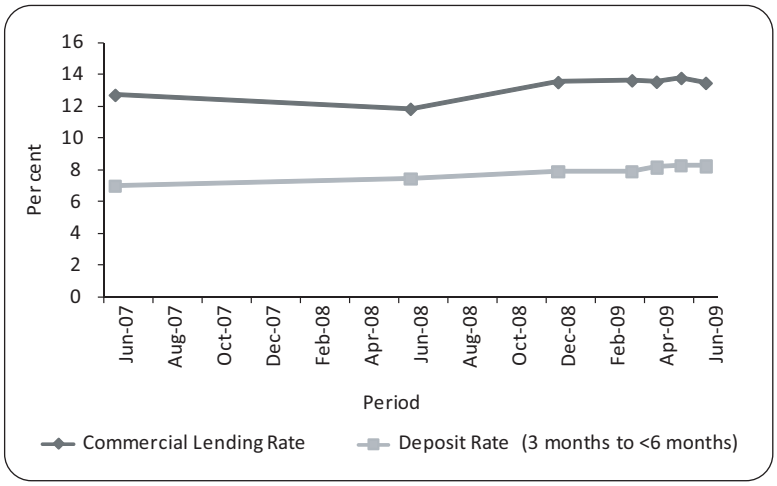
Source: Bangladesh Bank.
Note: SCB: State-owned Commercial Bank; PCB: Private Commercial Bank (D&F: Domestic & Foreign); SB: Specialised Bank; NBFI: Non-bank Financial Institution.

Figure 1.13: Trends in Excess Liquidity



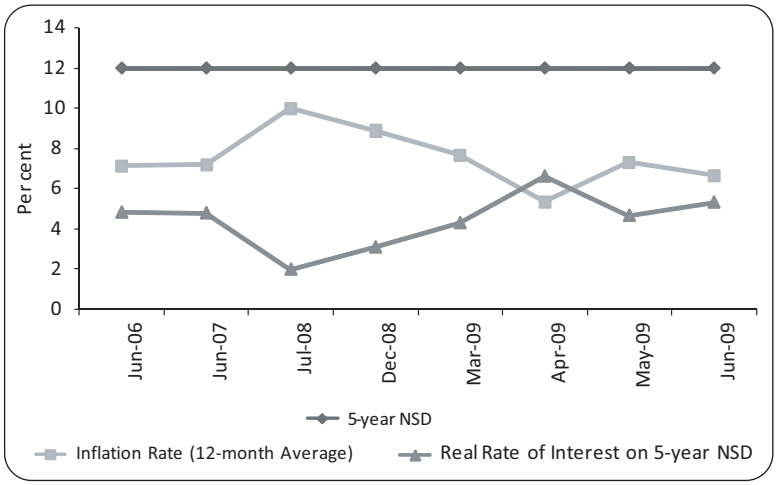
Source: Bangladesh Bank.

Figure 1.14: Monthly Trends of Lending and Deposit Rate



Source: Bangladesh Bank.

Figure 1.15: Real Rate of Interest



Source: Bangladesh Bank.
Note: NSD: National Savings Bond.

Table 1.6: Weighted Average Interest Rate of Government Long-term T-bill*/ Bonds and Inflation

Period	BGTB**		NSD		Inflation Rate (12-month Average)	Real Rate of Interest on BGTB		Real Rate of Interest on NSD	
	5 - Year	10 - Year	3 - Year	5 - Year		5 - Year	10 - Year	3 - Year	5 - Year
June 2006	10.60	12.09	10.00	12.00	7.16	3.44	4.93	2.84	4.84
June 2007	10.60	12.14	11.50	12.00	7.20		4.94	4.30	4.80
July 2008	10.60	11.72	11.50	12.00	10.00	0.60	1.72	1.50	2.00
December 2008	10.60	11.72	11.50	12.00	8.90	1.70	2.82	2.60	3.10
March 2009	10.60	11.72	11.50	12.00	7.69	2.91	4.03	3.81	4.31
April 2009	9.97	11.68	11.50	12.00	5.36	4.61	6.32	6.14	6.64
May 2009	10.60	11.70	11.50	12.00	7.32	3.28	4.38	4.18	4.68
June 2009	10.60	11.70	11.50	12.00	6.66	3.94	5.04	4.84	5.34

Source: Bangladesh Bank.
Note: *T-bill: Treasury Bill; **BGTB: Bangladesh Government Treasury Bond.

average rate of 15.5 per cent for all sectors, except for consumer and credit card loans. However, the desired effect of this policy on spread may not be realised as it is apprehended that commercial banks may make a move towards reducing interest rates for fixed deposits in order to keep the interest rate spread same for making up their anticipated cut in profits. As a matter of fact, even after the instruction of the Bangladesh Bank, average lending rate in commercial banks was 13.46 per cent in FY2008-09 and the interest rate spread stood at 5.2 per cent, a rate higher than FY2007-08 (4.36 per cent). The monthly trend of lending and deposit rate is shown in Figure 1.14. On the other hand, the real rate of interest on various types of deposits are having insignificant increase due to inflation as well as cuts in bank rates on deposits (Figure 1.15; Table 1.6).

The reasons for high lending rates include inefficiencies in the financial system, market segmentation and lack of competition. Apart from these supply-side problems, high interest rate can also be linked to high demand for corporate loans. If equity finance could be encouraged through policies that stimulate and encourage capital markets, demand for loanable funds would be reduced with favourable effect on lending rates. Other factors responsible for high lending rates include inflationary pressure and loan default risks, particularly in a country such as Bangladesh where non-economic factors also play a role in non-performing loans (NPL). Though growth in NPL is slightly lower in FY2008-09 (10.50 per cent) than in FY2007-08, the percentage of NPL to total outstanding loan is still 13.02 per cent as of June 2009, a slight decline from 13.96 per cent of June 2008 (Table 1.7).

As is well known, interest rate is only one of many tools in the arsenal of the monetary policy to boost investment. This policy instrument cannot be successful without supportive fiscal and institutional policies. Effective tax measures are important and so is a business-supportive environment, which includes among others, supportive infrastructure and a

stable political environment for attracting both foreign and domestic investment. An earlier Independent Review of Bangladesh's Development (IRBD) report (CPD 2007) noted that the correlation between interest rate and investment was not significant. Along with capping of lending rates, emphasis should also be put on reducing the interest rate spread, which is still about 5 per cent, one of the highest in the world. The idea of fixing a floor on deposit rates needs to be carefully examined not only to protect the small depositors, but also to keep large depositors attracted towards the banking system. Otherwise, banks could face credit crunch in the future as depositors may look for better investment opportunities such as capital market and real estate for higher returns.

1.5.3 Exchange Rate Manipulation is Not a Feasible Option

Stability of the exchange rate of Bangladesh Taka (BDT) with the United States Dollar (USD) since June 2006 has given rise to concern among a segment of the business community, particularly exporters (Figure 1.16). Exporters argue that competitiveness of Bangladeshi products in the global market is being undermined at a time when most other currencies have seen significant depreciation of their exchange rate vis-à-vis USD. The BDT has indeed in the recent past, appreciated (via a lower percentage fall against the USD) in relation to a number of currencies including Vietnamese Dong (VND), Cambodian Riel (KHR), Sri Lankan Rupee (LKR) and Indian Rupee (INR) (Figure 1.17). However, the real effective exchange rate (REER) of BDT appears to have been stable over the same period (Figure 1.18).

The call for depreciation needs to be considered carefully since export and import elasticities are important considerations that need to be taken into account in deciding on whether a depreciation of BDT will actually have positive overall impact on trade and current account balance. Research has also shown that Bangladesh's imports exhibit higher price elasticity than exports (Razzaque 2004). Hence, as a result of depreciation of the BDT, ceteris paribus, imports would fall

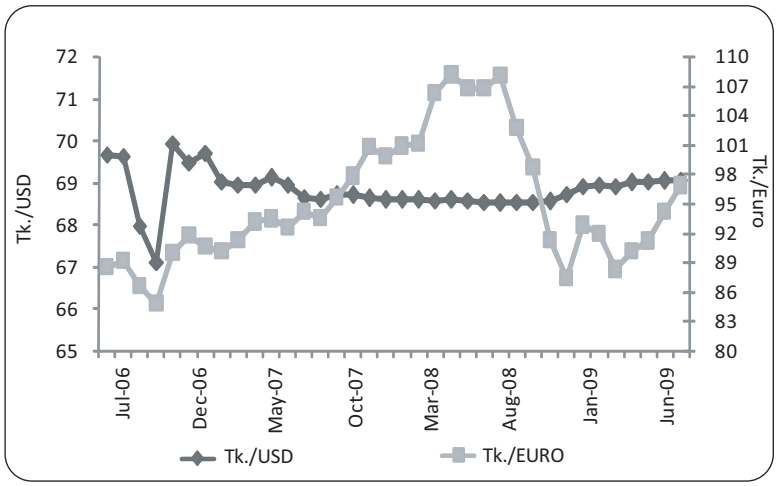
Table 1.7: Changes of Monetary Sector Variables

(in Per cent)

Indicator	FY2007-08	FY2008-09
Inflation rates (June)		
Point-to-point	10.04	2.25
12-month average	9.94	6.66
Growth in money supply (July-June)		
Broad money (M2)	17.48	19.17
Reserve money	19.78	31.45
Demand deposit	15.46	14.10
Time deposit	17.11	21.42
Excess liquidity	-9.9	167.64
Growth in credit (July-June)		
- Domestic credit	20.91	16.03
- Credit to public sector	30.16	24.04
- Credit to private sector	24.94	14.62
Growth in agricultural credit (July-June)		
Disbursement	62.13	8.20
Recovery	28.39	39.54
Growth in industrial credit (July-June)		
Term loan	62.58	-0.88
Working capital	26.3	12.67
Share of NPLs in all banks (June)	13.02	10.50
Interest rates(June)		
- Lending rate	11.82	13.46
- Deposit rate	7.46	8.26
- Spread	4.36	5.2
- Call money rate (June average)	9.74	1.71
Exchange rate (June average)		
BDT/USD	68.52	69.05
BDT/EURO	106.7	96.78
BDT/INR	16.0	19.5

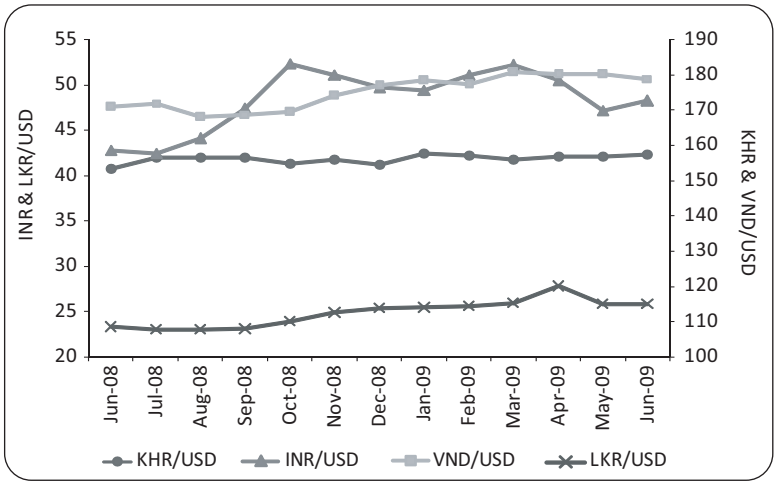
Source: Bangladesh Bank.

Figure 1.16: Movements of BDT: July 2006 - June 2009



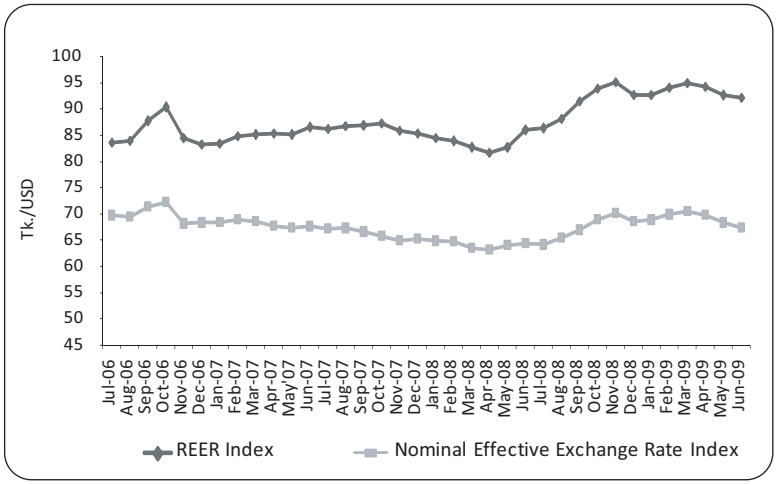
Source: Bangladesh Bank.

Figure 1.17: Movements of Other Regional Currencies against the USD: FY2008-09



Source: www.oanda.com

Figure 1.18: Nominal and Real Effective Exchange Rates



Source: Bangladesh Bank.

A moderate expansionary monetary policy may be pursued, as low inflation rate appears to have given a leeway at the moment

but exports may not register comparable rise (Panagariya *et al*. 1996). It would appear that, instead of pursuing policies that would lead to depreciation of the BDT, other policies including fiscal and monetary measures that stimulate export-oriented activities and enhance their competitiveness, should be given more emphasis by the policymakers. This could be in addition to what has already been announced by the government in April 2009 in its stimulus package of Tk. 3,424 crore which includes extension of payback period of bank loan from 90 to 120 days for the exporters, and increase the amount of borrowing from USD 1 million to USD 1.5 million from the Export Development Fund. In June 2009, the government has also announced a stimulus package of Tk. 5,000 crore in the national budget of FY2009-10 with the expectation to revive the dynamism of the affected sectors such as the readymade garments (RMG), frozen food and leather.

1.5.4 Future Monetary Policy Stance

The overall outlook for the monetary sector looks gloomy as monetary aggregates do not bode well for the health of the banking sector and the economy. In view of a slowdown in investment scenario as evident, particularly from low credit flow to the productive sectors including agriculture and industry, and high excess liquidity in the banking system, a moderate expansionary monetary policy may be pursued, as low inflation rate appears to have given a leeway at the moment. However, global commodity and fuel prices are expected to rise as the large economies are preparing for a kick start in the coming months when some of the benefits of huge stimulus packages will begin to show up in the horizon. Therefore, future monetary policy stance should strive to maintain price stability, improve the observed slowdown in economic activities, and promote growth through making all out efforts to utilise the idle money in the financial channels by way of making bank loans less costlier, and constant monitoring of the growth of money supply and movements of the exchange rates.

1.6 REAL SECTOR

1.6.1 Agriculture

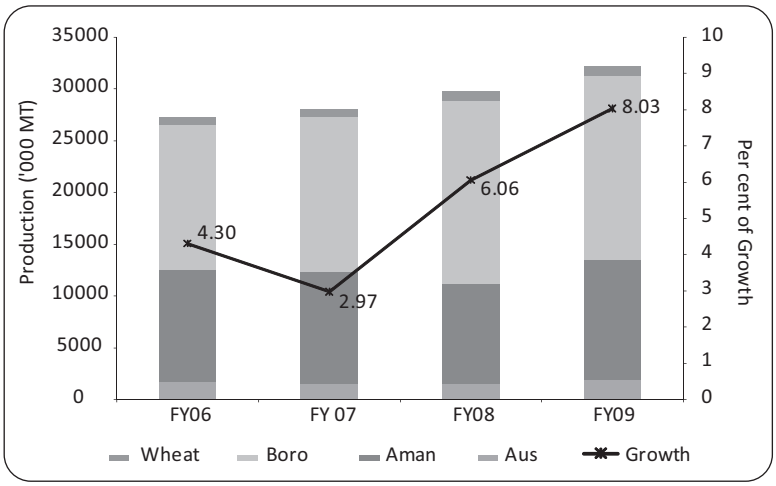
In FY2008-09, Bangladesh agriculture had experienced four major developments: (i) production in foodgrains recorded highest level but farmers had to sell Boro rice at lower than their cost of production; (ii) fertiliser supply situation improved in Bangladesh and price of fertiliser decreased in international market; (iii) adverse impact on domestic milk production as a consequence of import surge due to decline in international price of milk powder; and (iv) meat production increased but egg production posted a decline.

Production in foodgrains recorded highest level

Production of Foodgrains and Profitability in Rice Production

In FY2008-09, total production of foodgrains (rice and wheat) was 32.2 million metric tonnes (MT), which was the highest level of production in Bangladesh's history (Figure 1.19). According to the BBS, production of Boro rice in FY2008-09 was 17.8 million MT while production of Aman and Aus rice was 11.6 million MT and 1.9 million MT respectively. On the other hand, production of wheat was 0.85 million MT in FY2008-09. Production of total foodgrains and rice were respectively 8.0 and 8.2 per cent higher than that of the previous year (FY2007-08). Higher production of foodgrains in FY2008-09 was primarily underwritten by the good harvest of rice over all the three paddy seasons (Aus, Aman and Boro) as well as wheat.

Figure 1.19: Estimated Production of Foodgrains in FY2008-09



Source: Bangladesh Bureau of Statistics (BBS).

Though in terms of production it was a good year, it was a bad year for Boro rice growers in terms of profitability. During the harvesting period, farm-level price of coarse rice and paddy was so low that farmers had to sell their paddy at lower levels than the cost of production. Farm-level visit by a team of CPD researchers in mid-May 2009, in selected areas of Naogaon, Rangpur, Bogra and Mymensingh, revealed that at the then prevailing market price of paddy, farmers' loss was about Tk. 1,700 - Tk. 4,000 per acre (Table 1.8).[8] Other major findings of the field visit are: (i) estimated cost of per kg production of Boro rice varied between Tk. 11.73 and Tk. 12.75, depending on the type of the Boro paddy (Hybrid or high-yielding variety (HYV)) and method of irrigation (electricity-operated or diesel-operated). Cost of production was higher for diesel-irrigated Boro rice compared to electricity-irrigated Boro rice. Estimated weighted average cost of production of Boro paddy was Tk. 12.49 per kg and Boro rice was Tk. 20.14 per kg; (ii) farmers were selling wet paddy to the traders. In terms of dry paddy equivalent, farmers were obtaining Tk. 10.00 to Tk. 11.67 per kg by selling hybrid paddy, Tk. 11.67 to Tk. 12.50 per kg for BR 28 paddy and Tk. 14.06 per kg for BR 29 paddy; (iii) average price of coarse paddy (Tk. 10.85 per kg) at the farm-level was lower than the average production cost of paddy (Tk. 12.49 per kg).

During the harvesting period, farm-level price of coarse rice and paddy was so low that farmers had to sell their paddy at lower levels than the cost of production

[8]The team discussed with relevant stakeholders including farmers, traders, millers and local food procurement officers to elicit the required information.

Table 1.8: Cost of and Return from Boro Rice in FY2008-09

Input Use	HYV Boro Rice		Hybrid Boro Rice	
	Diesel-irrigated (Tk.)	Electricity-driven (Tk.)	Diesel-irrigated (Tk.)	Electricity-driven (Tk.)
Seed	600.00	600.00	1320.00	1320.00
Fertiliser	4308.00	4308.00	5225.00	5225.00
Manure	400.00	400.00	400.00	400.00
Pesticide	500.00	500.00	860.00	860.00
Human labour	10600.00	10600.00	11720.00	11720.00
Land cultivation (bullock/power tiller)	1800.00	1800.00	1800.00	1800.00
Irrigation	4000.00	2000.00	4000.00	2000.00
Interest on operating capital	1110.40	1010.40	1266.25	1166.25
Land rent	6000.00	6000.00	6000.00	6000.00
Total cost (Tk./acre)	29318.40	27218.40	32591.25	30491.25
Production cost of Paddy (Tk./kg)	12.75	11.83	12.54	11.73
Production cost of Rice (Tk./kg)	20.53	19.13	20.21	18.97
Yield (kg/acre)	2300	2300	2600	2600
Paddy Price (Tk./kg) in mid-May 2009	12.00	12.00	11.00	11.00
Gross Return (Tk./acre)	27600.00	27600.00	28600.00	28600.00
Net Return (Tk./acre)	(-)1718.40	381.60	(-)3991. 30	(-)1891.30

Source: CPD Field Survey, 2009.
Note: The conversion rate of paddy to rice was calculated at 1 kg paddy = 0.65 kg rice and milling cost (including parboiling) was calculated @ 0.60 Tk./kg.

To safeguard the interests of the farmers and meet procurement need of rice for public food distribution system (PFDS), the Ministry of Food and Disaster Management (MoFDM) fixed the procurement price at Tk. 14 per kg for paddy and Tk. 22 per kg for rice. These were reasonably fair price considering cost of production and prevailing market price. However, the government had only a limited success in this regard. In FY2008-09, government was able to procure 14.82 lakh MT foodgrains (14.48 lakh MT as rice and 0.34 lakh MT as wheat), which was 66.5 per cent higher than the previous year's procurement of 8.7 lakh MT. The achievement rate was 111 per cent vis à vis 69.5 per cent of previous fiscal (FY2007-08). The government set a target to procure 12.5 lakh MT (11 lakh MT as rice and 1.5 lakh MT as paddy) of Boro rice for the current season. During 1 May to 30 June 2009, about 7.15 lakh MT of Boro rice had been procured. In view of the gaps between the procurement price and the price received by farmers, there is a renewed need to identify institutional mechanisms so that direct procurements can be made at farm-gate. Whether farmers could be co-owners of rice mills through cooperatives so that they could be in a position to reap the benefits of procurement by the government from mills, is one area which needs to be explored further. Establishment of private godowns for use by farmers on a payment basis may also be considered. Perhaps this could be another area of public-private partnership (PPP). Modalities aimed at closer involvement of local government institutions could be another possible avenue. Since the issue of the gap between procurement price and farm-gate price is likely to be a recurring problem in years ahead as well, perhaps time has come to explore possible avenues to address this issue through broad based consultations involving government and all other relevant stakeholders.

There is a renewed need to identify institutional mechanisms so that direct procurements can be made at farm-gate

Fertiliser Availability and Price of Fertilisers

There was no major complaint with regard to fertiliser availability in FY2008-09. Price of fertiliser was of concern to farmers at the beginning of the fiscal year. Between May and December 2008, farm-level prices of all types of fertilisers increased significantly. Over this period, price of Urea and triple super phosphate (TSP) more than doubled while price of muriate of potash (MoP) rose by 1.5 times. Because of high price, farmers have used lower quantity of non-urea fertiliser in the Aman season. Under this circumstance, on 14 January 2009, the newly elected government fixed the price of TSP, MoP and diammonium phosphate (DAP) at Tk. 40, Tk. 35 and Tk. 45 per kg respectively, which implied a high level of subsidy. This was a very timely decision that was aimed at providing subsidy on non-urea fertiliser to promote balanced

Table 1.9: Supply of Fertiliser in Bangladesh

(in Lakh MT)

Type of Fertiliser	FY2004-05	FY2005-06	FY2006-2007	FY2007-08	FY2008-09
Urea	25.23	24.61	25.27	26.68	24.00
TSP	4.20	4.36	3.40	4.61	2.00
DAP	1.71	1.30	1.15	2.50	0.50
MoP	2.60	2.91	2.30	4.01	1.50
Total	33.74	33.18	32.12	37.80	28.00

Source: Department of Agricultural Extension (DAE).

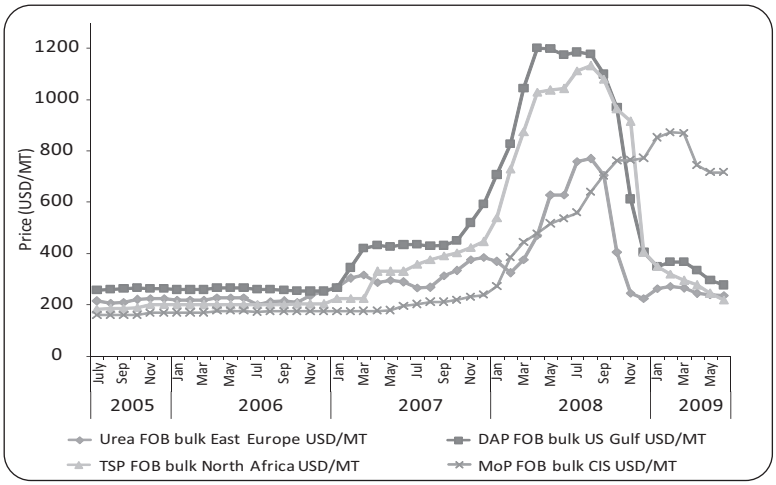
fertiliser use and reduce the cost of production. The government was able to implement the decision at the field level, and farmers were able to obtain fertiliser at the declared prices. This had positive impact on production of Boro rice and wheat in FY2008-09.

Total supply of fertiliser in FY2008-09 was 28 lakh MT comprising 24 lakh MT of urea, 2 lakh MT of TSP, 0.5 lakh MT of DAP and 1.5 lakh MT of MoP (Table 1.9). Use of all types of fertilisers was substantially lower in FY2008-09 than any year during the last five years. Exorbitantly higher prices of fertilisers prevailing during the first half of FY2008-09 had a negative impact on fertiliser use. Since non-urea fertilisers (TSP, MoP, DAP) are used as basal and large quantity is used for potato and winter vegetables, reduction in non-urea prices had limited scope to increase use of such fertilisers immediately. A large number of Boro farmers also planted Boro rice by mid-January. Therefore, they also did not have any scope to use the non-urea fertilisers. All these factors together explain reduction in fertiliser use in FY2008-09.

Farmers were able to obtain fertiliser at the declared prices

International prices of all types of fertilisers except MoP declined substantially between July 2008 and June 2009 (Figure 1.20). During this period, price of urea, TSP and DAP decreased by 69 per cent, 80 per cent and 77 per cent respectively. On the other hand, price of MoP increased by 28 per cent. In June 2009, international prices of a metric ton of Urea, TSP, DAP and MoP were USD 238, USD 220, USD 278 and USD 718, respectively. Thus, after rapid and high escalation of prices of urea, TSP, and DAP in 2007 and 2008, prices have reverted back to the level of 2006, but price of MoP continues to remain high. At the current international prices, cost of importing fertilisers (including freight and insurance) will be about Tk. 19.7 per kg for urea, Tk. 18.5 per kg for TSP, Tk. 22.45 per kg for DAP, and Tk. 52.6 per kg for MoP. Considering the positive developments of fertiliser price in the international market, the government may consider further reduction in administered price of non-urea fertilisers. This would contribute towards balanced fertiliser use and reduced cost of production, which will be helpful for increased production, food security and keeping prices of agricultural products at an affordable level.

Figure 1.20: International Price of Fertilisers (Urea, DAP, TSP and MOP): July 2005 - June 2009



Source: Commodity Markets Review, World Bank.

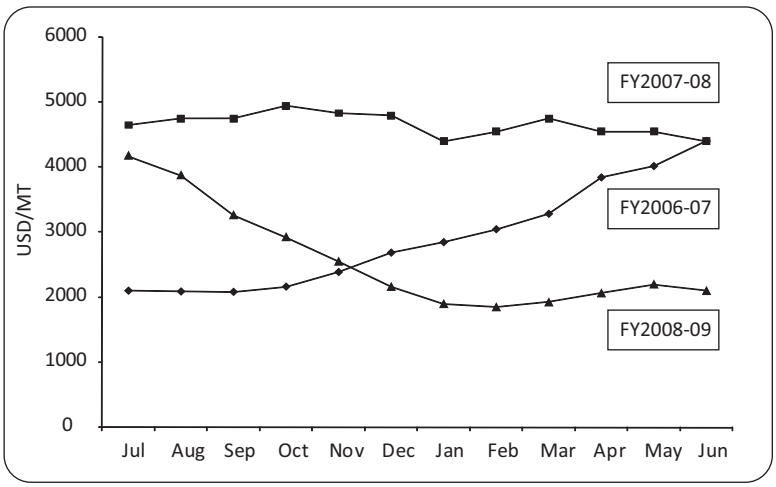
Milk Production

In FY2008-09, milk production in Bangladesh was around 2.29 million MT, which was 13.0 per cent lower than that of FY2007-08 albeit insignificantly, at 0.3 per cent higher than that of FY2006-07. International price of milk powder decreased significantly in FY2008-09, which has had an adverse impact on domestic milk producers. During July to June of FY2008-09, average price of milk powder declined by 50 per cent (from USD 4,175 to USD 2,100 per MT) (Figure 1.21). Bangladesh's major import of milk products are: sweetened milk powder (HS 040210) and non-sweetened (HS 040221) milk powder. In FY2008-09, quantity of import of sweetened and non-sweetened milk powder was 11,190 and 19,240 MT (i.e. 107 per cent and 53 per cent higher than that of FY2007-08). In value terms, import of sweetened milk powder in FY2008-09 was 35 per cent higher than

International price of milk powder decreased significantly in FY2008-09, which has had an adverse impact on domestic milk producers

previous year, however this was 18 per cent lower for non-sweetened milk powder. To understand the adverse impact of the above, one needs to take note of the import surge in the early months (January-March) of 2009 rather than the total import for the whole fiscal year. During the third quarter (January-March) of FY2008-09, Bangladesh's import of sweetened milk powder was 5,270 MT (5.3 times of import in comparable period of FY2007-08). On the other hand, import of non-sweetened milk powder was 5,500 MT (61 per cent higher than the import during comparable months of 2008). In FY2008-09, total operative tariff rate for import of sweetened milk powder was 33 per cent (against 37 per cent in FY2007-08) and for non-sweetened milk powder it was 77 per cent (against 78 per cent in FY2007-08). This sudden and high import at low prices has created problem for domestic milk producers and companies.[9] Farmers reported that milk prices in April 2009 have fallen below their productions cost (Tk. 35 per litre), however, buyers would like the prices to be even lower.

Figure 1.21: International Price of Full Cream Milk Powder: July 2006 – June 2009



Source: International Dairy Market News Reports, United States Department of Agriculture (USDA).

In mid-May 2009, a team of CPD researchers visited Sirajganj area and held discussions with dairy farmers, feed sellers, officials from Milk Vita and other companies. Major findings from the field visit were: (i) farmers enjoyed good business in 2007 and 2008 due to high demand for liquid milk originating from high international price and melamine scare; however, they were facing difficulties due to lack of demand for their milk; (ii) demand for milk by consumers and sweetmeat industry declined due to availability of low cost milk powder; (iii) companies have reduced both quantity of purchase and price (Tk. 4 to 6 per litre) of milk; (iv) feed cost in March-April 2009, against that of March-April 2008, has indeed fallen by about 15 per cent. Some options to support the milk producers and milk industry under the current circumstances are: (i) withdrawal of existing 15 per cent VAT on production of milk powder; (ii) review of import duty on milk powder to make a balance between producer and consumer interests; (iii) better technical support to farmers through Livestock Department by appointing additional number of livestock officers (veterinarians and animal husbandry specialists) in intensive milk production areas; and (iv) supply of medicines and vaccines at a subsidised rate. In this context, measures taken in the national budget of FY2009-10 are indeed welcome. These are: (i) introduction of an additional 5 per cent regulatory duty on imported milk powder; (ii) withdrawal of 2.5 per cent SD applicable on the processing of liquid milk to convert into powdered milk; (iii) fixing of tariff value for powder milk at Tk. 100 per kg, which will result Tk. 15 per kg as VAT on production of milk powder instead of existing Tk. 50 per kg as VAT. Hopefully, these will benefit the dairy sector.

Farmers enjoyed good business in 2007 and 2008 due to high demand for liquid milk originating from high international price and melamine scare; however, they were facing difficulties due to lack of demand for their milk

Meat and Egg Production

In FY2008-09, meat production was 10.84 lakh MT which was 4.2 per cent higher than that of FY2007-08 and FY2006-07. On the other hand, total production of egg was 46,961 lakh pieces, which was 17.0 per cent lower than that of FY2007-08

[9] In April 2009, hundreds of Bangladeshi dairy farmers poured milk onto highways to protest against these falling prices.

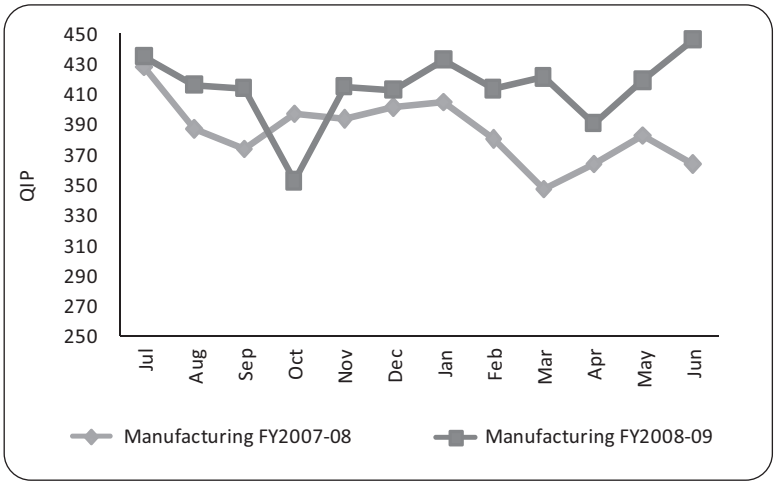
and 12.5 per cent lower than that of FY2006-07. This declining trend was mainly due to the prevalence of bird flu. Big poultry farms have been able to learn the techniques to manage bird flu for layer birds, but small farms failed to adapt to the bird flu and stopped production of eggs in their farms since they were unable to cope with this virulent disease. Another factor was that many bank branches declined to provide loans to the affected producers.

1.6.2 Industry

Growth of Industrial Sector during FY2008-09

For the industrial sector, FY2008-09 was a year full of anxieties, tension and apprehension. The effect of the global financial crisis on the Bangladesh economy started to be felt in the first half of FY2008-09; this was coupled with political uncertainties during the run up to the National Election in December 2008. Growth of the industrial sector during FY2008-09, according to the Bangladesh Economic Review 2009, was 5.92 per cent, reflecting a growth slowdown of the sector by approximately 1.5 per cent compared to the previous year. However, growth of manufacturing industries estimated on the basis of the quantum index of production (QIP) as reported in the *Industrial Production Statistics* of the BBS, showed an acceleration of growth for both large and medium-scale manufacturing industries (from 6.9 per cent in FY2007-08 to 7.4 per cent in FY2008-09) and small-scale industries (from 5.8 per cent in FY2007-08 to 7.8 per cent in FY2008-09).[10]

Figure 1.22: QIP of Large and Medium Scale Manufacturing Industries



Source: Bangladesh Bureau of Statistics (BBS).

Table 1.10: Fluctuation of Production in the Manufacturing Sector

Industry	Standard Deviation					
	FY2007-08			FY2008-09		
	July - December	January - June	July- June	July- December	January- June	July- June
Manufacturing (QIP)	18.2	19.9	21.8	28.2	18.7	23.7
Garments (Million Tk.)	3983.3	3226.6	4614.9	6097.5	3419.8	5099.3
Jute Textile (MT)	1481.8	2996.3	2361.1	2710.1	8681.9	6134.5
Cement (MT)	8362.8	18042.9	16052.9	1224.4	11363.0	7857.6

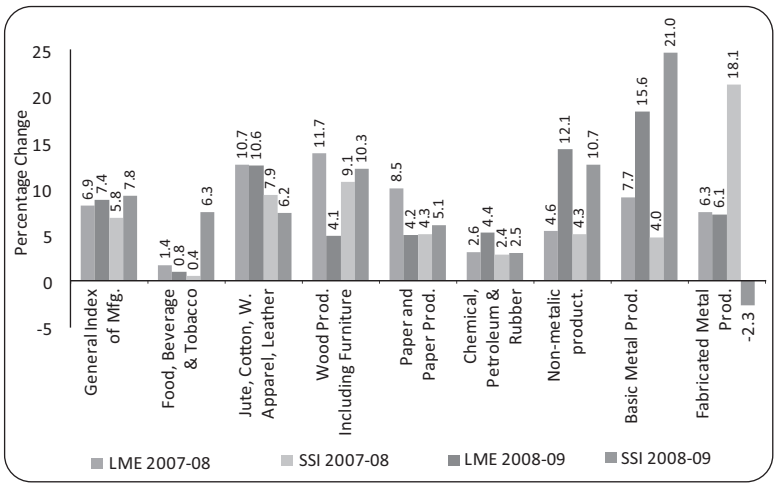
Source: Estimated from BBS (2009).

Industrial production experienced fluctuating fortunes during FY2008-09 (Figure 1.22; Table 1.10). Analysis of disaggregated data indicates that production in manufacturing sector in FY2008-09 experienced higher level of fluctuation compared to the previous year.[11] Fluctuations in production were relatively higher in July-December 2008, perhaps due to the deepening impact of the global financial crisis in the first half of the fiscal year. Major export-oriented industries, particularly the RMG sector, saw high fluctuation in the first half of FY2008-09. Jute textiles, another export-oriented product, also faced similar variations during the second half of FY2008-09. On the other hand, production of cement, a local market-based product, experienced lower levels of variations in production. A high volatility of product demand in the international market during FY2008-09 had adversely affected production of export-oriented products as well as investment in FY2008-09.

[10] Part of the difference in the growth estimates could be explained by the use of projected data for several months in the Bangladesh Economic Review 2009 and the use of index values for estimating QIP in the Industrial Production Statistics.

[11] Standard deviation of manufacturing production in FY2007-08 was 21.8 which increased to 23.7 in FY2008-09.

Figure 1.23 Changes in Production of LMEs and SSIs in FY2008-09 over FY2007-08 (Based on QIP)



Source: Estimated from BBS (2009).
Note: LME: Large and Medium Enterprise; SSI: Small-scale Industry.

Table1.11: Public and Private Investment

Indicator	FY2006-07	FY2007-08	FY2008-09
Investment (billion Tk.)			
Total investment	1155.9	1321.3	1486.9
Public	257.3	270.4	284.9
Private	898.6	1050.9	1202.0
Percentage change			
Total investment	12.8	14.3	12.5
Public	3.2	5.1	5.4
Private	15.9	16.9	14.4
ICOR	3.81	3.91	4.11

Source: Estimated from the MoF (2009).

Performance of Selected Industries during FY2008-09

According to the QIP, production of large and medium-scale industries has registered a relatively low level of growth in FY2008-09 (7.4 per cent) compared to that of small-scale industries (7.8 per cent) (Figure 1.23). A number of large and medium enterprises have either experienced marginal deceleration in the production (jute, cotton or clothing apparel) or a substantial fall in the production (wood products, paper and paper products and fabricated metal products). Small-scale industries, on the other hand, have registered a substantial rise in production during FY2008-09 (basic metal products, food beverages and tobacco, wood products including furniture, paper products and non-metallic products). However, there was no specific trend in the level of performance of different categories of industries (in terms of size) during the volatile period of FY2008-09.

Contribution of manufacturing sector to the GDP has stagnated as a share of GDP (17.77 per cent in FY2007-08 and 17.78 per cent in FY2008-09). A deceleration in the growth of private investment in FY2008-09 (14.4 per cent against 16.9 per cent in FY2007-08) corroborates the decline in industrial production and its decreased contribution to GDP. A gradual rise of the ICOR over time (4.11 in FY2008-09, 3.91 in FY2007-08, 3.81 in FY2006-07 and 3.74 in FY2005-06) is indicative of the decreasing level of capital productivity (Table 1.11). Investment by large and medium enterprises, with major share in total investment, appears to have remained stagnant resulting in their unchanged level of contribution to GDP. Public investment at its current level (Tk. 28,490 crore in FY2008-09), with lower focus on development of physical infrastructural facilities (most importantly development of energy and the power sector), has resulted in a situation whereby low capacity utilisation in industrial enterprises has emerged as a pervasive problem.

Major service-related industries have registered deceleration of growth

Services Sector

Services sector contributing 49.7 per cent of the GDP was able to maintain a growth rate over 6 per cent in FY2008-09 (6.25 per cent); the sector's growth was, however, low compared to the previous year (6.49 per cent). The deceleration of growth of some of the services sectors can be partly attributed to the slowdown of growth of major manufacturing sectors. Major service-related industries which have registered deceleration of growth include transport, storage and communication (to a significant extent), and financial intermediation, wholesale and retail trade (to some extent) (Table 1.12). A part of the deceleration could have linkage with the volatility of export-oriented industries during FY2008-09. Services sectors/sub-sectors which experienced relatively high growth include: public administration and defense, education, health and social services,

community and personal services, air transport and land transport. In light of the critical importance of social sectors (such as education, health and public administration) to the development of the private sector, both quality and magnitude of investment in these sectors will need to rise further.

Table 1.12: Growth of GDP at Constant Price (Base: 1995-96=100)

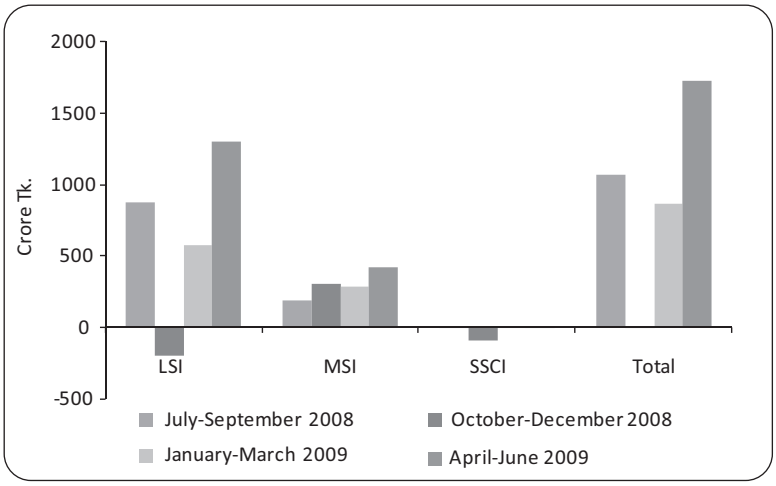
Activity/Sector	Share in GDP	Share in Services	Growth of Services		
	FY2008-09	FY2008-09	FY2006-07	FY2007-08	FY2008-09
Wholesale and retail trade	14.44	29.08	8.04	6.82	6.35
Hotel and restaurant	0.71	1.43	7.52	7.55	7.58
Transport, storage and communication	10.61	21.37	8.03	8.55	7.61
Financial intermediation	1.84	3.71	9.18	8.89	8.00
Real estate, renting and business services	7.35	14.80	3.76	3.75	3.81
Public administration and defense	2.79	5.62	8.41	6.21	7.02
Education	2.64	5.32	8.96	7.80	8.04
Health and social services	2.35	4.73	7.64	7.02	7.55
Community, social and personal services	6.93	13.95	4.58	4.62	4.68
Overall	**49.66**	**100.00**	**6.70**	**6.49**	**6.25**

Source: Estimated from MoF (2009).

Investment in the Industrial Sector: Disbursement of Capital

Fluctuations in the level of production in the manufacturing sector during FY2008-09; got reflected in the disbursement of industrial term loan and working capital. Overall disbursement of industrial term loan during FY2008-09 was Tk. 19,972 crore, which was about one per cent lower compared to the previous year. Poor disbursement of industrial term loan during the first half of FY2008-09 (7.48 per cent in July-December 2008, lower compared to July-December 2007) was largely outweighed by a substantial rise in the disbursement of credit in the second half of FY2008-09 (growth 5.19 per cent). The recovery of industrial term loans, however, was 19.7 per cent higher during FY2008-09. Interestingly, recovery in the first half of FY2008-09 was significantly higher (32.5 per cent) compared to the second half (9.8 per cent); however a sharp rise in loan recovery was observed in the April-June quarter of this fiscal year. Long-term credit has constituted the major share in the overall disbursement of term loans; and long-term credit disbursements fluctuated during the first two quarters but experienced a more steady rise over the following two quarters (Figure 1.24). Medium-term credit disbursement has increased relatively consistently in this year; however, the disbursement of short-term credit was largely insignificant and experienced fluctuations in different quarters.

Figure 1.24: Net Disbursement of Industrial Term Loan



Source: Estimated from Bangladesh Bank (2009).
Note: LSI: Large-scale Industries; MSI: Medium-scale Industries; SSCI: Small-scale and Cottage Industries.

The disparity between the share of credit disbursement to different industrial categories and their share in overall industrial sector has remained unchanged in FY2008-09. Large-scale enterprises, with only 6.4 per cent of total industrial establishments and 55.6 per cent of total industrial employment, retained a share of 89 per cent out of total advances made in the industrial sector. On the other hand, small-scale industries with an 87.9 per cent share of all industrial establishments and 35.9 per cent of all industrial employment received only 4.1 per cent of total advances to the industrial sector. This is in part explained by the substantially high level of investment by large and medium enterprises which have set up state-of-the-art factories with sophisticated technologies and modern machineries. A renewed effort, however, is required for technological upgradation of small and medium enterprises (SMEs) as well to enhance their competitive strength in the domestic and international markets.

It is to be noted that the development of SMEs has received priority attention in the development strategies of successive governments over the recent past years. This rejuvenated effort can also be seen in the new government's economic policies. Disbursement of advances to the SME sector by the end of June 2009 was Tk. 48,473.5 crore which was about 38.3 per cent higher compared to the previous year (Table 1.13). A large part of the rise of SME loans took place during the April-June quarter of FY2008-09. Private commercial banks, which own a share of 56 per cent of total advances to SMEs, have disbursed 31 per cent more credit in FY2008-09; comparable figures of increase in the advances of other financial institutions are: 66 per cent for SCBs, 104 per cent for foreign banks and 24 per cent for NBFIs. A high disbursement of SME loans reflects the government's policy directives in support of domestic market-oriented industries in view of the global financial crisis.

Table 1.13: Outstanding Position of SME Loans

(in Crore Tk.)

Type of Financial Institution/Bank	FY2007-08	Share of Total FY2007-08	FY2008-09	Share of Total FY2008-09	% Change in FY2008-09 over FY2007-08
SCBs	9918.87	28.3	16498.24	34.0	66.33
PCBs	19889.76	56.8	26047.45	53.7	30.96
Foreign Banks	611.67	1.7	1277.62	2.6	108.87
SBs	3249.09	9.3	2944.09	6.1	-9.39
NBFIs	1371.08	3.9	1706.12	3.5	24.44
Total	35040.46	100.0	48473.52	100.0	38.34

Source: Estimated from Bangladesh Bank (2009).

In spite of the aforesaid emphasis, special financing projects such as the Equity and Entrepreneurship Fund (EEF) did not gain momentum in FY2008-09, only three new projects were included for support from this fund between April 2008 and March 2009. It is important to note in this connection that the Bangladesh Bank has recently handed over operational responsibilities for the EEF to the Investment Corporation of Bangladesh (ICB).[12] Under the new arrangement the ICB will act as "sub-agent" of the Bangladesh Bank and will monitor, evaluate and be responsible for legal actions involving the EEF. It is still unclear whether the ICB has the adequate technical capacities and manpower to perform these activities with the required efficacy.

The government's special stimulus package had targeted ailing export-oriented industries as well as domestic market-oriented industries, particularly SMEs

The government's special stimulus package of Tk. 3,420 crore which was announced in April 2009, had targeted ailing export-oriented industries as well as domestic market-oriented industries, particularly SMEs. As part of this support, seriously affected industries, such as jute goods, leather and leather products, frozen foods and shrimp have started to receive additional support of 2.5 per cent cash incentive along with the existing one. Sectors (such as backward linkage textile, bicycle, light engineering products, agro-processing) which are already receiving cash incentives will continue to receive the respective financial support. Also under this package, export-oriented industries will enjoy benefits such as timely distribution of cash incentives, extension of export credit to all sectors at a reduced rate (7 per cent), and increased allocations under the export development fund. Domestic industries could also potentially benefit from the fresh injection of funds to various financing schemes such as the investment promotion and financing facilities (IPFF) (worth Tk. 400 crore), SME fund (worth Tk. 600 crore), house building fund (worth of Tk. 500 crore), and EEF (worth of Tk. 300 crore). These initiatives help export-oriented industries override depressed demand in the global market.

A mixed trend is observed in case of importing raw materials, intermediate products and capital machineries for FY2008-09

Trends in Industrial Imports

A mixed trend is observed in case of importing raw materials, intermediate products and capital machineries for FY2008-09. The overall import of raw materials and intermediate products during this period was USD 10,283 million,

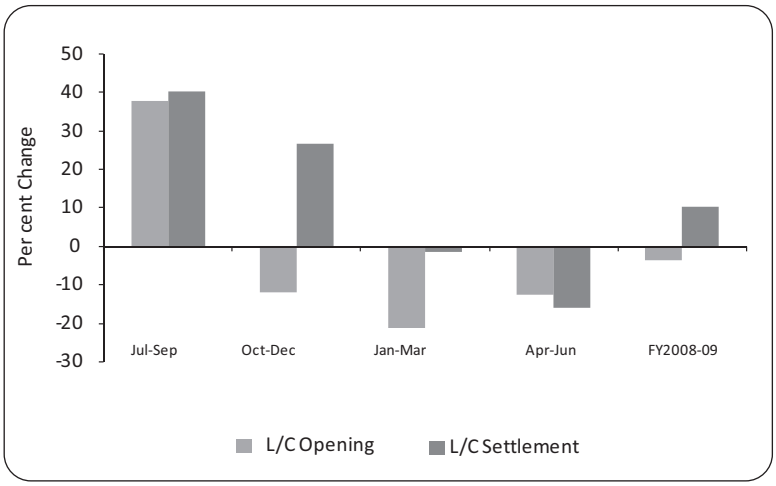
[12] An agreement was signed between the two parties in 1 June 2009.

with a growth rate of 6.95 per cent, while the import of capital goods (along with others) was USD 6,194 million, with a growth rate of 12.2 per cent. The declining import of a number of items in this fiscal year, particularly import of capital machineries (growth rate was -14.7 per cent), is a concern for its potentially adverse impact in terms of the long-term growth of major industries. Import of raw materials for major industries has maintained robust level of growth which indicates an acceleration of industrial production. This includes import of textile fabrics (10.9 per cent), yarn (14.7 per cent), raw cotton (6.4 per cent), and dyeing and tanning materials (18.9 per cent); import of staple fibre was, however, low (2.0 per cent).

Performance of the industrial sector can be assessed through the opening and settlement of L/Cs for import of raw materials and capital machineries. Settlement of L/Cs for importing raw materials was relatively high during the first half of FY2008-09 (Figure 1.25). Settlement of L/Cs for importing capital machineries, on the other hand, has registered a decline for all major industries including textiles, leather, jute, and garment (Figure 1.26).

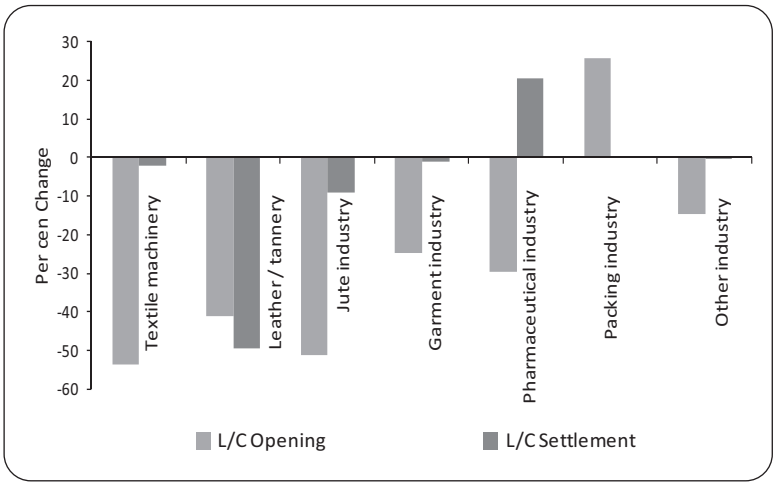
Machineries imported for various non-traditional industries such as computer and its accessories, motor vehicle and motorcycle parts, bicycle parts and other electronics components etc., accounted for a significant share in total imports (8.9 per cent of total settlement of L/Cs during FY2008-09). Most of these had posted high import growth (Table 1.14). During FY2008-09 import of these machineries has maintained a two-digit level of growth both for the opening and settlement of L/Cs: 14.6 per cent and 13.3 per cent respectively. Machineries imported for motor vehicles and motorcycle parts, electronic components, computers and accessories, marine diesel engines, etc. have increased both in terms of the opening and settlement of L/Cs. In a period with a low level of investment in traditional export-oriented industries, the relatively better performance of non-traditional industries, in terms of import, should be seen as a welcome development from the perspective of industrial diversification.

Figure 1.25: Changes in Opening and Settlement of L/Cs for Importing Raw Material during FY2007-08 and FY2008-09



Source: Estimated from Bangladesh Bank (2009).

Figure 1.26: Changes in Opening and Settlement of L/Cs for Capital Machineries during FY2007-08 and FY2008-09



Source: Estimated from Bangladesh Bank (2009).

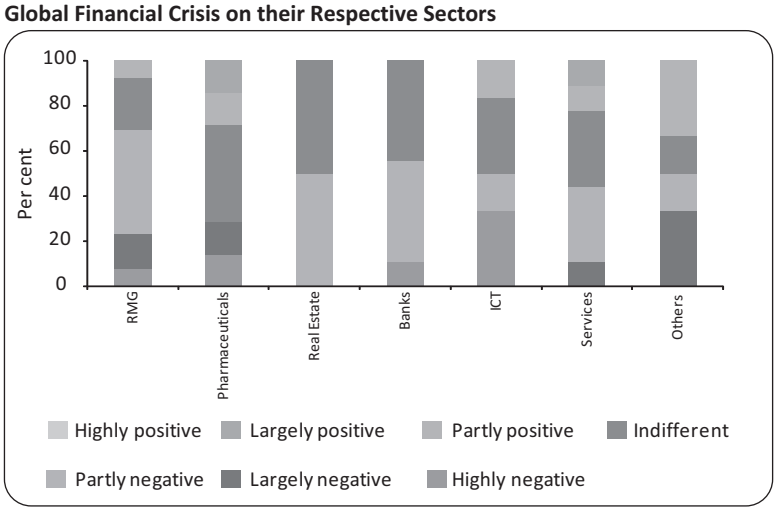
Table 1.14: Opening and Settlement of L/Cs on Machineries Imported for Non-traditional Industries

(in Per cent)

Sector	Changes in FY2008-09 over FY2007-08		
	L/C Opening	L/C Settlement	Outstanding L/Cs at the Fiscal End
Machinery for misc. industries	14.6	13.3	7.9
Other machineries	1.9	-0.9	19.5
Marine diesel engine	45.4	28.8	7.0
Computer & its accessories	4.4	13.9	-2.5
Motor vehicle & motorcycle parts	24.0	26.5	6.2
Bicycle parts	-13.6	-12.8	-4.4
Other iron and steel products	18.2	15.3	9.1
Motor vehicles	24.6	9.1	8.0
Other electronics components	28.7	28.5	7.9
Tractors & power tillers	-3.3	8.9	0.8
Others	18.7	31.6	4.1

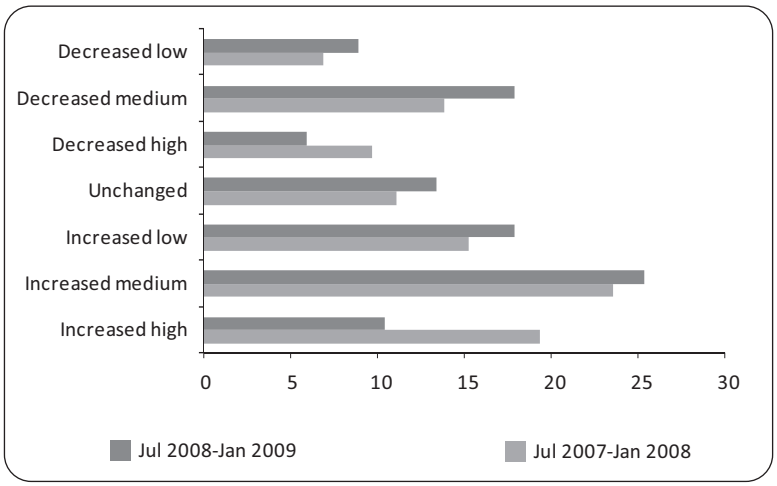
Source: Bangladesh Bank.

Figure 1.27: Entrepreneurs' Perception as regards the Extent of Impact of Global Financial Crisis on their Respective Sectors



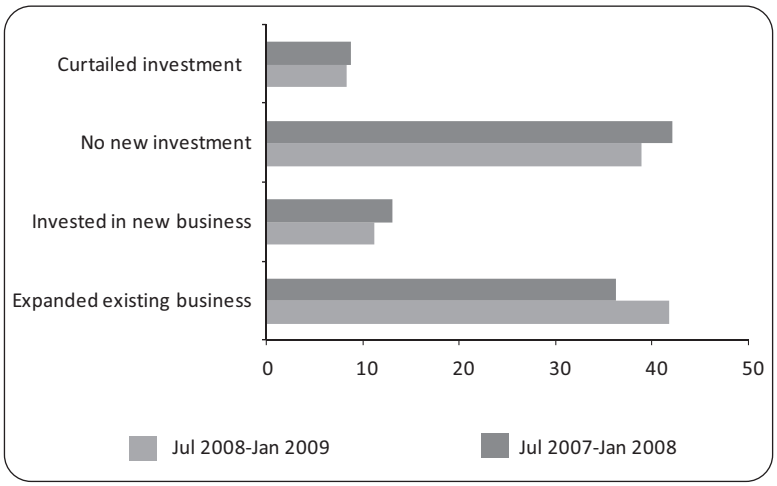
Source: CPD Rapid Assessment Survey, 2009.

Figure 1.28: Entrepreneurs' Perception as regards the Production of their Enterprises during FY2007-08 and FY2008-09



Source: CPD Rapid Assessment Survey, 2009.

Figure 1.29: Comparision of Perception of Investment in FY2007-08 and FY2008-09



Source: CPD Rapid Assessment Survey, 2009.

Rapid Assessment on Impact of Global Financial Crisis on Production, Export, Employment during 2009

CPD carried out a rapid perception survey in February-April, 2009 to examine the possible impact of the global financial crisis on the Bangladesh economy, focusing particularly on the production, investment and employment of major industries. A total of 90 leading entrepreneurs from diverse sectors of the economy participated in the survey.[13] About 85 per cent of entrepreneurs perceived that the global economic crisis would have either "partly negative" or "no noticeable impact" in their respective sectors during 2009 (Figure 1.27). However, some of the entrepreneurs most of whom belonged to the RMG, pharmaceuticals, information and communication technology (ICT) and banking sectors, felt that their respective sectors would be "highly affected" in 2009 and apprehended that demand for export would suffer as a consequence.

According to the sample respondents, major economic indicators such as production, investment and employment are likely to experience an insignificant deceleration in growth during July 2008 – January 2009 compared with that of July 2007 – January 2008 (Figure 1.28). Although some enterprises have decided to expand production, investment and employment, such changes were not necessarily related directly to the crisis. However, investment was perceived to be lower during the July 2008 – January 2009 period, compared to that during the July 2007 – January 2008 period (Figure 1.29). According to respondents from export-oriented industries, some RMG and textile products declined by 5 to 8 per cent, while other items have experienced a rise (by about 9 per cent). Price of some pharmaceutical products were perceived to have increased by about 15 per cent between January 2008 and January 2009 as well.

A large number of entrepreneurs have taken various cost cutting measures in view of the adverse impact of the crisis (Table 1.15).

[13] The respondents belonged to sectors such as RMG, textile, leather, frozen foods, pharmaceuticals, real estate and construction, banking, and ICT.

Large scale retrenchment of workers was not however, evident. Some entrepreneurs have mentioned other cost reducing steps such as reduction of fringe benefits, reduction of firms' capacity utilisation or even closing down of some production units. Additionally, a significant proportion of sample entrepreneurs indicated that they would go for such measures if and when demand for their products evinces a downward trend.

1.6.3 Foreign Direct Investment at the Time of Global Recession

Contrary to apprehensions about fall in FDI flow in view of the crisis, there was rather a rise in the flow of FDI during FY2008-09. A total of USD 941 million worth of FDI was received in this fiscal year, which was 14.3 per cent higher compared to the previous year. Indeed, this amount was the highest inflow of FDI that Bangladesh has received so far. However, apart from an inward FDI flow for acquisition of shares of a local telecom company, there is no major noticeable difference in the flow of FDI between FY2007-08 and FY2008-09 (Figure 1.30). It is hoped that increased foreign investment will contribute to development of a manufacturing base in the telecommunication sector for production and export of different machineries and components such as mobile sets, parts and various other equipments.

Portfolio investment, which has traditionally been low in Bangladesh, registered a substantial decline during FY2008-09. Because of significant disinvestment from the capital market there was large outflow of portfolio capital, resulting in a net, overall portfolio investment of (-)USD 159 million; the comparable figure for FY2007-08 was USD 78.8 million. Disinvestment of portfolio investments continued over the entire fiscal year, which was unchanged in the new fiscal FY2009-10 (-USD 25 million in July-September 2009) as well.

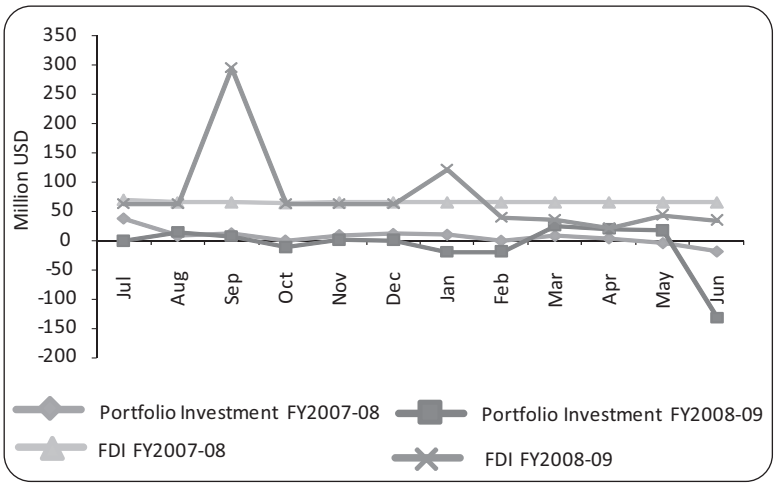
The slowdown of export-oriented industries' growth reflects the lower FDI flow to the export processing zones (EPZs) - a total of about USD 148.03 million worth of FDI was received by different EPZs (44.3 per cent lower compared to that of the previous year) (Table 1.16). All major EPZs, such as

Table 1.15: Perception on Various Measures Taken due to the Crisis and Possible Measures Considered to be Taken if Crisis Deepens

Measure	Measure Taken because of the Crisis	Possible Measure in case of Deepened Recession
Laying off workers	8.3	11.1
Wage cut	0.0	3.7
Increase working hours	4.2	6.5
Reduction of workers' fringe benefits	5.6	10.2
Reduction of profit margin	29.2	25.0
Reduction of firm's capacity utilisation	5.6	12.0
Closing down of production units	5.6	11.1
None	41.7	20.4

Source: CPD Rapid Assessment Survey, 2009.

Figure 1.30: Monthly Pattern of Foreign Direct Investment and Portfolio Investment



Source: Calculated based on Bangladesh Bank (2009).

Table 1.16: EPZ-wise Investment Performance

(in Million USD)

EPZ	FY2007-08	FY2008-09	% Change in FY2008-09 over FY2007-08
Chittagong	105.50	47.22	-55.24
Dhaka	101.10	30.39	-69.94
Adamjee	30.30	21.07	-30.46
Karnaphuli	16.40	27.90	70.12
Comilla	8.70	8.20	-5.75
Mongla	2.00	-0.96	-148.00
Ishwardi	1.40	14.04	902.86
Uttara	0.10	0.17	70.00
All	265.60	148.03	-44.27

Source: Bangladesh Export Processing Zone Authority (BEPZA).

Dhaka, Chittagong and Adamjee received about 30-70 per cent less FDI compared to the previous year. An added reason for this poor performance was lack of availability of adequate space in these EPZs for setting up new industries. On the other hand, Karnaphuli and Ishwardi EPZs have witnessed some positive growth in FDI flow; and the Karnaphuli EPZ received investments of about USD 27.9 million during FY2008-09 which was 70 per cent higher compared to the previous year. In case of Ishwardi EPZ, one single investor (Rahim Afroz) made new investments in order to expand its battery project. Karnaphuli EPZ is receiving heightened attention from new investors because of its geographical locational advantage as well as for its accessibility to various utility facilities. Investment in EPZs this year was targeted to traditional industries such as textile, garments, knitwear, footwear and tent making industries. Taking into account their importance, EPZs should continue to receive policy support of the government in spite of the later's declared intention to put more emphasis on setting up special economic zones (SEZs) (as articulated in the draft *Industrial Policy 2009*).

Table 1.17: Registration of Domestic and Foreign Investment with BOI

(in Million USD)

Year	Local Investment	100% Foreign and Joint Investment	Total Registration
FY2007-08	2827.00	657.86	3484.86
FY2008-09	2467.00	2071.68	4538.68
Percentage Change	-12.73	214.91	30.24

Source: Board of Investment (BOI), Bangladesh.

Investment in EPZs this year was targeted to traditional industries

Registration for investment has maintained an encouraging record in FY2008-09. A total of USD 4.5 billion worth of investment has been registered this year, while the comparable figure for FY2007-08 was USD 3.5 billion (Table 1.17). This performance was mainly attributed to a significantly higher amount of registration of FDI (USD 2.1 billion in FY2008-09 against USD 657 million in FY2007-08); local investor's however, were less enthusiastic (USD 2,467 million). As is known, the moot question here is for Bangladesh to be able to realise these "registered" investments into "actual" investments by helping potential investors to translate their "intentions" into "actions." This has continued to remain a recurring challenge for Bangladesh in the recent past.

Table 1.18: FDI Inflow after Deducting the FDI-related Outward Transfers

(in Million USD)

FDI Flow-related Category	FY2007-08	FY2008-09	% Change in FY2008-09 over FY2007-08
FDI inflow	698.00	906.37	29.85
FDI transfers	653.05	879.93	34.74
	(93.6%)	(97.1%)	
Royalties and license fees	7.89	22.66	187.20
Profit and dividends	173.33	207.39	19.65
Earnings of oil, gas and power companies	471.83	649.88	37.74
FDI inflow after deducting the FDI-related outward transfer	44.95	26.44	-41.18

Source: Bangladesh Bank FDI Enterprise Survey.

During FY2008-09 FDIs' contribution to balance of payment (BOP) was not significant. According to the Bangladesh Bank Survey, FDI inflow in FY2008-09 was USD 906 million, which is marginally slower than the figure reported in BoP (USD 941 million) (Table 1.18). Against USD 906.37 million worth of FDI inflow in FY2008-09, a total of USD 880 million has been transferred out of the country by foreign companies, which accounted for more than 97 per cent of the flow of FDI into the country this year. Major heads under which foreign companies have transferred their income include royalties and license fees, profit and dividends, and earnings of oil, gas and power companies. The transfer of income by oil, gas and power companies was about USD 650 million which accounted for 71.7 per cent of total FDI flow in the country.

The moot question is for Bangladesh to be able to realise these "registered" investments into "actual" investments by helping potential investors to translate their "intentions" into "actions"

The sectoral distribution of FDI, according to the data of January-December 2008, showed that USD 641 million worth of FDI (about 60 per cent of total FDI) was targeted to the telecommunication sector (Table 1.19). The FDIs originated from Egypt targeting mainly the telecom sector (USD 373.4 million) and acquisition of shares of local telecom company Aktel, by the Japanese telecom giant NTT Docomo, have led to this rise. The banking sector received about USD 141.8

million worth of FDI in 2008. Within the manufacturing sector, textiles and clothing apparels received USD 126.36 million worth of FDI, followed by food products (USD 22.9 million). However, none of the other manufacturing industries received substantial amount of FDI. It appears that domestic market-oriented industries, as usually is the case, have received higher levels of FDI flow. Perhaps because a large share of Bangladesh's FDI is domestic market-oriented where the impact of the crisis has been felt to a lower extent, no significant departure relatively in the flow of FDI, before and during the period of crisis, could be discerned (USD 381.3 million in January-June 2007; USD 285 million in July-December 2007; USD 483.7 million in January-June 2008 and USD 602.7 million in July-December 2008).

It is becoming increasingly evident that large-scale foreign investment in Bangladesh would be difficult to attract unless adequate infrastructural facilities can be put in place. First of all, the availability of adequate supply of electricity has become a binding constraint. Secondly, availability of gas at a low price, which was once considered as one of the major advantages of Bangladesh, is no longer there; the gas supply itself has become a major cause of concern for the country. Exploration of new sources of gas, both onshore and offshore, must be given the highest priority in the upcoming budget in order to address energy requirements of potential investors, both locally and from abroad. Attracting investment in energy/power/gas sector itself will be a critically important task for the newly elected government.

1.6.4 Capital Market: Volatility has Increased

Bangladesh's capital market witnessed a sharp decline for most part of FY2008-09. The all share price index (DSI) of the Dhaka Stock Exchange (DSE) dropped from 2369.03 in July 2008 to a low point of 2033.3 in the month of March 2009; it gained again in June 2009, when the index climbed to 2526.24 (Figure 1.31). The fall of the share price index was even higher in case of blue chip shares (DSE 20), with a decline of 25.13 per cent in FY2008-09,

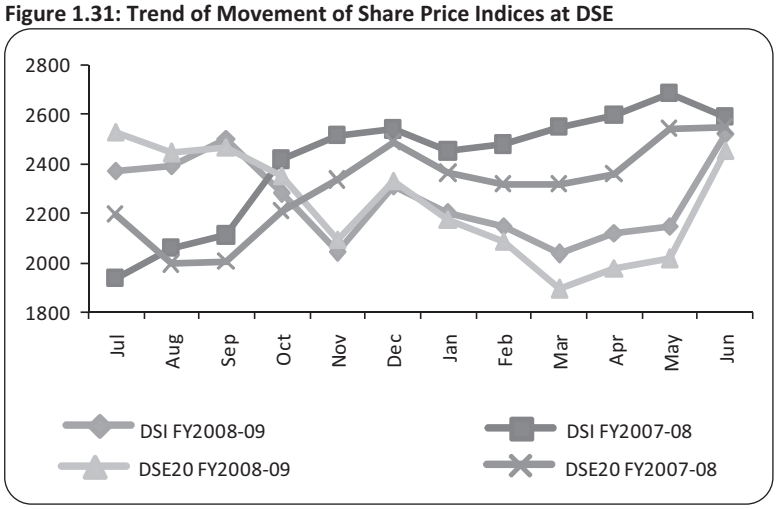
Table 1.19: Sectoral Distribution of FDI

(in Million USD)

Sector	2007 (January-December)	2008 (January-December)
Total	666.37	1086.31
Agriculture and fishing	7.33	14.43
Power, gas and petroleum	215.94	101.02
Manufacturing	142.68	168.49
Trade and commerce	92.88	153.40
Telecommunication, transport and storage	201.90	641.39
Services	5.64	7.59

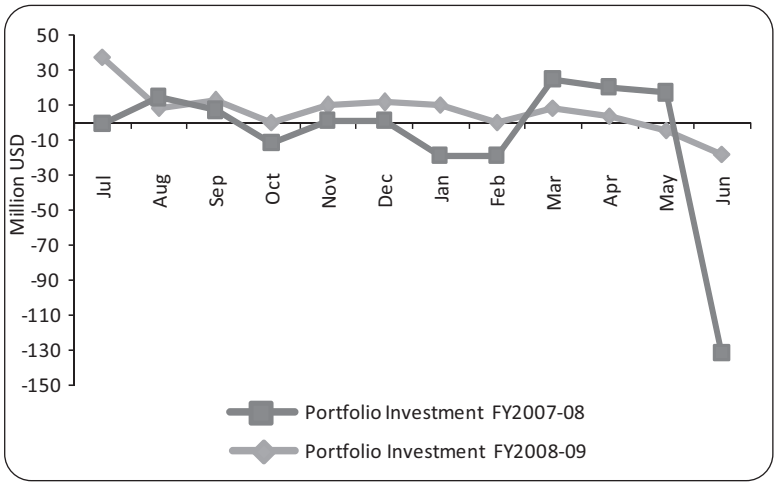
Source: Bangladesh Bank Enterprise Survey.

Figure 1.31: Trend of Movement of Share Price Indices at DSE



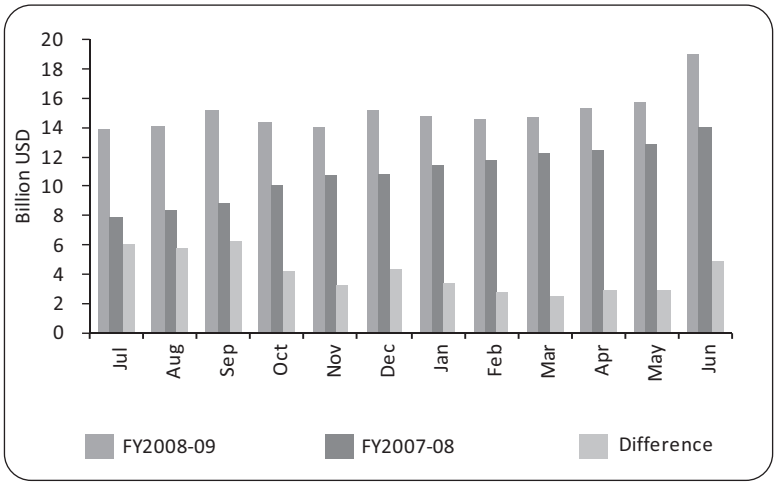
Source: Dhaka Stock Exchange (DSE).

Figure 1.32: Monthly Pattern of Portfolio Investment in the Capital Market



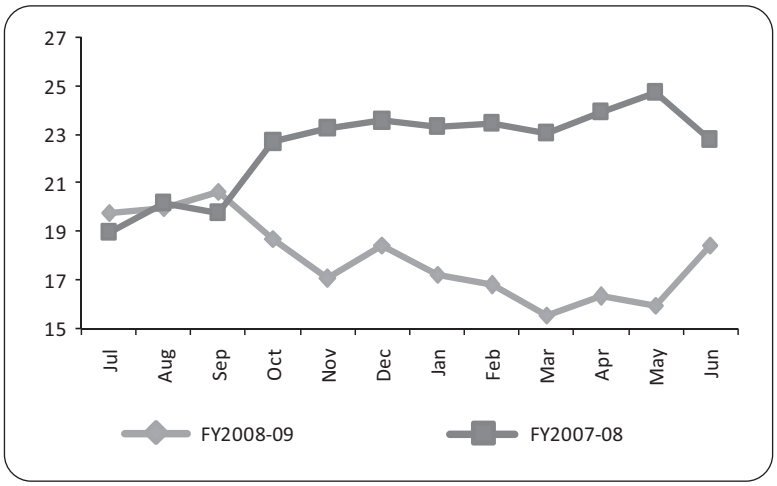
Source: Calculated based on *Monthly Economic Trends*, Bangladesh Bank.

Figure 1.33: Trend of Market Capitalisation at DSE



Source: Dhaka Stock Exchange (DSE).

Figure 1.34: Monthly Trend of Price-Income Ratio at DSE



Source: Dhaka Stock Exchange (DSE).

Table 1.20: IPO Performance at DSE

Feature	FY2007-08	FY2008-09*	% Change of FY2008-09 over FY2007-08
No. of IPOs	12	13	8.33
Total issued Shares (after IPO)	76127314	193290000	153.90
Sponsors' portion (share)	45245264	87020000	92.33
Public offer (share)	30882050	108970000	252.86
Public offer as percentage of total issued shares (after IPO)	40.57	56.38	38.97
Total Paid up Capital (after IPO) (in Crore Tk.)	749.68	717.90	-4.24

Source: Calculated based on information of DSE website.
Note: *In FY2008-09, Summit Alliance Port Limited issued 1 million public shares out of its total shares (after IPO) of 2.3 million.

compared to FY2007-08. Since March 2009, both share price indices experienced a marginal rise. The country's capital market has suffered in two ways: from a low level of portfolio investment in FY2008-09 and also liquidation of parts of existing portfolio investments (Figure 1.32). However, because of the small share of portfolio investment in total market capitalisation (less than 2.5 per cent), disinvestment by some of the foreign portfolio investors did not have significant adverse impact on the capital market.

Market capitalisation of the DSE between July 2008 and May 2009 remained within the range of USD 13.95 billion and USD 15.79 billion; however, it jumped to USD 19.02 billion in June 2009 (Figure 1.33). Chittagong Stock Exchange (CSE) experienced a similar pattern of movement, with respect to market capitalisation.

Price-earnings ratio has tended to decline in view of falling share price indices in the country's capital market (Figure 1.34). After a very high ratio in FY2007-08 (within a range of 23 to 25 during November 2007 to June 2008), the low level of this ratio in FY2008-09 is perhaps indicative of some market corrections. At the end of March 2009, the price-income ratio reached 15.5, though subsequently this bounced back to its earlier level and reached 18.4 in June 2009.

A total of 13 companies offloaded their initial public offerings (IPOs) in the DSE during FY2008-09; number of companies offloading their shares in FY2007-08 12 (Table 1.20). A number of features indicate positive developments in FY2008-09: total number of shares, shares held by the sponsors, shares for public offer and share of public offerings as a percentage of total issued shares. However, total paid-up capital was relatively low in FY2008-09, compared to the previous year (4.24 per cent). Greater participation of new and diverse sets of companies is important to the deepening of the capital market and improvement of competitive situation. Hopefully, the expected offloading of Grameenphone shares will be a step forward in this regard.

Capital market of Bangladesh is facing various systematic challenges and those challenges need to be addressed properly. Awarding licenses to four commercial banks to operate as merchant banks was one of the major incidences during the second half of the fiscal year. Although this initiative would help to avoid control over the market by a few merchant banks, big investors and brokerage houses, weak performance of a majority of banks have brought into question about the effectiveness of this initiative. The Securities and Exchange Commission (SEC) will need to take appropriate measures and put in place required regulatory framework to address any investor apprehension in this context. SEC has approved rules regarding book building system for IPOs to attract big issues of companies to the stock market. Enhancing investors' awareness through the new directives which disclose earning per share, net asset value and net operating cash flow per share of enlisted companies, while declaring dividends is another initiative that has been taken by the SEC. Annual reports of enlisted companies should be made available to prospective investors (these reports could be posted in the DSE website), which would ensure a better understanding about the performance and financial situation of the company by prospective investors. A number of new decisions have been taken by the SEC and other related organisations (including the Bangladesh Bank) during the first four months of FY2009-10, including the suspension of trading of a number of 'Z' category shares, making mandatory the submission of monthly reports on stock portfolios and the introduction of lock-in periods barring sales of new convertible shares. Considering the complicacy and distinct nature of the capital market, a separate judiciary mechanism should also be set up for the settlement of disputes in the share markets (within a specified time limit). In order to deepen the capital base, the government should also consider mobilisation of funds from the capital market for large-scale infrastructural projects, such as Padma Bridge. Securitisation of projects needs also be given due consideration.

SEC has approved rules regarding book building system for IPOs to attract big issues of companies to the stock market

In order to deepen the capital base, the government should also consider mobilisation of funds from the capital market for large-scale infrastructural projects, such as Padma Bridge

1.6.5 Draft Industrial Policy 2009: A Review

As expected, the draft *Industrial Policy 2009* unveiled in April 2009 has attracted a lot of attention and generated animated discussion among various stakeholders and groups. First, the new industrial policy was a test case for the newly elected government in terms of their ability to create sound strategies for industrialisation in the medium-term. Secondly, in view of the dynamics of changes in the structure of the industrial sector, the emergence of new or potential industries and a demand for market diversification, a new industrial policy was imminently necessary. Policy guidelines were required for both encouraging the private sector, and also for providing appropriate direction for the restructuring and reform of public sector enterprises. Thirdly, the global economic crisis has given rise to new realities which call for restrategising Bangladesh's industrial development in the medium-term. Whilst attempting to address the above concerns, the draft policy needs to be revised in order to attain the objectives and generate the expected outputs.

The global economic crisis has given rise to new realities which call for restrategising Bangladesh's industrial development in the medium-term

The draft *Industrial Policy 2009* is the ninth Industrial Policy to be announced since independence in 1971. At the present time the *Industrial Policy 2005* is in operation. The formulation process of *Industrial Policy 2009* was initiated during the last CTG with extensive discussion and consultation with various stakeholders. This process had continued under the new government, with a review of the draft prepared by the preceding government. The draft *Industrial Policy 2009* is slightly abridged as compared to the *Industrial Policy 2005*. It has 16 chapters which include some new issues (such as promoting women entrepreneurship) and the deletion of some others (such as technical and institutional assistance and the facilitating role of relevant ministries). With regard to the placement sequence of

various issues in the *Industrial Policy 2009*, it appears that relative importance of different issues has not been appropriately reflected in the policy. Thus, issues such as the foreign investment, export-oriented industries, productivity, human resources and technology have not been given appropriate importance. Hence, reorganisation of the draft policy may be considered.

Issues such as the foreign investment, export-oriented industries, productivity, human resources and technology have not been given appropriate importance

The draft *Industrial Policy 2009* has several distinct features. It proposes broadening of industry classifications, widening the definition of each category of industries, introduction of a new category of industries (restricted industries), scaling down of the list of thrust sectors, broadening of incentives and facilities for domestic enterprises at par with foreign enterprises located in EPZs, and special focus to encourage female entrepreneurship. Inclusion of a new category entitled "restricted industry" appears to be logical considering the need to balance the optimum use of limited natural resources and maintaining cultural sensitivity. A total of 16 industries have been put on this list; however, the inclusion of banks, insurance companies and shipping companies under this list is not understandable. Recognising the significant contribution of large-scale domestic enterprises outside EPZs, the proposed policy has offered equal incentives and opportunities to these enterprises as well. It is evident from the policy that the government was interested in putting more emphasis on the establishment of SEZs. However, there is a need to do this without undermining the existing policies concerning the EPZs. Placing importance on the development of women entrepreneurs by providing policy support is a good initiative; however, such initiatives should be taken without distorting efficiency (e.g. quota for women entrepreneurs in the EPZs could be counter-productive, and should be implemented with due diligence).

Inclusion of a new category entitled "restricted industry" appears to be logical considering the need to balance the optimum use of limited natural resources and maintaining cultural sensitivity

The proposed *Industrial Policy 2009* has also taken a stand regarding the restructuring of public enterprises and the process of privatisation of state-owned enterprises (SoEs). However, the policy position as articulated in the *Industrial Policy 2009* is not compatible with the government's existing policies on privatisation (Privatization Act 2005) and various other sector-specific policies. It is to be noted here that the industrial policies announced since 1984 have been a pro-liberalisation and pro-private-sector led industrial development. In this context, the "complementary" role of the public sector in industrial development as proposed in the *Industrial Policy 2009* may create some confusion in the absence of a clear statement about what it would really mean on the ground. Adding confusion is the announcement of discontinuation of the privatisation process of SoEs, which is not commensurate with other related policies such as *Privatization Act 2005* and *Jute Policy 2005*. 25 SoEs are at different stages of privatisation with the Privatization Commission; the policy could make the offloading of shares of some other SoEs more uncertain, which could also give wrong signals to stakeholders. In light of the inefficiency and operating losses incurred by most of the SoEs and the resultant burden on the exchequer, any reform initiative of SoEs by the government should address efficiency and productivity factors. Accordingly, the draft *Industrial Policy 2009* should be supportive of the government's privatisation policy and should clear its position regarding the restructuring of these public sector enterprises. Public-private partnership with regard to operating and managing the SoEs is a welcome initiative, but it needs to be spelt out in a more definitive manner.

Adding confusion is the announcement of discontinuation of the privatisation process of SoEs, which is not commensurate with other related policies such as Privatization Act 2005 and Jute Policy 2005

1.6.6 Status of Privatisation of State-owned Enterprises

SoEs in the country are not small in number (84). For a number of reasons these enterprises are important: production of important items such as fertiliser, jute,

chemicals and steel, excess employment situation in some enterprises, huge debt burden of some enterprises, and inoperative condition of a number of units. As part of the process of privatisation, during the CTG period in 2007-08 a total of 29 industrial units were in the hand of the Privatization Commission Bangladesh. However, the process of privatisation did not gain momentum during FY2008-09 under either the CTG (first half) or under the new government (second half). During the last two years, the full process of handing over industrial units was completed for only one unit, while the handing over of another two units is still underway (Table 1.21). For the rest of the 25 units that were put forward for privatisation, the process is yet to begin; in case of some units the process has been discontinued for various reasons. As part of the policy stand of the new government favouring revival of the operation of industrial units under the public sector, five industrial units have been handed over to the respective ministries, five industrial units are proposed to be operated by the concerned ministries, six industrial units are in the process of being leased out or handed over to majority shareholders, and the remaining 10 units are at preliminary stages of privatisation.

The process of privatisation did not gain momentum during FY2008-09

The government had previously decided to privatise nine textile and handloom enterprises but the number has now been reduced to seven. It is notable that one of the seven textile enterprises is already on the government's reopening list. Three jute mills were under the initial process of privatisation, but the government has removed two jute mills from the list and one is facing a litigation problem. Six chemical enterprises were enlisted for privatisation, but government has recently postponed the privatisation of one of these and has taken under consideration reopening of another one. In general, privatisation operations pursued by the Privatization Commission did not get momentum during FY2008-09, mostly because of changes in government policy towards a "go slow" strategy for privatisation, and in view of the policy to operate a number of closed units under the management of different corporations.

The government had previously decided to privatise nine textile and handloom enterprises but the number has now been reduced to seven

Table 1.21: Privatisation Process of Various SoEs

Sector-wise Enterprise	Handed Over	Under Process of Approval and Handover	Under Process of Retendering and Reevaluation	Under the Leasing out Process	Under the Consideration of Handover to Majority Shareholder	Under the Process of Valuation	Under Litigation Problem	Under Reopening Consideration	Under the Process of Going back to MoEF*
Textile and Handloom (7)		1	1	2			2	1	
Chemical (5)	1		1		1		1	1	
Environment and Forest (4)			1			1			2
Jute (1)							1		
Engineering & Miscellaneous (6)					3	1			2
Tea (1)						1			
Sugar (1)		1							

Source: Privatization Commission Bangladesh.
Note: *MoEF: Ministry of Environment and Forest.

A large number of units operated under different ministries have tended to suffer from poor operational efficiency, huge losses, huge debt burden and over employment. Out of five public sector corporations, Bangladesh Steel and Engineering Corporation (BSEC) has operated profitably over the last several years; as a matter of fact its performance has been improving over time (net profit was Tk. 12.62 crore in FY2001-02 which increased to Tk. 31.46 crore in FY2008-09). Bangladesh Chemical Industries Corporation (BCIC) was also profitable in FY2008-09, for the second time in the last several years. All other corporations (including Bangladesh Textile Mills Corporation (BTMC), Bangladesh Sugar and Food Industries Corporation (BSFIC) and Bangladesh Jute Mills Corporation (BJMC)) have been experiencing substantial losses over the last several years. Various analyses (Moazzem and Chowdhury 2009) showed that internal factors such as a low level of production and operational efficiency, use of outdated machineries, underutilisation of machineries, excess workers, inefficiency of management, corruption, poor marketing strategies, a huge amount of debt burden, and a lack of freedom in factory management that constrain taking of time-bound decisions, are mainly responsible for the poor performance of public sector industrial units in Bangladesh. The government's initiative towards reviving industrial units (e.g. jute mills) which were earlier handed over to the Privatization Commission has raised concerns from different quarters, for various reasons. First of all, in absence of any major restructuring in such areas as technology, employment, operation and also management, both at corporations and industrial unit levels, there is little reason to expect that these mills could be operated profitably. Second, because of the limited amount of government subsidies to various corporations, despite the huge demand for such support, operation of mills were not an attractive venture even from the "populist" point of view - ensuring employment for the current over employed units would call for huge flow of subsidies from the government on account of workers' wages, something the government is finding increasingly difficult (see the case of Daulatpur Jute Mills Ltd, http://www.pc.gov.bd/m19.htm). Third, many public sector jute mills have not been in operation for long time, or were operating at under capacity. As such, these units required substantial resources for overhauling and new initiatives in different areas, such as technology, fixing of operational and financial inefficiencies, management and worker relations. More importantly, even a huge expenditure to overhaul the mills will hardly ensure that these mills would run profitably, unless and until efficiency-based management and operation are put in place in public sector enterprises. These involve difficult policy choices which the government will need to address on an urgent basis.

A large number of units operated under different ministries have tended to suffer from poor operational efficiency, huge losses, huge debt burden and over employment

In absence of any major restructuring in such areas as technology, employment, operation and also management, both at corporations and industrial unit levels, there is little reason to expect that these mills could be operated profitably

1.6.7 Energy

Power Sector

Inadequate power supply has been a major bottleneck in Bangladesh which has severely constrained investment and business activities of the country. New investments get discouraged because of this, whilst the existing ones are bearing the brunt of frequent outages, leading to damage of equipments, production disruption and the attendant cost escalation originating from more costly alternative sources. The Awami League's election manifesto had promised to adopt a comprehensive long-term policy with regard to electricity and energy sectors, and targets were fixed to increase electricity generation to 5,000 mega watt (MW) by 2011 and to 7,000 MW by 2013.

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Benchmark for the Newly Elected Government

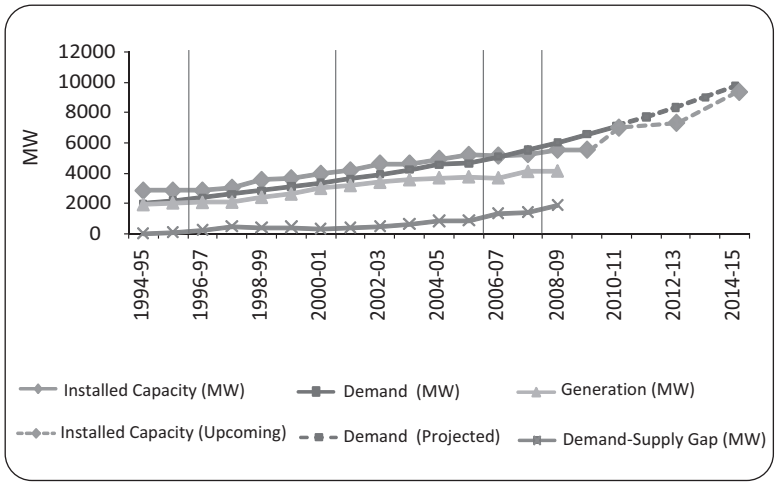
In January 2007, average official demand for electricity was around 3,305 MW against the generation of 2,879.4 MW, leaving a shortage of 425.6 MW. However, this demand-supply gap was reduced to 53.1 MW in December 2008 before the CTG handed over the power to the newly elected government (average official demand was 3,714.4 MW as against the supply of 3,661.4 MW). Between January 2007 to December 2008, the growth of electricity generation was 27 per cent. In this increased capacity of 409.4 MW, 324 MW was added as new generation of which 70 MW came from the public sector, and 254 MW came from private power plants.[14] The rest of the capacity, i.e. 85.4 MW was added through overhauling of the power plants. During the first month (January) of the current government's tenure, maximum electricity generation was 3,860.6 MW against the maximum demand of 4,100 MW, whereas in June 2009 the level of maximum generation increased to 4,033.2 MW (with an additional 172.6 MW).

Electricity generation as percentage of installed capacity registered highest growth during the CTG through better maintenance and management

Electricity Generation

In January 2009, demand-supply gap was 575.2 MW (maximum) which further escalated to 915 and 1,750 MW in February and June 2009 respectively. Average load-shedding from January to June 2009 was 381.5 MW. From the Figure 1.35 it is seen that the demand-supply gap was gradually on the rise. In FY1994-95, the gap was only 68 MW which had reached 1,750 MW in FY2008-09. Electricity generation as percentage of installed capacity registered highest growth (78 per cent) during the CTG through better maintenance and management.

Figure 1.35: Installed Capacity, Generation of Electricity, Demand for Power and Demand-Supply Gap



Source: Bangladesh Power Development Board (BPDB) and Power System Master Plan (PSMP) update.

As it stands now, power projects awarded in the past are expected to generate 4,069 MW by 2014, whereas the new government has planned to generate 3,325 MW (with a 400 MW immediate fuel-based RPP) by 2015. In their election manifesto, Awami League projected generation of 5,000 MW by 2011 and 7,000 MW by 2013. However, this would not be possible to attain under the ongoing and recently planned (up to June 2009) generation activities. By the end of 2011, government is likely to face a shortfall of 3,281 MW against the targeted 5,000 MW, and 3,241 MW shortfall against the targeted 7,000 at the end of 2013. It is to note here that, by the end of 2015 total generation is expected to reach 7,349 MW.

The new government has planned to generate 3,325 MW by 2015

A yawning gap between capacity and generation is emerging due to a number of reasons including (a) gas shortage, (b) ageing of power plants, and most recently (c) due to lack of rainfall in Kaptai Lake with adverse consequences for electricity generation. It is estimated that during April 2009, due to the above mentioned reasons there was a shortage of 845 MW.

[14]Of this 254 MW, small independent power producer (IPP) added 92 MW; 15-year rental power plant (RPP) added 22 MW; and 3-year RPP added 140 MW.

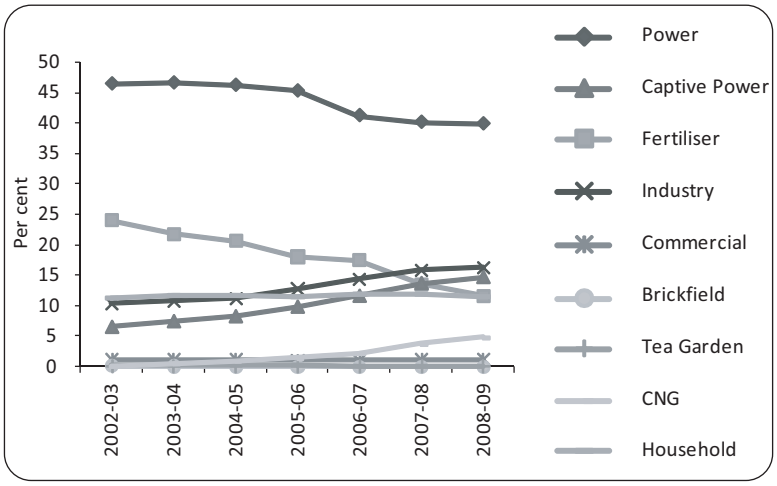
Table 1.22: Gas Production in Different Years

(in mmcm)

Fiscal Year	Petrobangla	IOC*	Total	Growth Rate (Per cent)
2002-03	9449.10	2476.70	11925.90	
2003-04	9715.10	3106.00	12821.10	7.50
2004-05	10086.50	3696.90	13783.40	7.50
2005-06	10116.60	4804.30	14920.80	8.30
2006-07	10148.50	5771.70	15920.10	6.70
2007-08	9282.00	7732.50	17014.50	6.90
2008-09	9222.06	9288.65	18510.70	8.80

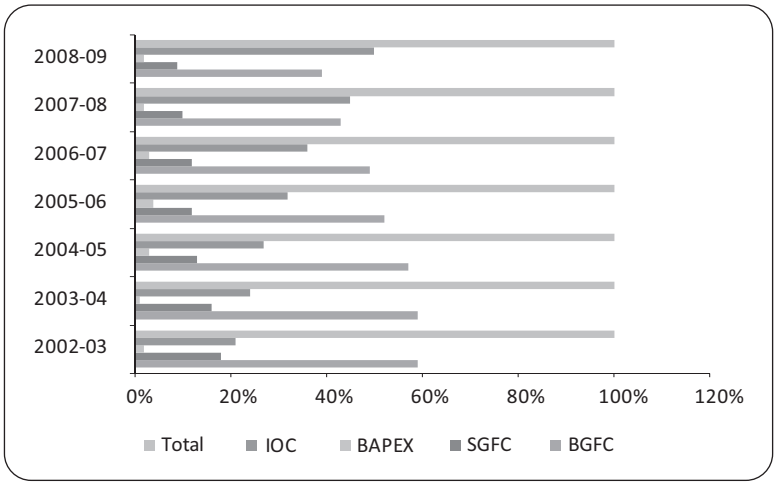
Source: MIS Report, Petrobangla.
Note: *IOC: International Oil Company.

Figure 1.36: Consumption of Gas in Different Sectors



Source: MIS Report, Petrobangla.

Figure 1.37: Gas Production by Public and Private Sector



Source: Petrobangla.
Note: SGFC: Sylhet Gas Field Company; BGFC: Bangladesh Gas Field Company.

Gas Production

Bangladesh has 21.3 trillion cubic feet (tcf) of proven gas of which 15.41 tcf is recoverable. With regard to the recoverable scenario, 8.05 tcf of gas has already been used till December 2008; the rest 7.36 tcf is there as reserves. However, this existing 7.36 tcf will not be able to meet the country's requirement beyond 2015. According to Khan (2009), 24 tcf is required to meet the energy demand up to 2025 (for which estimated investment requirement is about USD 8 billion).

Gas production has increased at a rate of 6 to 8 per cent per year over the recent past. In FY2008-09 record 8.8 per cent of growth was achieved with a total production of 18,510.719 million cubic metre (mmcm) indicating an increased use of current reserves (Table 1.22). Though more than 40 per cent of gas currently generated in the country is being used for power generation, its use for other purposes has been on the increase over time, including for industrial and commercial use and for conversion into compressed natural gas (CNG) (Figure 1.36). However, due to shortage of gas, government has delimited/controlled the supply of gas to various economic activities, especially in fertiliser factories, industrial units, like yarn and textile manufacturing units during the evening hours.

Share of private companies in overall gas distribution has been increasing in the recent past. Over the last 7 years, this share has doubled from 21 per cent in FY2002-03 to 50 per cent in FY2008-09 (Figure 1.37). Petrobangla's share of production of gas was 55 per cent in FY2006-07 which came down to 50 per cent in FY2008-09. To consolidate domestic presence in the energy sector and ensure command over potential benefits, further strengthening of Bangladesh Petroleum Exploration & Production Company (BAPEX) has assumed critical importance for Bangladesh's long-term growth perspective in general, and addressing the urgent needs of the power and energy sectors in particular.

The present gas-electricity arithmetic would suggest that to achieve the target to generate 5,000 MW (as announced in the

Awami League manifesto) electricity by 2011 would require 1,000 million standard cubic feet per day (mmscfd) gas, more than 40 per cent increase over the current supply of 675 mmscfd of gas (*ibid*) .

1.7 EXTERNAL SECTOR

1.7.1 Export Sector Performance

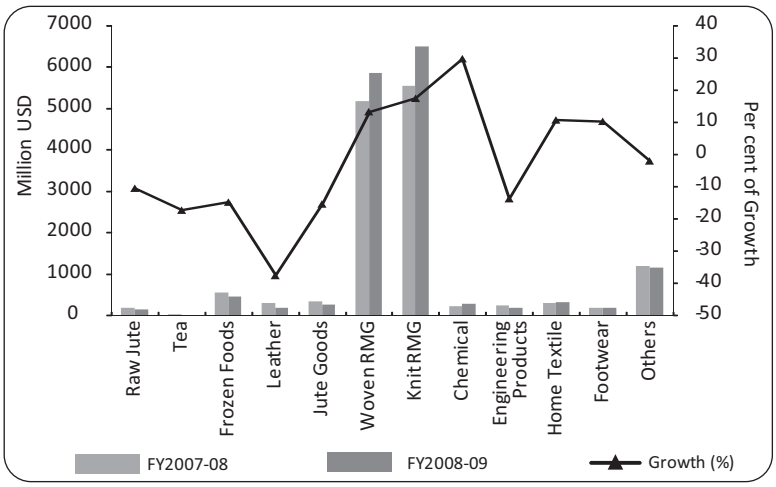
Bangladesh's total export earnings during FY2007-08 stood at USD 14.09 billion (Figure 1.38), registering a growth of 15.92 per cent over FY2006-07. Performance during FY2008-09 (USD 15.54 billion) has by and large followed this trend. Growth rate of 10.28 per cent (Table 1.23) posted during this period is particularly impressive in view of the global economic crisis when the majority of developing countries were experiencing falling export earnings. It needs also to be borne in mind that growth rate posted in FY2008-09 was attained in the backdrop of high growth rates of 15.60 per cent and 15.92 per cent recorded during the immediate past two fiscal years of FY2006-07 and FY2007-08. However, the export target which was set at USD 16.3 billion at the beginning of the fiscal year for the FY2008-09 fell short by USD 0.76 billion.

Readymade Garments Export Performance

The widespread apprehensions regarding the possible slowdown in apparels exports as a consequence of the global crisis proved to be, by and large, off market. However, firstly, volatility in export performance had increased in FY2008-09; secondly, non-RMG exports had suffered; thirdly, there was significant downward pressure on prices across the board.

Export performance of Bangladesh in the second and fourth quarters of FY2008-09 did indeed transmit the adverse impact of the financial crisis on Bangladesh's external sector performance. Overall, Bangladesh's foremost export item RMG, which registered a high growth of 15.39 per cent during FY2008-09, was able to perform well in both the United States (US) and the European Union (EU) markets. However, during the second and fourth quarter export of RMG rose by a lowly 5.41 per cent and 3.79 per cent compared to the

Figure 1.38: Bangladesh's Export of Major Commodities: FY2007-08 and FY2008-09



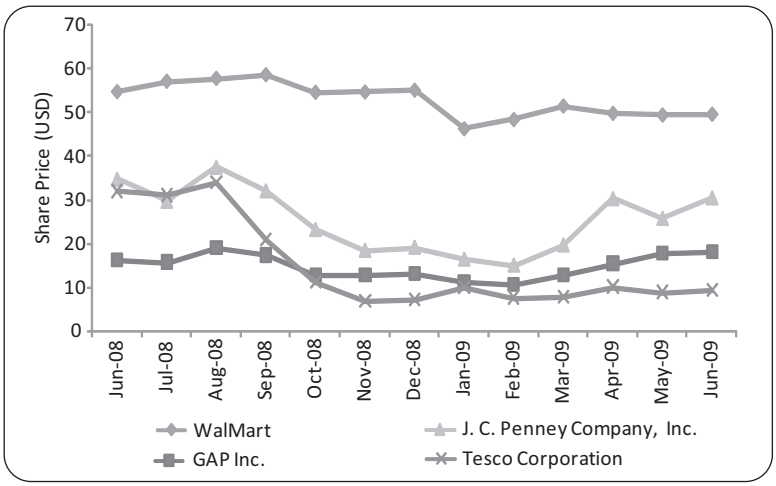
Source: CPD Trade database, 2009.

Table 1.23: Quarterly Export Growth of Bangladesh's Major Commodities: FY2007-08 vs FY2008-09

Commodity	Q1	Q2	Q3	Q4	Jul-Jun
Raw Jute	-27.61	5.60	-38.05	22.04	-10.52
Tea	36.27	-28.45	-41.52	-56.62	-17.33
Frozen Foods	15.69	-24.31	-32.24	-21.04	-14.83
Leather	-6.34	-50.24	-41.39	-46.83	-37.61
Jute Goods	-4.31	-32.05	-18.08	-7.23	-15.41
RMG	44.64	5.41	12.72	3.79	15.39
Woven RMG	36.66	6.31	9.86	4.01	13.24
Knit RMG	52.04	4.62	15.77	3.61	17.39
Chemical	195.80	-13.75	15.01	-28.42	29.68
Engineering Prod.	30.91	-55.78	-7.60	-8.82	-13.76
Home Textile	27.75	-3.93	38.36	-9.12	10.67
Footwear	49.04	8.81	3.69	-13.57	10.24
Others	54.61	-17.14	-18.89	-10.30	-2.04
Total Export	42.45	-1.60	6.03	-0.56	10.28

Source: CPD Trade database, 2009.

Figure 1.39: Stock Prices of Some Global Retail Stores



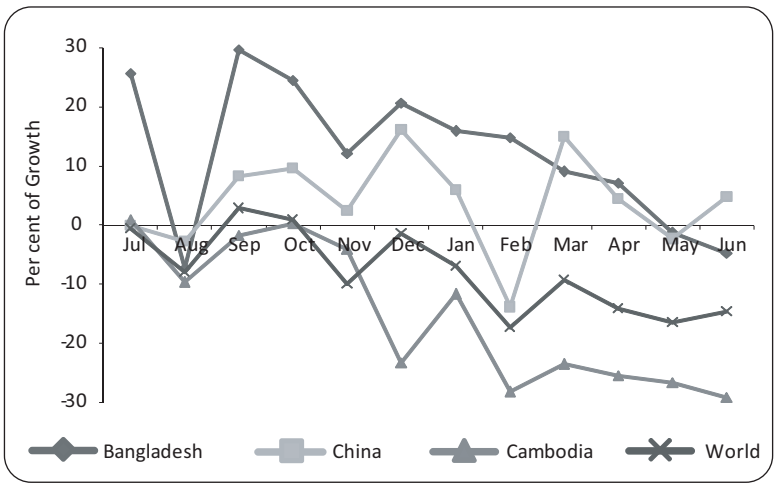
Source: CPD Calculation based on Information from Yahoo Finance.

corresponding periods of FY2007-08 (Table 1.23) Since Bangladesh specialises in low tiers of the apparels market and her major buyers are Wal-Mart, K-Mart and similar retail stores catering to low-end segment of the demand curve, Bangladesh was able to maintain and somewhat increase her market share in the major markets. However, declining retail sales of apparels and accessories in the US, during March and April 2009 by 6.6 per cent and 6.5 per cent respectively, was indicative of the slump in the demand for Bangladesh's major export, which actually happened in the subsequent months.[15] However, as of February 2009, encouraging movement in the market was clearly discernible. US retailers saw their share prices going up transmitting positive indications for future market performance (Figure 1.39).

The apprehension that the expiry of quota restrictions on China would lead to lower import from Bangladesh by the US was also found to be not true

The apprehension that the expiry of quota restrictions (as of January 2008) on China would lead to lower import from Bangladesh by the US was also found to be not true. In fact, latest data revealed that both Bangladesh and China have posted positive growth in the US market of apparels at a time when the global imports were experiencing a decline. During FY2008-09 US's imports of apparels from Bangladesh increased by 11.57 per cent whilst import from China rose by 3.59 per cent; although US's global import had declined by (-)7.35 per cent over this same period. Cambodia's apparels export to the US market, on the other hand, experienced a negative growth of (-)14.35 per cent during this period in the US market. Vietnam appears to have been relatively unaffected by the global recession, registering a growth of 7.61 per cent during FY2008-09 compared to FY2007-08 (Figure 1.40)

Figure 1.40: US's Import of Apparels from World and Some Selected Countries: FY2007-08 and FY2008-09



Source: CPD estimates based on United States International Trade Commission (USITC) database.

Though Bangladesh's export-oriented apparels sector was able to tide over the difficult period with commendable success, some of the other export-oriented sectors registered negative growth trends in FY2008-09. Non-RMG exports declined by (-)6.09 per cent. The export data for FY2008-09 showed a negative export growth of (-)37.61 per cent for the country's leather industry; this was reflected in lower demand for hides and skins during the Eid festival.[16] Of the other important sectors, export of raw jute and jute goods declined by (-)10.5 per cent and (-)15.4 per cent respectively, whilst that of frozen foods posted a negative growth of (-)14.8 per cent (Box 1.1). However, there has been an increase in exports of footwear (by 10.24 per cent) taking the export figure to USD 186.97 million.

Though Bangladesh's export-oriented apparels sector was able to tide over the difficult period with commendable success, some of the other export-oriented sectors registered negative growth trends in FY2008-09

A decomposition of the growth dynamics reveal that the rise in export (10.31 per cent) was accounted for mainly by rise in volume (13.84 per cent); average prices had also decreased, albeit, to an insignificant degree (-1.86 per cent).

[15] In February 2009, Wal-Mart notched a 5.1 per cent improvement in same-store sales - beating the prediction of analysts who had projected a 2.4 per cent gain on an average. Similar trends have been observed for Target Corp., Nordstorm Inc., Gap, JC Penny, and Macy's - all reported a decline in their sales in February 2009 compared to the same period of 2008. (**Source:** Retail wrap: Wal-Mart sales rise; Saks sales plunge. 5 March 2009).

[16] 20 sq ft of cattle hide after the Eid-ul-Azha sold at Tk. 600-650 in FY2008-09 against Tk. 1,300-1,400 of last year; similarly, goat hide was priced at Tk. 100-150 against last year's Tk. 250-300.

Terms of Trade

The general stagnation in Bangladesh's export prices reflect the country's export sector's inability to rise up the value chain. This needs to be considered in relation to the substantial deterioration of Bangladesh's terms of trade (ToT) experienced in recent years. Bangladesh Bank data suggests that in FY2007-08, both the export price index and import price index had increased by 3.5 per cent and 3.4 per cent respectively. As a result, ToT improved slightly by 0.1 per cent in FY2007-08 over FY2006-07 (Table 1.24). Since prices of apparels had fallen sharply over this period, it is not clear how general export price index could rise if this be the case. If import prices are compared with apparels price index, the ToT would fall by (-)1.96 per cent.

The export and import prices of selected major essential items further reveals the above trend. While in 2006 to import a barrel of crude petroleum, Bangladesh had to export 2.34 dozens of RMG, by 2008 this had increased to 3.44 dozens; however, at the end of June 2009, this declined to 2.03 dozens due to the sharp decrease in global oil price and falling commodity prices. Similarly, to import one ton of rice in 2006 Bangladesh had to export 0.52 tonnes of jute goods, in 2008 it was 1.14 tonnes, and in June 2009 to import the same amount of rice Bangladesh has to export 1.04 tonnes of jute goods (Table 1.25). This trend is similar for wheat and soybean oil as well. In spite of fall in global commodity prices, purchasing power of Bangladesh's export has not yet been able to reach the level which was there in 2006 for most of the major imported commodities. In view of the expected rise in global commodity prices in the near future, all indications are that Bangladesh's ToT will suffer further deterioration in FY2009-10.

Box 1.1: Declining Frozen Shrimps Export

Even though Bangladesh's frozen food processing industry began to grow rapidly in the 1990s, it was not appropriately attuned to demands of sanitary facilities, technology adoption and training requirements that were called for in view of the increasingly rising stringent SPS-TBT (sanitary and phytosanitary-technical barriers to trade) compliance standards of the global market. These issues surfaced in late 1990s when shrimp export from Bangladesh was banned by the United States Food and Drug Administration. In 1997 the EU banned imports of fishery products from Bangladesh after having found serious deficiencies in hygiene compliance in processing establishments. The loss from ban on export to US during the 5 months (August-December 1997) was to the tune of USD 15 million. The ban was lifted after adequate measures were taken to ensure compliance with EU regulations. But this was not the end of the matter. Earlier this year (2009) the EU cancelled more than 50 consignments of fresh water shrimp (Galda) upon detection of health hazardous antibiotic *nitrofuran*. The total value of the consignments amounted to more than Tk. 60 crore (about USD 8.7 million). In concordance with the Government of Bangladesh (GoB), the Bangladesh Frozen Food Exporters Association has decided to voluntarily restrain *Galda* exports to the EU for a period of six months, starting from 1 June 2009. This step will further affect Bangladesh's export-oriented shrimp industries by lowering the export figures. However, export of saline water shrimp or *Bagda* will not be affected. After registering a growth of 3.64 per cent in FY2007-08, exports of frozen foods, mainly shrimp, now faces a dim period as the global financial meltdown bites demand for this item. Export from the sector fell by (-)14.83 per cent to USD 454.85 million during FY2008-09 from USD 534.07 million a year ago.

Relevant stakeholders were of the opinion that the health hazardous elements came from feeds, although the use of *nitrofuran* is prohibited in Bangladesh. Some of these harmful ingredients were coming through illegal channels. Some suspect that nitrofuran exists in the chicken feed that shrimp producers use (chicken-waste) as fish feed. In Satkhira alone, there are 58 shrimp-processing units for about 17,000 shrimp farms and it is difficult to track down the offenders since the value chain is extensive and rather complex.

The government has decided to appoint a foreign consultant to investigate the source of contamination; steps are to be taken to examine the water and soil of the shrimp farming areas. However, some other medium and long-term initiatives are needed in order to effectively tackle this situation. A comprehensive and holistic institutional mechanism ought to be put in place to ensure SPS-TBT compliance all along the value chain, and vigilance must be maintained through appropriate monitoring process to detect and track violators of the required standards.

The upcoming seventh World Trade Organization (WTO) Ministerial meeting will be an opportunity for Bangladesh to advance its trade interests. Bangladesh should prioritise her strategies towards an outcome of the Doha Negotiations that addresses her core interests. Likely preference erosion emanating from the conclusion of the Doha Round is considered to be a major concern for Bangladesh. Of importance to Bangladesh in this respect is to ensure "commercially meaningful" implementation of the Doha Ministerial Decision as regards duty-free quota-free (DF-QF) treatment for

Table 1.24: Terms of Trade in General and with Respect to Apparels

(Base: FY2000 = 100)

Year	Export Price Index	Import Price Index (MPI)	Apparels Price Index (API)	Terms of Trade	API/MPI*100 (ToT Apparels)
FY2000	100.00	100.00	100.00	100.00	100.00
FY2001	102.40	107.53	100.82	95.24	93.77
FY2002	104.82	115.61	84.90	90.67	73.43
FY2003	107.44	124.57	83.14	86.25	66.74
FY2004	115.07	129.62	80.34	88.78	61.98
FY2005	118.82	134.21	77.87	88.54	58.02
FY2006	121.18	139.50	74.25	86.88	53.23
FY2007	127.06	144.58	71.25	87.88	49.28
FY2008	131.53	149.55	70.77	87.96	47.32

Source: CPD Trade database, 2009.

Table 1.25: Falling Purchasing Power of Exports

	Dozens of RMG			Rise (in times) b/a	Rise (in times) c/a	Tonnes of Jute Goods			Rise (in times) e/d	Rise (in times) f/d
	2006 (Avg) (a)	2008 (Avg) (b)	2009 (Jun) (c)			2006 (Avg) (d)	2008 (Avg) (e)	2009 (Jun) (f)		
1 barrel of oil (fuel)	2.34	3.44	2.03	1.5	0.9	0.11	0.17	0.10	1.5	0.9
1 ton of rice	10.97	23.18	21.86	2.1	2.0	0.52	1.14	1.04	2.2	2.0
1 ton of wheat	7.07	11.25	8.31	1.6	1.2	0.33	0.55	0.39	1.7	1.2
1 MT of soyabean oil	21.19	39.12	26.28	1.8	1.2	1.00	1.93	1.25	1.9	1.2

Source: CPD Trade database, 2009.

all goods originating from all least developed countries (LDCs).[17] Bangladesh should also strongly argue to the effect that no LDCs receive less preferential treatment than non-LDCs.[18] In recent times, US has decided to revise the existing "US Preference Schemes;" Bangladesh will need to engage proactively with the US Administration in view of this scheme. On 22 May 2009, two US representatives, Senators *Dianne Feinstein* and *Kit Bond* had introduced a Bill aiming at providing duty-free status to textiles and apparels from 14 Asian LDCs. Because of the importance of the New Partnership Development Act (NPDA) for Bangladesh there is a need to pursue a well-coordinated strategy in support of this Bill by also taking care of her concerns in this respect.[19] The government needs to carefully monitor the developments in this respect and do the needful.

In view of the ongoing WTO negotiations on SPS, TBT and environmental issues, Bangladesh and other LDCs are likely to be confronted with new challenges in terms of complying with various standards. Agricultural exports (SPS-TBT), knitwear (affluent facilities) and other sectors will need to enhance their compliance capabilities in view of the likely demands stemming from the current round of trade negotiations. Bangladesh's export policies and incentive structure will need to be geared towards addressing these issues.

In view of the global economic crisis some of Bangladesh's major competitors such as Vietnam, China and India had put in place policies that could potentially undermine Bangladesh's export competitiveness in the global market

Global Economic Crisis and Fiscal Stimulus Programme

During FY2008-09, in view of the global economic crisis some of Bangladesh's major competitors such as Vietnam, China and India had put in place policies that could potentially undermine Bangladesh's export competitiveness in the global market. Bangladesh should be concerned about depreciation of currencies in competing countries (ranging from 6 per cent to 30 per cent) over the past one year. Stimulus packages of some of her competitors that provide wide-ranging incentives to respective export-oriented sectors has led to erosion of Bangladesh's competitive advantage in some products such as apparels in the global market in recent times. For example, the stimulus packages put in place by China have now enhanced her competitive strength in lower-end apparels market

[17] As is known, the most crucial issue here is to convince the US to allow items of interest in its 97 per cent DF-QF list.

[18] This refers to the issue of so-called "Disproportionately Affected Countries" whereby two developing countries, Sri Lanka and Pakistan could be granted market access to the US at more preferential rates (for apparels items) than some of the Asia-Pacific LDCs which are not covered by either African Growth and Opportunity Act (AGOA) or Caribbean Basin Initiative (CBI).

[19] These relate to the tariff rate quota on certain apparels items, rules of origin (RoO), compliance requirement with regard to labour, Trade-related Aspects of Intellectual Property Rights (TRIPS) and other standards.

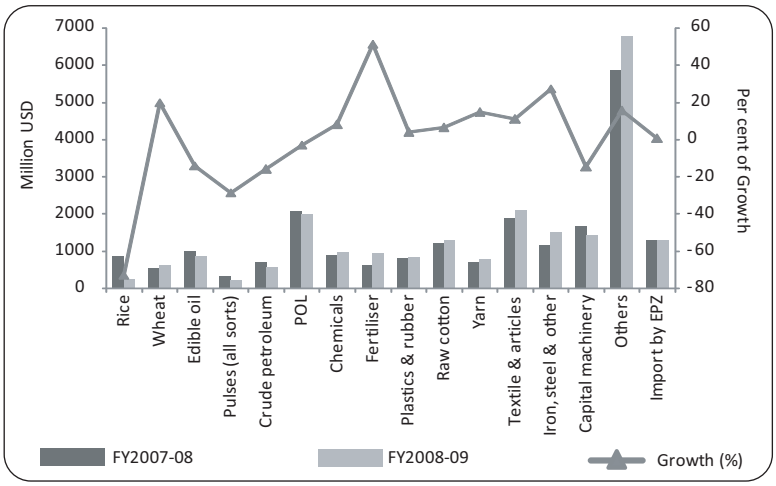
where Bangladesh has traditionally been strong.[20] As is known, to address the attendant challenges and in view of the adverse affects of the global crisis on selected sectors, Bangladesh government had announced a stimulus package amounting to Tk. 3,424 crore (3.4 per cent of budget and 0.6 per cent of GDP in FY2008-09) in April 2009. This package consisted of cash subsidy, fiscal measures, enhanced loan facilities as well as allocation for social security. The government had allocated Tk. 1,500 crore for the agricultural sector, Tk. 500 crore for agriculture loan recapitalisation facility, Tk. 600 crore for power sector, Tk. 450 crore for export-oriented sectors and Tk. 374 crore for social security (food). The total allocation of Tk. 450 crore for the export sector was targeted to three sectors in the form of enhanced cash subsidy of additional 2.5 per cent - jute and jute goods, leather and leather goods and frozen foods sectors. This was to be in addition to the Tk. 1,050 crore earmarked for these sectors in the budget for FY2008-09. It is envisaged that this package will be absorbed in the upcoming budget for FY2009-10 with additional allocations to replenish the package.

The stimulus packages put in place by China have now enhanced her competitive strength in lower-end apparels market where Bangladesh has traditionally been strong

Renewed Emphasis on South-South Trade

The global crisis has also once again reemphasised the need for enhancing South-South trade. Bangladesh needs to develop strategies targeted to minimise the growing trade gap with the South Asian countries, particularly India. There has had been some encouraging developments in this context.[21] Steps must be taken to take advantage of the envisaged global recovery from position of strength through appropriate fiscal and monetary incentives. A targeted stimulus package in support of key sectors could sustain a long way in this regard.

Figure 1.41: Import of Some Selected Commodities: FY2007-08 and FY2008-09



Source: CPD Trade database, 2009.

1.7.2 Key Features of the Import Sector

Import growth has remained impressive over the recent past. Total merchandise imports to Bangladesh during FY2007-08 amounted to USD 21.63 billion, registering a growth of 26.07 per cent over the corresponding period of FY2006-07. This positive trend had continued during FY2008-09 albeit with considerable volatility across months underwritten by higher commodity prices during the first half of FY2008-09 and declining prices during the latter half. Overall, import payments rose by 4.06 per cent compared to the corresponding period of FY2007-08. Import share of textiles and articles was the highest at 9.33 per cent of total imports followed by petroleum, oil and lubricants (POL), accounting for about 8.87 per cent of total imports (Figure 1.41). Import of foodgrains, however, posted a negative growth of (-)37.43 per cent, with rice import falling by (-)72.62 per cent. With the fall of global rice price and good Boro harvest in 2008, Bangladesh was in a more comfortable position and imported only about 6.03 lakh MT of rice during FY2008-09 (during FY2007-08 period this was 20.55 lakh MT).

Bangladesh needs to develop strategies targeted to minimise the growing trade gap with the South Asian countries, particularly India

[20] As part of her stimulus packages, China has now withdrawn taxes which were earlier imposed on her lower-end exports (which was done to encourage exporters to move away from lower-end market segment, in favour of higher quality apparels exports).

[21] UNIQLO, one of the largest Japanese retail chains, is planning to purchase RMG products worth more than USD 600 million (20 per cent of its global sourcing) from Bangladesh in 2009. Many global companies are pursuing China plus one policy, and Bangladesh is very much on their radar screen.

Opening of L/Cs for rice during FY2008-09 also matches the decreasing rice import trend. During the period under review, L/Cs opened for rice was only to the tune of USD 51.41 million, a (-)96.17 per cent decrease over the corresponding period of FY2007-08. Similarly, settlement of L/C for rice during the said period was also on the decline, falling by (-)73.61 per cent as compared to the earlier fiscal year.

The fall in import of capital machineries is rather disturbing since this is likely to have adverse implications for investment

Import of capital machineries and petroleum oil posted negative growth rates of (-)14.71 per cent and (-)2.97 per cent respectively. Opening of L/Cs for capital machineries also matched this declining import trend. During this time L/Cs opened for capital machineries were worth USD 1,234.99 million, a decrease of (-)29.58 per cent compared to FY2007-08. Settlement of L/Cs for capital machineries also stagnated with a growth of (-)0.78 per cent when compared against FY2007-08. The fall in import of capital machineries is rather disturbing since this is likely to have adverse implications for investment. This is also discernible from the L/C opening figure of textile machineries, a decrease of (-)53.74 per cent during the reported period. Even though the government has replaced the indemnity bond system with a concessionary 1 per cent customs duty (CD) on export-oriented capital machineries, the declining import trend of this important item should be seen as something to be concerned about. This fall cannot be fully be explained by fall in prices of some of the capital machineries items. As was suggested by the CPD, the government may consider eliminating CD on capital machineries imported for export purpose in view of the aforesaid depressing scenario.

The government may consider eliminating CD on capital machineries imported for export purpose in view of the aforesaid depressing scenario

While in the first quarter of FY2008-09 import growth for crude petroleum was very high, at 145.79 per cent (as compared to the first quarter of FY2007-08), fuelled by high import price of oil (from June 2008 onwards oil price was exceeding to USD 130/barrel), over the next two quarters (October-March) this had dropped down by (-)88.62 per cent, mainly due to declining oil price; by the end of December prices had started to come down, and at the end of May 2009 oil price per barrel stood at USD 56.72. It is also interesting to note that, according to available data, during October to February FY2008-09 there was no import of crude petroleum! On the other hand, import of POL during the first three quarters posted a high growth of 34.13 per cent and the bill for this was to the tune of USD 1.69 billion; however from March 2009 onwards, imports of POL decreased significantly and at the end of the fiscal pulled down the entire import growth of POL to a negative (-)2.97 per cent. Import of intermediate inputs, such as raw cotton (6.44 per cent) and yarn (14.65 per cent), and iron, steel and other base metals (27.33 per cent), registered significant increase (Figure 1.41).

1.7.3 L/C Opening and Settlement

The high growth trend in case of opening L/C was not continued during FY2008-09

Total value of L/Cs opened during FY2007-08 was worth USD 24.44 billion, which was 40.02 per cent higher compared to L/Cs opened during FY2006-07. To compare, L/Cs settled in this period amounted to USD 20.37 billion which was 27.56 per cent higher than FY2006-07. However, the high growth trend in case of opening L/Cs was not continued during FY2008-09. L/Cs opened during this period amounted to USD 21.80 billion, about (-)10.77 per cent lower than that of FY2007-08. However, L/Cs settled during this period followed the earlier trends and posted a positive growth of 5.26 per cent compared to FY2007-08. L/Cs settled during this period amounted to USD 21.44 billion or USD 1.07 billion more than that of L/Cs settled in FY2007-08 (Table 1.26).

L/Cs opened for POL during this time was also negative at (-)27.64 per cent with crude and refined petroleum standing at (-)46.62 per cent and 17.08 per cent respectively. This was also reflected in the FY2008-09 import payments, when

as mentioned earlier, growth of crude petroleum was (-)15.96 per cent. This may have been due to the declining global fuel price from October 2008 onwards and zero import between October 2008 and February 2009.[22]

1.7.4 Remittance Flow vis-à-vis Global and Regional Scenarios

In sharp contrast to the gloomy outlook with regard to remittance flows worldwide, Bangladesh's performance record in FY2008-09 remained upbeat. Remittance inflows had increased by more than 22.42 per cent in FY2008-09 over FY2007-08. Highest remitted amount of USD 919.10 million was recorded for June 2009 which was the highest single month performance ever. Remittance from Saudi Arabia continues to constitute the lion's share of the total remitted amount (29.51 per cent), followed by the United Arab Emirates (UAE) and the US (about 18.11 and 16.26 per cent respectively). It is worth noting here that remittance flows from other countries have also been on the rise in recent times, particularly from Malaysia, from where remittance more than doubled during this fiscal year compared to the previous one (Figure 1.42).

Bangladeshi workers are mainly concentrated in the Gulf States (which account for about 5.03 million of Bangladeshi migrant workers or 80 per cent of the total migrant labour force) where accumulation of reserves over many years of high oil prices are enabling governments to continue with large-scale infrastructure projects. It may be recalled here that remittances flow had continued to remain stable during the Asian financial crisis of the late 1990s. Remittances are expected to be resilient during this crisis as well. It is worth noting here that the World Bank has rather been cautious in this respect, predicting a slowdown in the rate of growth of remittances (5 to 8 per cent). However, the fact remains that Bangladesh's performance had been one of the best among the developing countries with significant dependence on remittance flows.

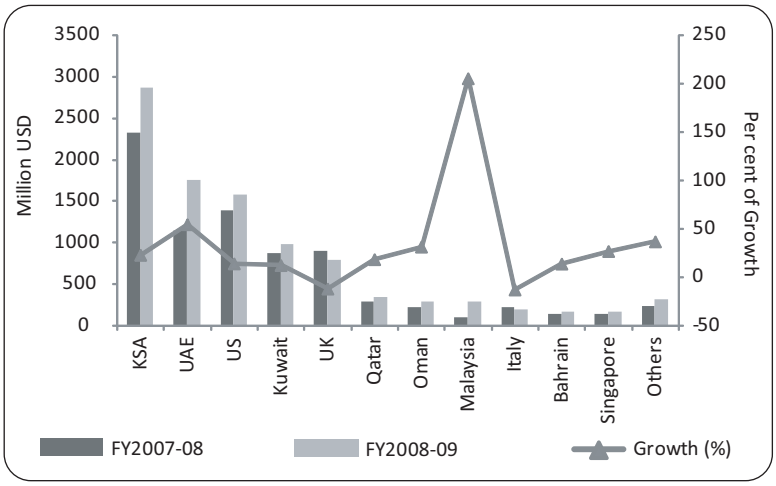
Table 1.26: Opening and Settlement of L/C: FY2007-08 vs FY2008-09

(in Million USD)

L/C Item	L/C Opening			L/C Settlement		
	FY2008	FY2009	Growth (%)	FY2008	FY2009	Growth (%)
Consumer goods	2026.32	837.76	-58.66	1411.96	871.09	-38.31
Rice	1341.70	51.41	-96.17	859.47	226.79	-73.61
Wheat	684.62	786.36	14.86	552.49	644.31	16.62
Intermediate goods	2042.24	2223.99	8.90	1766.71	2123.72	20.21
Industrial raw materials	9017.88	8553.91	-5.15	7689.04	8494.22	10.47
Cotton yarn	529.94	472.58	-10.82	436.55	500.98	14.76
Cotton yarn B/B L/Cs*	316.01	303.89	-3.84	258.96	320.63	23.81
Textile fabrics accessories	3034.14	2995.00	-1.29	2692.91	3036.73	12.77
Textile fabrics accessories B/B L/Cs	2799.76	2833.60	1.21	2498.02	2875.10	15.10
Fabrics	2137.45	2127.89	-0.45	1895.43	2196.41	15.88
Accessories	662.30	705.72	6.56	602.58	678.69	12.63
Petroleum and petroleum products	2576.70	1864.56	-27.64	2290.04	2036.85	-11.06
Capital machinery	1753.74	1234.99	-29.58	1414.97	1403.93	-0.78
Textile	549.19	254.05	-53.74	401.69	393.82	-1.96
Machinery for misc. Industries	1631.54	1870.08	14.62	1444.89	1662.36	15.05
Other L/Cs	3940.04	3938.71	-0.03	3147.03	3672.40	16.69
Commercial sector	2060.90	2299.73	11.59	1764.56	2046.05	15.95
Industrial sector	1879.15	1638.98	-12.78	1382.46	1626.35	17.64
Total	24435.60	21802.74	-10.77	20372.59	21444.35	5.26

Source: CPD Trade database, 2009.
Note: *B/B L/C: Back-to-back L/Cs.

Figure 1.42: Country-wise Flow of Remittances



Source: CPD Trade database, 2009.

[22]Absence of any import of POL between October 2008 and February 2009 is somewhat puzzling, and consequently, the relevant data needs to be looked at more carefully.

Labour Outflows

Total number of workers leaving Bangladesh for working abroad was 981,102 in FY2007-08, whilst in FY2008-09 the number has declined to 650,059 which was a 33.74 per cent drop. One reason for continued higher remittance could be the stock versus flow aspect of migration. Though number leaving was falling, total stock was rising, and hence larger remittance flow. Interestingly, though in previous years more semi-skilled and less skilled workers had emigrated, in 2008 there was a significant rise in the share of professionals and skilled workers leaving the country (Table 1.27). This could also be one of the reasons that explains the increase in growth of remittance, since these workers were likely to earn higher wages compared to semi-skilled and less skilled workers. Another factor that may have contributed towards the recent growth in remittance flow is the declining money transferring cost.

Table 1.27: Category of Migrant Workers

Year	Labour Outflow	Share of Different Category of Workers (%)				
		Professional	Skilled	Semi-skilled	Less Skilled	Total
2006	381516	0.24	30.27	8.90	60.59	100
2007	832609	0.08	19.86	22.06	58.00	100
2008	875055	0.21	32.16	15.18	52.44	100

Source: CPD estimates based on BMET data.

Remittances Prices Worldwide data affirms this. Average cost of remitting to the country of origin has declined significantly in recent times. Whilst in 2008, the average total cost for sending, for example, USD 200 from Saudi Arabia to Bangladesh was USD 10.80, it had fallen to USD 5.68 by the first quarter of 2009. Alongside the falling price of remittances, Bangladesh Bank took a number of initiatives to facilitate transfer of earnings by Bangladeshis from abroad.

The returning migrant workers have become an issue of increasing concern in Bangladesh

The returning migrant workers have become an issue of increasing concern in Bangladesh. Regrettably, as of now, any institutional mechanism for recording the number of permanent returnees is absent. This needs to be addressed. The Bureau of Manpower, Employment and Training (BMET) has estimated that a total number of 28,000 workers had returned home, as a result of retrenchment, during the first quarter of FY2008-09. The stimulus package does not have any focused intervention for returnee workers. They could be provided soft loan from the *Overseas Workers' Welfare Fund* to help them tide over the current difficult times and enable them to set up independent enterprises. Efforts should be strengthened so that Bangladesh is able to cater to the needs of new markets for migrant workers. In this context, a time-bound plan should be put in place so that workers willing to travel abroad get the opportunity to undergo skill upgradation training that meet the specific demands of the host country job markets.

Thanks to the buoyant flow of remittances and robust export earnings, current account balance has continued to remain in surplus position as distinct from many developing countries which had experienced balances being driven down to the negative terrain

1.7.5 Balance of Payments

The BOP position of Bangladesh remains healthy. From USD 331 million in FY2007-08, the overall BOP of Bangladesh reached USD 2,058 million in FY2008-09 (Table 1.28). Current account balance also followed similar trend, increasing from USD 702 million in FY2007-08 to USD 2,536 million in FY2008-09. Thanks to the buoyant flow of remittances and robust export earnings, current account balance has continued to remain in surplus position as distinct from many developing countries which had experienced balances being driven down to the negative terrain.

Trade balance, as has been the trend in recent years, recorded a deficit of (-)USD 4,708 million in FY2008-09; this was lower compared to (-)USD 5,330 million during FY2007-08. This is attributed to the rising import payments which increased to USD 20,291 million in FY2008-09 from USD 19,481 million in

FY2007-08. It is to be noted that high oil prices during the first quarter of FY2008-09 has contributed significantly to higher import payments. Compared to FY2007-08 import payments on account of fertiliser had increased by more than 51 per cent - from USD 631.60 million to USD 955.10 million; iron and steel import payments rose by 27.33 per cent; however, import of the capital machineries component came down by (-)14.71 per cent.

Thanks to larger current transfers of USD 10,226 million, where remittances continue to constitute the major share, current account balance recorded a surplus of USD 2,536 million during the period under review. The development of the BOP situation is likely to hinge on two crucial factors - (a) trade balance and current account balance, in view of the dynamics of changes in the global commodity prices and remittance flows in the coming months; and (b) impact of the ongoing crisis on the aid situation. In this regard Bangladesh should remain proactively engaged with the various global initiatives in support of low-income countries which have been put in motion in recent times in view of the global economic crisis.

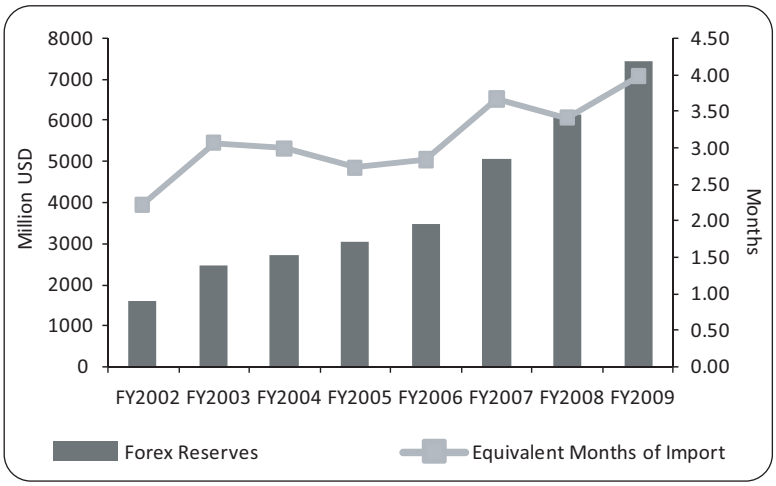
Table 1.28: Balance of Payment

(in Million USD)

BOP Component	FY2007-08	FY2008-09
Trade balance	-5330	-4708
Services	-1525	-1621
Current transfers	8551	10226
Official transfers	149	72
Private transfers	8402	10154
of which workers' remittances:	7915	9689
Current account balance	702	2536
Capital account	509	451
Financial account	-392	-808
Errors and omissions	-488	-121
Overall balance	331	2058

Source: Bangladesh Bank, November 2009.

Figure 1.43: Forex Reserves and Equivalent Months of Import



Source: CPD Trade database, 2009.

1.7.6 Foreign Exchange Reserves

In the backdrop of the buoyant growth in remittance flow to the country coupled with impressive growth in export earnings, the foreign exchange (forex) reserves posted a 21.50 per cent increase at the end of June 2009, as against the corresponding month of FY2007-08. The gross foreign exchange reserves of Bangladesh Bank stood at USD 7,470.96 million as of June 2009. Figure 1.43 depicts the growth in forex reserves and its equivalency in terms of the months of import. The current forex reserve is equivalent to about 4 months of Bangladesh's total import payment. The reserve position is expected to sustain in near future which will be crucial to providing Bangladesh some cushion in maintaining a stable exchange rate and providing capacity to make the required imports.

The reserve position is expected to sustain in near future

In view of the changing dynamics in the foreign currency market, Bangladesh Bank needs to remain proactive in monitoring changes in the composition of its forex reserve currency basket and take appropriate measures in order to safeguard the purchasing power of the country's forex reserves through prudential management.

1.7.7 Foreign Aid

Table 1.29 shows that in FY2008-09, a total amount of USD 1.73 billion aid had been disbursed which was approximately USD 335 million less than the amount

Table 1.29: Disbursement of Grants and Loans as well as Payments Made

Fiscal Year	Aid Scenario			Financing Scenario (USD million)		
	Total Aid (USD Million)	Share of Grants (%)	Share of Loans (%)	Principal	Interest	Total
FY1985	1269.44	55.40	44.60	106	64	170
FY1994	1558.64	45.56	54.44	263	139	402
FY2006	1365.19	36.66	63.34	502	176	678
FY2007	1630.57	36.19	63.81	540	182	722
FY2008	2061.52	31.92	68.08	586	184	770
FY2009	1726.91	30.28	69.72	641	182	823

Source: CPD-IRBD database, 2009.

disbursed over the corresponding period of the previous fiscal year. Aid-related payments (the principal) have increased to USD 641.20 million from USD 586 million in FY2008-09 and FY2007-08. Net receipts of foreign aid during FY2008-09 decreased to USD 1,085.91 million compared to USD 1,475.52 million posted in FY2007-08.

In order to tackle the potential deceleration in growth from the consequence of global economic contraction, the government ought to consider foreign financing as an importance source due to its non-inflationary nature, and also more crucially, minimising the "crowding out" affect of borrowing from domestic sources. The three most critical challenges currently facing the country in aid disbursement as well as its effective utilisation are: (a) timely disbursement of the committed aid and mobilisation of counterpart domestic funds to complement aid flows; (b) efficient implementation of aid-related activities; and (c) ensuring good returns on aid-related investment.

1.8 SOCIAL SECTOR

Ensuring social security to the citizens of the country through better health services, standard education and proper safety net measures has been a top priority agenda for successive governments in Bangladesh. Such policy stance has been repeatedly manifested by channeling significant allocation of funds to these sectors. Similar has been the case in FY2008-09 (Table 1.30) when the revised allocation for line ministries dealing with health, education and technology, women advancement and children affairs, and social safety net stood at Tk. 6,314.43 crore (more than 27 per cent of the total RADP of Tk. 23,000 crore). It needs to be mentioned here that the newly elected Awami League government was responsible for the allocations made and implementation carried out during the second half of FY2008-09 after it had assumed the helms of power in January 2009.

Table 1.30: Sector-wise Planned Allocation and Expenditure in FY2008-09

(in Crore Tk.)

Sub-sector (With Relevant Line Ministry)	ADP Allocation (FY2009)	RADP Allocation (FY2009)	Utilisation (FY2009)	
			Total	% of Allocation
Health				
M/O Health and Family Welfare	2416.43	2615.04	2006.36	77
Education and Technology				
M/O Primary and Mass Education	2369.35	2113.79	2055.15	97
M/O Education	826.05	985.54	948.97	96
M/O Science, Information and Communication Technology	126.39	106.09	99.81	94
Women Advancement and Children Affairs				
M/O Women and Children Affairs	118.16	116.54	115.70	99
Social Safety Net				
M/O Social Welfare	47.70	90.37	53.40	59
M/O Food and Disaster Management	210.66	191.08	164.95	86
M/O Labour and Employment	89.62	95.98	80.14	83

Source: IMED, Ministry of Planning.

1.8.1 Health

Utilisation of around 77 per cent of the total RADP allocation for the Ministry of Health and Family Welfare (MoHFW) during FY2008-09 transmits disquieting signals as regards pace of implementation and attainment of targets set out for the fiscal year. However, most of the programmes under the Health, Nutrition and Population Sector Programme (HNPSP) have registered impressive progress against disbursement during FY2008-09. Progress against both allocation and disbursement in sector wide programme management, human resource management and financial management has thus far been rather low. This, certainly, is a matter of grave

concern as successful implementation of any programme critically depends on the quality of management performance. On the other hand, the National Nutrition Programme (NNP) saw more than 85 per cent of the allocated funds being spent in FY2008-09.

Community Clinics for Better Health Care Services

The MoHFW reintroduced *Community Clinic Programme* which aimed to provide Essential Service Package (ESP) for health, family planning and nutrition to rural people from a one-stop centre for every 6,000 population. During its (1996-2000), the Awami League government planned to construct 13,500 community clinics (CCs), of which 10,723 CCs were actually constructed. Immediately after coming to power again in 2009, it reintroduced the same programme and took initiatives to ensure primary health care facilities. As of June 2009, a total of 10,349 CCs have been handed over to the community groups out of which 8,464 are in operation (Table 1.31). Since the programme's reinitiation in April 2009, medicine supply worth Tk. 12.50 crore has been distributed at the district level for the CCs with another consignment worth Tk. 4.30 crore in the pipeline as of June 2009. An amount of at least Tk. 230 crore will be required to ensure proper functioning of the operational CCs throughout the country. This has to be further strengthened by deployment of trained health workers and competent assistants, coordination among members of the community groups, and regular monitoring and evaluation by relevant government agencies.

Table 1.31: Status of the Community Clinics as of June 2009

Division	Built	Handed Over	Functioning from April 2009	Built but Demolished Later	Comment
Dhaka	2951	2822	2091	16	16: river erosion
Chittagong	1663	1621	1431	4	2: river erosion, 2: completely damaged
Rajshahi	3255	3171	2454	43	43: river erosion
Khulna	1385	1380	1322	2	2: completely damaged
Barisal	801	737	598	32	32: river erosion
Sylhet	668	618	568	2	2: completely damaged
Total	10723	10349	8464	99	

Source: Directorate General of Health Service, Ministry of Health and Family Welfare.

An amount of at least Tk. 230 crore will be required to ensure proper functioning of the operational CCs throughout the country

1.8.2 Education and Technology

During FY2008-09, RADP utilisation by the Ministry of Primary and Mass Education and Ministry of Education in FY2008-09 stood at 98 per cent and 96 per cent respectively. While the Second Primary Education Development Programme (PEDP II) has registered 97 per cent utilisation against RADP during the said fiscal, progress in other programmes such as Primary Education Stipend Project (Phase II), Reaching Out-of-School Children (ROSC) and Secondary Education Quality and Access Enhancement Project (SEQAEP) has also been commendable (Table 1.32).

Efforts need to be geared up further for successful implementation of these projects which are critical to attaining the millennium development goal (MDG) targets of ensuring universal primary education for all children. However, time has come to give more attention to quality aspects of education. Government should also consider setting up an e-Education cell under the Prime Minister's Office to move towards the goal of *Digital Bangladesh*.

Table 1.32: Status of the Major Education Projects in FY2008-09

(in Crore Tk.)

Project	Revised Allocation	Expenditure	Expenditure as % of Revised Allocation
Primary Education Stipend Project (Phase II)	488.00	478.00	97.95
Reaching out of School Children (ROSC)	87.56	84.18	96.14
Secondary Education Quality and Access Enhancement Project (SEQAEP)	112.42	99.12	88.17

Source: Ministry of Primary and Mass Education; Ministry of Education.

1.8.3 Social Safety Net

Safety net programmes are designed to help and transfer resources to the poor and vulnerable groups of different parts/sections of the society. In FY2008-09, these programmes assumed added importance in view of the anticipated negative implications of the global financial crisis for poverty and social security in Bangladesh. According to the economic update on Bangladesh by the World Bank, around 24 lakh more people were likely to plunge into poverty in FY2008-09 due to the impact of the ongoing recession (World Bank 2009).

According to the economic update on Bangladesh by the World Bank, around 24 lakh more people were likely to plunge into poverty in FY2008-09 due to the impact of the ongoing recession

In the budget of FY2008-09, the government allocated 2.25 per cent of total GDP (0.11 per cent higher than the previous year's allocation) for social security and social empowerment. Progress with regard to most of the cash allowance programmes for the poor and vulnerable had been significantly positive in FY2008-09, both in terms of availability of the fixed amount of monthly allowance and attainment of the targeted number of enlisted beneficiaries. However, poor performance was observed in the case of utilisation of RADP allocation by three different ministries (Ministry of Social Welfare, Ministry of Food and Disaster Management (MoFDM), and Ministry of Labour and Employment (MoLE)) which were directly working for various social safety net porgrammes. Both the MoFDM and the MoLE registered more than 80 per cent utilisation of RADP allocation in FY2008-09. On the other hand, Ministry of Social Welfare was able to achieve only 59 per cent utilisation target with regard to total RADP allocation during the same period. Apart from these regular allocations, on 19 April 2009, the government announced a stimulus package worth of USD 500 million in view of the global financial crisis. The package provided 11 per cent of total allocation for various social safety net programmes. The second stimulus package worth of USD 725 million for FY2009-10 was announced in June 2009, and this also set targets to strengthen social safety net programmes.

Progress with regard to most of the cash allowance programmes for the poor and vulnerable had been significantly positive in FY2008-09, both in terms of availability of the fixed amount of monthly allowance and attainment of the targeted number of enlisted beneficiaries

Employment Generation Scheme

Anecdotal data and information suggest that the government was planning to allocate Tk. 1,500 - Tk. 2,000 crore in FY2009-10 to provide technical and vocational training to 20,000 unemployed Higher Secondary Certificate (HSC) graduates, and to create employment opportunities for the returnee migrants who fell victim to early job retrenchment in various host countries due to the ongoing global economic crisis. The government was also planning to initiate a *Cash for Work* programme instead of the *100-Day Employment Generation Scheme*. However, it is not yet clear as to whether allocation for the new programme will be a stand alone one or a combination of the outstanding amount from the previous scheme and new allocations in the next budget.

The government should use the New Poverty Map to identify poverty-prone areas where social safety net programmes need to be further strengthened. Added attention needs to be given to *monga*-prone northern districts and areas that have been hit by cyclone *Aila*. The government should also continue with the *Five Year Guaranteed Employment Scheme* first put in place by the CTG, in addition to its new initiatives. Also, Fund for Climate Change (Tk. 300 crore) needs to be effectively utilised to ensure support for the climatologically vulnerable areas and people.

The government should use the New Poverty Map to identify poverty-prone areas where social safety net programmes need to be further strengthened

Public Food Distribution System

Distribution of foodgrains through both priced and non-priced channels in FY2008-09 has been 82 per cent higher than that of the comparable period of

the previous fiscal. However, it was about 7 per cent lower than the revised budget for PFDS in FY2008-09 (Table 1.33). In the past, preparation of lists of beneficiaries for various safety net and allowance programmes has often been found to be biased and influenced by local and national politics. This trend needs to be reversed to raise the efficacy of PFDS, both in terms of targeting and in terms of implementation.

Table 1.33: Channel-wise Distribution of Foodgrains in FY2008-09

(in '000 MT)

Sector	Channel	Revised Budget (FY2008-09)			Cumulative Distribution (1 July 2008 - 30 June 2009)			Distribution of Total Revised Budget (%)		
		Rice	Wheat	Total	Rice	Wheat	Total	Rice	Wheat	Total
Monetised	EP	148	108	256	133	86	219	89.86	79.63	85.55
	OP	16	10	26	17	5	22	106.25	50.00	84.62
	LE	133	0	133	10	0	10	7.52	0.00	7.52
	OMS	370	0	370	195	0	195	52.70	0.00	52.70
	Others	0	0	0	0	0	0	0.00	0.00	0.00
	Sub-total	667	118	785	355	91	446	53.22	77.12	56.82
Non-monetised	FFW	303	28	331	362	33	395	119.47	117.86	119.34
	TR	143	120	263	258	110	368	180.42	91.67	139.92
	VGF	500	0	500	507	0	507	101.40	0.00	101.40
	VGD	165	100	265	141	138	279	85.45	138.00	105.28
	GR	64	0	64	43	0	43	67.19	0.00	67.19
	Others	75	0	75	92	0	92	122.67	0.00	122.67
	Sub-total	1250	248	1498	1403	281	1684	112.24	113.31	112.42
Grand Total		1917	366	2283	1758	372	2130	91.71	101.64	93.30

Source: Food Planning and Monitoring Unit (FPMU), GoB.
Note: EP: Essential Priorities; OP: Other Priorities; LE: Large Employers; OMS: Open Market Sale; FFW: Food for Work; TR: Test Relief; GR: Gratuitous Relief.

Both vulnerable group development (VGD) and vulnerable group feeding (VGF) programmes need to be expanded and their implementation expedited in the coastal areas which have been badly hit by cyclone *Aila*. Such circumstances invariably necessitate further procurement and allocation of foodgrains by the government. Bangladesh should also try to get funds from Global Food Crisis Response Programme (GFRP) by World Bank to expand the ambit of her VGF programmes. Besides, a fresh beneficiary list should be prepared to support the deserving deprived and disadvantaged people. The government may use the National ID card to make the system monitorable, simple, speedy and objective.

1.9 OUTLOOK AND CHALLENGES FOR FY2009-10

Growth and Investment Outlook

In a year of transition with its uncertainties both in terms of policy making and policy continuity, coupled with volatility in domestic economy and global financial meltdown, a growth rate of 5.9 per cent must be seen as impressive. Robust agricultural production and resilient export performance were the highlights of FY2008-09. In view of apprehensions about late entry and late exit in the context of the impact cycle of global crisis, the GDP growth target for FY2009-10 was initially set at 5.5 per cent, the lowest target in last six years. Compared to the almost 6 per cent growth in the volatile year of FY2008-09, and considering the emergence of "silver lining" in the global economy and the proposed counter-cyclical expansionary fiscal stance in the budget, the target was viewed as "rather conservative" by CPD and some others. Such a characterisation was also informed by the high level ambition espoused in the election manifesto of the ruling coalition which had raised expectations of the masses. The Finance Minister, however, in his post-budget press briefing on 12 June 2009, mentioned that the GDP growth rate in FY2009-10 was actually expected to be between 5.5-6.0 per cent (The Daily Star 2009). In the context of the uncertainties in the global economy and the nature of recovery, the cautious approach by the government was not altogether surprising.

Compared to the almost 6 per cent growth in the volatile year of FY2008-09, and considering the emergence of "silver lining" in the global economy and the proposed counter-cyclical expansionary fiscal stance in the budget, the target was viewed as "rather conservative" by CPD and some others

Table 1.34: A Projection of Sectoral Growth Targets

Sector	Growth FY2008-09	Growth FY2009-10*
Agriculture	4.7	3.5
Industry	5.9	6.5 - 7.0
Services	6.3	6.5
GDP	5.9	6.0 - 6.3

Source: CPD projection and calculation based on MoF (2009).
Note: *Sectoral growth rates are projected in view of GDP growth target

Given the structural composition of Bangladesh's GDP, achieving a growth target of 5.5 per cent generally does not require an exceptional level of performance. However, to attain a 6.0 per cent growth and beyond, critical sectors of the economy will be required to demonstrate an above-average performance. Regrettably, the government's projections on sectoral GDP growth targets for FY2009-10 are not been made available. However, in view of the aggregate target of around 6 per cent, CPD tried to project the sectoral GDP growth target on the basis of past experiences, recent benchmarks and the current context (Table 1.34).

In the backdrop of high benchmark of agricultural production (4.7 per cent in FY2008-09), attaining a robust growth in the next fiscal year will be rather challenging. It is perhaps safe to argue that, in the event of continuation of policy support and absence of any major natural disaster affecting the crop sector other than the partial impact of drought experienced during ongoing Aman, a near 3.5 per cent growth in this sector would be what is to be expected in FY2009-10.

With the rather discouraging investment scenario in the domestic front, the industrial growth at the end of the year may very well stay below its trend, but may be expected to beat last year's growth

The average growth rate of industrial sector during this decade (FY2000-01 to FY2008-09) has been around 7.5 per cent. It can be expected that FY2008-09's below par performance of industrial sector (5.9 per cent) was likely to continue during the first half of this fiscal year. In view of the incipient global economic recovery and its positive impact for Bangladesh, the growth may revert to the trend in the second half of FY2009-10. However, with the rather discouraging investment scenario in the domestic front, the industrial growth at the end of the year may very well stay below its trend, but may be expected to beat last year's growth. Thus, according to one's best judgement, looking from now, growth between 6.5 per cent to 7.0 per cent may be anticipated for industrial sector in FY2009-10.

Historically, services sector of the country has been able to demonstrate steady performance in the backdrop of moderate achievements in the real sectors. An average growth of the services sector during FY2000-01 to FY2008-09 (6.5 per cent), given the expected performance by the other two major sectors, may be deservedly expected and secured.

Table 1.35: Growth-Investment Framework for FY2009-10

Indicator	FY2008-09 (Provisional)	FY2009-10 (Projected)
Real GDP Growth (%)	5.9	5.5 - 6.0
Gross Investment (as % of GDP)	24.2	23.6
ICOR	4.1	4.3 - 3.9
ADP (as % of GDP)	3.7	4.4

Source: CPD calculation based on Medium Term Macroeconomic Framework (MTMF).

Investment target, as stated in the budget suggests that the government is expecting a decrease in the investment rate (as a percentage of GDP) from 24.2 per cent in FY2008-09 to 23.6 per cent in FY2009-10 (Table 1.35). A significant enhancement in public investment (in terms of ADP) would thus imply a rather depressing expectations for private investment in FY2009-10 as its share would then decline further as percentage of GDP (from 19.6 per cent in FY2008-09). This would indicate either contradictions with regard to expectations voiced in the budget about private investment (robust) or a priori acceptance of less than full delivery of the ADP.

Consequently, the ICOR is also projected to increase to 4.3 in FY2009-10 given the growth target would remain at 5.5 per cent, hence a further deceleration of capital productivity has been anticipated, either consciously or unconsciously. To achieve a 6 per cent growth, with the same level of investment (since no revision of investment target has been placed to complement the revised growth target), capital productivity in terms of ICOR would call for an improvement to the level of 3.9. Thus, in order to achieve the targeted growth rate, a significant upward movement will be required with regard to investment flow - both public and private. In the absence of adequate investment flow, capital productivity has to increase through better capacity utilisation and/or technological upgradation. Here, the role of the much talked about PPP could also emerge as a critically defining factor.

In order to achieve the targeted growth rate, a significant upward movement will be required with regard to investment flow - both public and private

Medium Term Macroeconomic Outlook

The new MTMF (FY2009-10 to FY2011-12) forecasts the economy to grow at 6.0 and 6.5 per cent during FY2010-11 and FY2011-12 respectively (Table 1.36). The MTMF also makes projections about lowering inflation rate to 6.5 per cent in FY2009-10 which is to decelerate further to 6.0 per cent in FY2010-11 and FY2011-12. Such a target would require ensuring higher domestic production in view of rising both global demand and prices in the context of the anticipated financial recovery.

According to the targets set by the MTMF, budget deficit, which has been projected to be 5.0 per cent of GDP in FY2009-10, is expected to come down gradually to 4.7 per cent of GDP by FY2010-11, primarily in view of the envisaged stability in current public expenditure. However, it was surprising to see that revenue earnings (as a share of GDP) is forecasted to improve considerably in FY2009-10 but is expected to revert during the next couple of fiscal years. This is somewhat surprising since revenue mobilisation is perceived to be a major macroeconomic challenge that should be addressed. The MTMF also reveals the intention of the government to gradually shift its reliance from domestic sources for deficit financing to foreign assistance.

Table 1.36: Medium Term Macroeconomic Outlook of Bangladesh Economy: FY2009-10 - FY2011-12

Indicator	Projection		
	FY2009-10	FY2010-11	FY2011-12
Output			
Real Growth (%)	5.5-6.0	6.0	6.5
Inflation (12-month Annual Average %)	6.5	6.0	6.0
Gross Investment (% of GDP)	23.6	24.3	25.2
ICOR	4.3-3.9	4.1	3.9
Government Accounts (% of GDP)			
Total Revenue	11.6	11.3	11.5
Tax	9.3	9.2	9.5
Non-tax	2.3	2.1	2.1
Total Expenditure	16.6	16.1	16.2
Current Expenditure	10.3	10.0	10.0
Annual Development Expenditure	4.4	4.6	4.7
Overall Balance (exc. Grants)	-5.0	-4.8	-4.7
Financing	5.0	4.8	4.7
Domestic Financing	3.0	2.6	2.3
Banking System	2.4	2.0	1.8
Non-bank	0.6	0.5	0.5
Net Foreign Financing	2.0	2.2	2.4
Money and Credit (% Change)			
Net Domestic Assets	17.5	17.1	17.1
Credit to Private Sector	18.3	18.5	18.5
Broad Money (M2)	16.3	16.2	16.0
Balance of Payments			
Export (% Change)	12.5	17.5	18.5
Import (% Change)	13.0	17.0	16.0
Remittances (Billion USD)	10.6	11.6	12.8
Remittances (% Change)	9.3	9.4	10.3
Current Account Balance (% of GDP)	0.2	-0.1	-0.4
Forex Reserve (Billion USD)	7.5	8.5	9.5
Forex Reserve in Months of Imports	2.5	2.3	2.0
Exchange Rate (Tk./USD)	70.7	71.8	72.9

Source: Medium Term Macroeconomic Framework (MTMF).

In the monetary sector, expected contraction of M2 growth in FY2009-10 is indicative of a conservative monetary expansion. A moderately expansionary monetary policy stance was earlier suggested by the CPD in view of the current economic situation. Enhancing private sector credit at the same time would mean a possible reduction in public sector credit growth; this indicates a potential mismatch with the proposed expansionary fiscal policy. M2 growth is expected to slowdown further during FY2010-11 to FY2011-12, compared to FY2009-10.

The targets for external sector were kept at conservative levels in anticipation of lagged response to possible global recovery in the second half of FY2009-10. However, an upturn is expected in the following fiscal year (FY2010-11), though BOP is

expected to come under pressure. Movements in commodity prices and the issue of food import will decide whether such high import growth projections will actually take place. A lot will depend on when and how the global economy starts to recover in the near future and the nature and speed of the recovery. However, the medium term forecast for remittance in particular, looks rather conservative.

Employment Outlook

There is no real time information with regard to the Bangladesh labour market; latest available data on employment and labour market was for FY2005-06

There is no real time information with regard to the Bangladesh labour market; latest available data on employment and labour market was for FY2005-06. To estimate the changes in employment, the methodology suggested by ILO[23] has been followed here. Employment projection according to this method requires estimation of sectoral value added for the base year of the projection period and sectoral growth rates over the period. The coefficient values are estimated from the previous employment data for the country. This method has an advantage over the others - it does not require the employment figure for benchmark period of projection. This method is particularly useful for projecting employment changes in countries such as Bangladesh where employment data is generated with a lag. Adding up all the sectors would bring the overall change in employment of the economy.

It is important to note here that, the above mentioned exercise is carried out in the backdrop of a number of underlying assumptions. Firstly, the projection assumes that the relationship between employment and output remains consistent over the medium term. Secondly, structural changes within industries are adjusted for broad sectors in the medium term. Finally, it is assumed that no change in production technology takes place during the period under consideration.

Table 1.37: Projection on Employment and Labour Market of Bangladesh

(in Million)

Sector	FY2005-06	FY2007-08 (Estimated)	FY2008-09 (Estimated)	FY2009-10 (Projected)
Agriculture	22.8	24.1	25.0	25.6
Industry	6.9	7.6	7.9	8.3
Services	17.7	19.5	20.4	21.3
Total Employment	47.4	51.2	53.3	55.2
Labour Force	49.5	53.1	55.2	57.3
Unemployment Rate (%)	4.3	3.6	3.6	3.7

Source: BBS (2007) and CPD estimation.

According to the estimate, total employment of the economy was likely to be 51.2 million in FY2007-08; with 7.6 million in the industrial sector and 19.5 million in the services sector (Table 1.37). Agriculture continued to be the largest employment provider; 24.1 million people were expected to be employed in this sector. Considering that the labour force would continue to grow at its earlier trend, the size of the labour force in FY2007-08 was expected to be 53.1 million. This would leave an estimated unemployment rate of about 3.6 per cent.

The resilience of the Bangladesh economy during FY2008-09 also contributed to uphold the employment situation

The resilience of the Bangladesh economy during FY2008-09 also contributed to uphold the employment situation. Relatively high growth of agriculture sector had a positive impact from labour absorption perspective. However, since agriculture sector in Bangladesh is characterised by higher level of underemployment (i.e. lower working hours, as shown in Table 1.38), real employment situation of the economy may be worse than what the figures in Table 1.37 tend to suggest. Growth of employment opportunity in industry sector is expected to slowdown; only 0.4 million additional jobs are likely to be created in FY2008-09. Moreover, a slowdown in manpower export would mean an increase in domestic labour

[23] According to this methodology, the definition of changes in sectoral employment can be defined as:

$\triangle E_i = (\eta_i)(\lambda_i)\triangle Y_i$

Where, $\triangle E_i$ is the changes in employment in sector *i*; η_i is the sectoral employment elasticities; λ_i is the average labour intensity (employment per unit of value added) in the *i*-th sector; and $\triangle Y_i$ is the change in value added in sector *i* over the period of projection.

supply by an additional 0.3 million in FY2008-09. Considering these factors, unemployment rate is estimated to be constant at 3.6 per cent in FY2008-09. However, it appears that under the changing scenario, with possible downward revision of GDP growth, the composition of labour force in different sectors and the rate of unemployment may need to be reviewed as well.

Table 1.38: Underemployment and Weekly Working Hours in Different Sectors

Indicator	FY1999-00	FY2002-03	FY2005-06
Underemployment (%)			
Total	16.6	37.6	24.5
Male	7.4	NA	10.9
Female	52.8	NA	68.3
Average Weekly Working Hours in 2005-06			
Sector	Total	Male	Female
Agriculture, forestry	46	52	26
Fishing	37	48	18
Manufacturing	54	56	49
Construction	50	51	36
Wholesale, retail trade	55	56	35
Hotel and restaurants	60	61	44
Transport	57	57	53
Financial intermediation	46	47	43
Real estate	50	51	45
Education	48	49	44
Health and social work	49	52	45
Other community and personal services	49	53	41

Source: BBS (2007).

GDP growth target for FY2009-10 has been set at 5.5-6.0 per cent. If the economy does not experience radical structural change, total employment was likely to be 55.2 million in FY2009-10; with 25.6 million in the agriculture sector and 21.3 million in the services sector. Incremental employment in industry sector is projected to be lower, 0.4 million additional workers are expected to be employed in FY2009-10. According to the projection, unemployment rate will marginally increase to 3.7 per cent in FY2009-10. Since a large number of workers would be absorbed in agriculture and services sector. The concern is that a large part of this newly absorbed labour force in the agriculture sector was likely to work at less than the optimum level which would increase underemployment in the agriculture sector. A reverse trend in underemployment first observed in FY2002-03 and continuing thereafter would possibly slowdown in the face of possible rise in underemployment in FY2009-10 (Table 1.37 and Table 1.38). It indicates that global recession may not impose rapid job cuts as those experienced by a large number of developed and developing countries, but would certainly undermine the prospect of modernisation and restructuring of the country's labour market.

Global recession may not impose rapid job cuts as those experienced by a large number of developed and developing countries, but would certainly undermine the prospect of modernisation and restructuring of the country's labour market

Challenges

FY2008-09 was an extraordinary time for Bangladesh. It was a year of democratic transition, volatility in domestic economy, global financial meltdown and political transition. In this backdrop, the Bangladesh economy, at aggregate level, performed quite appreciably, with a near-six per cent GDP growth and four and a half per cent per capita income growth. Bangladesh remained one of the very few low-income countries that was able to record this level of performance in FY2008-09. No doubt, this level of performance speaks of significant resilience of the Bangladesh economy. Most of the macroeconomic indicators, notwithstanding their structural flaws, demonstrated overall robustness. Many of the fault lines which afflicted the benchmark of FY2008-09 were much less pronounced at the end of the fiscal year. Thus, FY2009-10 is expected to kick off on a sounder basis compared to the preceding year. However, during this period a number of new issues, in addition to the set of pending ones, will continue to confront and challenge the growth and poverty alleviation prospects of the country. This is not to say that new circumstances will also not offer new opportunities. But, as the saying goes, "fortune favours the prepared."

Many of the fault lines which afflicted the benchmark of FY2008-09 were much less pronounced at the end of the fiscal year

In the following paragraphs an attempt has been made to highlight some of these challenges to be addressed and opportunities to be seized by the Bangladesh economy in the context of the upcoming FY2009-10.

Energising Investment

Quality of output and monitoring of outcomes will need to be given highest priority in implementing the ADP. Infrastructure development, particularly in power and energy, will be critical, and in this context, PPP will need to be given due importance

In the backdrop of the deceleration in investment performance in FY2008-09, a renewed effort will be needed in FY2009-10 to improve both the quantitative and the qualitative aspects of the ADP implementation which is then able to stimulate and crowd in private sector investment. Towards this, institutional as well as human resources capacities of relevant agencies of the government will have to be substantively strengthened and improved by putting in place adequate resources, capacity building mechanisms and incentive structure. New initiatives such as PPP reinforce this demand. Quality of output and monitoring of outcomes will need to be given highest priority in implementing the ADP. Infrastructure development, particularly in power and energy, will be critical, and in this context, PPP will need to be given due importance. To stimulate private sector investment, interest rate policy will play a crucial role and here the Bangladesh Bank will have to play a leading role in ensuring adequate capital flow, containing inflation, maintaining exchange rate stability and reducing the spread between lending and deposit rates. In case of the later, if need be by pursuing a proactive policy both in the context of ceiling on lending and also floor on deposit rates. In view of the constraints in mobilising adequate domestic resources, FDI will need to be encouraged both in infrastructure and in modern sectors, focusing on both domestic and international markets.

Consolidating Agriculture

Of crucial importance will be government's ability to allow markets to play their role efficiently and within a competitive environment

Food security, given the experience in FY2008-09, should continue to merit highest priority in FY2009-10. Here the challenge will be to balance the apparently conflicting interest of consumers and producers. Of critical importance in this connection will be to stimulate productivity of agriculture through prudent subsidy policy, incentives to promote adoption and adaptation of HYVs and technology. Procurement price should benefit the farmers and appropriate institutional mechanisms will need to be designed towards this by removing, as far as possible, the role of intermediate agents. Timely delivery of fertiliser and wider availability of HYV seeds should be ensured through appropriate delivery mechanisms. Food storage facilities should be built up and there should be timely intervention in the market to ensure price stability. For this government's capacity to maintain adequate storage and warehousing capacities will be crucial. For some strategic items Trading Corporation of Bangladesh (TCB) could be brought into play, but its role and method of operation should be well defined. Of crucial importance will be government's ability to allow markets to play their role efficiently and within a competitive environment.

Protecting External Sector

Deceleration in the export growth is perhaps indicative of the lagged nature of the impact of the ongoing global financial crisis on the performance of Bangladesh's external sector

The overall robust performance of export sector in FY2008-09 conceals the recent significant deceleration in the export growth. This is perhaps indicative of the lagged nature of the impact of the ongoing global financial crisis on the performance of Bangladesh's external sector. In the backdrop of the lower export earnings during the second quarter of FY2008-09, export growth is expected to pick up in the second quarter of FY2009-10. However, it will be difficult to sustain the momentum in view of the high earnings attained in the last two quarters of FY2008-09. Speedy steps to address the negative fall outs of the crisis will be required with regard to markets of both goods and services export of Bangladesh. The stimulus package, already announced, should be further consolidated by taking cognisance of the more recent developments. Workers returning from abroad due to the global financial crisis should be extended the required help in terms of access to credit as well as safety net programmes, and appropriate

support services should be placed for them with due urgency. Bangladesh will also need to further strengthen efforts towards market and product diversification so that once recovery of the global economy sets in, her exporters of goods and services are well-positioned to take advantage of the changing situation. The interest shown by Japanese importers of apparels, the great promise of the export-oriented ship-building industry, export prospects in the regional markets are just a few areas where targeted strategies will need to be pursued.

The projected lower revenue at the import stage will need to be compensated with higher domestic revenue, particularly from higher income tax collection

Strengthening Public Finance

The import-dependent Bangladesh economy had to face the adverse impact of global financial crisis through lower revenue collection; a long standing structural weakness of revenue mobilisation in Bangladesh has been exposed. The projected lower revenue at the import stage will need to be compensated with higher domestic revenue, particularly from higher income tax collection. It has not only forced the government to widen and deepen the domestic tax base, but also reemphasised the need for institutional strengthening towards higher and more effective revenue effort. Inadequate flow of foreign aid reinforced the need for more extensively tapping of domestic resources. Since the size of deficits is likely to be higher in FY2009-10, its financing will need to be done in a prudent manner. Of critical importance will be to ensure that financing of deficit is non-inflationary and is done through budgetary support from the aid component, to the extent possible.

Combating Climate Change

Bangladesh is one of the front line victims of the adverse consequences of climate change

Although Bangladesh contributes only insignificantly to the global green house gas emission (one-fifth of one per cent of world's total), she is one of the front line victims of the adverse consequences of climate change through increasing temperature and rainfall, sea level rise, salt water intrusion and increasing natural disasters such as cyclone and flood. Fourth Assessment carried out by the Intergovernmental Panel on Climate Change (IPCC) (2007) reported evidence that the adverse impacts are already visible in case of Bangladesh.[24] All these fall-outs are of cross-cutting nature and are likely to affect sectors such as agriculture and food security, water resource, coastal resource, livelihood security, health and infrastructure. Bangladesh has already taken a number of initiatives including *Bangladesh Climate Change Strategy and Action Plan (2008 and 2009)*, a *National Climate Change Fund* and a *Comprehensive Action Plan for 2009-2018*. The proposed activities included some immediate actions such as strengthening disaster management, research and knowledge management, capacity building and public awareness programmes, and urgent investments such as cyclone shelters and selected drainage programmes. Bangladesh must press the international community to ensure an equitable system in allocation of funds for adaptation needs. In this context, during the upcoming Copenhagen Climate Talk in December, Bangladesh should campaign to discuss the following issues of interest and concern to the country: (i) a binding commitment by all parties to tackle climate change; (ii) adequate financing for adaptation, mitigation, research and capacity building (iii) technology transfer for adaptation, particularly in the context of intellectual property right (IPR) issues, and (iv) Bangladesh's due share in any planned initiative.

Bangladesh must press the international community to ensure an equitable system in allocation of funds for adaptation needs

Reviving Development Administration

As regards injecting momentum in development administration, the focus should be on continuation and consolidation of the reforms undertaken in the recent

[24] Indeed a recent study has identified Khulna city of Bangladesh as one of the prime and early victims of sea level rise.

past to raise the efficacy of governance. Strengthening of local governments and bringing them under the ambit of budgetary process, by ensuring their broader participation in designing, implementing and monitoring of the developmental works will be critically important. Private sector's interest in PPP will need to be ensured through appropriate institutional support and incentives. A PPP act may need to be enacted towards this. Relationship with non-government organisations (NGOs), to ensure broader partnership and effective delivery of services in such areas as health and education, should be strengthened by taking an enlightened view with regard to such partnership and collaboration.

Private sector's interest in PPP will need to be ensured through appropriate institutional support and incentives

Continuing the Reforms

Need for reforms has been at the centre of development discourse in Bangladesh over the last few years. Regulatory Reform Commission (RRC) and Bangladesh Better Business Forum (BBF) were constituted to improve regulatory environment, to set up SEZs, to address key investment constraints, and to strengthen capacity building efforts in Bangladesh. BBF has reported that out of the 290 recommendations put forward to the government by the Forum, 94 have been implemented so far and a further 153 have been approved and await implementation. According to the RRC, out of the total 135 recommended reforms 46 have been implemented while 9 more have been partially implemented. Some key recommendations by these two bodies include streamlining of administrative procedures, reducing approval times, digitisation of land record - have important implications to ensure good governance. The budget for FY2009-10 has also recognised the need for reforms. The budget has proposed a number of reform measures that include strengthening of development administration and decentralisation, also mentions about other policy priorities such as *Access to Information Act 2009* and *Money Laundering Prevention Act 2009*. Continuation and coherence of reform initiatives for Bangladesh's development should be seen as an ongoing endeavour.

Continuation and coherence of reform initiatives for Bangladesh's development should be seen as an ongoing endeavour

1.10 CONCLUDING REMARKS

In the backdrop of high public expectations on delivery of electoral promises and with the lurking apprehensions that Bangladesh may be increasingly affected by the continuing global crisis, macroeconomic management will be a challenging task in FY2009-10. Adequate addressing of the attendant challenges will entail design of a set of appropriate budgetary measures, but much more will depend on the efficacy of their delivery. And such delivery will need, in the coming days more than ever before, a coherent, coordinated and committed participation of the total government machinery and all other development actors and stakeholders. In FY2009-10, the challenge will be not only to ensure effective macroeconomic management in view of the ongoing crisis, through incentives and counter-cyclical policies, but also to take appropriate policy measures in view of the global recovery with its own challenges and potential opportunities.

Adequate addressing of the attendant challenges will entail design of a set of appropriate budgetary measures, but much more will depend on the efficacy of their delivery

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