CPD Working Paper 101

Analytical Review of Bangladesh's Macroeconomic Performance in FY2012-13
(First Reading)

CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

ANALYTICAL REVIEW OF
BANGLADESH’S MACROECONOMIC PERFORMANCE IN FY2012-13
(First Reading)

CPD Working Paper 101

Publisher

Centre for Policy Dialogue (CPD)
House 40/C, Road 32, Dhanmondi R/A
Dhaka 1209, Bangladesh
Telephone: (+88 02) 8124770, 9143326, 9126402
Fax: (+88 02) 8130951
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd

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The **Centre for Policy Dialogue (CPD)** was established in 1993 as a civil society initiative to promote an ongoing dialogue between the principal partners in the decision making and implementing process. Over the past 19 years the Centre has emerged as a globally reputed independent think tank with local roots and global outreach. At present, CPD's two major activities relate to dialogues and research which work in a mutually reinforcing manner.

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CPD's research programmes are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include: *Macroeconomic Performance Analysis*; *Fiscal Policy and Domestic Resource Mobilisation*; *Poverty, Inequality and Social Justice*; *Agriculture and Rural Development*; *Trade, Regional Cooperation and Global Integration*; *Investment Promotion, Infrastructure and Enterprise Development*; *Climate Change and Environment*; *Human Development and Social Protection*; and *Development Governance, Policies and Institutions*.

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It may be of interest to note that in recognition of the track record in research, dialogue and policy influencing, CPD was selected as one of the awardees under the Think Tank Initiative (TTI) through a globally held competitive selection process. TTI is supported by a number of governments and foundations, and is implemented by the International Development Research Centre (IDRC), Canada.

Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has been bringing out CPD Occasional Paper Series on a regular basis. It may be noted in this connection that since November 2011, the Series has been re-introduced as **CPD Working Paper Series**. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest are published under this series.

The present paper titled **Analytical Review of Bangladesh's Macroeconomic Performance in FY2012-13** ***(First Reading)*** has been prepared by the CPD IRBD 2011-12 Team under the Independent Review of Bangladesh's Development (IRBD) programme.

The paper was presented at a Press Briefing on 5 January 2013, at the CPD Office, Dhaka by *Professor Mustafizur Rahman*, Executive Director, CPD.

Executive Editor: *Ms Anisatul Fatema Yousuf,* Director, Dialogue and Communication, CPD
Series Editor: *Professor Mustafizur Rahman,* Executive Director, CPD

CPD IRBD 2012-13 Team

Professor Mustafizur Rahman, Executive Director, and *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD were in overall charge of preparing this report as the Team Leaders.

Lead contributions were provided by *Dr Fahmida Khatun*, Head, Research Division; *Dr Khondaker Golam Moazzem*, Senior Research Fellow; *Mr Towfiqul Islam Khan*, Senior Research Associate; and *Ms Khaleda Akhter*, Senior Research Associate, CPD.

Valuable research support was received from *Mr Kishore Kumer Basak*, Research Associate; *Mr Md. Zafar Sadique*, Research Associate; *Ms Mehruna Islam Chowdhury*, Research Associate; *Mr F. I. M. Muktadir Boksh*, Research Associate; *Ms Farzana Sehrin*, Research Associate; and *Ms Saifa Raz*, Research Associate, CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2012-13 Team.

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As part of the CPD-IRBD tradition, CPD organised an Expert Group Consultation on 2 January 2013 at the CPD Dialogue Room. The working document of the *Analytical Review of Bangladesh's Macroeconomic Performance in Fiscal Year 2012-13 (First Reading)* prepared by the CPD-IRBD 2012-13 Team was shared at this in-house meeting with a distinguished group of policymakers, academics and professionals. The CPD team is grateful to all of those present at the consultation for sharing their views, insights and comments on the draft report. A list of the participants of the meeting is provided below (in alphabetical order):

Dr Mohammed Farashuddin	Former Governor, Bangladesh Bank and President, Board of Trustees, East West University
Md Fazlul Hoque	President, Bangladesh Employers' Federation (BEF) and Former President, BKMEA
Dr Mahabub Hossain	Executive Director BRAC
Dr Zahid Hussain	Senior Economist The World Bank
Dr Rizwanul Islam	Former Special Advisor on Growth, Employment and Poverty Reduction International Labour Organization (ILO), Geneva
Dr Mustafa K Mujeri	Director General Bangladesh Institute of Development Studies (BIDS)
Dr Hassan Zaman	Chief Economist Bangladesh Bank

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Concerned officials belonging to a number of institutions have extended valuable support to the CPD IRBD Team members. In this connection, the team would like to register its sincere thanks to *Bangladesh Bank, Bangladesh Bureau of Statistics (BBS), Bangladesh Energy Regulatory Commission (BERC), Bangladesh Export Processing Zones Authority (BEPZA), Bangladesh Power Development Board (BPDB), Bureau of Manpower, Employment and Training (BMET), Dhaka Stock Exchange (DSE), Export Promotion Bureau (EPB), Ministry of Finance (MoF), National Board of Revenue (NBR),* and *Planning Commission.*

The CPD IRBD 2012-13 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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Acronyms

ADB	Asian Development Bank
ADP	Annual Development Programme
ADR	Alternative Dispute Resolution
AIT	Advance Income Tax
API	Active Pharmaceutical Ingredients
ASYCUDA	Automated System of Customs Data
BADC	Bangladesh Agricultural Development Corporation
BAPEX	Bangladesh Petroleum Exploration & Production Limited
BBS	Bangladesh Bureau of Statistics
BCIC	Bangladesh Chemical Industries Corporation
BDT	Bangladeshi Taka
BEPZA	Bangladesh Export Processing Zone Authority
BERC	Bangladesh Energy Regulatory Commission
BFIDC	Bangladesh Forest Industries Development Corporation
BGMEA	Bangladesh Garment Manufacturers & Exporters Association
BIFFL	Bangladesh Investment Facilitation Fund Limited
BJMC	Bangladesh Jute Mills Corporation
BKMEA	Bangladesh Knitwear Manufacturers & Exporters Association
BOI	Board of Investment
BOP	Balance of Payments
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSEC	Bangladesh Steel and Engineering Corporation
BSFIC	Bangladesh Sugar & Food Industries Corporation
BTMC	Bangladesh Textile Mills Corporation
BTRC	Bangladesh Telecommunication Regulatory Commission
CGE	Computable General Equilibrium
CNG	Compressed Natural Gas
CNY	Chinese Yuan
CPI	Consumer Price Index
CSE	Chittagong Stock Exchange
DPI	Domestic Price Index
DSE	Dhaka Stock Exchange
DTA	Domestic Tariff Area
ECF	Extended Credit Facility
EGBMP	Enterprise Growth and Bank Modernization Programme
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FPMU	Food Planning and Monitoring Unit
FRA	Financial Reporting Act
f.o.b.	Free-on-Board
GBP	British Pound
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GED	General Economic Division

GFI	Global Financial Integrity
GSP	Generalized System of Preferences
GoB	Government of Bangladesh
G-2-G	Government-to-Government
HS	Harmonized Commodity Description and Coding System
ICOR	Incremental Capital-Output Ratio
ICT	Information and Communication Technology
IFPRI	International Food Policy Research Institute
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
INR	Indian Rupee
IPO	Initial Public Offering
IRBD	Independent Review of Bangladesh's Development
IT	Information Technology
LDC	Least Developed Country
LMI	Large and Medium-scale Industries
LNG	Liquefied Natural Gas
L/C	Letter of Credit
MIS	Management Information System
MLT	Medium and Long Term (Loan)
MOVE	Modernization of VAT Environment
MPS	Monetary Policy Statement
MT	Metric Ton
MTBF	Medium Term Budgetary Framework
MTMF	Medium Term Macroeconomic Framework
MW	Mega Watt
MkWh	Million Kilowatt-Hour
MoF	Ministry of Finance
mmcm	Million Cubic Metre
M2	Broad Money
NARI	Northern Areas Reduction-of-Poverty Initiative
NBR	National Board of Revenue
NITTRAD	National Institute of Textile Training Research and Design
NPL	Non-Performing Loan
NSD	National Savings Bond
OMS	Open Market Sale
POL	Petroleum and Other Liquids
PPP	Public-Private Partnership
PRGF	Poverty Reduction and Growth Facility
QIP	Quantum Index of Production
RADP	Revised Annual Development Programme
REER	Real Effective Exchange Rate
RMG	Readymade Garments
RoO	Rules of Origin
SAM	Social Accounting Matrix
SCB	State-owned Commercial Bank
SEC	Securities and Exchange Commission
SEZ	Special Economic Zone
SFYP	Sixth Five Year Plan
SME	Small and Medium Enterprise
SMI	Small-scale Industries
SREDA	Sustainable Renewable Energy Development Authority (Act)
SoE	State-owned Enterprise
TPP	Trans-Pacific Partnership
TR	Test Relief
TSMU	Textile Strategic Management Unit
ToT	Terms of Trade

UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
USD	United States Dollar
USITC	United States International Trade Commission
VAT	Value Added Tax
VGF	Vulnerable Group Feeding
WDI	World Development Indicator
WEF	World Economic Forum

1. INTRODUCTION

The present interim review of macroeconomic performance of Bangladesh focuses particularly on the developments of the economy during the first few months of FY2012-13. This analysis takes developments in FY2011-12 and targets set for FY2012-13 by various policy documents as its benchmarks, and reviews the movements in major macroeconomic indicators for the period for which latest data and information are available. Simultaneously, the review also makes an attempt to project future direction of these indicators as the economy moves towards the end of FY2012-13 in the backdrop of current policy stance of the government. As is known, the increasingly globalised economy of Bangladesh is facing a number of challenges in recent times in view of the ongoing global economic stagnation. FY2012-13 is a period when the Sixth Five Year Plan (SFYP) will cross its mid-point. Additionally, for the present government, 2013 will be the final year of its regime and FY2012-13 will be a period when the government will implement its fiscal budget to the fullest for the last time. Indeed, the policy environment in this period will be impacted by the fall-outs of Padma Bridge financing debate and the Hall-Mark scam; and in addition, policy direction will be significantly influenced by the ongoing Extended Credit Facility (ECF) programme of the International Monetary Fund (IMF) in Bangladesh.

In FY2011-12, the economy, after having passed through a period when major domestic and external sector indicators were under significant pressure, appears to have stabilised, albeit at somewhat of a lower level than was targeted. The weaknesses in the macroeconomic situation were manifested by high inflation, stagnation in private investment and economic growth. Indeed, lax macroeconomic management was greatly responsible for many of the economic woes, particularly during the first half of FY2011-12. The target for economic growth rate could not be achieved in FY2011-12, and the early trends in FY2012-13 indicate that there is a possibility that gross domestic product (GDP) growth target may not be achieved in this fiscal year as well. One has to appreciate the fact that, compared to previous fiscal year, macroeconomic situation has been more stabilised. The external balance is expected to be at a comfort zone. However, this low level outcome undermines the fiscal balance as overall revenue mobilisation including import duty has suffered from contraction in import payments. Government targets for fiscal framework was found to be far from on-track, as bank borrowing may again have to step forward to compensate for non-bank borrowing. The government has tried to maintain fiscal balance by containing subsidy requirement through adjustments of administered prices. However, it will keep the commodity price at a high level. Admittedly, policy stance of the government appears to be, by and large, stability-centric. However, this stability could come under pressure if the downside risks are not appropriately addressed through emphasis on enhancing domestic resource mobilisation, stimulating private sector investment, further improvement in public investment, both in quantitative and qualitative terms, and raising the quality of governance across all spheres of economic management.

No doubt, performance of the economy in FY2012-13, and also beyond, will critically hinge on how the political challenges facing Bangladesh at the moment are addressed in the coming months. Any prolonged uncertainty in this context will have serious implications for the performance of the economy.

The present review is prepared in two parts. In the first part, Section 2 recalls the performance of Bangladesh economy in FY2011-12 which sets the benchmarks for the following section. Section 3 presents the review of the initial months of FY2012-13 which indicates that the economy is moving towards a lower level equilibrium. The second part includes two thematic issues of interest in the present context of Bangladesh economy. Section 4 presents a brief interim review of the implementation of the SFYP with a specific focus on macroeconomic framework and a selected set of sectoral issues. A review of the performance of the manufacturing sector of Bangladesh is prepared under Section 5.

2. REVIEW OF FY2011-12: SETTING THE BENCHMARK

2.1 Economic Growth: Lower than Target

The provisional estimates made by the Bangladesh Bureau of Statistics (BBS) indicate that the Bangladesh economy was not able to meet its GDP growth target of 7 per cent set for FY2011-12. The provisional figure for GDP growth for the last fiscal year was to the tune of 6.3 per cent; i.e. 0.7 percentage points lower than the target. This is definitely a setback for the present government's plan to move the economy towards a higher growth trajectory as was envisaged in the SFYP. It may be recalled that in previous year (FY2010-11) the GDP growth target of 6.7 per cent was attained. According to the BBS estimates, a repeat of strong performance by the industry sector (9.5 per cent), particularly its manufacturing component (9.8 per cent) played the role of the key driver of the projected GDP growth rate in FY2011-12. Along with it, the construction sector surpassed its growth target for FY2011-12 (6.6 per cent) to attain a robust 8.5 per cent growth. On the other hand, agriculture sector, particularly the crop production component, failed to maintain its remarkable track record of the past two fiscal years (6.1 per cent against a target of 5.7 per cent). Services sector maintained its traditional 6-plus per cent growth rate, although this was somewhat lower than the target.

A decomposition of the GDP growth rates in FY2010-11 and FY2011-12 bears out that in the overall growth in FY2011-12 (6.3 per cent) only 0.5 per cent was contributed by the agriculture sector; in contrast the figure was 1 per cent in FY2010-11 (Table 1). This decline in agriculture sector's contribution to the GDP was more than the overall decline in the GDP growth (0.4 per cent). Accordingly, it appears that the decline in GDP growth was mostly accounted for by the relatively depressed performance in the agriculture sector, more particularly, its crop component. In contrast, industry sector, backed up by its manufacturing and construction sub-sectors, improved their contribution to growth. Indeed, out of 6.3 per cent growth in FY2011-12, 2.8 per cent originated from the industry sector, the highest in recent history. Services sector's growth contribution was limited to about 2.9 per cent. FY2011-12 related to a period of sluggish economic performance in the developed economies with its knock-on effects on the export sector performance of Bangladesh. On the other hand, growing domestic demand sustained by robust remittance flows had positive impact on the performance of the economy.

Table 1: Contribution to Growth

(in Per cent)

Sector	FY06	FY07	FY08	FY09	FY10	FY11	FY12	Change in Growth (FY11 and FY12)
Agriculture	1.1	1.0	0.7	0.8	1.0	1.0	0.5	-0.5
Crops	0.6	0.5	0.3	0.5	0.7	0.6	0.1	-0.5
Industry	2.6	2.3	1.9	1.8	1.9	2.4	2.8	0.4
Manufacturing	1.7	1.6	1.2	1.1	1.1	1.6	1.7	0.1
Construction	0.7	0.6	0.5	0.5	0.5	0.6	0.7	0.2
Services	3.0	3.3	3.1	3.0	3.1	3.0	2.9	-0.1
Import Duty	-0.1	-0.1	0.5	0.1	0.1	0.3	0.1	-0.2
GDP	6.6	6.4	6.2	5.7	6.1	6.7	6.3	-0.4

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

2.2 Investment: Improved Public Sector Performance but Stagnation in Private Sector

Investment, as a share of GDP, failed to accelerate in line with expectations in the second year of the SFYP. Private investment as a share of GDP declined in FY2011-12 to 19.1 per cent from 19.5

per cent of the preceding year. Public investment rate was reported to be 6.3 per cent of the GDP; however, this estimate, in all probability, will perhaps need to be revised downwards because of the underachievement of the targets of the Revised Annual Development Programme (RADP). The current estimate of public investment is based on the allocations of the RADP. The final expenditure estimates of the Annual Development Programme (ADP) suggest that of the total RADP allocation for FY2011-12, about 7.8 per cent had remained unutilised. According to the mid-term plan, the investment target for FY2012-13 was 29.6 per cent of the GDP. This would require a rise in investment as a share of GDP to the extent of 4.2 percentage points. Private investment will need to rise significantly to reach 22.7 per cent of GDP from 19.1 per cent in FY2011-12. This would imply that in the absence of faster accumulation of investment, particularly on part of the private sector, and improved implementation of government investment plan (i.e. ADP), achievement of the targeted GDP growth in FY2012-13 (according to SFYP) is likely to remain a long shot.

2.3 Revenue Collection: Impressive NBR

Revenue collection from the National Board of Revenue (NBR) proved to be a source of some comfort in view of the performance of key macroeconomic correlates in FY2011-12. Indeed, for the second consecutive year, NBR revenue target was adjusted upward; this time from 15.7 per cent to 16.3 per cent. Backed by strong revenue mobilisation, thanks to rising import duty, value added tax (VAT) (local) and income tax, NBR was able to surpass its annual revenue collection target by Tk. 2,587 crore. The stellar performance from NBR was somewhat moderated though by underachievement from non-tax sources. Indeed, the target for non-tax revenue collection had to be slashed by Tk. 4,000 crore, which resulted in the overall revenue collection to be at a level below the target.

2.4 Revenue Expenditure: Surpassed the Target

In addition to revenue shortfall, significant rise in revenue expenditure put further pressure on the fiscal balance. Revenue expenditure (augmented) posted 14.7 per cent growth in FY2011-12, surpassing the original growth target of 12 per cent. Major rise in expenditure was observed on account of Acquisition of Assets and Works, Interest Payments, and Subsidies and Current Transfers. It is to be noted that, Subsidies and Current Transfers alone (excluding those to public institutions like Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB)) contributed to about 42.5 per cent of the incremental revenue expenditure during this period. Domestic interest payments contributed another 38.3 per cent, underwritten primarily by the high borrowing of the government from the banking system. The rising cost of public debt servicing and its attendant fiscal burden is transmitting worrying signs, and could emerge as a problem with long-term adverse consequence. However, as of now, the debt situation has not crossed the critical zone.

2.5 Subsidy Requirement: Growing Fast with Concomitant Fiscal Pressure

A major destabilising feature of the fiscal management in FY2011-12 was the unforeseen growth in subsidy requirements. Original allocation for subsidy was about Tk. 20,447 crore in FY2011-12. As the year progressed, this allocation proved to be way off the mark. Until FY2010-11, agriculture sector was the single-largest recipient of subsidies incurred in the form of fertiliser and irrigation price support (around 42 per cent in FY2009-10). During the last couple of fiscal years, fuel and electricity sectors had received about half of the total allocation for subsidies. Mounting fuel demand from the rental power plants proved to be too costly to bear, forcing the government to maintain a large part of the installed capacity unutilised by restraining the flow of fuel to the plants. At the same time, several upward adjustments in prices of fuel and electricity had to be made to reduce the subsidy demand. However, these measures proved to be insufficient in limiting the demand on subsidy payments –

total subsidy demand for the year approached to 3.3 per cent of the GDP. This was a significant rise compared to the figure of 2.4 per cent in FY2010-11. The government went one step further and decided to transfer Tk. 10,000 crore of subsidy payments from the FY2011-12 to FY2012-13. According to the statement of profit (loss) of the BPC, the organisation incurred a loss to the tune of around Tk. 10,000 crore in FY2011-12. Indeed, the subsidy portfolio of the government undermined the efficacy of overall macroeconomic management in FY2011-12.

2.6 ADP: Underutilisation of Project Aid Undermined Overall Utilisation

ADP implementation during FY2011-12 stood at Tk. 37,871 crore, which was Tk. 8,129 crore less than the original target, implying an implementation rate of 82.3 per cent (of the original budget). This was about 3 percentage points lower than that of the last year (85.3 per cent). As a result, ADP-GDP ratio in FY2011-12 was same as that of the previous year (4.1 per cent). An added concern as regards the ADP had been the higher share of local financing in the absence of envisaged foreign financing. Of the implemented ADP of FY2011-12, about 66 per cent had to be financed from local sources; while the figure stood at 59 per cent in the original allocation. Indeed, only 68 per cent of the total project aid allocation was utilised in FY2011-12. This led to increased government borrowing from the banking system, putting pressure on availability of credit for the private sector.

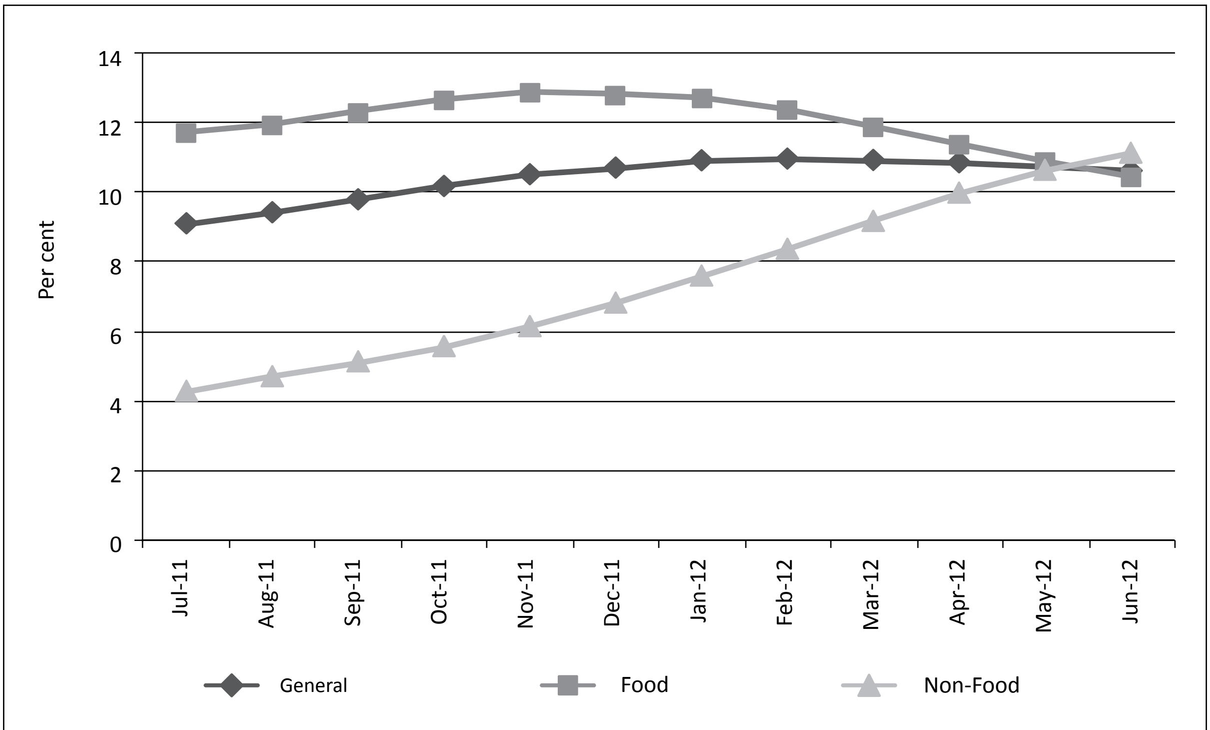
2.7 Deficit Financing: Riding on Bank Borrowing

With financing pressure emanating from the overshooting of the revenue expenditures, overall budget deficit (excluding grants) stood at Tk. 36,025 crore in FY2011-12, which was 3.6 per cent of GDP. Modest level of net foreign financing and low contribution of financing from the non-banking sources made financing the deficit a major macroeconomic challenge in FY2011-12. From the very onset of the current fiscal year, the government had to resort to borrowing from the banking sources which turned up to be alarmingly high, and had already exceeded the annual budgetary target of Tk. 18,957 crore by the end of February (Tk. 19,483 crore). As a result, the government revised the target for bank borrowing by Tk. 10,158 crore (to Tk. 29,115 crore). Eventually, the government managed to restrain overall bank borrowing to Tk. 27,188 crore at the end of fiscal year which was Tk. 1,927 crore less than the revised budget target. The underutilisation of domestic financing part of the ADP (by Tk. 949 crore) helped the cause of curtailing bank borrowing to a large extent. However, the government was not able to accumulate the targeted domestic financing from selling of National Savings Bond (NSD) certificates. While the revised target for financing from NSD was Tk. 6,000 crore, only Tk. 271 crore could be mobilised at the end of FY2011-12. Hence, the government had to seek financing from other non-bank borrowing sources. During the last quarter of FY2011-12, the government borrowed Tk. 12,342 crore from such sources as provident funds of government employees. As past experience suggests, this borrowing was short-term in nature and had put pressure on deficit financing in FY2011-12.

2.8 Inflation: Non-Food Inflation Elevated Price Level

As is known, inflation rate has been on the rise over the past three years. In the backdrop of high level of commodity prices, the annual average inflation target for FY2011-12 was set at 7.5 per cent. However, general inflation (annual average) rate reached 10.6 per cent in FY2011-12 which was 8.8 per cent in FY2010-11 (Figure 1). Since the mid-2000s price level of food items became the dominant contributor to inflation in Bangladesh. However, food inflation started to somewhat slow down since January 2012 after the Aman harvest, and indeed inflation rate of non-food items had a greater influence on the final outcome in FY2011-12. Non-food inflation was on the rise since July 2011 mainly due to the upward adjustment in the administered prices of fuel and electricity, and falling value of Bangladeshi Taka (BDT) against the United States Dollar (USD), leading to imported inflation. At the end of the fiscal year, annual average non-food inflation reached as high as 11.2 per cent and exceeded the annual average food inflation (10.5 per cent). Within non-food commodities, prices of clothing and footwear, gross rent, fuel and lighting, and transport and communication experienced notable rise in FY2011-12.

Figure 1: Annual Average Inflation in FY2011-12



Source: Bangladesh Bureau of Statistics (BBS).

2.9 Monetary Policy: Contractionary Policy Pursued with Limited Success

A major focus of the Monetary Policy Statement (MPS) for first half of FY2011-12 which was released in July 2012, was to restrain broad money (M2) supply. However, at the end of first half of the fiscal year (December 2011), the overall growth of M2 was close to the target (19.1 per cent against the target 18.5 per cent), and well below the benchmark growth rate (21.3 per cent at the end of FY2010-11) (Table 2). Admittedly, the growth of money supply was beyond the target, primarily due to excessive government borrowing from the banking sources. Growth of government bank borrowing was 73.5 per cent at the end of December 2011. In view of the above, the second MPS of the Bangladesh Bank (in January 2012) had reduced the target for growth of credit flow to the private sector and raised government borrowing targets. The monetary policy for the second half of FY2011-12 set growth targets for private and public sector credit at 16 per cent and 31 per cent respectively, whereas the target for growth of M2 was brought down to 17 per cent. At the end of fiscal year, the growth of government borrowing was reduced to 25.2 per cent. Thanks to negative growth of other public sectors credit, overall public sector credit growth was limited to 18.9 per cent. In contrast, private sector credit remained 19.7 per cent and had exceeded the target. The overall money supply growth remained at 17.4 per cent towards the end of FY2011-12. Indeed, restraining credit growth, particularly growth of government borrowing, had helped to restore macroeconomic balance to a certain extent. Regrettably, the effectiveness of monetary contraction in controlling overall inflation as well as its non-food component was rather limited. As mentioned earlier, non-food inflation continued to soar throughout the fiscal year as a result of upward adjustment of administered prices of fuel and electricity. In the end, demand side management was outplayed by cost-push inflation.

Table 2: Growth of Monetary Aggregates

(in Per cent)

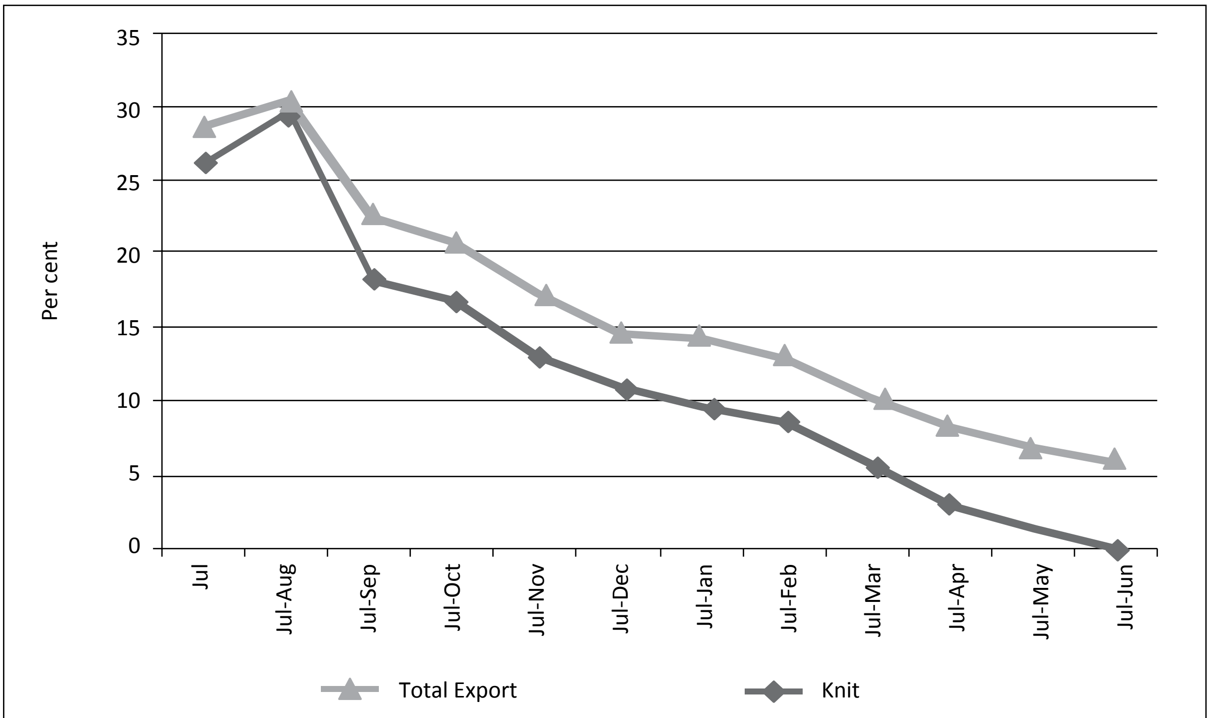
Monetary Aggregate	Target Jun 2011	Actual Jun 2011	Target Jun 2012 (MPS Jul 2011)	Target Jun 2012 (MPS Jan 2012)	Actual Dec 2012	Actual Jun 2012
Broad Money (M2)	15.2	21.3	18.5	17.0	19.1	17.4
Domestic Credit	17.9	27.4	20.0	19.1	25.9	19.5
Credit to Public Sector	25.3	33.6	28.1	31.0	54.4	18.9
Net Credit to Government Sector	NA	35.0	NA	NA	73.5	25.2
Credit to Other Public Sectors	NA	28.7	NA	NA	1.7	-5.0
Credit to Private Sector	16.0	25.8	18.0	16.0	19.4	19.7

Source: Bangladesh Bank data.

2.10 Export: Target Missed and by a Large Margin

Robust performance of export was one of the major achievements in FY2010-11. Growth target of export for FY2011-12 was set at 15.6 per cent. Regrettably, at the end of the fiscal year, overall export earnings growth stood at 5.9 per cent; this was only 86.5 per cent of the target (USD 26,500 million). Indeed, since September 2011, export growth experienced a secular fall (Figure 2). As a result, during the last ten months of FY2011-12 (September-June), export earnings increased by only 1.3 per cent compared to the same period of FY2010-11. Of the exported items, knit readymade garments (RMG) had underperformed significantly, registering zero growth during FY2011-12. The fall in export earnings might perhaps be partially attributed to the fall in cotton prices. During September 2011 to June 2012,

Figure 2: Export Growth in FY2011-12



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

average international price of cotton declined by (-) 44.7 per cent compared to the matching period of the previous fiscal. Thus, there was perhaps some 'price effect' in the decline in the earning from the RMG sectors in contrast with the 'volume effect'. Export to the United States (US) market had been rather weak, failing to register positive growth ((-) 0.1 per cent) in FY2011-12. Additionally, export earnings from the European Union (EU) have also started to decline in the second half of FY2011-12, since January 2012. Export earnings from non-traditional markets were impressive, but inadequate to sustain the overall export growth.

2.11 Import: Petroleum Products Defined Overall Import Direction

Contrary to the export agenda, imports did not see a significant reduction until last quarter of the fiscal year, leading to heightened pressure on the balance of payments (BOP) situation of the country. At the end of the third quarter, growth of import payments was about 12 per cent. This came down to 5.7 per cent at the end of FY2011-12. Growth of import payments in the current fiscal year originated mainly from the higher import demand for liquid fuel as about 44 per cent of the incremental import payments generated from these products. Import of petroleum products registered a whopping 39.1 per cent growth in the July-March period of FY2011-12 which later came down to 19.5 per cent at the end of FY2011-12. In contrast, import payments for other commodities registered only 3.7 per cent growth. Indeed, in the backdrop of import pressure (along with subsidy requirement), the government was not able to utilise the full capacity of liquid fuel-run quick rental power plants. According to BPC statistics, import payments for petroleum products increased by 33.5 per cent in FY2011-12 (in BDT terms). A division of the increase was attributed to higher prices of petroleum products, which increased by 21.3 per cent in USD terms. Slowdown in export also helped to reduce pressure of import payments as a significant proportion of import is directly related to export performance. At the same time, stringent policies of Bangladesh Bank to restrict financing of import have also contributed to slowdown imports.

2.12 Balance of Payments: Pressure Somewhat Released

In the face of a widening trade balance during the first ten months of FY2011-12, the BOP continued to remain under severe pressure. At the end of April, the overall balance was in the negative terrain ((-) USD 106 million) (Table 3). However, during the last two months of the fiscal year (May-June), when trade balance remained under control due to falling import payments, the BOP situation began

Table 3: Balance of Payments in FY2011-12

(Million USD)

Indicator	Jul-Apr	May-Jun	Jul-Jun
Trade Balance	-7345	-650	-7995
Export f.o.b. (including EPZ)	19543	4449	23992
Import f.o.b. (including EPZ)	26888	5099	31987
Current Account Balance	509	1121	1630
Capital Account	429	40	469
Financial Account	-934	-21	-955
FDI (net)	580	415	995
Portfolio Investment (net)	142	56	198
Errors and Omissions	-110	-540	-650
Overall Balance	**-106**	**600**	**494**

Source: Bangladesh Bank.

Note: f.o.b: Free-on-board; EPZ: Export processing zone; FDI: Foreign direct investment.

to see some positive turn. At the same time, impressive growth of remittance inflow (22.4 per cent in FY2011-12), played an important and impressive role in improving the BOP scenario. Foreign aid inflow, which remained below par during the major part of the fiscal year, also showed signs of improvement during this time. In FY2011-12 net inflow of foreign aid was about USD 1.2 billion in comparison to USD 1 billion in FY2010-11. The BOP, and consequently the value of BDT against foreign currencies, remained on shaky grounds until January 2012, and started to improve thereafter.

Thus, as FY2011-12 drew to a close, the economy had started to recover some of the early weaknesses with reduced reliance on bank borrowing for financing of budget deficit, improved foreign aid disbursement, somewhat slowdown in the pace of (food) inflation, restrained excessive import payments, improved BOP position and stabilised exchange rate (of BDT against USD). The resilience of the economy, in terms of attaining positive export earnings and remittance inflow in the face of the global economic slowdown gave hope. Revenue collection by the NBR turned out to be the only consistent performer throughout the fiscal year. At the same time, no tangible breakthrough was visible in terms of investment, productivity growth, quality of macroeconomic governance, and putting in place the needed infrastructure that would propel the economy to a higher trajectory of economic growth.

3. EARLY SIGNALS FROM FY2012-13: ECONOMY APPROACHING TOWARDS A LOWER LEVEL EQUILIBRIUM

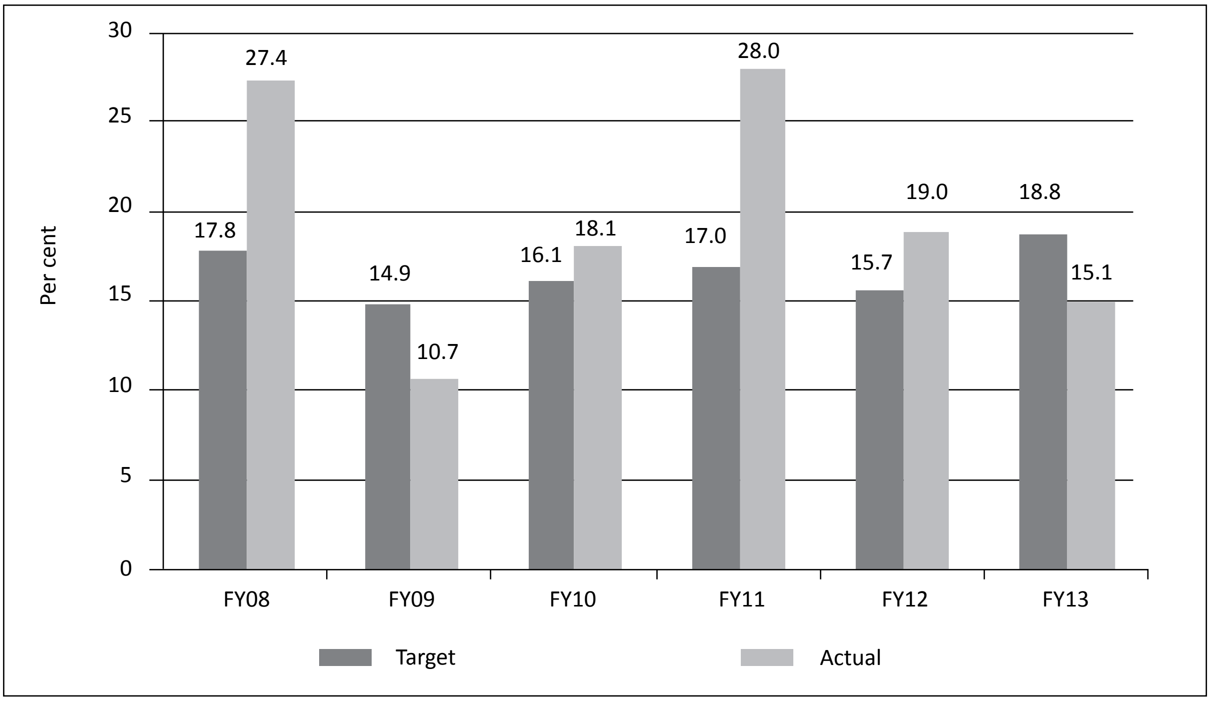
3.1 Public Finance

3.1.1 Revenue Receipts: Lagging Behind

NBR's performance record showed revenue mobilisation to be a reliable performer among key macroeconomic correlates in recent years (FY2007-08 to FY2011-12). In the past five years, NBR had comfortably surpassed the respective targets four times. The only exception was FY2008-09, a period when Bangladesh economy was confronted with the lagged impact of the global economic crises, when revenue growth rates suffered in the backdrop of lower collection from import duties due to falling global commodity prices, and slowdown in economic activities. Indeed, the GDP growth rate in FY2008-09 was only 5.7 per cent, the lowest in last nine years (FY2003-04 to FY2011-12). In FY2012-13, NBR revenue growth may once again witness a shortfall when compared with the targets set in the budget. Over the first five months, during July-November period, growth of NBR revenue was 15.1 per cent against the target of 18.8 per cent for FY2012-13 (Figure 3). This would imply that to achieve the growth target during the last seven months of the fiscal year about 20.8 per cent growth will be required. In view of the present economic prospects, this appears to be unlikely.

Within the NBR, revenue collection in the form of income tax and VAT are generally in line with the respective targets. Indeed, VAT collection (from both import and domestic) may surpass the target at the end of the year. However, it is apprehended that collection of income tax may face a setback over the coming months. Banking sector, traditionally the largest income tax paying sector of the economy, had faced a decline in profit during the first quarter of FY2012-13. In fact, seven large commercial banks experienced net loss during this period. Inability of some borrowers to repay bank loans has dented the profit making prospects of the commercial banks. This is also evident from the rising *doubtful* and *classified* loans in recent quarters. The slowdown in trading business (import) arising out of some of the recently enforced restrictive policies (towards controlling import payments) has also resulted in relatively low profit performance of the banking sector. Income tax collection from banks in the first five months was largely accounted for by advance income tax AIT payments under Article 64 of

Figure 3: NBR Revenue Growth: Target vs Actual



Source: Calculated from the National Board of Revenue (NBR) data.
Note: Actual growth figure of FY2012-13 is for July-November period.

Income Tax Ordinance (along with withholding income tax). It is expected that the AIT payments will be adjusted in the last quarter of the fiscal year and hence the lower projections. Slowdown in import has also had adverse impact on import duty collection by NBR. During July-November period, import duty collection increased by only 7 per cent against the target of 16.1 per cent (Table 4).

Table 4: NBR Revenue: Growth Targets and Achievements

(in Per cent)

Tax Source	Share	Annual Growth Target FY13	Achieved Growth FY13 (Jul-Nov)	Required Growth FY13 (Dec-Jun)
External Indirect Tax	31.7	13.8	9.9	16.2
Import Duty	13.7	16.1	7.0	21.5
VAT (Import)	13.1	8.2	16.2	3.6
Supplementary Duty (Import)	4.9	25.5	1.7	43.6
Local Indirect Tax	36.0	17.3	12.1	20.0
Excise Duty	0.9	51.3	51.2	51.3
VAT (Domestic)	21.9	12.6	20.1	8.7
Supplementary Duty (Domestic)	13.2	24.0	-2.3	38.9
Total Direct Tax	32.3	26.2	27.2	25.9
Income Tax	31.5	25.0	27.1	24.1
Grand Total	**100.0**	**18.9**	**15.1**	**20.8**

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

Although NBR has in recent times intensified its effort to mobilise domestic resources, with commendable success in terms of achieving the high targets, it is apprehended that in FY2012-13 it will be difficult to attain the target set in the budget.

Information on non-NBR tax[1] and non-tax revenue[2] is available only for the July-September period of FY2012-13. Data shows that collection of non-NBR tax revenue earnings had slowed down quite considerably during the first quarter. Against a target growth of 25.6 per cent for FY2012-13, this revenue head recorded only 16.2 per cent increase during the reported period (Table 5).

Table 5: Growth in Non-NBR Tax and Non-Tax Revenue Collection

(in Per cent)

Component	Growth Target FY13	Achieved Growth FY13 (Jul-Sep)	Required Growth FY13 (Oct-Jun)
Non-NBR Tax	25.6	16.2	28.2
Narcotics &Liquor	9.1	14.3	7.7
Vehicles	62.7	1.9	81.3
Land	23.1	12.2	25.8
Stamp	16.1	21.4	14.7
Non-Tax Revenue	22.5	89.9	-5.7
Dividend & Profit	24.2	107.1	-145.5
Post Office & Railway	14.7	-17.8	19.0
Interest/Fees/Tolls & Other receipts	22.7	85.0	2.9

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

On the other hand, the remarkable 89.9 per cent growth in non-tax revenue was primarily due to Tk. 4,664 crore received from Bangladesh Telecommunication Regulatory Commission (BTRC). It is expected that the auction for 3G license will be opened in mid-January. If any part of this license fee is collected within next June, this could play an important role in augmenting non-tax revenue and compensate the expected revenue gap originating from NBR collection in FY2012-13.[3]

3.1.2 Public Expenditure

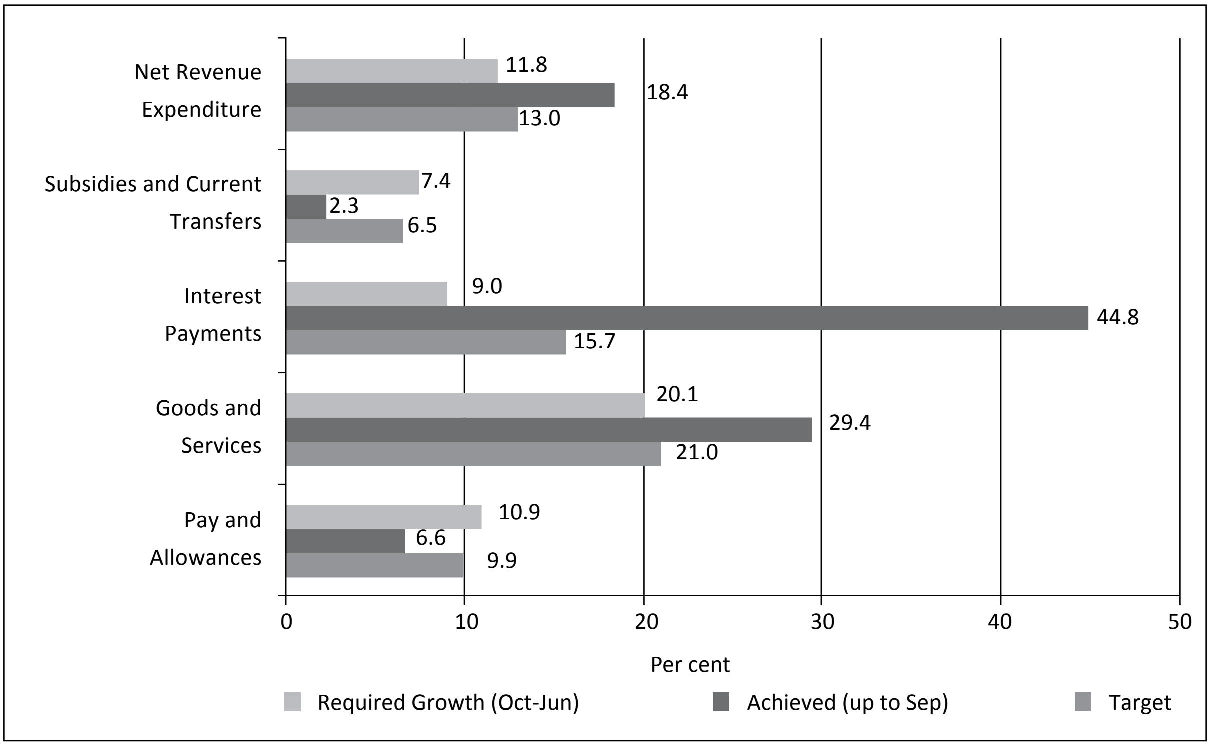
Revenue Expenditure: Interest Payments may Surpass the Planned Allocation

In FY2011-12 revenue expenditure was higher compared to their programmed levels (budget allocation) primarily due to higher interest payments. During the first quarter of FY2012-13 this trend had continued. Overall, net revenue expenditure recorded 18.4 per cent growth during the first three months compared to the matching period of the previous year, while target growth for FY2012-13 was only 13 per cent. This would mean that during the last three quarters, growth of net revenue expenditure requires to be limited within only 11.8 per cent which will be a difficult task (Figure 4).

The most visible deviation from the net revenue expenditure targets were recorded for interest payments. Interest payments increased by 44.8 per cent during the first quarter of FY2012-13 against its target of 15.7 per cent, a consequence of the high borrowing of the government during FY2011-12. Indeed, of the 18.4 per cent of net revenue expenditure growth, contribution of interest payments was about 10.4 percentage points. The budget for FY2012-13 envisaged this contribution to be limited to only 3.4 per cent by the end of fiscal year (Figure 5). As the fiscal year will move towards its end the requirement of government borrowing is likely to be higher, and hence it will be difficult for the government to bring down this expenditure pressure to the programmed level. From the vantage point of first quarter of FY2012-13, it appears that revenue expenditure may once again surpass the budgetary target.

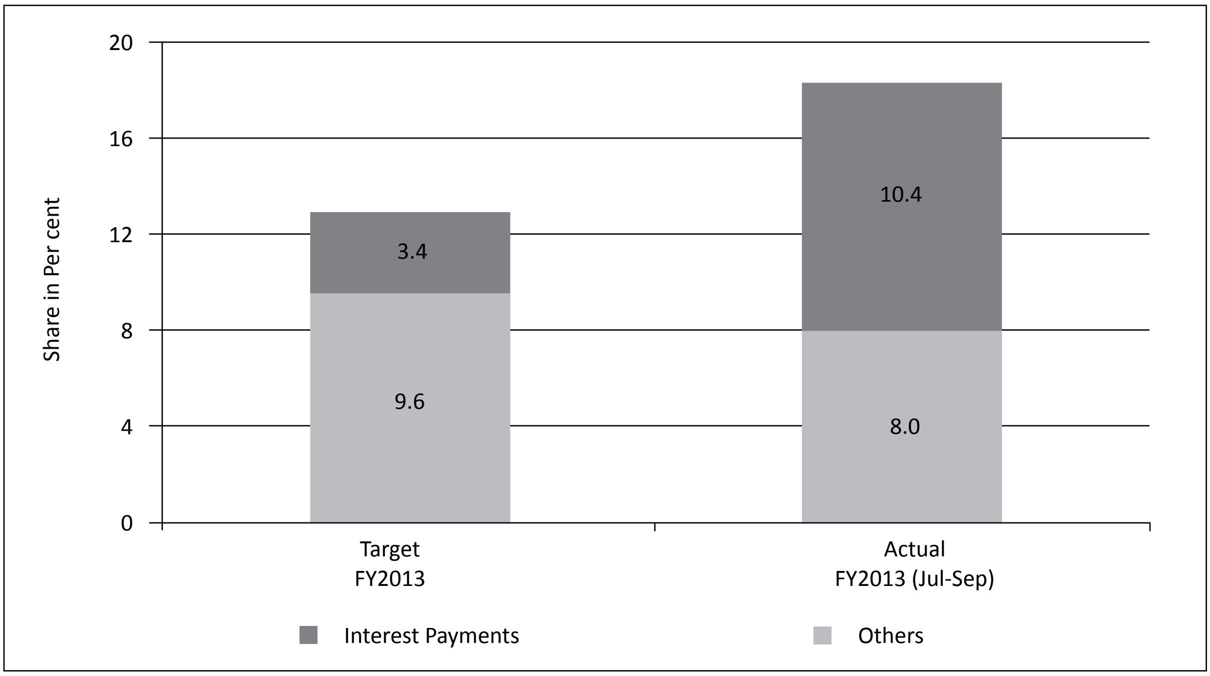
[1]Non-NBR tax is expected to contribute about 3.3 per cent to total revenue.
[2]Non-tax revenue is projected to augment about 16.4 per cent of total revenue intake.
[3]BTRC expects around Tk. 12,000 crore from the 3G spectrum fees.

Figure 4: Growth in Revenue Expenditure Components in FY2012-13



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

Figure 5: Contribution to Growth in Revenue Expenditure



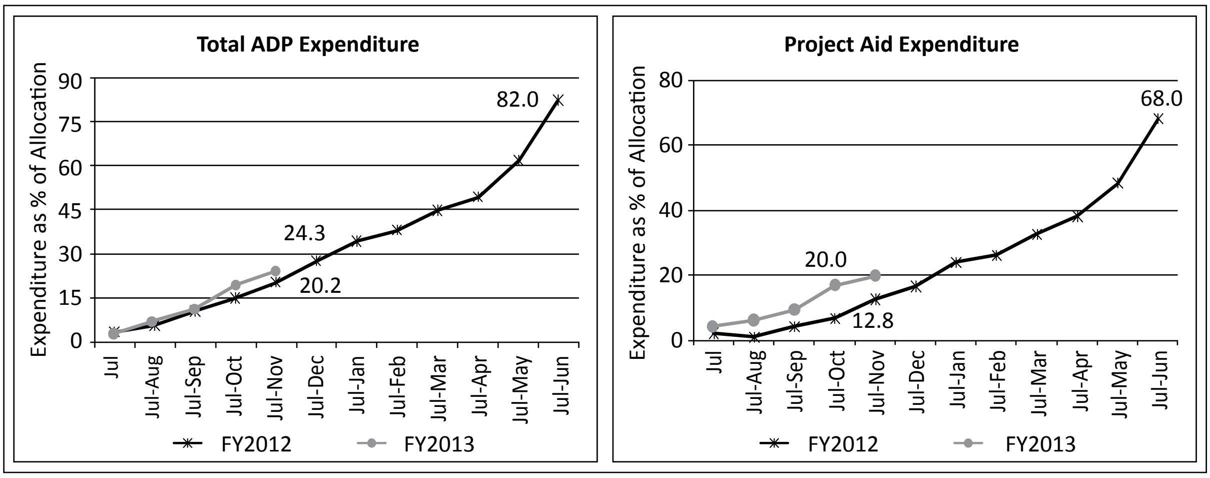
Source: Calculated from the Ministry of Finance (MoF) data.

Annual Development Programme (ADP): Project Aid Utilisation has Improved

In contrast to the last couple of years (FY2010-11 and FY2011-12), expenditure under the ADP has improved in the early months of FY2012-13. During the first five months, 24.3 per cent of the ADP allocation has been utilised, which was 20.2 per cent for the comparable period of the previous year

(Figure 6). On a positive note, this improvement has largely been attributed to higher spending on account of project aid; about 20 per cent of the total project aid allocation was spent in this time (12.8 per cent in FY2011-12). Better spending of project aid has also helped maintain healthy BOP during this period. Thus far, October turned out to be the most successful month in terms of ADP spending when about 7.9 per cent of total ADP allocation and 7.4 per cent of project aid were spent. Regrettably, this positive trend could not be sustained in the next month. In November, only 4.8 per cent of ADP (and 3 per cent of project aid) allocation could be utilised.

Figure 6: Expenditure of Total ADP and Project Aid



Source: Calculated from the Implementation Monitoring and Evaluation Division (IMED) data.

A sectoral decomposition indicates that ADP implementation by the ministries/divisions with largest allocations was observed to be better than others. If considered together, the top 10 ministries/ divisions (in terms of largest ADP allocations) spent 30.2 per cent of their total allocation as distinct from the other ministries/divisions which could spend only 10 per cent (Table 6). The performance of these ministries/divisions (outside top 10) was in fact lower than that of the last year when they had utilised 13 per cent of their allocation. Within the top 10, implementation by M/O Health and Family Welfare, M/O Railway and M/O Industries were, however, below par. In fact M/O Industries could

Table 6: Expenditure of Total ADP and Project Aid in FY2012-13 (July-November)

(in Per cent)

Ministry/Division	Government	Project Aid	Total
Local Government Division (incl. block allocation)	36.5	16.5	29.8
Power Division	26.3	62.2	38.9
M/O Primary and Mass Education	36.0	39.7	36.4
M/O Health and Family Welfare	15.4	14.9	15.1
M/O Railway	12.9	12.6	12.8
Roads Division	34.2	20.0	32.4
M/O Education	86.7	22.7	63.5
M/O Water Resources	28.6	4.0	22.0
M/O Industries	24.4	0.0	5.7
Energy and Mineral Resource Division	40.3	13.9	25.6
Top 10 Total	**33.8**	**23.7**	**30.2**
Other than Top 10 Ministries	**6.2**	**14.6**	**10.0**
Grand Total	**27.1**	**20.0**	**24.3**

Source: Calculated from the Implementation Monitoring and Evaluation Division (IMED) data.
Note: M/O refers to Ministry of.

not spend any amount from its project aid portfolio (Tk. 1,320 crore). Among the better performers, utilisation rate of Power Division has been the most impressive. The division spent about 38.9 per cent of total allocation and 62.2 per cent of project aid allocation. One may recall that about three-fourths of the total allocation for Power Sector under ADP was allocated to concluding and carryover projects. This may have helped the utilisation rate of this division.

Overall, as it appears from the early signals, despite some progress, in FY2012-13 it is unlikely that there will be any significant improvement in ADP implementation. However, one may expect some improvement in financing composition of the ADP in the form of better project aid utilisation when compared to FY2011-12.

One may recall that in its June 2012 review of macroeconomic performance analysis, CPD identified that the implementation performance of larger projects in the ADP, which were initiated by the present government, were found to be at a slow pace. In a welcome note, average expenditure of these projects during July to October FY2012-13 was marginally better (20.9 per cent of allocation) than the overall ADP expenditure (19.5 per cent of allocation) (Annex Table 1).[4] Regrettably, average expenditure of aid component of these projects (15.3 per cent) lagged behind compared to the average expenditure of total project aid allocation (17.1 per cent). One may note that, among these projects, three were carried over to ADP for FY2012-13. Six projects are expected to be completed by 2013. The cumulative expenditure status of these projects suggests that many of them will also fall under 'carryover' criterion in future.

3.1.3 Budget Deficit: In Safe Zone So Far

As would be recalled, FY2011-12 was a year of turbulence as far as budget deficit and its financing perspectives were concerned. FY2012-13 appeared to be in line with the usual trend. Traditionally, during the first quarter of the fiscal year, budget deficit remains within the safe zone. Government budget in the first quarter of FY2012-13 recorded a surplus to the tune of Tk. 5,672 crore. As a result, low off-take of foreign grants (Tk. 123 crore) and net foreign borrowing (Tk. 200 crore) did not put any serious pressure on the budget deficit financing thus far (up to the first quarter) (Table 7). The large revenue surplus was in fact used to repay government borrowing from non-bank sources (sources outside borrowing from sale of NSD certificates). Borrowing from the banking system was only Tk. 14

Table 7: Financing of Budget Deficit

(Crore Tk.)

Description	**Budget FY12**	**Actual FY12**	**Budget FY13**	**Actual FY12 (Jul-Sep)**	**Actual FY13 (Jul-Sep)**
Foreign Grants	4938	4097	6044	72	123
Foreign Borrowing (Net)	13058	1886	12541	-1074	200
Foreign Loan	18685	7775	20398	364	1877
Amortisation	-5627	-5888	-7858	-1437	-1677
Domestic Borrowing	27208	30939	33484	3457	-5995
Bank Borrowing (Net)	18957	27187	23000	7668	14
Non-Bank Borrowing (Net)	8251	3752	10484	-4211	-6009
National Savings Schemes (Net)	6000	271	7400	414	472
Others	2251	3481	3084	-4626	-6481
Total Financing (excl. Grants)	**45204**	**36923**	**52069**	**2455**	**-5672**

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

[4]Information on 17 among the 20 projects identified during the earlier CPD review was found. The analysis here is based on available information only.

crore. However, less than expected net sale of NSD certificates may give rise to some concerns with regard to managing deficit financing in the latter half of the fiscal year.

3.1.4 Outlook for Fiscal Balance: Difficult Times Ahead?

At present complete information on most government income and expenditure related variables are available for only three to five months. As was found, in the first quarter of the fiscal year the government's fiscal balance was in a comfort zone. However, as the year will progress towards the finishing line, one may expect growing pressure on the fiscal balance. Unlike the past three years, the government's revenue earnings may fall short of the target in FY2012-13, given the present trends. In absence of any bulk amount received in the form of non-tax revenue (such as 3G license fee), revenue collection by the government may fall short of Tk. 3,500 crore.[5] In contrast, non-development expenditure may require an additional amount equivalent to Tk. 1,025 crore considering the trend of the first three months (Table 8). Indeed, underutilisation of ADP has systematically helped the government, in an undesirable way, in reducing the fiscal burden. If we expect that this year's ADP implementation will duplicate a scenario similar to that of FY2009-10 (the best performance in recent years), 86 per cent of the original ADP allocation will be spent. If the other expenditures remain in line with the budget allocation, overall deficit may turn out to be lower than the original limit, by about Tk. 1,000 crore. However, for this to be the case the subsidy requirement for FY2012-13 will need to be within the limit set in the budget.

Table 8: Projection of Budget Structure for FY2012-13

(Crore Tk.)

Particular	Actual FY12	Budget FY13	Projection FY13
Revenues	113779	139670	136170
Foreign Grants	3558	6044	3558
Revenue and Foreign Grants	**117337**	**145714**	**139728**
Non-Development Expenditure	95186	111675	112700
Annual Development Programme	36269	55000	47053
Other Expenditures	18462	25063	25063
Total Expenditure	**149918**	**191738**	**184816**
Financing	**32826**	**46024**	**45088**
Foreign Borrowing (Net)	1886	12540	6950
Domestic Borrowing	30939	33484	38138
Bank Borrowing	27187	23000	33054
Non-Bank Borrowing	3752	10484	5084
National Saving Schemes (Net)	271	7400	2000
Others	3481	3084	3084

Source: Ministry of Finance (MoF) data and CPD projections.

On the financing side of the deficit, it is understandable that the underutilisation of ADP will also mean lower availability of foreign resources for the deficit financing. As a result, the incremental burden from lower revenue intake and higher non-development expenditure will need to be borne by the domestic sources. Recent experience suggests that deficit financing from sale of NSD certificates has not been impressive. The target for net sale of NSD was set at Tk. 7,400 crore. During July-November of FY2012-13 only Tk. 385.3 crore could be generated on this account (to recall, the amount was Tk. 570.3 crore in the corresponding period of FY2011-12). It is to be noted that the last time when

[5]The projection considers revenue collection trend of NBR during the first five months. It is also assumed that foreign grants will be equal to the figure received in FY2011-12.

the interest rate was increased in FY2011-12 (in March 2012), it net with limited success (net sale in FY2011-12 was only Tk. 271 crore). In all likelihood, the net sale of NSD certificates may not surpass Tk. 2,000 crore in FY2012-13. Considering all these possible scenarios, if we residually calculate the requirement of bank borrowing of the government for FY2012-13, it is found that an additional amount to the tune of about Tk. 10,000 crore will be needed over the planned figure. Hence, even though the budgetary structure appears to be within the government plan at the moment, serious revisiting of the targets may be needed in the latter half of the fiscal year.

3.2 Monetary Policy

3.2.1 Falling Rice Price Pushed Down Overall Inflation

FY2011-12 had ended with record highest inflation rate of 10.6 per cent (Table 9). In the backdrop of high price levels, the budget for FY2012-13 (and the MPS of Bangladesh Bank for the first half of FY2012-13) had set the lower inflation target at 7.5 per cent. The latest available figure from BBS suggests that in November, annual average inflation was 9 per cent. In November 2012, food inflation came down to 7.7 per cent (from 10.5 per cent in June 2012), while non-food inflation had reached a high 11.7 per cent (from 11.1 per cent in June 2012).[6] As may be recalled, since the mid-2000s price level of food items became the dominant contributor to inflation in Bangladesh. In contrast, point-to-point food inflation had started to slow down since July 2011. Indeed, non-food inflation had exceeded food inflation in December 2011. Within non-food commodities, prices of 'clothing and footwear', 'gross rent, fuel and lighting', and 'furniture, furnishing, household' experienced double-digit inflation. As a matter of fact, average inflation of 'gross rent, fuel and lighting' increased in November 2012 compared to June 2012 – thanks to upward adjustments of electricity tariff by the Bangladesh Energy Regulatory Commission (BERC). If the current falling trend in inflation continues, the annual average inflation at the end of FY2012-13 may come down to about 7.7 per cent.

Table 9: Category-wise Annual Average Inflation

(in Per cent)

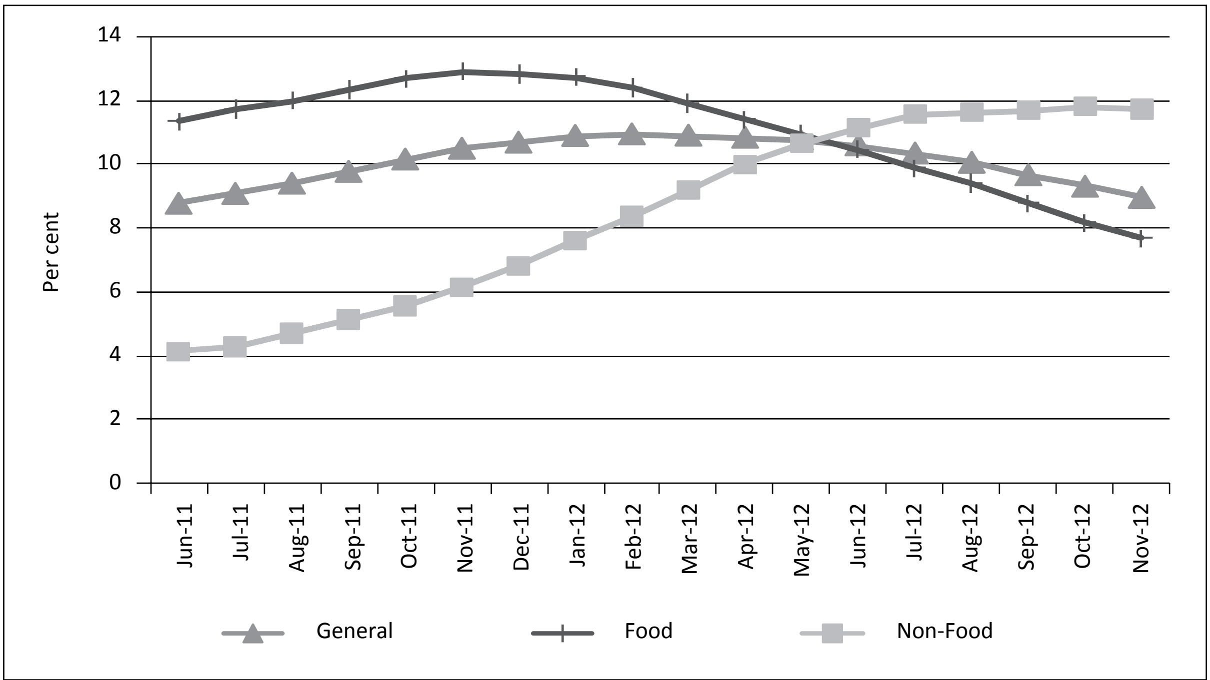
Commodity Group	FY2012 (Jun)	FY2013 (Nov)
General	10.6	9.0
Food, beverage and tobacco	10.5	7.7
Non-Food	11.1	11.7
Clothing and footwear	17.6	15.7
Gross rent, fuel and lighting	10.3	13.5
Furniture, furnishing, household	11.8	11.6
Medical care and health expenses	5.9	7.3
Transport and communication	11.3	8.7
Recreation, entertainment	2.3	2.2
Miscellaneous goods and services	13.5	11.7

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

Apparently, the inflationary pressure has been declining steadily since March 2012 (Figure 7). The recent decline in general inflation was largely attributed to decline in food inflation. Indeed, food inflation had started to decline since December 2011, whereas, non-food inflation figure had somewhat stagnated in FY2012-13, at about 11.6-11.7 per cent.

[6] In July 2012, BBS introduced a new measure of inflation with a new base year (2005-06). This inflation accounting also included prices of a number of new commodities. In near future, this new measure may replace the present inflation estimate based on the base year of 1995-96. According to the new base year, in November annual average inflation was 6.3 per cent (8.7 per cent in June 2012). In November 2012, food inflation came down to 3.5 per cent (from 7.7 per cent in June 2012), while non-food inflation reached as high as 10.7 per cent (from 10.2 per cent in June 2012).

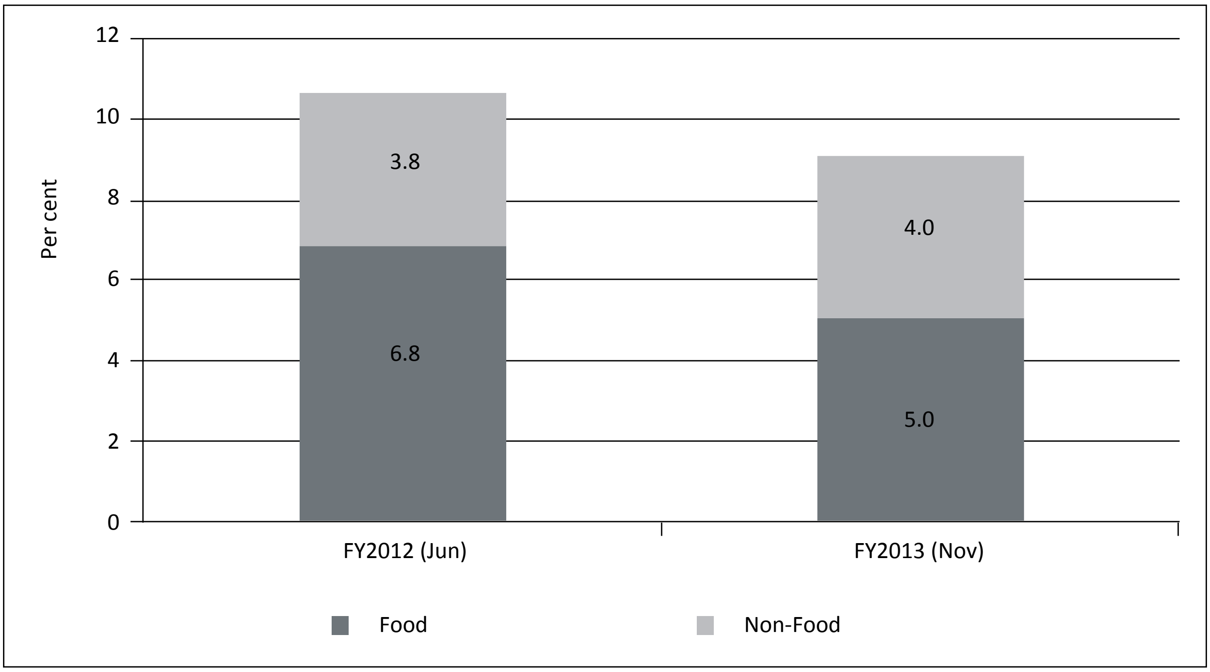
Figure 7: Annual Average Inflation (July 2011 - November 2012)



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

A decomposition of inflation figures as of June 2012 and November 2012, indicates that, of the 10.6 per cent inflation in June 2012, only 6.8 per cent came from food inflation, while the rest 3.8 per cent came from non-food inflation. Of the 9 per cent inflation in November 2012, 5 per cent was contributed by food inflation and 4 per cent was on account of non-food inflation (Figure 8). This would imply that the food inflation declined (by 1.8 percentage points) more than the total decline in the inflation between the two periods, i.e. 1.6 percentage points, while contribution from the rise in non-food commodity prices increased by 0.2 percentage points. Indeed this incremental contribution originated from the rise in gross rent, fuel and lighting, contribution of which increased

Figure 8: Sources of Annual Average Inflation

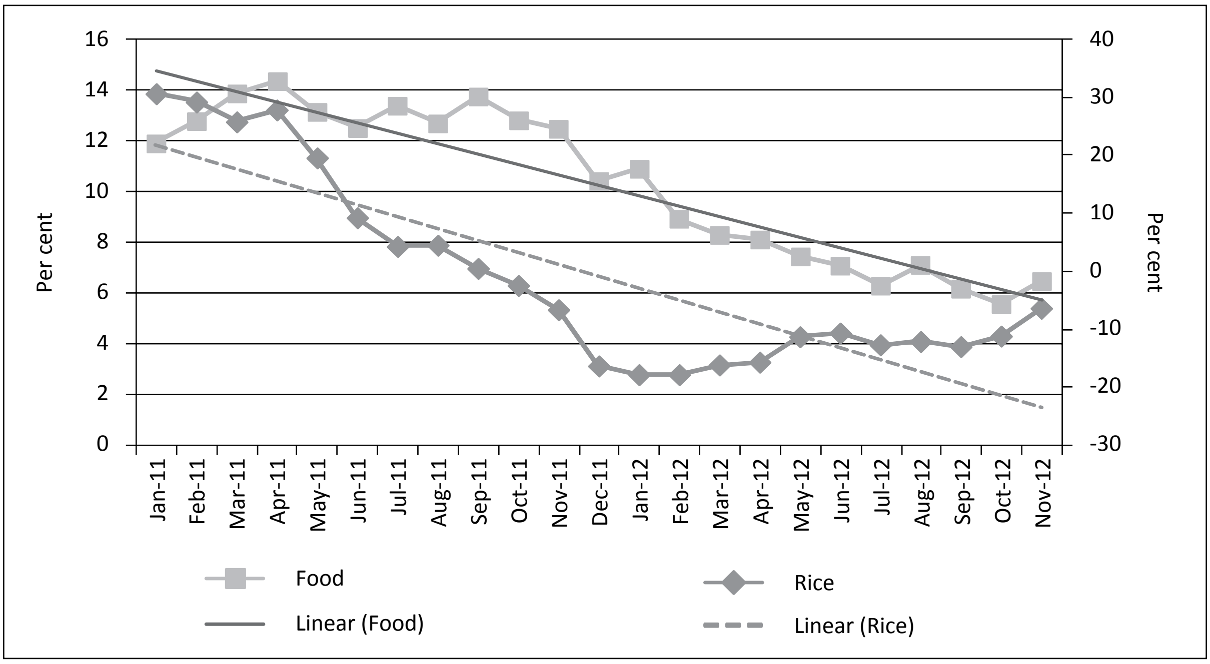


Source: Estimated from the Bangladesh Bureau of Statistics (BBS) data.

by 0.4 percentage points. Indeed, the adjustment of administered tariff of electricity made a mark on price level of non-food items. However, one needs to be mindful that food inflation still remains higher than its non-food counterparts.

As is noted earlier, the recent fall in inflation has largely originated from the fall in food inflation. The price of coarse rice in domestic market stabilised at around Tk. 28-29 per kg and remained stable for the most part of FY2012-13 (July-November). It may be concluded that this fall in food inflation is largely attributed to the fall in prices of rice in the domestic market. Figure 9 reveals that rice inflation in domestic market and food inflation are following similar trends in recent times. It has been found that in the Bangladesh context, price of rice controls about one-fourth of the overall price index. Thus, there is little surprise that falling rice price made an impact in food inflation and overall inflation. Indeed, annual average rice price (according to the Food and Agriculture Organization (FAO) data) in November 2012 declined by (-) 13.6 per cent. Rice price was expected to remain stable in the global market in the near future as FAO has recently raised its forecast of global paddy production in 2012 by 4.2 million tonnes to 729 million tonnes (486 million tonnes, milled). FAO Rice Price Index averaged 244 points in October 2012, nine points lower than in October 2011. Food Planning and Monitoring Unit (FPMU) indicate that in the week ending 14 December 2012, rice prices including Thai 5 per cent broken (545 USD/MT), Vietnam 5 per cent white (405 USD/MT), and Kolkata wholesale price (329 USD/MT) declined by 1.8 per cent, 5.8 per cent and 10.5 per cent respectively. During the same period, Dhaka city wholesale rice price stood at 293 USD/MT.

Figure 9: Rice Inflation vs Food Inflation



Source: Estimated from the Food and Agriculture Organization (FAO) and Bangladesh Bureau of Statistics (BBS) data.
Note: Left-hand vertical axis is for food inflation and right-hand vertical axis is for rice inflation.

Comfortable food stock of the government also transmitted positive signals to the market which helped to stabilise the foodgrain prices. As of 13 December 2012, the public foodgrain stock stood at 1.4 million MT (of which 1.1 million is rice) and is expected to remain at a comfortable zone in the near future. The government set the Aman procurement target at minimum 0.3 million MT rice (0.25 million MT parboiled and 0.05 million MT white) to be procured with a price of 26 Tk./kg for parboiled rice and at 25 Tk./kg for white rice from the domestic market. The procurement drive began on 9

December 2012 and will continue until the end of February 2013. However, the present minimum price set by the government appears to be inadequate to provide price incentive to the farmers in view of the currently experienced continued fall in prices of rice. Keeping rice prices within reasonable limits and ensuring producer incentives in terms of rice price will be a major policy challenge for the government in FY2012-13 and also beyond.

Favourable global commodity price level has also helped to contain domestic inflation in Bangladesh. According to IMF data, global commodity price level has declined by (-) 3.3 per cent during July-November period of 2012 compared to July-November of 2011. Among the other contributors, stable exchange rate of BDT (against USD) has helped restrain further elevation of price level. One could also argue that the contractionary monetary policy pursued by the central bank has also played a role in bringing down inflationary pressure. At the same time, in course of the last one year, the government did not raise administered prices of petroleum products. As a result, the negative impact of last year's raise has somewhat reduced. The government has recently made an upward revision of the petroleum prices, and one may expect in coming days the price of electricity will also need to be increased as a consequence. This will create further pressure on price level, both directly and indirectly. As a result, the inflation rate in FY2012-13 is likely to remain higher than the target of 7.5 per cent.

3.2.2 Movements of Monetary Aggregates: Growth of Net Foreign Assets Drove Money Supply beyond Target

The central bank was reasonably successful in containing the monetary aggregates to their respective targets by the end of June 2012. Monetary policy for the first half of FY2012-13 aimed to contain the growth of M2 and its components further. At the end of October 2012, net domestic asset and its components were well within their respective targets. Growth of private sector credit was 18.4 per cent as of October 2012 – down from 19.7 per cent as of June 2012 (Table 10). Weak bank borrowing requirement on part of the government helped reduce the growth of net credit to government to 13.4 per cent. However, robust inflow of remittances pushed the growth of net foreign asset beyond its programmed limit. Growth target for this was set at 7.2 per cent by the end of December 2012. At the end of October 2012, the growth figure turned out to be 37.2 per cent. As a consequence, M2 supply recorded a growth of 19.5 per cent at the end of October 2012 against the target of 16 per cent (as of December 2012). It appears that, despite considerable credit tightening, the growth of M2 may surpass its target and may remain well above of the figure of June 2012.

Table 10: Growth of Monetary Aggregates: Target vs Actual

(in Per cent)

Indicator	Target FY12	Actual FY12	Target FY13 (Dec)	Target FY13 (Jun)	Actual FY13 (Oct)
Broad Money (M2)	17.0	17.4	16.0	16.5	19.5
Net Foreign Asset	-8.9	11.7	7.2	0.9	37.2
Net Domestic Asset	21.9	18.5	17.4	19.0	16.3
Domestic Credit	19.1	19.5	17.2	18.6	17.0
Credit to Public Sector	31.0	18.8	13.5	20.8	12.1
Net Credit to Government Sector	NA	25.2	NA	NA	13.4
Credit to Other Public Sectors	NA	- 5.0	NA	NA	5.5
Credit to Private Sector	17.0	19.7	18.3	18.0	18.4

Source: Bangladesh Bank data.

3.2.3 Monetary Policy Stance for the Second Half of FY2012-13: Improved Governance Warranted

Over the years successive monetary policies of the Bangladesh Bank were designed to accommodate concurrently the targets set for economic growth and inflation. The last two MPSs have tried to move towards, primarily, containment of the inflationary expectation and took a rather contractionary stance. The MPS for first half of FY2012-13 had come up with two major objectives: "(i) maintaining inflation at moderate levels and (ii) supporting inclusive growth objectives of the Government." However, it appears that containing inflation remained the "core focus of the announced monetary program."

The MPS also announced four major policy objectives. The first one was about maintaining close coordination with the Ministry of Finance (MoF) to limit government borrowing from the banking sector. The MPS has aimed to accommodate the budgetary target of bank borrowing by the government (Tk. 23,000 crore). However, CPD estimates (mentioned earlier) suggest that the credit requirement of the government from the banking sector may surpass the budgetary target by a considerable margin at the end of the fiscal year. It will be interesting to see if the central bank would prepare its next MPS (for second half of FY2012-13) to accommodate this.

Secondly, Bangladesh Bank expressed its intention to "focus on the quality/composition of private sector credit." At present it is difficult to assess how this quality control of bank lending has been maintained. One may expect a more comprehensive assessment from the Bangladesh Bank itself which would use beyond the bank advances data. Issues have been raised periodically about the mismatch between the documented purpose of bank loan and its actual use. The incident with regard to the Hall-Mark scandal (more of this in the upcoming IRBD volume) and some of the other developments of similar disquieting nature reinforce these apprehensions. The next MPS will hopefully come up with more credible data on the distribution of private sector credit.

In addition, the MPS also aimed to reduce the interest rate spread to ensure a more competitive banking sector. In September 2012 interest rate spread was 5.5 percentage points – down from 5.6 percentage points in June 2012. However, it is still above the 5.3 percentage points figure of September 2011. To maintain a competitive and investment-friendly banking sector, interest rate spread needs to be brought down to below 5 percentage points. The next MPS may lay out a realistic plan towards this objective.

Thirdly, the central bank recognised the need to strengthen the financial sector for "effective transmission of monetary policy." The central bank has put in place new provisioning and rescheduling procedures for bank loan as of January 2013 in line with international practice, in face of significant resistance from banking and private sector actors. In view of the urgent need to improve financial sector governance, the steps taken by the central bank are welcome. It may be noted that, during the period under the present MPS, classified loans had indeed showed considerable rise. As of the first quarter of FY2012-13, percentage share of classified loan to total outstanding loan has increased to 8.8 per cent (from 7.2 per cent as of June 2012). This is the second successive quarter in which classified loan had increased as a share of total outstanding loan. Indeed, the overall governance of the banking sector has come under scrutiny in recent months. The aforesaid biggest banking sector scam in the history of Bangladesh (Hall-Mark scam), lax supervision of the banking sector, both internal and external, and the delayed appointment of directors of the state-owned commercial banks (SCBs) – all these have undermined financial sector management in FY2012-13, and have had an adverse impact on overall financial sector performance.

Fourthly, the MPS for first half of FY2012-13 also aimed "to preserve the country's external sector stability." Certainly, the external sector balance is more stable compared to the corresponding period of FY2011-12. However, this has come at the expense of the slowdown of both export and import growth. This low level of external sector activities will surely have adverse implications for the economic growth prospect in FY2012-13. Moreover, it appears that commercial banks also faced considerable decline in their profit in the first quarter of FY2012-13. It is expected that new commercial banks will come into operation some time in the second half of FY2012-13. At a time when the commercial banks are struggling to operate profitably, new banks will also bring more competition. Under such circumstances, the central bank will need to remain vigilant to maintain the health of the banking sector in the coming days.

Overall, the forthcoming MPS will need to present an assessment of the outgoing MPS (July-December, 2012); along with this the MPS should also examine the overall implications of the stated measures for economic growth, employment and inflation. On the one hand, the central bank is expected to examine the contribution of monetary policy to the decline in inflation. On the other hand, the monetary policy should also estimate its impacts on economic growth and investment. Indeed, according to the new estimates of Bangladesh Bank, economic growth in FY2012-13 will be around 6.1-6.4 per cent. However, this will also imply that the growth rate in FY2012-13 may fall short of its target (7.2 per cent) by about 1 percentage point. 6.2 per cent as an economic growth outcome perhaps will be considered respectable. This will be a further setback for the government when compared with the medium term development targets as set out in the SFYP. It is more likely that the central bank will continue to pursue a contractionary monetary policy stance for the coming half of FY2012-13; however, this will surely entail a trade-off with growth prospects of the Bangladesh economy.

3.3 External Sector

3.3.1 Export Earnings: Lower than Expected Growth

Export earnings stood at USD 24.31 billion in FY2011-12, registering a moderate growth of 6 per cent. This modest growth rate was a significant departure from the impressive growth rate of 41.5 per cent posted in FY2010-11. The slowdown experienced in FY2011-12 has continued into the early months of FY2012-13. As can be seen from the Table 11, in the first five months of FY2012-13, during the July-November period, export earnings registered a growth rate of 4.1 per cent as opposed to the robust growth rate of 17.6 per cent in FY2011-12. Sectoral composition for this period shows that RMG sector posted a modest growth rate of 5.7 per cent, whereas non-RMG exports experienced a negative growth rate of 9.6 per cent compared to the matched period of FY2011-12. To attain the export target for FY2012-13 which has been set at 15.3 per cent, growth rate in the coming months

Table 11: Export Growth of Major Products: FY2012-13 (July-November)

(in Per cent)

Product	Target FY13	Growth FY12 (Jul-Nov)	Growth FY13 (Jul-Nov)	Required Growth for Rest of the Year to Attain Export Target
RMG	12.80	17.90	5.70	17.50
Knit	11.90	13.10	1.70	19.20
Woven	13.80	23.60	10.20	15.90
Non-RMG	24.30	15.20	-9.60	31.00
Raw Jute	13.40	-21.60	-13.10	33.10
Leather	21.20	19.00	-0.60	35.40
Home Textiles	26.90	37.30	0.60	40.50
Frozen Food	17.00	15.10	-22.50	58.40
Total	**15.28**	**17.60**	**4.10**	**21.20**

Source: Export Promotion Bureau (EPB) data.

of FY2012-13 will need to be significantly high: 17.5 per cent and 31 per cent for RMG and non-RMG respectively. It is projected that growth in export earnings in FY2012-13 will approximate that of the previous fiscal (about 6 per cent in FY2011-12).

The ongoing economic slowdown in the Eurozone and sluggish recovery and lower economic growth in many developed countries will likely to have adverse implications for Bangladesh's overall export performance in FY2012-13. IMF (2012b) found that emerging markets are being affected by the lower growth and uncertainty in developed countries; according to their projections, growth in world trade volume will slump to 3.2 per cent in 2012 from 5.8 per cent in 2011 and 12.6 per cent in 2010.

Market decomposition of Bangladesh's export performance for the RMG sector depicts a mixed scenario. Export performance of Bangladesh in the US market clearly illustrates that export of RMG products failed to maintain the earlier momentum and has remained stagnant in value terms posting a growth rate of only about 0.33 per cent in FY2011-12. Other competitors of Bangladesh in the US market have managed to register higher growth in FY2011-12: e.g. Vietnam (7.9 per cent), Indonesia (4.1 per cent), China (1 per cent), Cambodia (6.4 per cent), Mexico (4 per cent) and Turkey (20.8 per cent).

Total RMG imports of US declined by 3.2 per cent during the July-October period of FY2012-13. Export of RMG from Bangladesh to US decreased by 4.2 per cent over the corresponding period (Table 12). China also witnessed a negative growth rate ((-) 3.4 per cent); however, export from Vietnam and Cambodia have continued to grow, by 7 per cent and 5.9 per cent respectively over the matched period. Over this period when Bangladesh's export earnings from both knit and woven wear declined by 3.2 per cent and 5.6 per cent respectively, export earnings for Vietnam posted a rise of 8.9 per cent and 4.5 per cent respectively for these two items.[7]

Table 12: Comparison of Growth Performance between Bangladesh and Vietnam in the US Market: 2013 over 2012 (July-October)

(in Per cent)

Product	Bangladesh	Vietnam
RMG	-4.19	6.99
Knit	-3.21	8.87
Woven	-5.58	4.46
Footwear	0.81	16.49
Shrimp	-40.5	-22.7

Source: Estimated from the United States International Trade Commission (USITC) data.

In contrast to the US market, the EU market fares somewhat better. Total exports to the EU countries had registered a 10 per cent growth rate in FY2011-12 with the RMG earnings posting a 13.9 per cent rise in 2012. Despite the Eurozone crises, Bangladesh's apparel export growth in the EU has sustained in view of the relatively better economic situation of its major destination backers. Germany (9.6 per cent), UK (20.9 per cent), Italy (15.6 per cent) had been good with the exception of France ((-) 4.9 per cent). Of heightened interest here is to note is the export record of Vietnam in FY2011-12 in major destination countries: Germany (36.3 per cent), France (47.6 per cent), UK (43.8 per cent), and Italy (42.8 per cent).

Bangladesh's export growth for RMG items in the Eurozone came down further during July-November, 2013 posting a growth rate of 6.5 per cent compared to the corresponding period of FY2011-12. Whilst

[7]As may be recalled, as a beneficiary of the Trans-Pacific Partnership (TPP) with the US, Vietnam is receiving additional opportunities in the US market, particularly preferential tax benefit for footwear and leather industry. The TPP arrangement with US is likely to result in preference erosion for Bangladesh's export items in US market, vis-à-vis Vietnam, in near future.

export earnings from woven sector were impressive, with a 23.1 per cent growth, it is notable that export of knitwear actually declined by 1.2 per cent.[8] Indeed, total global import of RMG by the EU had declined by 15.1 per cent over the corresponding period. World Bank (2012) also concluded that commodity export-dependent countries are most at risk in the event of a renewed global slowdown.

As can be seen from the Table 13, in recent years average price per unit for woven products has registered some increase over time in spite of the volatility in the cotton market. Average price for RMG remained stable (and somewhat rising) in spite of the recent fall in cotton prices (Figure 10).[9]

Apart from the country's principal export items, the RMG, encouraging growth rates were posted in FY2011-12 in the EU market for footwear and shrimp, 21.3 per cent and 7.4 per cent respectively. On the other hand, in the US market, export earnings from footwear remained almost unchanged (0.81 per cent) whereas shrimp export declined by a significant 40.5 per cent.

Table 13: Average Price for Top Five Woven Items: FY2009-10 to FY2011-12

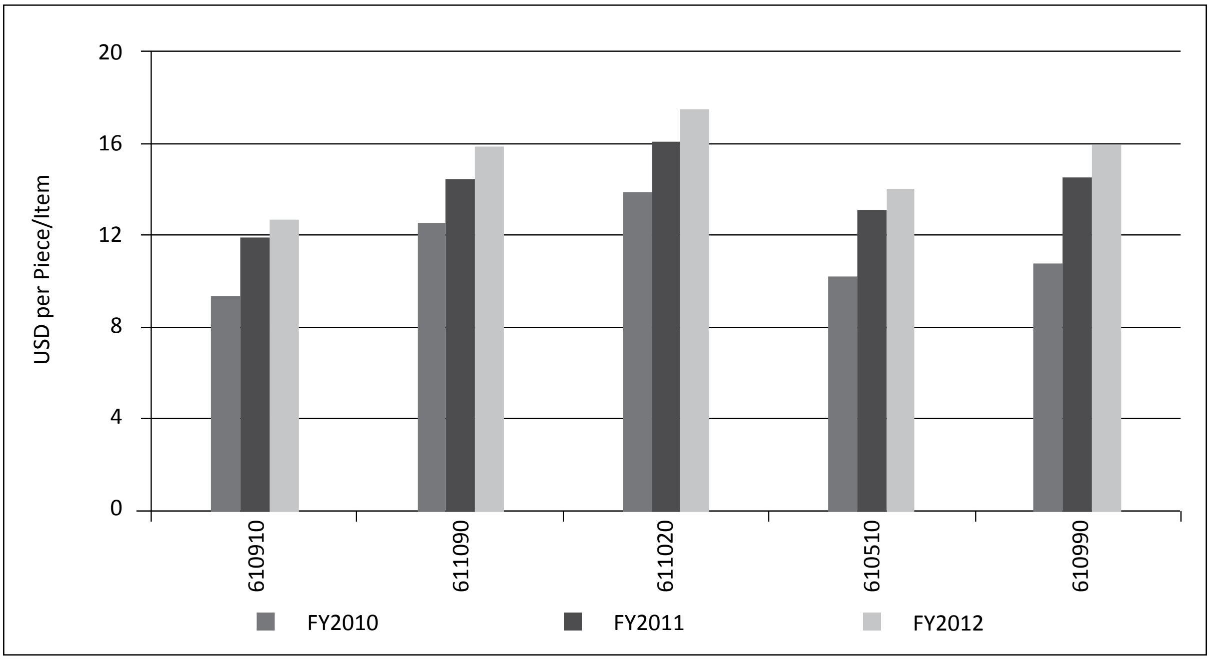
RMG Item	Total Export FY12 (Million USD)	As % of Total Knit	Average Price per Unit (USD) FY10	Average Price per Unit (USD) FY11	Average Price per Unit (USD) FY12
Woven Garments					
620342: Mens/boys trousers and shorts, of cotton, not knitted	3664.08	38.30	10.72	12.65	14.88
620462: Womens/girls trousers and shorts, of cotton, not knitted	1433.02	15.00	12.67	14.70	16.51
620520: Mens/boys shirts, of cotton, not knitted	1109.86	11.60	13.76	16.18	18.86
620590: Mens/boys shirts, of other textile materials, not knitted	598.85	6.30	11.83	14.12	17.00
620349: Mens/boys trousers and shorts, of other textile materials, not knitted	312.54	3.30	10.51	12.76	14.39
Knit Garments					
610910: T-shirts, singlets and other vests, of cotton, knitted	4490.12	47.33	9.40	11.94	12.73
611090: Pullovers, cardigans and similar articles of other textile materials, knitted	1494.20	15.75	12.59	14.48	15.93
611020: Pullovers, cardigans and similar articles of cotton, knitted	665.96	7.02	13.89	16.12	17.51
610510: Mens/boys shirts, of cotton, knitted	624.23	6.58	10.28	13.16	14.03
610990: T-shirts, singlets and other vests, of other textile materials, knitted	222.99	2.35	10.78	14.52	16.00

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

[8]The change in the Rules of Origin (RoO), from two-stage to one stage, has been beneficial for Bangladesh's woven wear exports to the EU and this is a reflection of this robust performance. However, whether this is a one-shot boost, or is one of a more sustained nature, will need to be seen.

[9]The average price for top woven items increased from USD 10.72 to USD 14.88 during the period of 2010 to 2012, while the price of the knit item ranked first (T-shirts, singlets and other vests, of cotton, knitted) increased from USD 9.40 to USD 12.73 over the same period. However, the total volume of export has decreased for top five knit items in FY2011-12 compared to FY2010-11.

Figure 10: Average Price (per Unit) for Top Five Knit Items: FY2009-10 to FY2011-12



Source: Estimated from the Export Promotion Bureau (EPB) data.
Note: 610910: T-shirts, singlets and other vests, of cotton, knitted; 611090: Pullovers, cardigans and similar articles of other textile materials, knitted; 611020: Pullovers, cardigans and similar articles of cotton, knitted; 610510: Mens/boys shirts, of cotton, knitted; 610990: T-shirts, singlets and other vests, of other textile materials, knitted.

Whilst Bangladesh's exports have been experiencing fluctuating fortunes in the North American and EU markets, its South-South trade has been on the rise.[10] In FY2011-12, Bangladesh experienced robust export growth in China (25.7 per cent), Malaysia (27.9 per cent), Korea (28.1 per cent), Myanmar (39.4 per cent), Thailand (55.8 per cent), Singapore (58 per cent), Brazil (40.9 per cent) and South Africa (16.9 per cent). Export basket in these countries mostly concentrated on non-RMG products which speak of the significant opportunities for export diversification, and Bangladesh should put more emphasis on this emerging opportunity for market and product diversification.

Bangladesh export to India has experienced a robust growth in recent years and stood at USD 498 million in FY2011-12. During the July-November period of FY2012-13, export earnings reached USD 221 million, registering 3.8 per cent growth over the corresponding period of FY2011-12. The recent duty-free market offer to Bangladesh from India have created favourable window of opportunity to enter the fast growing Indian market.[11] To take advantage of the duty-free offer of India, a dedicated strategy should be developed including in areas such as attracting Indian and other investments targetting the Indian market, developing bilateral/regional supply networks and value chains, development of physical infrastructure and connectivity, ensuring better investment environment, capacity to address non-tariff barriers, simplification of custom procedures, and improved trade facilitation.

Along with the external factors some of the internal disquieting developments also did not augur well for Bangladesh's RMG export. Recent devastating fire incident in Tazreen Garments Factory in Ashulia has once again drawn attention to the need for ensuring safety and security of RMG workers.[12] Besides, this is likely to have adverse implications for Bangladesh's credibility as a supplier when Bangladesh is

[10]This is a general trend for the least developed countries (LDCs), and indeed according to Anderson and Strutt (2011) the volume of South-South trade is projected to double by 2030.
[11]Whilst the ratio of Bangladesh's global export of RMG and non-RMG items was 80:20, in case of India this was 20:80 which alludes to the potential for significant export diversification for Bangladesh in the Indian market.
[12]CPD has presented its findings on the issue of compliance and safety at factory level at a recent dialogue; the presentation is available at: http://www.cpd.org.bd/downloads/rmg26012012.pdf

trying to consolidate its foothold as the second-largest RMG exporter in the world, and major buyers are showing keen interest in Bangladesh as part of their 'China Plus One' strategy for sourcing. Whilst RMG is not covered under US-GSP (Generalized System of Preferences) scheme, US-GSP hearings and likely adverse decision could also impair Bangladesh's overall export interest in the US market. The issue of allowing RMG workers on their trade union rights has also been highlighted by the CPD. If the Government of Bangladesh (GoB) and concerned institutions fail to take adequate measures in the above regard, the adverse implications will seriously undermine Bangladesh's export potentials in the near future. Additionally, the increasing number of bilateral and regional trade agreements is likely lead to preference erosion for Bangladesh, as will unilateral tariff reductions by developed countries. Bangladesh should strategise in view of the above if it is to realise its potential to match China's track record. Thus, Bangladesh will need to give adequate attention to both software (regulatory regime, trade union rights, compliance, etc.) and hardware (infrastructure development, trade facilitation, supply-side capacity building) related measures on an urgent basis.

3.3.2 Import Payments: Contraction Contributed to Improved External Balance

Performance of the import sector had been rather sluggish in FY2011-12. Registering a growth rate of 5.3 per cent, total imports amounted to USD 35,442.30 million in FY2011-12. Growth in import payments in the first quarter of FY2012-13 was 2 per cent compared to the corresponding period of FY2011-12 (Table 14). Fall in some of the key commodity prices and the overall contractionary policy pursued by the central bank played its role. Statistics with regard to global commodity prices shows a fall in prices of foodgrains and fuel and a number of other items in the global market. It needs to

Table 14: Import Payments for Selected Commodities

Item	FY12 (Jul-Sep)	FY13 (Jul-Sep)	Change FY13 (Jul-Sep)	Change FY13 (Jul-Oct)
	(Million USD)		(%)	
A. Foodgrains	195.3	62.0	-68.3	56.2
Rice	143.2	3.5	-97.6	NA
Wheat	52.1	58.5	12.3	NA
B. Consumer goods	1385.9	1272.6	-8.2	NA
Edible oil	840.5	824.9	-1.9	17.4
Pulses	71.1	103.1	45.0	NA
Sugar	403.4	271.4	-32.7	NA
C. Intermediate goods	4466.1	5161.6	15.6	NA
Crude petroleum	104.7	15.2	-85.5	31.4
Petroleum and other liquids	453.0	680.0	50.1	
Pharmaceutical products	47.1	61.0	29.5	NA
Fertiliser	452.0	508.1	12.4	NA
Raw cotton	415.5	618.3	48.8	10.5
Yarn	419.8	395.8	-5.7	
Textile and articles thereof	991.5	992.9	0.1	-0.3
D. Capital Goods	2171.7	1958.9	-9.8	NA
Capital machineries	632.2	546.5	-13.6	-7.5
Others	1539.5	1412.4	-8.3	NA
E. Others n.i.e.	673.8	619.2	-8.1	NA
Grand Total	**8892.8**	**9074.3**	**2.0**	**-4.0**

Source: Bangladesh Bank data; and National Board of Revenue (NBR) and Bangladesh Export Processing Zone Authority (BEPZA) data provided by the Bangladesh Bank.

be noted that there was also a drastic reduction in the import of rice ((-) 97.6 per cent) which also contributed to containing total import payments.

Among other import items, petroleum and other liquids (POL) recorded a robust growth of 50.1 per cent in the first quarter in 2013. In contrast, import of machineries, an important import item having significance for investment, faced a negative growth rate both in FY2011-12 ((-) 14 per cent) and in the first quarter of FY2012-13 ((-) 13.6 per cent) with attendant adverse implications for investment. However, fertiliser growth was high (12.4 per cent) and import of raw cotton was also high (48.8 per cent). The latter was likely to have positive impact on performance of export-oriented RMG sector in the near term. However, data for import of textile-related machineries, collected from NBR, gives a mixed picture (Table 15).

Table 15: Dynamics of Import of Textile-related Machineries

Four Digit Code	Type of Machinery	FY12 (Jul-Nov)	FY13 (Jul-Nov)	Growth Rate (%)
		(Million USD)		
8445	Machine for preparing textile fibre	130.55	73.36	-39.09
8446	Weaving machine (looms)	47.19	39.65	-8.91
8447	Knitting machine (Stitch-Bonding)	58.86	69.34	27.70
8448	Auxiliary machine for extrude-draw machine (text)	28.77	30.76	15.88

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

It is to be noted that import payments indeed has experienced a negative growth of (-) 6.9 per cent over the July-November period of FY2012-13.

Letter of credit (L/C) opening and settlement declined by (-) 9.7 per cent and (-) 13.2 per cent respectively during the first five months of FY2012-13. It is important to note that L/C opening for petroleum decreased by (-) 16.7 per cent during the same period. Anecdotal information suggests that commercial banks are also showing reluctance in opening L/Cs in general, although Bangladesh has gone for moral persuasion in discouraging import of particularly consumer and luxury goods only. The declining tendency of overall import was likely to continue in the coming months of FY2012-13 in view of the restrained monetary policy pursued by the central bank in order to maintain external balance stability.

3.3.3 Remittances: Stellar Performance

The flow of inward remittances to Bangladesh stood at USD 5.01 billion during July to November of the current fiscal year, marking 24.9 per cent impressive growth over the comparable months of the previous fiscal year. This is a remarkable achievement also because remittance earning in FY2011-12 (USD 12.84 billion) was a significant 10.3 per cent higher compared to FY2010-11 (Table 16). In

Table 16: Yearly Trend of Inward Remittance Flow: FY2004-05 to FY2011-12

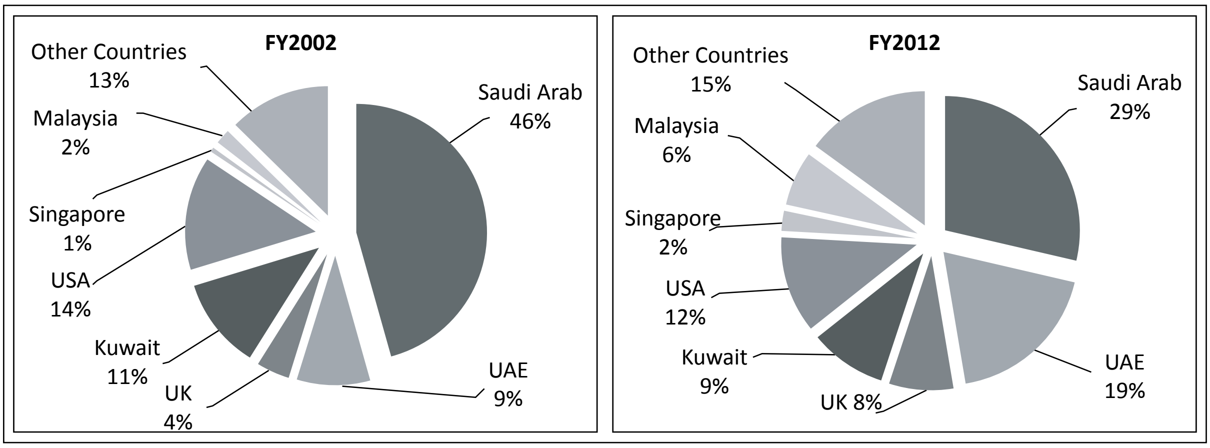
Year	Remittance (Million USD)	Growth (%)
FY2005	3848.29	14.13
FY2006	4802.41	24.79
FY2007	5998.47	24.91
FY2008	7914.78	31.95
FY2009	9689.26	22.42
FY2010	10987.40	13.40
FY2011	11650.32	6.03
FY2012	12843.43	10.24

Source: Bangladesh Bank.

part, significant depreciation of exchange rate has helped to achieve this higher growth. Celebration of Eid-ul-Azha and Durga Puja in the first quarter in FY2012-13 may have also contributed to this higher growth.

Despite the recent diversification of remittance sources, Middle East countries continue to be the major sources of remittance inflow in Bangladesh. Saudi Arab was the largest source of remittance with total amount of remittance stood at USD 3.68 billion in 2012 with 28.7 per cent growth. According to the Bangladesh Bank's official figure for remittances inflow in FY2011-12, other important sources for remittances were United Arab Emirates (UAE) (18.7 per cent), USA (11.7 per cent), Kuwait (9.8 per cent), United Kingdom (UK) (9 per cent) and Malaysia (6.6 per cent) (Figure 11).

Figure 11: Changes in the Market Composition for Remittance Earnings: FY2001-02 and FY2011-12



Source: Calculated from the Bangladesh Bank data.

During FY2011-12, the total number of migrant workers going abroad stood at about 0.69 million, registering a robust growth of 57.4 per cent compared to the previous fiscal year. It is of interest to note that impressive growth has occurred after a significant deceleration of migrant workers in 2009 and 2010, (-) 50.9 per cent and (-) 34.3 per cent respectively. Though the growth rate of the number of migrant workers was negative ((-) 6.7 per cent) in the first quarter, the number of workers was likely to increase in the coming months of FY2012-13 as Malaysia has indicated its interest to recruit a significant number of workers from Bangladesh under the government-to-government (G-2-G) arrangement. This could reduce the cost of migration, but will require significant strengthening of the capacity of all involved institution of the GoB.

3.3.4 Balance of Payments: Safe Terrain

In the backdrop of the volatility observed in FY2011-12, the first four months of the current fiscal year observed a BOP surplus mainly because of higher inward remittance and lower import growth. The overall balance reached USD 1,923 million in July-October period of FY2012-13 from a negative balance of USD (-) 384 million for comparable months in FY2011-12. Trade deficit started to come down, and current account registered surplus of USD 464 million over the same period in of FY2012-13 (Table 17).

According to Bangladesh Bank, over July-October period in FY2012-13, foreign direct investment (FDI) inflow increased to USD 588 million from USD 466 million over the corresponding months in FY2011-12, registering a growth of 26.3 per cent. Medium and long term (MLT) loans stood at 579 million in 2013 with a significant growth rate (185 per cent) in July-October period of FY2012-13.

Table 17: Balance of Payments

(Million USD)

Item	FY2011	FY2012	FY2012 (Jul-Oct)	FY2013 (Jul-Oct)
Trade Balance	-7744	-7995	-3180	-2517
Workers' Remittance	11650	12843	3974	4964
Current Account Balance	885	1630	-625	464
Capital Account Balance	642	469	126	158
Financial Account	-1920	-955	987	1247
FDI	775	995	466	588
MLT Loans	1032	1460	203	579
Errors and Omissions	-263	-650	-872	54
Overall Balance	-656	494	-384	1923
International Reserve	10911.6	10364.4	10338.3	12339.5

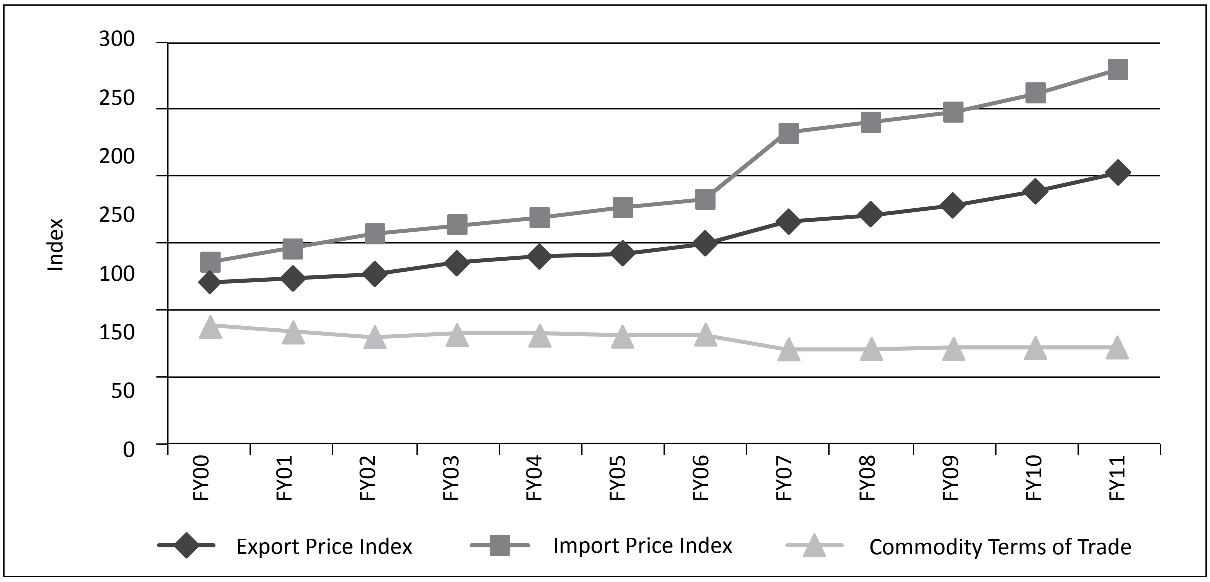
Source: Compiled from the Bangladesh Bank data.

Gross foreign exchange reserves stood at USD 12.8 billion as of 1 January FY2012-13, equivalent to more than four months of imports bills, which was about 32.3 per cent higher than the same period in 2012. Despite the rising reserves in recent times, Bangladesh Bank projects a modest growth in FY2012-13 in light of the subdued forecast for global trade in the coming year.

After two years of uncertainty, the government has now decided to participate in the 'sovereign bond' market. Sovereign bonds, worth of USD 500 million, will be issued during March-April, 2013. The government expects that the interest rate to be in the range of 5.0-5.5 per cent. Bangladesh's stable credit rating has perhaps played a role in this expectation although due caution will need to be exercised in dealing with the possible attendant risks emanating from this form of government borrowing.

It is important to mention here that Bangladesh's terms of trade (ToT) has been following a declining trend in recent years. Whilst reliable up to date data is lacking, according to Bangladesh Bank information, ToT has improved marginally, by 0.5 per cent, in FY2010-11 compared to FY2009-10 (Figure 12). In view of volatility of commodity prices in the global market, a renewed effort to move up the value chain in exportables, away from basic manufactured items where price movements are slow, is required to change the situation in Bangladesh's favour.

Figure 12: Terms of Trade in Bangladesh (Base Year: 1995-96)



Source: Bangladesh Bank.

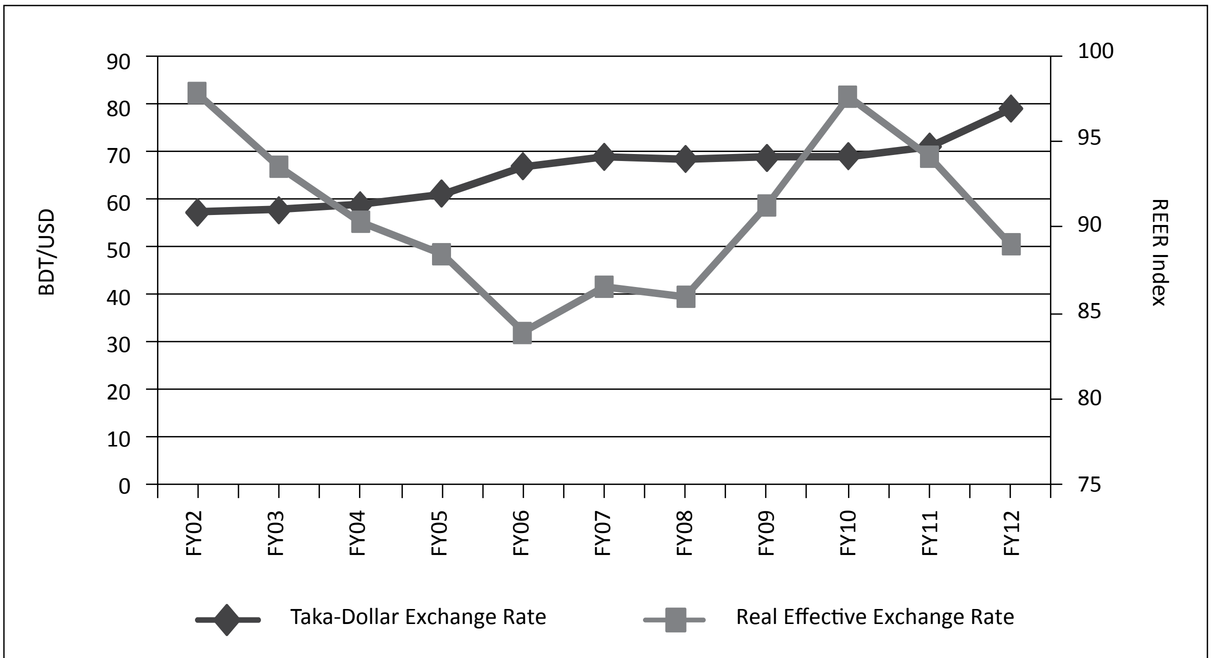
3.3.5 Foreign Aid: Improved - Thanks to Better Project Aid Implementation

Foreign aid inflow in July-November period, FY2012-13 stood at USD 906.6 million, posting an impressive growth of 107.4 per cent compared to the corresponding months of FY2011-12. Net foreign aid inflow during the first five months (USD 568.4 million) was significantly higher compared to the same period of FY2011-12 (USD 97.1 million). This significant improvement in aid inflow mainly originated from disbursement by Japan (USD 150 million), World Bank (USD 285 million) and Asian Development Bank (ADB) (USD 136 million). Close monitoring and better coordination have perhaps helped. In the current fiscal year, government has set a gross foreign aid target of USD 3.2 billion. Developments related to the Padma Bridge financing by the World Bank has cast a dark shadow on the management of large development projects, transparency and overall economic governance, and appropriate lessons will need to be drawn from this experience. The IMF also delayed the disbursement of second part of the ECF which was due in November, 2012. Though the country is gradually moving out from aid dependency, the aid inflow has its own significance to meet the country's increasing development needs.

3.3.6 Exchange Rate Movements: Towards Appreciation of Taka

During July-October period of FY2012-13, BDT had appreciated against all the major currencies including USD, Euro, British Pound (GBP) and Chinese Yuan (CNY), except the Indian Rupee (INR). This trend was a reversal of the trends experienced during the comparable months of FY2011-12. The underlying causes for this are higher inward remittances, lower import demand and the resultant replenishment of the foreign exchange reserves. Figure 13 shows the BDT-USD exchange rate and real effective exchange rate (REER) over the last ten years.

Figure 13: Taka-Dollar Exchange Rate and Real Effective Exchange Rate: FY2001-02 to FY2011-12



Source: Adopted from the Bangladesh Bank data.

Whilst export sector and remittances flow were incentivised by the large scale depreciation experienced in FY2011-12, recent strengthening of the BDT changes the scenario in a significant way; however, this is likely to have some positive impact on the price of imported commodities in the domestic market.

3.4 Growth and Economic Outlook

Bangladesh economy had passed through a difficult period in FY2011-12 from the perspective of macroeconomic management. The defensive adjustments adopted by the government, in the course of FY2011-12 (particularly during the latter half), were manifested in various policy actions including those related to fiscal and monetary policies. On the one hand, the policy package had contributed to the restoration of macroeconomic stability to some extent; however, this entailed a cost in terms of the realised economic growth. As the halfway mark of FY2012-13 approached, economic policy of the government had continued to maintain a similar cautious approach. In the backdrop of unattainment of growth target in FY2011-12 and its likely repetition in FY2012-13, the gap between SFYP growth target and actual performance will widen. There may be a need to revisit the SFYP targets in view of this. The signals emanating from the first few months of FY2012-13 indicate that, the policymakers will have to confront a more challenging phase in the coming months.

3.4.1 Challenges for Macroeconomic Management

The present government, for the first time in its tenure, may have to deal with an NBR revenue shortfall during FY2012-13.[13] Over the last three fiscal years the NBR was able to surpass the targets set for in the budget. If the current trend in FY2012-13 continues, it is apprehended that there will be some shortfall (about 1.8 per cent of the total budget for FY2012-13). A significant part of this is likely to be on account of shortfall in import duty collection. While restrictive policies pursued by the government were partly successful in limiting import payments to maintain external BOP, the underside of this had been manifested in adverse impact on revenue collection. Moreover to avoid revenue shortfall from collection of supplementary duties (domestic), NBR will need to put up a heroic effort in the remaining months of the fiscal year. NBR has taken up initiatives to realise additional revenues through Alternative Dispute Resolution (ADR), particularly in view of the significant amount, estimated to be about Tk. 27,000 crore, which remained unrealised because of disputes with the taxpayers. Surprisingly, NBR has been (verbally) instructed to collect an additional amount to the tune of Tk. 8,000 crore, which perhaps indicates that the government itself is also expecting some pressure in terms of fiscal management. If this be the case, overall revenue collection growth target in FY2012-13 will rise to 27.3 per cent. To meet this target, attaining a growth rate of 33.5 per cent in revenue collection will be required over the remaining seven months of FY2012-13. In all likelihood, this appears to be an impossible task. However, the fact remains that there is a need to intensify NBR mobilisation effort and there is a significant scope to raise more revenue. As discussed earlier, CPD estimates indicate that an additional Tk. 10,000 crore may be required in FY2012-13 in the form of bank borrowing to replenish budgetary allocation. Subsidy pressure may once again steal the limelight, as BPC has already sought Tk. 11,700 crore from the government to pay its debt to commercial banks. The government has a slim chance to receive another lump amount from the telecommunication sector in the form of 3G license fee. Recently, the government has decided to float sovereign bond to augment USD 500 million (about Tk. 4,000 crore) from abroad. It is speculated that the government wants to make use of this fund to finance large projects, including the Padma Bridge. This decision of the government requires further consideration given its adverse long-term impact on the Bangladesh economy. Under the circumstances, it appears that macroeconomic stability may come under considerable pressure if heavy borrowing from banks remains 'the preferred source' for the government to finance its deficit. As is the case, bank borrowing has already been on the rise. According to the Bangladesh Bank data, up to 13 December 2012 net borrowing of the government from the banking sources increased sharply to Tk. 10,400 crore (about 45 per cent of the budget limit).

[13]One may recall that, the last time the NBR failed to meet to its revenue target was in FY2008-09.

It is expected that monetary policy for the second half of FY2012-13 will continue to remain contractionary. The decline in inflation in recent times may primarily be attributed to price stabilisation in the rice market and hence food inflation. However, non-food inflation will continue to hurt the purchasing power of the people as administered prices of fuel and electricity have received yet another set of upward revisions. Money supply is expected to remain higher than the programmed limit. Robust remittance inflow is expected to continue during the rest of the months in FY2012-13. As a consequence, net foreign assets will be well above the target, and hence, will pull the M2 supply with it. Moreover, as discussed earlier, it will be the central bank which will have to accommodate the higher government borrowing from the banking system. The targeted growth rates of monetary aggregates will require a revisit with a view to setting these at a more realistic level. Besides, the central bank will immediately need to restore good governance in the banking system which has been afflicted by high profile malfeasance. The role of the central bank in managing the financial sector will remain under spotlight in the coming period. With regard to this, a better coordination between the two policy institutions, the government (MoF) and the central bank (Bangladesh Bank) will be called for. The role of financial sector as supportive ally to promote higher investment and economic growth will also be tested in the second half of FY2012-13. The high interest rate on lending is making business uncompetitive; loan default is rising.

The external sector stability appears to be more secured for the rest of FY2012-13. Regrettably, this is largely aided by falling import payments. Besides, one needs to take cognisance of the fact that, for a developing country like Bangladesh, slowdown in trade deficit may not be always helpful when the interests of economic growth are kept in the perspective. Economic growth requires higher levels of investment, which in Bangladesh case is highly dependent on imported capital machineries and intermediate goods. Decline in import payments for capital goods is certainly a major setback. As is known, the government has planned for higher growth of 7.2 per cent in FY2012-13 which will need to be underwritten by higher investment. It appears that, the government is looking for more foreign resources, even if this entails higher financial and economic cost. The central bank has recently allowed a number of companies to borrow from the foreign sources (USD 293 million). Indeed, the IMF-ECF loan needs to be mentioned in this context. In the backdrop of growing BOP pressure the government sought IMF-ECF support (USD 1 billion for three years) which is tied to a number stringent conditionalities. The second installment of the loan was due on November 2012, which is now expected to be released in January 2013 if the government undertakes the necessary policy initiatives advised by the IMF. However, one can argue that the impact of an amount equivalent to USD 141 million (only 1.8 per cent of trade deficit in FY2011-12) will be rather insignificant.[14]

The policymakers in Bangladesh should give serious attention to the issue of illicit financial outflow. A number of international studies have identified that a significant amount of resource capital outflow has taken place over the last decade. The United Nations Development Programme (UNDP) study (Kar 2011) estimated this illicit flow to be, USD 3.1 billion on an average, between 2001 and 2008 to have been taken outside from Bangladesh each year (Table 18). This was the highest among all the LDCs. A recent study initiated from the Global Financial Integrity (GFI), which has chosen a rather conservative estimation approach, showed that the annual average (illicit) capital flight from Bangladesh was USD 1.4 billion (between 2001 and 2010). This outflow, arising from transfer mispricing, trade mispricing and money laundering, has tended to be more visible in recent years. For example, at a time, when RMG export growth is at low level (particularly knit products), a robust growth in cotton import payments (48.8 per cent in July-September FY2012-13) is difficult to explain. It needs to be noted that the government has recently set up a Transfer Pricing Cell under the NBR. This is a welcome

[14]It may be recalled that the seventh installment of IMF-PRGF (Poverty Reduction and Growth Facility) loan for Bangladesh (in 2007), which was not released, was equivalent to 3.6 per cent of trade deficit in FY2006-07 (USD 123 million).

move, but the cell needs to be fully functional at the earliest. Surely Bangladesh requires a strong and well-equipped specialised institution to confront this issue in near future where a number of public institutions (e.g. NBR, Bangladesh Bank and others) will need to act in a coordinated manner.

Table 18: Illicit Financial Outflow from Bangladesh

(Million USD)

Estimate	Time Period	Cumulative	Average per Year
GFI (2012)[a]	2001-2010	14059	1406
Christian Aid (2009) (only in US and EU)[b]	2006-2008	1190	397
UNDP (2011)[c]	2001-2008	24514	3064

Source: [a]Kar and Freitas (2012); [b]Christian Aid (2009); [c]Kar (2011).

From economic policy perspectives, it appears that, the government at present is busy with maintaining macroeconomic stability, even at the expense of investment and economic growth prospect. Higher burden of subsidy requirements has forced the government to take unpleasant decisions – another set of increase in administered prices of electricity and fuel. BERC has recently raised the tariff for electricity supplied by two companies by about 5 per cent. However, there is a growing concern from the consumers about this rapid increase. In the course of its tenure, the present government had earlier raised the tariff six times at various points in time.

The government has revised administered prices of petroleum products at higher levels on 4 January 2012. The prices of diesel and kerosene have been raised by Tk. 7 per litre (11.5 per cent), while the prices of petrol and octane increased by Tk. 5 per litre (5.5 per cent and 5.3 per cent respectively). According to the government, even after this revision of prices, the BPC will incur a loss equivalent to Tk. 11.8 from selling per litre of diesel and Tk. 12.2 from selling per litre of kerosene. According to the CPD estimates, BPC can now reduce its loss by about Tk. 2,900 crore every year (the government has however indicated that the BPC loss will be reduced by Tk. 2,500 crore). According to media report, the government has already spent Tk. 2,700 crore during the first half of the ongoing fiscal year in the form of fuel subsidy. As is known, as a result of fuel price adjustment, a part of the subsidy requirement will now be transferred to the BPDB. Hence, unless the electricity price is revised upward, the reduction of government subsidy will be lower than the reduction of loss on the part of the BPC. Regrettably, the government did not make its position clear about the consequences of this price hike for the farmers. Diesel subsidy to the farmers for irrigation needs to be increased to prevent the rise in cost of production of agricultural commodities including Boro paddy. In the backdrop of falling rice prices, the government will need to incentivise paddy farmers to ensure food security in the country.

It needs to be appreciated that, a significant amount of subsidy originates from the increasing reliance of the government on liquid fuel-based electricity. One may recall that, according to the present government's original (Master) Power Plan, the liquid fuel-based quick rental power plants were supposed to be phased out beginning from 2013. It appears that, due to the government's inability to implement the Master Plan in accordance with the programmed activities, contracts with these quick rental power plants are expected to be renewed. Hence, people will continue to carry on with the financial burden along with the government.

CPD, as part of the present study, has undertaken a Computable General Equilibrium (CGE) exercise to estimate the economy-wide impacts of increase in oil prices. The estimates have considered two different scenarios under three assumptions (closures): (i) Capital is fully employed and mobile

(Simulation 1) and (ii) Capital is fully employed and activity-specific (Simulation 2).[15] The simulations examined the impact of rise in the petroleum prices by 11.5 per cent. The results show that the rise in petroleum prices will be helpful for restoring macroeconomic balance in terms of improving government deficit. However, adverse impacts are observed in the areas of GDP (in the range of (-) 0.2 per cent to (-) 0.3 per cent), exports (in the range of (-) 0.4 per cent to (-) 1.8 per cent), and imports ((-) 0.8 per cent) (Table 19).

Table 19: Impact of Raising Petroleum Price on National Accounts

Indicator	Simulation 1	Simulation 2
GDP at factor cost (% change)	-0.3	-0.2
Exports (% change)	-1.8	-0.4
Imports (% change)	-0.8	-0.8
Private Consumption (% change)	-0.6	-0.7
Government Savings as % of GDP (percentage points)	0.4	0.4
Private Savings as % of GDP (percentage points)	-0.1	-0.1
Current Account Balance as % of GDP (percentage points)	0.2	0.1
Consumer Price Index (CPI) (percentage points)	0.3	0.2

Source: CPD estimates from CGE Model.

Among the economic sectors clothing manufacturing will be the most affected as its value addition loss could be in the range of (-) 0.4 per cent to (-) 2.4 per cent (Table 20).

Table 20: Impact of Raising Petroleum Price on Sectoral GDP (% Change)

Sector	Simulation 1	Simulation 2
Rice cultivation	-0.4	-0.3
Clothing manufacturing	-2.4	-0.4
Electricity, gas and water	-0.9	-0.3
Trade	-0.6	-0.3
Transport and communication	-0.6	-0.4
Hotel and restaurants	-0.4	-0.3
GDP	**-0.3**	**-0.2**

Source: CPD estimates from CGE Model.

The loss of GDP for clothing manufacturing originates primarily from decline in exports of RMG sector. The estimated decline in quantity of RMG exports will be around (-) 0.4 per cent to (-) 2.6 per cent (Table 21).

Table 21: Impact of Raising Petroleum Price on Quantity of Exports (% Change)

Commodity	Simulation 1	Simulation 2
RMG	-2.6	-0.4
Total	**-1.8**	**-0.4**

Source: CPD estimates from CGE Model.

[15]The CGE model is constructed following the International Food Policy Research Institute (IFPRI) standard model which has been adapted for Bangladesh. The Social Accounting Matrix (SAM) for 2007, prepared by the Planning Commission has been used. The other assumptions (closures) are: (a) Domestic Price Index (DPI) is fixed and Consumer Price Index (CPI) is flexible; (b) Investment is savings-driven; (c) Exchange rate is fixed while current account balance is flexible; (d) Government savings are flexible, while direct tax rate is fixed; (f) Land is fully employed and activity-specific; and (g) Labour (both skilled and unskilled) can be unemployed and are mobile.

The decline in GDP is manifested by the decline in employment for unskilled labour by about (-) 0.5 per cent and for skilled labour in the range of (-) 0.5 per cent to (-) 0.7 per cent (Table 22).

Table 22: Impact of Raising Petroleum Price on Quantity of Factor Supply/Demand (% Change)

Factor	Simulation 1	Simulation 2
Unskilled labour	-0.5	-0.5
Skilled labour	-0.7	-0.5

Source: CPD estimates from CGE Model.

It is also estimated that, households across the economy will suffer losses in both income and consumptions (in the range of (-) 0.5 per cent to (-) 0.9 per cent). As a result, welfare impact of such increase in petroleum prices is likely to be adverse (Table 23).

Table 23: Impact of Raising Petroleum Price on Household Consumption (% Change)

Household	Simulation 1	Simulation 2
Landless farmer	-0.8	-0.7
Marginal farmer	-0.8	-0.7
Small farmer	-0.8	-0.7
Large farmer	-0.8	-0.7
Rural non-farm poor	-0.8	-0.6
Rural non-farm non-poor	-0.9	-0.8
Low education	-0.6	-0.5
High education	-0.7	-0.5
Total	**-0.8**	**-0.7**

Source: CPD estimates from CGE Model.

Firms will also face a negative impact on their income due to the slowdown in aggregate demand ((-) 0.7 per cent) (Table 24). The CGE results also confirm that the government's future actions in the form of rise in fuel prices will undermine economic growth and overall welfare of the households.

Table 24: Impact of Raising Petroleum Price on Income of Households and Enterprises (% Change)

Agent	Simulation 1	Simulation 2
Landless farmer	-0.3	-0.5
Marginal farmer	-0.4	-0.5
Small farmer	-0.6	-0.5
Large farmer	-0.6	-0.6
Rural non-farm poor	-0.5	-0.5
Rural non-farm non-poor	-0.6	-0.6
Low education	-0.5	-0.4
High education	-0.6	-0.5
Enterprises	-0.7	-0.7

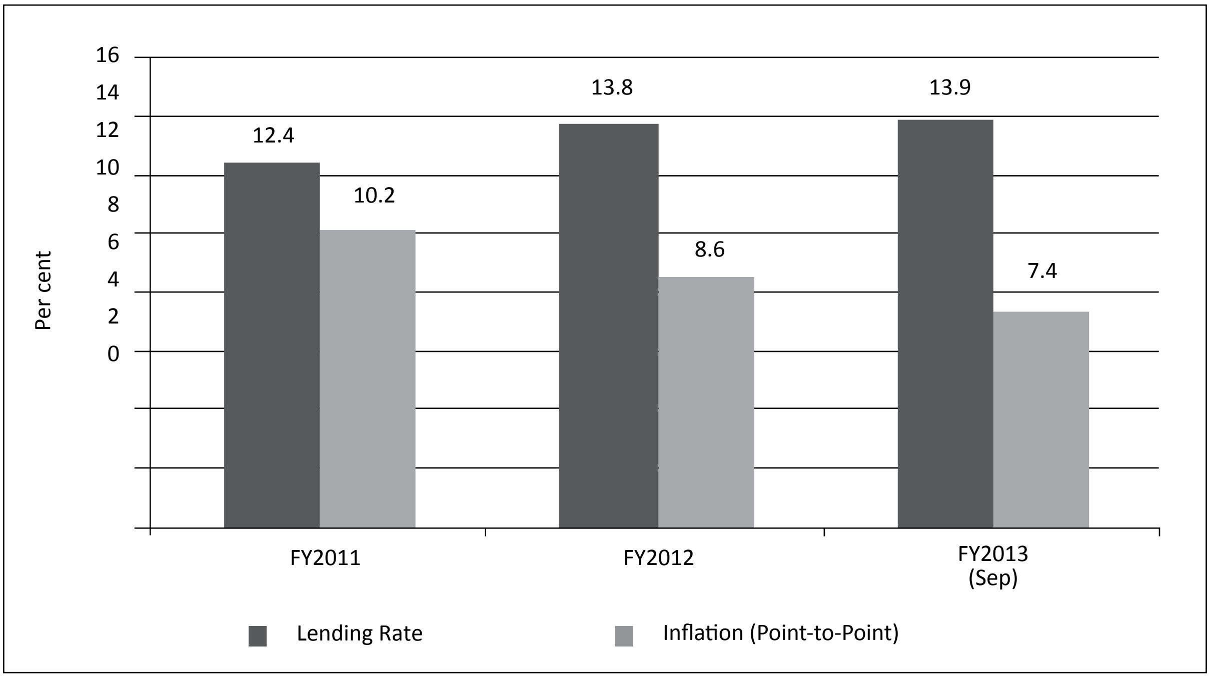
Source: CPD estimates from CGE Model.

Moreover, it needs to be mentioned that an increase in administered prices of fuel will eventually transfer a part of the subsidy from BPC to BPDB. This implies that another raise in electricity prices will be on cards.

3.4.2 Growth and Investment Outlook

Higher level of investment is a binding constraint for higher economic growth. According to the SFYP target, share of total investment to GDP needs to be 29.6 per cent of GDP in FY2012-13 (i.e. 4.6 percentage points over FY2011-12). In other words, it will need an additional Tk. 75,460 crore of investment; of which more than 81 per cent should come from the private sector. Certainly this will be an impossible target to chase. Additionally, an overwhelming part of the investment has to go to manufacturing sector to acquire the incremental 1 per cent GDP growth in FY2012-13 over FY2011-12. Signs of slowdown in investment trend are becoming increasingly visible. A combination of a number of factors, including weakening of global demand, inadequate infrastructural facilities, constricted access to finance, increasingly dysfunctional development administration and institutions, unsatisfactory industrial relation have depressed the investment outlook further. High cost of borrowing has been repeatedly mentioned by the business community as an impediment for private investment. In this connection, high level of inflation is often blamed for high interest rate. Interestingly, at a time when inflation is coming down, interest rate is creeping up (Figure 14). The real interest rate (both nominal and real) in FY2010-11 was 2.2 per cent which is now increased to 6.5 per cent in September FY2012-13.

Figure 14: Lending Rate vs Inflation Rate



Source: Bangladesh Bank and Bangladesh Bureau of Statistics (BBS) data.

The depressing sign of investment scenario is visible from the decline in import of capital machineries. In contrast, term loan disbursement in the first quarter of FY2012-13 has been impressive compared to the corresponding quarter of the previous fiscal year. However, this disbursement was ((-) 4.9 per cent) lower than last quarter (April-June, FY2011-12). It is, however, found that overall private sector credit growth was at a moderately high level. At a time when investment in terms of importing capital machineries is declining and economic activity including trade-related activities are slowing down, such a growth in private sector credit and term loan is somewhat perplexing. The Hall-Mark scam has put forward an important lesson to the economy that loans acquired from the commercial banks may not always be destined for the intended purpose (as is evidenced in the bank documents). In view of the disquieting signs in the financial sector, it is proposed that a high-powered taskforce is set up by the central bank to investigate the mismatch between credit and investment-related data.

The above analysis of the macroeconomic performance in current fiscal, based on early data, transmits the signal that a growth target of 7.2 per cent for FY2012-13 is unlikely to be achieved. The GDP growth projections made by the multilateral donors (i.e. the World Bank, IMF and ADB) corroborate that GDP growth rate in FY2012-13 would be around 6 per cent. A more recent projection by the Bangladesh Bank has also estimated that the GDP growth rate in FY2012-13 will be in the range of 6.1-6.4 per cent (Table 25). At this point in time, the available data on real sector's performance are not adequate to estimate the final outcome for the GDP growth in FY2012-13. The crop production data (on Aus and Aman) is yet to be finalised; however, anecdotal information suggests that, the production figure could be better in FY2012-13 compared to the previous fiscal year. On the other hand, Quantum Index of Production (QIP) for large and medium industries for the first two months of FY2012-13 shows that manufacturing production growth in large and medium industries was only 4.9 per cent. The relatively slow pace of growth in export will also likely have a dampening impact on industrial sector performance in FY2012-13. In all likelihood, given the current scenario, the economic growth rate in FY2012-13 is unlikely to surpass the growth record of FY2011-12.

Table 25: Growth Projections by Sixth Five Year Plan and Bangladesh Bank for FY2012-13

(in Per cent)

Sector	**SFYP**	**Bangladesh Bank Low Case**	**Bangladesh Bank High Case**
Agriculture	4.4	3.5	3.8
Industry	9.9	7.5	7.8
Services	7.1	6.2	6.5
GDP	**7.2**	**6.1**	**6.4**

Source: Sixth Five Year Plan (SFYP) and Bangladesh Bank data.

Compared to previous fiscal year, at the halfway mark of FY2012-13, macroeconomic situation is more stabilised. The analyses of macroeconomic performance in this section indicate that apparently this stability is underpinned by a number of risks. It appears that, the government has settled for a 'second best' option by holding on to macroeconomic stability with moderated economic growth, investment and employment prospects. Regrettably, even this modest ambition could come under serious challenge in view of the looming uncertainties in the political front.

4. A BRIEF INTERIM REVIEW OF THE IMPLEMENTATION OF THE SFYP: MACROECONOMIC FRAMEWORK AND SECTORAL ISSUES

The Sixth Five Year Plan (SFYP: FY2010-11 to FY2014-15) started its journey of implementation beginning from FY2010-11 with the goals of "accelerating growth and reducing poverty." It has passed the half way mark in this journey, in 2012. SFYP is informed by political commitment on the part of the government which sees the plan as key strategic intervention to reach the middle-income country status by 2021. Time has come to take a close look at where the SFYP targets stand, and how feasible are the possibility of their attainment at the end of 2015. One should also note that the implementation of SFYP so far has to be exercised at a period of adverse global environment which accentuated the domestic problems that implementation had to face in the past three years.

In this context, an objective assessment of the implementation of SFYP is important which will highlight not only the gaps between targets and achievements, but will also highlight major policy weaknesses and implementational challenges faced during this period. It may be noted here that the government has recently completed its internal review of the performance of the first two years of the Plan period. The report is titled *The First Implementation Review of the Sixth Five Year Plan* and it was prepared by the General Economic Division (GED) of the Ministry of Planning. Using result-based monitoring technique, the report has tried to explain domestic and external shocks as major causes of the underperformance. However, the report did not adequately highlight the problems related to institutional weaknesses which undermined macroeconomic management during the Plan period. Hence the result-based performance evaluation technique needs to be broadened by putting emphasis on institutional issues and concerns which is needed to make an objective mid-term assessment of the implementation of SFYP.

4.1 Methodological Framework for Assessment of the SFYP Implementation

The First Implementation Review of the Sixth Five Year Plan prepared by the Planning Commission has tried to apply a result-based framework for monitoring and evaluation of the Plan by using 35 measurable indicators under nine broad themes.[16] The methodology has put emphasis on measurable indicators which would assess the progress of "a limited set of development outcomes" that will "suffice to judge the level of progress in implementing the strategy" (GoB 2012). While the 35 measurable indicators are linked with the targeted variables, it is felt that these are not adequate to assess the performance, particularly when institutional issues are found to play critical role.[17] A number of related indicators for macroeconomic stability such as money supply, credit to the public and private sectors should have been taken into account. The issue of governance should have been broadened to accommodate institutional weaknesses and malgovernance aspects. Besides, drives for undertaking institutional reforms as per the strategies set forth for different sectors should have been highlighted in the assessment exercise.

In this backdrop, the present review has put focus on both measurable indicators and sectoral strategies set forth in the Plan for attaining the set targets. The macroeconomic framework has been assessed through two kinds of variables – core and associate variables. Core variables include: public and private investment, production of agriculture, industry and services, exports, revenue and savings, while associate variables include credit to public and private sector, government subsidy to different sectors, inflation, interest rate, exchange rate and imports. These variables are shown in Table 26.

Table 26: Core and Associate Variables for Assessment of the Macro and Sectoral Targets

Core Variables	Associate Variables
Public investment	Credit to public sector
Private investment	Credit to private sector
Production of agriculture, industry and services sectors	Subsidy
Exports	Inflation
Revenue	Interest rate
Savings	Exchange rate
	Imports

Source: Compiled by the authors.

4.2 Accounting Exercise: Performance Assessment (Targets vs Achievements)

The macroeconomic performance was better in the first year of the Plan period as most of the targets were achieved (Table 27). These include GDP growth, gross investment, growth in production of agriculture and industry, exports, national savings, current account balance and fiscal balance. However, performance record achieved in the first year could not be continued in the second year;

[16]The framework has been developed by following techniques applied in China, South Africa, Sudan, Zambia and Uganda with regard to methodology, focus and macro-micro issues.

[17]The number of indicators included under different themes are: income and poverty (10), human resource development (4), water and sanitation (2), energy and infrastructure (4), gender equity (1), environmental sustainability (4), information and communication technology (ICT) (2), urban development (2), and governance (6).

most of the variables were behind the targets except that of national savings. As a result, overall GDP growth in FY2011-12 was lower compared to that in FY2010-11 (gap: 0.7 per cent). However, given the adverse global economic environment, Bangladesh has performed better than many other developing countries in terms of GDP score including Indonesia (6.5 per cent in 2011), Pakistan (2.9 per cent) and Vietnam (5.9 per cent).[18]

Table 27: Summary of Key Economic Indicators

Component	FY11		FY12		FY13	FY14	FY15
	Target	Actual	Target	Actual	Target	Target	Target
Real GDP (Billion Taka)	3850.16 (6.7)	3851.00 (6.7)	4119.67 (7.0)	4093.80 (6.3)	4416.00 (7.2)	4752.00 (7.6)	5132.10 (8.0)
Gross Investment (Billion Taka)	1947.90 (24.7)	1947.90 (24.7)	2411.73 (28.8)	2327.80 (25.4)	3032.50 (29.6)	3622.40 (31.0)	4339.08 (32.5)
Private (Billion Taka)	1535.60 (19.5)	1532.10 (19.5)	1997.70 (22.2)	1751.00 (19.1)	2325.60 (22.7)	2781.00 (23.8)	3337.70 (25.0)
Public (Billion Taka)	417.30 (5.3)	415.80 (5.3)	593.90 (6.6)	576.70 (6.3)	706.91 (6.9)	841.32 (7.2)	1001.30 (7.5)
National Savings (Billion Taka)	2236.50 (28.4)	2236.50 (28.8)	2402.70 (26.7)	2689.60 (29.4)	3012.00 (29.4)	2587.30 (30.7)	4285.60 (32.1)
Production Growth (Percentage of GDP)							
Agriculture	5.0	5.1	4.5	2.5	4.4	4.3	4.3
Manufacturing	9.5	9.4	9.8	9.8	10.1	10.7	11.7
Services	6.6	6.2	6.8	6.1	7.1	7.3	7.8
External Sector (Million USD)							
Exports	22405.70 (20.3)	23008.00 (20.6)	25654.50 (21.2)	16006.00 (13.6)	29374.40 (22.1)	33780.60 (23.0)	38847.70 (23.9)
Imports	-31012.60 (28.2)	-30336.00 (27.1)	-35354.40 (29.2)	-21707.00 (18.4)	-40304.00 (30.3)	-46148.10 (31.4)	-52839.50 (32.5)
Current Account Balance	-349.90	995.00	-192.10	681.00	-229.40	-438.50	-648.50
Fiscal Balance (excl. Grants)	-346.50 (-4.4)	-348.20 (-4.4)	-449.90 (-5.0)	-452.00 (-4.9)	-512.20 (-5.0)	-584.30 (-5.0)	-667.55 (-5.0)
Others							
CPI Inflation (Avg. %)	8.0	8.8	7.5	11.0	7.0	6.5	6.0
Exchange Rate (BDT/USD)	71.51	71.17	74.29	77.72	76.97	79.6	82.17
Subsidy (Billion Taka)	310.00	366.00	352.00	366.00	410.00	479.00	561.00

Source: Bangladesh Economic Review 2012.
Note: Figures in parentheses indicate the percentage of GDP.

The poor performance in the second year of the Plan period (FY2011-12) is mainly attributed to a number of internal and external shocks. However, these shocks were not exogenous in nature. Weak fiscal and financial management and lack of good governance accentuated the problems. Poor performance in FY2011-12 has widened the gap with Plan targets. If the targets for the end period are to be achieved, many indicators will need to be reset at higher levels. Most of the macroeconomic and sectoral variables have to attain a significant growth over the rest of the Plan period if the desired level of growth and development are to be attained. This would be difficult to attain perhaps because of the lingering global economic slowdown in 2013 (IMF 2012a), particularly in USA and EU, possible rise of petroleum price in the global market, and possible adverse impact of 'Fiscal Cliff' on US economy.

[18]According to the World Development Indicators (WDI).

A major factor which will influence the performance in 2013, with its implications for attaining Plan target, relates to domestic political environment. If in the coming days political uncertainties rise, this will adversely affect investment and business, with serious implications for macroeconomic performance in 2013, and also beyond.

4.3 Gap Analysis

Since the macroeconomic performance of the economy in FY2011-12 is far behind the target, huge gaps are observed in all major indicators (Table 28). Thus growth in all those indicators needs to be significantly high in the rest of the Plan period, FY2012-13 to FY2014-15. Although government has set the target of GDP growth of 7.2 per cent for FY2012-13 keeping in line with the target set forth in the SFYP, because of low level of GDP growth in FY2011-12 (gap: (-) 0.7 per cent) the required rate of GDP growth for FY2012-13 ought to be much higher (7.9 per cent). Achieving that level of economic growth would require a significant rise in investment; for example, gross investment will need to be at a rate of 30.3 per cent in FY2012-13 of which private and public investment to be increased at a rate of 33 per cent and 23 per cent respectively.[19] Under the existing contractionary monetary policy (MPS July-December, 2012), such a high level of growth of investment to be largely driven by credit to the public and private sector, would be difficult to attain. Besides, a major challenge for raising private credit is the prevailing high rate of interest on term loan and working capital which makes the investment costlier.

Table 28: Key Economic Indicators: Target and Gap

(Billion Tk.)

Component	GDP in Constant Term	Investment			ADP (PPP+ Public Entities)	FDI	Portfolio Investment	National Savings
		Gross	Private	Public				
Gap after FY2012	**-25.9**	**-83.9**	**-246.8**	**-17.2**	**-93.0**	**-55.0**	**248.0**	**286.9**
Target for FY2013	4416.0	3032.5	2325.6	706.9	545.0	1250.0	-50.0	3012.0
Required rate of growth in FY2013 (%)	**7.90**	**30.30**	**32.80**	**22.60**	**25.51**	**25.60**	**-125.30**	**11.90**
Average growth rate between FY2009 and FY2012 (%)	6.50	17.20	14.00	28.80	24.89	30.00	5.70	13.60
Target for FY2014	4752.0	3622.4	2781.0	841.3	669.0	1350.0	-50.0	3587.3
Target for FY2015	5132.1	4339.1	3337.8	1001.3	808.0	1590.0	-50.0	4285.7

Source: Based on the Sixth Five Year Plan (SFYP).
Note: PPP denotes public-private partnership.

Financing public expenditure with limited domestic resources is always a challenging enterprise. After the end of FY2011-12, total revenue has fallen short of Tk. 4,814 crore which needs to be adjusted in the following year by attaining a growth of 12 per cent (Table 29). Attaining this target appears to be manageable though. Government has been successful in revenue generation, particularly in case of NBR tax and non-tax revenue. Various measures undertaken by the NBR have contributed towards attaining the target. A major challenge for the government would be to meet the huge gap in case of deficit financing which was as high as Tk. 12,374 crore. Reaching the targeted level by external resources would be difficult. Instead government has already shifted its focus and has put more emphasis on

[19]Although inflow of FDI and portfolio investment has registered considerable growth in 2011, because of their limited share in gross fixed capital formation, growth of those investments would have limited implications on rise in private investment.

mobilising domestic resources for deficit financing as mentioned in the revised Medium Term Budgetary Framework (MTBF) for FY2012-13 to FY2016-17. Besides there should also be a strategy to make use of the huge foreign aid in the pipeline amounting to USD 17 billion at present.

Table 29: Total Expenditures and Financing of Budget Deficit: Gap and Target

(Billion Tk.)

Component	National Savings	Total Revenue	Tax	Total Expenditure	Deficit Financing			
					Overall	External	Domestic	Banks
Gap FY2012	286.90	-48.14	-5.69	-139.82	-123.74	-162.14	38.39	70.87
Target FY2013	3012.00	1372.80	1147.40	1885.10	509.00	195.00	309.00	229.00
Required growth rate in FY2013 (%)	11.99	20.70	20.40	25.50	55.06	933.03	-0.13	-15.77
Target FY2014	3587.30	1635.90	1378.80	2220.20	581.00	230.00	351.00	260.00
Target FY2015	4285.67	1949.25	1655.50	2616.80	664.00	261.00	403.00	299.00

Source: Based on the Sixth Five Year Plan (SFYP).

There were gaps in a number of variables related to the BOP such as export, export earnings from services, FDI, net aid disbursement and other short-term loans, although a number of other variables have attained the targeted level such as import and workers' remittances (Table 30). The high export growth in FY2010-11 did not sustain in FY2011-12 mainly because of EU's debt crisis and slow growth of US economy. This may also happen due to low level of growth of gross export earnings caused by decline in the price of raw materials (e.g. cotton, cotton yarn) and products (e.g. cotton textiles). The significant rise in import in FY2011-12 is mainly related with rise in import cost for high-priced petroleum at a substantial amount and import of essential food products at a high price. However, high import was not continued in FY2012-13; it has slowed down due to decelaration in import of raw materials for export-oriented industries, and reduced expenditure for import of petroleum and food due to their low price in the international market. The contractionary monetary policy implemented since January 2012, has partly restrained the growth of import during the second half of the FY2011-12. The huge gap in net aid loans is mainly related with failure to realise the part of USD 3 billion loan to be disbursed for the 'Padma Bridge' project.

Table 30: Balance of Payments: Gap and Target

(Million USD)

Component	Export	Import	Services	Workers' Remittances	Current Account Balance	Foreign Investment		Financial Account				
						FDI	Portfolio Investment	Net Aid Loans	Debt Amortisation	Other Long Term Loans (Net)	Other Short Term Loans (Net)	Trade Credit (Net)
Gap 2012	-1662.5	3367.4	-180.4	153.4	1822.1	-55.0	248.0	-342.6	-47.5	143.0	-105.6	-200.0
Required growth rate (%)	22.4	26.0	-2.8	10.7	-114.1	25.6	-125.3	36.2	14.8	-12.3	68.2	-13.8
Target for FY2013	29374.0	-40304.0	-2493.0	14213.0	-229.4	1250.0	-50.0	1989.0	-906.0	-50.0	407.0	-1250.0
Target for FY2014	33781.0	-46148.0	-2609.0	15918.0	-438.5	1350.0	-50.0	2379.0	-1056.0	-120.0	513.3	-1350.0
Target for FY2015	38848.0	-52840.0	-2744.0	17829.0	-648.5	1590.0	-50.0	2681.0	-1200.0	-170.0	520.0	-1450.0

Source: Based on the Sixth Five Year Plan (SFYP).

4.4 Shortfall in Major Strategies Set Forth in the SFYP

The SFYP has set number of strategies for attaining the targets in case of macroeconomic stability, investment, revenue mobilisation, and growth in real sectors. These strategies can be divided into two parts – core strategies and associate strategies considering the nature of relation with the core variables.

4.4.1 Macroeconomic Framework

Taking into account of the macroeconomic targets set forth in the SFYP, the government has prepared an MTBF for the period of FY2010-11 to FY2014-15. However, this was effective only for two years, as a revised MTBF was adopted in FY2012-13 for the period of FY2012-13 to FY2016-17 taking into cognisance of the poor performance of the first two years of the Plan period (Table 31). Although overall growth target remains at 8 per cent of GDP in FY2014-15 keeping a number of targets same

Table 31: Comparison between SFYP, MTBF (FY2011-FY2015) and MTBF (FY2013-FY2017)

(Billion Tk.)

Component	FY2012-13			FY2013-14			FY2014-15		
	Target in SFYP	Projection in MTBF FY11-FY15	Projection in MTBF FY13-FY17	Target in SFYP	Projection in MTBF FY11-15	Projection in MTBF FY13-17	Target in SFYP	Projection in MTBF FY11-15	Projection in MTBF FY13-17
Total Revenue	1373.0	1313.9	1396.7	1636.0	1551.3	1667.3	1953.0	1824.8	1986.2
Tax Revenue	1147.0	1083.2	1168.2	1379.0	1239.0	1406.0	1953.0	1427.1	1687.7
Non-Tax Revenue	225.0	230.7	228.5	257.0	262.4	261.3	294.0	297.7	298.5
Total Revenue as % of GDP	13.4	13.1	13.4	14.0	13.6	14.0	14.6	14.1	14.6
Total Expenditure	1882.0	1745.2	1917.4	2217.0	2030.4	2227.8	2617.0	2342.4	2613.0
Programme Expenditure	NA	1499.6	NA	NA	1761.9	NA	NA	2037.2	NA
Interest Payments	234.0	220.7	233.0	234.0	239.5	273.1	267.0	271.8	312.0
Other Expenditures	NA	24.9	NA	NA	29.0	NA	NA	33.5	NA
Total Expenditure as % of GDP	18.4	17.4	18.4	19.0	17.8	18.8	19.6	18.1	19.3
Budget Deficit as % of GDP	NA	-4.3	-5.0	NA	-4.2	-4.7	NA	-4.0	-4.6
Financing Operations	NA	431.3	520.7	NA	479.1	560.5	NA	517.7	626.8
External Borrowing (Net)	NA	201.6	185.8	NA	229.3	210.2	NA	247.2	241.9
Loans	NA	200.6	204.0	NA	228.1	237.5	NA	245.9	271.3
Grants	NA	66.2	60.4	NA	75.3	61.4	NA	85.4	69.9
Amortisation	NA	65.2	78.6	NA	71.1	88.7	NA	84.1	99.3
Domestic Borrowing	NA	229.7	334.8	NA	249.8	350.3	NA	270.5	384.9
Bank Borrowing	NA	170.5	230.0	NA	193.9	243.4	NA	220.1	262.8
Non-Bank Borrowing	NA	59.2	104.8	NA	55.9	106.9	NA	50.5	122.1

Source: Bangladesh Economic Review 2012.

such as revenue generation, total expenditures, but a number of targets have been revised upward such as export and import, as well as some have been revised downward such as gross investment and gross savings. Overall, such revision in the MTBF in effective sense indicates government's downward adjustment of the macro framework for the rest of the Plan period. This reflects government's conservative position with regard to implementation of the SFYP.

Taking into cognisance of the performance in revenue generation and deficit financing, the revised MTBF for FY2012-13 to FY2016-17 in most related variables have made necessary revisions of the targets. There is an upward revision in the target for tax revenue given the better performance of the NBR in revenue generation. Revised targets for deficit financing through higher domestic financing would not be a desired policy choice given its implications on growth of private sector credit and inflation. Rise in interest payments as set in the MTBF because of possible high bank borrowing is another issue of concern. Thus future path in implementation of macroeconomic framework of the SFYP seems to be less smooth which may cause continuity in less stable macroeconomic framework.

4.4.2 Investment

Public Investment

SFYP has put emphasis on efficient implementation of the ADP in order to increase its share in GDP to 7.5 per cent by FY2014-15. In this context major strategic focus has been put in place to take all ministries under the MTBF, building capacity for project implementation by different ministries/ agencies, and strengthening of the monitoring and evaluation processes.

Although ADP utilisation has marginally improved during this period, majority of ministries are still struggling with traditional challenges such as lengthy procurement procedure, inadequate capacity of implementing agencies, land procurement and lack of proper monitoring of implementing agencies. Failure to disburse fund for approved projects (e.g. under the Ministry of Communication) and reduced budgetary allocation for social sectors against the targeted level of SFYP because of poor subsidy during FY2011-12 (particularly for the power and energy sector), are a reflection of mismanagement in the budgetary process.

A significant share of budgetary allocation over the last three years was targeted for infrastructure development, particularly for power and energy sector, which was in line with the target of SFYP. During this period, overall capacity for electricity generation has improved, but that was not reflected in the actual generation. Failure to initiate large-scale infrastructure project such as Padma Bridge, slow progress in Dhaka-Chittagong Highway could not make expected level of contribution in the development of communication network as well as reduction of poverty, particularly in the South-Western region linked with the Padma Bridge project. Weak institutional capacity, poor subsidy management, malgovernance and lack of proactive measures are primarily responsible for those failures. Overall, different ministries are found to be less committed and less proactive in implementing the SFYP towards materialising the political commitment of the government to achieve the goals.

Although SFYP underscores the necessity of public-private partnership (PPP) in infrastructure development with a view to raise investment up to 6 per cent of total GDP by 2015, progress so far has not been satisfactory. Government has set up only a PPP cell, approved the guidelines for PPP projects and made budgetary allocation in last three national budgets with scant use of those resources. Several infrastructure projects have been identified for the PPP initiative, but only two of such projects have so far been initiated. Overall, PPP initiative has been advancing at a snail's pace. Major challenges are found in case of unclear financing mechanism, lengthy bidding process and weak regulatory framework. Because of incomplete institutional set up of the PPP, the Bangladesh Investment Faciliation Fund Limited (BIFFL) was not able to attract external resources for PPP projects (CPD 2012).

No major reform was initiated in the state-owned enterprises (SoEs) in order to make them economically viable. Without making proper assessment of financial and operational viability, government opened up a number of closed jute mills. The block allocation from the public exchequer still becomes the major source of working capital for a number of corporations (particularly for Bangladesh Jute Mills Corporation (BJMC)). To make them financially viable, government has fridged bad debt of the BJMC which made their financial account clear, however, it makes marginal contribution in their annual net return. Government has identified 28 mills for offloading part/full of their shares to the public through the capital market. This did not happen due to collapse of the capital market in December 2010, and lack of interest on part of the respective corporations to offload their shares. Privatization Commission has almost become dysfunctional during this period. Government has decided to return the mills back to the respective corporations which were under the authority of the Privatization Commission. This has been regarded as a backward step with regard to policy reforms as mentioned in the SFYP. An alternate initiative undertaken by the Privatization Commission for leasing out unutilised land of different mills for setting up industrial units at the private sector has yet to be implemented even after identification of land.

Private Investment: Local and FDI

A major strategic focus of the SFYP is to promote labour-intensive domestic and export-oriented productive manufacturing industries. The Plan has targeted to improve infrastructural facilities as well as to develop value chain for different industries. It has put focus on improving the incentive structure for private investment with adequate supply of credit at low rate of interest as well as subsidised credit for preferential sectors and for small and medium enterprises (SMEs). To diversify the source of capital for industrialisation, the Plan has suggested various reform measures for the capital market.

Private investment based on debt financing has largely been constrained by shortages of fund in banks, particularly in FY2011-12. Government's excess borrowing from commercial banks has partially caused 'crowd out' effect to the private sector (CPD 2012). The contractionary monetary policy undertaken in the second half of FY2011-12 and the first half of FY2012-13 has slowed down the growth of credit both in private and public sectors. Because of high inflation, real expenditure in manufacturing industries (as against in nominal terms) has suffered a setback. An added pressure for the investors is the high rate of interest, particularly after the ban on the interest rate was lifted with a view to broaden the market-based operation in deposit collection and loan disbursement. These measures instead of incentivising the growth of private sector credit, have contributed towards slowdown of the credit growth. The central bank has undertaken a number of initiatives as part of broadening the financial inclusion within the country.

While banking sector has undertaken necessary measures to be complied with the Basel II requirements during this period, a number of incidences raised doubt as regards the preparedness towards that direction. Banking sector has faced a number of incidences of malgovernance including bank's investment in the capital market for short-term profit, violating rules and regulations (largest fraud in banking sector by six companies mainly by a textile and apparels manufacturing group called Hall-Mark which siphoned off a total of about Tk. 2,900 crore), illegal banking operation and fraudulent practices by multi-level marketing companies, particularly by companies like Unipay 2 and Destiny. Lack of proper monitoring by the commercial banks as well as by the central bank is considered to be a major weakness in these regards. A number of post-facto measures have been undertaken by concerned authorities including banks, the central bank, relevant ministries and departments which ought to be taken much earlier. In view of rising bad loans in recent year, the loan classification policy has been tightened. In general, banking sector has faced a number of institutional challenges.

Although government has enacted the *Special Economic Zone (SEZ) Act 2010* and has opened an office under the Prime Minister's Office, but the office has yet to go for full operation. So far, a number of potential areas have been identified to be developed as SEZs. On the other hand, FDI inflow has not registered significant rise because of lack of institutional capacity of the investment promotion agencies such as the Board of Investment (BOI). Foreign investors participated in the road shows organised by the BOI in different cities abroad, have not yet made strong changes in the inflow of FDI in the country.

A major strategic view regarding private investment in the SFYP was to strengthen the capital market as a major source for raising equity for local industries. A number of strategies have been identified in the SFYP, particularly with regard to market surveillance, improvement in regulations, transparency and accountability, and market research and training. In contrast, the capital market has experienced fraudulent practices, huge anomaly and illegal activities which caused an artificial rise of share prices in 2009-2010. This was not sustained and the market has collapsed in December 2010. This indicates malgovernance and mismanagement in the capital market, lack of coordination between different parts of the financial system, and weak operational and institutional capacity of the concerned authority. After the collapse of the market, a number of reform measures have been undertaken and various others are under process – rules for book building system, setting up surveillance and monitoring software at the Securities and Exchange Commission (SEC), amendment of SEC Act, demutualisaiton of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE), increase in number of independent directors, and *Financial Reporting Act* (FRA) to name a few. However, market is yet to stabilise and not yet able to attract companies at a large number for raising their required equity.

Analysis of investment performance does not indicate visible change with regard to volume of investment and efficiency and productivity of investment. Growth of private sector credit has slowed down, and more importantly, share of disbursed credit for large industries has decelerated while that of medium-scale industries has significantly increased. Because of high rate of interest, growth of advances for working capital has slowed down. The efficiency of capital which is measured by the incremental capital-output ratio (ICOR) was found to be higher than the targeted level in the first two years of the Plan period, and is likely to be much higher in FY2012-13, which indicates rise in inefficiency in capital use (Table 32).

Table 32: Efficiency in Capital Use

Component	FY2010	FY2011	FY2012	FY2013
ICOR Target	4.00	3.69	3.83	4.10
ICOR Actual	4.29	3.71	4.03	NA
Gap	+0.29	+0.02	+0.20	NA

Source: CPD estimates based on the Sixth Five Year Plan (SFYP).

4.4.3 Revenue Mobilisation

The strategies for strengthening revenue mobilisation included strengthening of the domestic tax base by amendment of *VAT Act* and *Direct Tax Act*. Measures also include organising tax fair, road shows, encourage transfer of savings held by expatriate Bangladeshi workers abroad, and initiatives for raising awareness on tax payment through print and electronic media. One of the strategies for revenue generation is to reduce the role of supplementary duties substantially by instituting prudential regulations. The Parliament has ratified the *VAT Act* and *Direct Tax Act* to be effective from 2015. A number of measures have been undertaken which include strengthening of tax administration such as *NBR Modernization Plan 2011-16*, initiation of a project called *Modernization of VAT Environment (MOVE)* under automation, and initiation of online income tax return. Automation of Dhaka Customs House and introduction of ASYCUDA++ (Automated System of Customs Data) are other important measures. It is found that institutional reforms are in line with the targets set forth in the strategies which have contributed to improve the mobilisation of resources as discussed earlier. However, the collection of revenue through higher supplementary duties has increased in recent years which were primarily intended to provide support to strategic important local industries.

4.5 Sectoral Issues

4.5.1 Agriculture and Food Security

Considering the prevalence of various challenges with regard to diversification of agriculture, modernisation and development of value chain, the SFYP included a number of strategies. In order to incentivise agricultural production, various measures have been undertaken which include open market sale (OMS) of cereals, reduction in the price of fertiliser in phases, reduction in the price of diesel, genome sequencing of jute, and rehabilitation of farmers affected by cyclone *Aila*. Other important measures include distribution of quality seed for hybrid cereal crops, vegetables like tomato and brinjal, etc. by the Bangladesh Agricultural Development Corporation (BADC) and irrigation facility to the northern *Barendra* region with rebate given at 20 per cent for irrigation run by electricity. With the aim of supporting the farmers, diesel facility through Agricultural Card was initiated along with a project undertaken for technological upgradation of agriculture (Tk. 150 crore).

According to the SFYP, the government was to formulate an effective mechanism for maintaining the stabilisation of prices of agricultural products. No such initiative has been observed for reducing seasonal price fluctuations. Moreover, no effort has been observed to develop a professional agricultural marketing channel, which is presently featured by a large number of middlemen, that prevents farmers from getting the proper price for their products. Measures for reducing the prices of fertiliser and diesel pose questions regarding the actual benefit these will render to the marginal farmers. Concern has been raised as it is believed that the meager cut in diesel price will hardly make any impact on marginal and poor farmers. An efficient administrative mechanism in the distribution system as well as strong political will of the government is required for the effective implementation and fruitful result of the adopted measures.

4.5.2 Manufacturing Sector

For the export-oriented manufacturing sector, four strategic approaches that are included in the SFYP include export diversification, getting the opportunity from China's falling competitive edge, export restructuring in a globalised economy, and working on market access issues. Government has adopted a number of policies with regard to the development of the industrial sector during the Plan period which include *Industrial Policy 2010*, *Special Economic Zone (SEZ) Act 2010* and *Jute Policy 2010*.

RMG and Textiles

Diversification of product and market destination, vertical integration, improving supply of skilled and unskilled workers are the medium-term goals set for the RMG sector. The strategies for the development of this sector also include signing bilateral agreements with potential partners, investment in training facilities by Bangladesh Garment Manufacturers & Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA), improve capacity of owners of RMG on the value chain, and greater use of information technology (IT). For making the RMG sector competitive in the global market and sustain in view of external shocks, various supportive measures have been adopted for the sector. A number of stimulus packages have been given during the period of global financial crisis. The various measures adopted for the development of the textile sector include compilation of Economic Survey on Textile and Jute Sector 2011, Five Year Plan for Textile and Jute Sector (2010-2015), Textile Act 2011 and draft of Jute Act 2011. Technical Project Planning for strengthening National Institute of Textile Training Research and Design (NITTRAD), textile colleges and Textile Strategic Management Unit (TSMU) for the development of the sector has been completed. There are no measures regarding product diversification or to create facilities for developing skilled human resources as per the SFYP medium-term goal for the sector. Progress with regard to market diversification has been slow.

Small and Medium Enterprises

The SFYP emphasises the role of SMEs in the economy by increasing number of micro and small enterprises through proper monetary and non-monetary incentives, scaling up the size of the existing micro and small enterprises and by enhancing their productivity. The need for strengthening SME Foundation is also required according to the Plan. Special measures will be taken to develop women entrepreneurship according to the plan.

Various measures adopted during the SFYP period include: initiative for upgradation of *Bangladesh Small and Cottage Industry Act 1957*; supporting SME Foundation; organisation of 'Financial Fair' by SME Foundation with commercial banks in divisional, commercial and economic cities; development of SME Foundation webportal; provision of refinancing by Bangladesh Bank fund, Enterprise Growth and Bank Modernization Programme (EGBMP) fund and ADB fund to 31,855 enterprises under the SME sector. The crucial problem that obstructs in assessing the SME performance in the economy and their requirement is the lack of database on SMEs. There are a large number of SMEs which remain unregistered even though they contribute to the economy and generate income opportunity to a large segment of rural population. If not properly brought under a systematic database, these SMEs will not be able to reap the benefits from the government's support programmes and remain vulnerable.

To support the development of SMEs, government has decided to extend the operation of Bangladesh Small and Cottage Industries Corporation (BSCIC). As part to this, initiatives have been undertaken for simplification of the allotment process of industrial plots, plan for establishing BSCIC industrial area, and also establishment of industrial units at Gopalganj, Comilla, Barguna and Kushtia. The progress of establishment of Active Pharmaceutical Ingredients (API) Park for pharmaceutical industry and Leather Industry Park has advanced in a snail pace.

Export

According to the SFYP, export diversification needs to be the cornerstone of an export strategy. To prevent the adverse impact of the global financial crisis, the SFYP included measures for backward and forward linkage expansion, meeting compliance standards, product and market diversification, and product and process upgradation to sustain global opportunities. Trade protections are regularly to be reviewed so that they do not discriminate export enterprises or support inefficient domestic enterprises. According to the Plan, supportive measures will be adopted for dynamic national industries that have high potential but require temporary trade protection. A number of measures are set to improve the competitiveness of local industries including reduce trade barriers, increase access to international export markets, focus on production incentives, quality and cost competitiveness and diversification of export basket, increase ability to export well-trained skilled and semi-skilled manpower to existing as well as new destinations, improve private trade logistics such as cold storage facilities, and exchange rate flexibility with limited interventions to ensure market stability.

Taking into cognisance the adverse impact of the global economic crisis, the government had come up with two fiscal and financial packages (Tk. 5,035 crore and Tk. 2,000 crore) particularly targeting the export-oriented manufacturing sectors. These measures included additional cash incentive for the selected sectors, support for exporting to the non-traditional markets, and relaxing the rules and regulations related to repayment of export credit for a short period of time. Those initiatives have contributed to reduce the pressure created by low level export growth in traditional markets. Besides, exporters got the benefit of depreciation of local currency against USD (about 15 per cent devaluation) during January-June, 2012. Given the wide gap existed earlier between REER with nominal exchange rate, such revision of the exchange rate has been considered as 'required'.

4.5.3 Power and Energy Sector

The core targets of the SFYP include generation of electricity to increase to 15,457 mega watts (MW) by FY2014-15. It also aims to ensure electricity coverage to be increased to 68 per cent and to increase energy efficiency by 10 per cent. Considering the energy crisis as the major bottleneck in hampering investment and development of the economy, the SFYP has emphasised on the development of the energy sector with a number of strategies such as ensuring proper pricing of power, establishing private electricity distribution companies, taking efforts to exploit all possible sources of primary energy (hydropower, gas, coal and solar energy), and energy trade with neighbouring countries. This will be pursued in combination with public investment, PPP, as well as pure private investment for power and energy sector projects. The Plan realises the needs for primary fuel to be balanced through cross-subsidies and budgetary transfers, with a view to reconcile the incentives for private investment, and efficient use of resources for ensuring access for the poor.

Despite the fact that total installed capacity as well as actual generation of electricity has increased during the Plan period, full capacity is yet to be realised, and the gap between installed capacity and actual generation has widened in each successive year (Table 33). Initially government decided to establish diesel-based quick rental power plants by the private sector which costs high tariff for electricity. As a result government had to provide huge subsidy against import of diesel for power generation as well as high charges for generation of electricity. The government had to take the burden of excess subsidy beyond the budgetary limit, which created mismanagement in fiscal and financial issues. Budget for a number projects including for social sector had to be cut down in order to meet the subsidy requirement. Although government announced a medium to long-term plan to

Table 33: Electricity Generation

(MW)

Date	Installed Capacity	Actual Generation (Evening Peak)	Gap between Installed Capacity and Usable Load
30 June 2008	5272	3386	1886
30 June 2009	5710	3735	1975
30 June 2010	5927	3183	2744
30 June 2011	7574	4852	3351
30 June 2012	8871	5518	3889
20 December 2012	8931	4622	4693

Source: Bangladesh Power Development Board (BPDB).

reduce the burden over diesel-based quick rental power plants to shift to coal-based power plants, little progress has been achieved so far. Instead government has renewed contracts with a number of quick rental power plant companies.

During the period of the SFYP the government has approved a draft law titled *Sustainable Renewable Energy Development Authority (SREDA) Act 2011*, *Bangladesh Gas Law 2010*, and *Power and Energy Fast Supply (Special Provision) Law 2010*. Initiatives have been taken for the conservation of data on gas stock and exploration in Mini Data Bank. Various documentation procedures have been initiated which include *Report on Petroleum Resource Management* and *Report on Petroleum Refining and Marketing* by international advisors. Initiatives were taken to import 500 million cubic metre (mmcm) of liquefied natural gas (LNG) by December 2012 for meeting domestic demand. Institutional reform included strengthening of the Bangladesh Petroleum Exploration & Production Company Limited (BAPEX). Another important step was making of gas transmission pipeline through 'Gas Transmission and Development Project' in western and south-western region. The test case for all these initiatives will be to ensure adequate supply of power and energy for all kinds of economic activities.

4.6 Implementation Challenges

The core targets of SFYP included reduction of the headcount poverty ratio by about 10 per cent. This was to be achieved, inter alia, among others by creating good jobs for underemployed and new labour force entrants by increasing the share of employment in the industrial sector and increasing the social security spending to 3 per cent of GDP. This will contribute to reduce the level of poverty to 22 per cent in FY2014-15. Although most of the required changes will be made by the private sector through increasing investment, it is still far below the targeted level. Government's role to facilitate the private investment has been questioned because of weak institutional capacity, mismanagement, and most importantly, malgovernance.

The political commitment of the government to implement the SFYP in order to become a middle-income country by 2021 was not adequately reflected in the functioning of the various concerned ministries and departments. More importantly, the process was seriously disrupted because of mismanagement and malgovernance, particularly in case of fiscal and financial issues, which has made the macroeconomic framework vulnerable during the Plan period. Government has spent most of its time to reduce the damage of the macroeconomic and budgetary framework, except for few areas where fresh efforts have been made such as revenue generation by the NBR. Global economic downturn in 2010 and 2011 was a big blow towards ensuring a sustained export-oriented growth in the country, which is likely to be continued in 2013 due to Europe's debt crisis, slow growth of US economy and high unemployment and likely adverse impact of 'Fiscal Cliff'. Various projections on Bangladesh's economic growth has expected a moderate level of growth in FY2012-13 between 6-6.5 per cent instead of 7.2 per cent which is targeted in the national budget of FY2012-13 (even though the required GDP growth for FY2012-13 to catch up the SFYP target is 7.9 per cent). Thus the targets set in the SFYP have become almost unreachable. In fact, Bangladesh has still performed better compared to those of other competing countries. But the performance would be much better if the mismanagement and malgovernance issues had been handled properly which could contribute to narrow down the gap with the targets set forth in the SFYP.

Taking cognisance of the situation, government has already made downward revision in the revised Medium Term Macroeconomic Framework (MTMF) and MTBF during the time of national budget FY2012-13. It may happen that further downward revision in those frameworks would be required given the expected slow growth in FY2012-13. This would ultimately affect the broader objective of poverty reduction in the country at the targeted level. Government should strengthen its social support measures by allocating more resources for safety net programmes.[20] The government according to the Plan should launch a comprehensive social protection strategy. Given the slow progress in implementation of different strategies and specific activities, most of the ministries and departments should be proactive in order to implement the stated activities. An 'as usual' pace of work by the concerned ministries would not help much to achieve the broader goals of the SFYP.

Finally, government should revisit the targets set forth in the SFYP with regard to the macroeconomic framework and sectoral targets and make the necessary revisions accordingly. The challenge for the government is to determine when is an appropriate time to undertake this exercise. Is it now, or is at the end of FY2012-13? Or should it be left to the newly elected government after the elections are over? Considering the adequate time needed for effective implementation, it will perhaps be better to go for a mid-term correction without delay.

5. REVIEW OF THE PERFORMANCE OF THE MANUFACTURING SECTOR OF BANGLADESH

Over the past decades manufacturing sector of Bangladesh was able to maintain and sustain a relatively high level of growth, surpassing that of the GDP, which contributed to a rise in its share in the GDP (from 10 per cent in 1989 to about 19 per cent in 2012). In the course of particularly the last five years (FY2007-08 to FY2011-12) manufacturing sector was confronted with a number of challenges which had important implications both for its domestic market-oriented components as well as the export-oriented ones. Despite these challenges manufacturing sector has been able to post at 7-10 per cent growth which was led particularly by the large and medium-scale enterprises (Table 34). Over this same period small-scale enterprises have also experienced a modest level of growth. Nonetheless there is an increasing concentration towards large and medium industries. Excepting a few sub-sectors of the manufacturing sector, major components of the sector are yet to attain the strength to compete globally in equal footing, or in the domestic market without tariff and incentive support. This had been mainly due to a number of structural and operational constraints/weaknesses including narrow production base, lack of well-developed value chains, low productivity of capital (e.g. high ICOR), lack of access to

Table 34: Share and Growth in Production of Manufacturing Enterprises: FY2007-08 to FY2011-12

(in Per cent)

Component	FY2008	FY2009	FY2010	FY2011	FY2012
Share in GDP					
Manufacturing	17.8	17.9	17.9	18.4	19.0
Large and medium-scale	*12.6*	*12.7*	*12.7*	*13.2*	*13.8*
Small-scale	*5.2*	*5.2*	*5.2*	*5.2*	*5.2*
Share in Manufacturing GDP					
Large and medium-scale	*70.8*	*70.9*	*70.9*	*71.7*	*72.6*
Small-scale	*29.2*	*29.1*	*29.1*	*28.3*	*27.4*
Growth					
Manufacturing	7.2	6.7	6.5	9.4	9.8
Large and medium-scale	*7.3*	*6.6*	*6.0*	*10.9*	*10.8*
Small-scale	*7.1*	*6.9*	*7.8*	*5.8*	*7.2*

Source: Bangladesh Economic Review (various issues).

[20]The project of Northern Areas Reduction-of-Poverty Initiative (NARI) has been adopted in various northern areas for building dormitories and providing training facilities for women. The safety net programmes adopted by the government mostly have been taking place within the budgetary framework. Allocation in social safety net in the national budget for FY2012-13 has been reduced to 2.2 per cent of GDP which was 2.51 per cent in FY2011-12. The various programmes include the ones related to food security, Vulnerable Group Feeding (VGF), Test Relief (TR), Employment for Ultra Poor in Northern Region, etc. However, considering the prevailing high level of poverty, allocation for this head needs to be raised. Moreover, most of the social safety net programmes are related to food-based programmes, whereas little emphasis is given on cash transfer programmes.

adequate infrastructure facilities, and in recent years, high interest rates on bank loan. In this backdrop, a detailed analysis of the recent performance of the manufacturing sector is perceived to be important in view of the key role of the sector in ensuring structural transformation of the economy.

5.1 Structure of the Manufacturing Sector and Its Performance

According to the *Survey of Manufacturing Industries 2005-06* by BBS, there were a total of about 35,000 establishments in the country of which small-scale manufacturing units (employing 20-99 workers) were about 41 per cent, and large and medium-scale manufacturing units were about 15 per cent (Table 35).[21] Between 1998 and 2006, share of small-scale enterprises has increased while that of large and medium-scale enterprises has reduced.[22] Over 99 per cent of the manufacturing units were privately-owned with the share of foreign-owned companies remaining insignificant (e.g. share of joint venture enterprises was 0.6 per cent).

Table 35: Distribution of Manufacturing Enterprises

Component	1997-98	1999-2000	2001-2002	2005-06
No. of establishments	29573	24752	28065	34710
Share of total establishments (%)				
10-99 workers	*63.8*	*79.9*	*81.0*	*85.0*
100-999 workers	*17.1*	*19.1*	*17.8*	*13.3*
1000 and above workers	*0.5*	*1.0*	*1.2*	*1.7*
Average fixed assets per establishment (Lakh Tk.)	73.0	98.0	119.0	267.0

Source: Bangladesh Bureau of Statistics (BBS).

Performance of large and medium-scale manufacturing industries (LMIs) and small-scale manufacturing industries (SMIs) varies for different sub-sectors (Table 36). Despite the global economic slowdown, Bangladesh was able to maintain moderately high level of growth in export of jute, cotton, wearing apparels and leather industries during FY2008-09 to FY2011-12 in the backdrop of higher production

Table 36: Growth of Production of Large, Medium and Small Enterprises: FY2008-09 to FY2012-13

(in Per cent)

Item	Enterprise	FY2009	FY2010	FY2011	FY2012	FY2013 (Jul-Aug)	Average Growth Rate
General Index	LMI	7.4	6.9	17.7	9.6	4.9	10.4
	SMI	7.8	10.7	3.3	5.1	-	6.7
Food, beverage & tobacco	LMI	0.8	8.7	21.9	-6.9	15.1	6.1
	SMI	6.3	38.8	0.5	10.8	-	14.1
Jute, cotton, w. apparel, leather	LMI	10.6	3.2	30.1	18.9	-1.1	15.7
	SMI	6.2	4.3	-1.7	0.5	-	2.3
Wood prod./ furniture	LMI	4.1	3.5	3.0	-4.2	-5.7	1.6
	SMI	10.3	-0.4	4.0	-20.8	-	-1.7
Paper & paper prod.	LMI	4.2	1.6	-0.7	3.6	10.2	2.2
	SMI	5.1	4.6	-1.7	8.6	-	4.1
Chemical, petroleum & rubber	LMI	4.4	22.3	-5.6	-0.9	13.3	5.1
	SMI	2.5	0.8	5.7	3.1	-	3.0

(Table 36 contd.)

[21]On the other hand, there were over 50 per cent establishments which were micro and cottage industries (employed 1-19 workers).
[22]However the share of very large enterprises (above 1000 workers) has increased during this period.

(Table 36 contd.)

Item	Enterprise	FY2009	FY2010	FY2011	FY2012	FY2013 (Jul-Aug)	Average Growth Rate
Non-metallic product	LMI	12.1	2.4	3.1	2.5	3.5	5.0
	SMI	10.7	5.0	1.9	-3.7	-	3.5
Basic metal product	LMI	15.6	-41.3	32.3	-1.2	6.9	1.3
	SMI	21.0	1.4	3.1	53.7	-	19.8
Fabricated metal product	LMI	6.1	8.6	1.8	8.6	30.0	6.3
	SMI	-2.3	4.2	17.0	8.4	-	6.8
Other manufacturing	LMI	-	-	-	-	-	-
	SMI	3.3	-19.9	-0.5	55.7	-	9.7

Source: Estimated based on the Quantum Index of Production (QIP) Advance Release (various years), Bangladesh Bureau of Statistics (BBS).

of LMIs (average growth rate of 15.7 per cent). SMI sub-sectors which attained high growth rates were basic metal products (19.8 per cent) and food, beverage and tobacco (14.1 per cent) mainly driven by higher demand in the local market. Other industries including non-metallic, fabricated products, wooden furnitures, etc., which largely cater to the domestic market did not show a significant variation in the performance of LMIs and SMIs. Compared to the corresponding period of the previous year, growth of LMIs in the first two months of FY2012-13 (July-August) has slowed down mainly due to negative growth of jute, cotton, apparels and leather ((-) 1.1 per cent) industries which catered largely to the global market and had to confront slowdown in demand.

There was a high concentration in the value addition of the manufacturing sector (Table 37). Top 10 manufacturing industries accounted for almost 62 per cent of total value addition in FY2005-06, which was, however, somewhat higher in FY2000-01 (67 per cent). Apart from the traditional manufacturing industries (such as woven, knit, textiles and pharmaceuticals) a number of non-traditional domestic market-oriented industries made significant contribution in the value addition in the manufacturing sector – these included bricks and tiles, cigarettes, iron steel and re-rolling mills (Table 37). To some extent, this relatively lower concentration in value added in the top 10 industries in 2006 reflects some diversification in the manufacturing base.

Table 37: Comparison of Top 10 Manufacturing Industries in Terms of Value Added Share in 2001-02 and 2005-06

Industry (2001-02)	Value Added Share (%)	Industry (2005-06)	Value Added Share (%)
RMG	22.0	RMG (woven)	23.9
Pharmaceuticals	18.3	Knitwear	9.2
Cotton textile	6.9	Bricks and tiles	7.1
Silk and synthetic textiles	4.6	Cigarettes	6.3
Cigarettes	4.4	Pharmaceuticals	4.7
Wooden furniture	2.9	Iron and steel re-rolling mills	3.3
Jute textile	2.5	Cotton textile	2.0
Cement and other minerals	2.0	Mfg. of cement	1.9
Leather footwear	2.0	Processed fish and seafood	1.7
Soap and detergents	1.8	Handloom	1.5
Total	**67.3**	**Total**	**61.6**

Source: Census of Manufacturing Industries 2001-02 and Survey of Manufacturing Industries 2005-06 by the Bangladesh Bureau of Statistics (BBS).

5.2 Changes in Financing of the Manufacturing Sector

Debt financing is the major form of resource mobilisation on part of the manufacturing sector of Bangladesh. About 30 per cent of the required capital is raised through loans from banks and other financial institutions. However, share of loans and advances to the manufacturing sector (share in M2) has declined over the years (from 27 per cent in FY2007-08 to 23 per cent in FY2011-12) indicating higher flow of money for non-manufacturing related activities.[23] Whilst between FY2008-09 and September of FY2012-13 disbursement of industrial term loan in nominal term has doubled, growth rate has experienced significant deceleration (from 30 per cent in FY2009-10 to 10 per cent in FY2011-12) (Table 38). Although large and small-scale industries have seen a decline in growth in terms of disbursement of term loan, medium-scale industries have seen a consistent rise in this period which resulted in a higher share for medium-scale industries in the total disbursement of credit (from 23 per cent in FY2008-09 to 30 per cent in July-September, FY2012-13), whilst large-scale enterprises experienced a decline in share. During the first quarter of FY2012-13, all categories of industries have experienced lower growth particularly due to tightening of credit growth as a result of the contractionary monetary policy pursued by the central bank to contain inflation (MPS, January-June 2012 and July-December 2012).

Table 38: Disbursement and Recovery of Credit: Value, Share and Growth

Period	Disbursement				Recovery			
	LSI	MSI	SSI	Total (Crore Tk.)	LSI	MSI	SSI	Total (Crore Tk.)
Share (%)								
FY2008-09	73.0	23.0	4.0	19973	74.0	20.0	5.0	16302
FY2009-10	73.0	21.0	5.0	25876	68.0	26.0	6.0	18983
FY2010-11	68.0	25.0	7.0	32163	71.0	22.0	7.0	25016
FY2011-12	62.0	31.0	7.0	35278	59.0	33.0	8.0	30237
FY2012-13 (Jul-Sep)	64.0	30.0	6.0	9720	64.0	29.0	7.0	8191
Growth (%)								
FY2009-10	30.0	22.0	76.0	30.0	6.0	51.0	25.0	16.0
FY2010-11	16.0	45.0	63.0	24.0	37.0	12.0	62.0	32.0
FY2011-12	-0.2	38.0	7.0	10.0	2.0	77.0	33.0	21.0

Source: Estimated based on the Bangladesh Bank data.
Note: LSI: Large-scale industry; MSI: Medium-scale industry; SSI: Small-scale industry.

Rate of recovery of loan disbursed, particularly to large-scale enterprises was found to be low. The amount of non-performing loan (NPL), particularly the doubtful loan component has been on the rise in recent years (Table 39). Moreover, net disbursement of term loan and working capital tends to vary widely in relation to net advances (between FY2008-09 and FY2011-12). This could be due to rise in classified loan in this period or for some other reason. Several incidences of frauds and forgeries reported in the national dailies have given rise to concern about diversion of fund from specified activities. Thus, it is important to examine the issue of classified loan in some detail.

Trends in the share of bank advances to various manufacturing activities should help to appreciate performance of the related manufacturing sub-sectors (Annex Table 2). It is assumed here that any significant changes in advances in a particular period will be reflected in changes in the share of advances. It is found that a number of sub-sectors have higher shares in the increasing amount of advances; this indicates that these sub-sectors have received significant amount of credit during the

[23]Over 75 per cent loans and advances of M2 are used for advances and loans to different economic activities.

Table 39: State of Classified Loan

(Crore Tk.)

Year*	Sub-Standard Loan	Share % of Total Loan	Doubtful Loan	Share % of Total Loan	Bad Loan	Share % of Total Loan	Classified Loan	Share % of Total Loan
2007	2954	1.8	2466	1.5	17834	10.8	23254	14.0
2008	2640	1.3	2830	1.4	19603	9.7	25072	12.3
2009	2770	1.2	2274	1.0	18365	8.1	23410	10.4
2010	2942	1.0	1955	0.7	19191	6.8	24088	8.5
2011	3748	1.1	2773	0.8	18552	5.3	25073	7.2
2012	8551	2.1	5179	1.3	22553	5.4	36283	8.8

Source: Bangladesh Bank.
Note: *Data taken as of September.

corresponding period. Among the LMIs, major rise in the share of advances was observed in case of rice and flour milling, milk and food processing, jute yarn, printing and publications, plastic products, bricks and tiles, electrical equipments, automobiles (including compressed natural gas (CNG) conversion), etc. A number of these activities involve medium-scale operation that target the domestic market.[24] Among the SMIs, major changes in terms of advances were observed in case of rice mills, leather, paper, wood products, cosmetics, livestock and poultry feed, etc.

A large part of bank advances (other than working capital) was used for accumulating fixed assets particularly for procuring capital machineries. According to the Survey of Manufacturing Industries 2005, this constituted about one-third of total fixed assets of manufacturing enterprises. Share of capital machineries in fixed assets, however, has declined over time, while that of transport and other related equipments has registered significant rise (from about 8 per cent in 1997 to as high as 50 per cent in 2005). Because of limited domestic capacity, most of the manufacturing enterprises are overwhelmingly dependent on imported machineries.[25] In line with expected growth in demand for manufactured products, industries have added to their productive capacities by installing the needed capital machineries in this period. However, the growth of import of machineries has slowed in FY2011-12 and was even negative in the first quarter of FY2012-13 (Table 40). This could be perhaps

Table 40: Import of Machineries

Component	FY2010	FY2011	FY2012	FY2013 (Jul-Sep)
Capital Goods (Million USD)	5085.7	6563.6	7029.1	1958.9
Capital machinery	1594.5	2324.6	1997.7	546.5
Other capital goods	3491.2	4239.0	5031.4	1412.4
Growth (%)				
Capital Goods	NA	29.1	7.1	-9.8
Capital machinery	NA	45.8	-14.1	-13.6
Other capital goods	NA	21.4	18.7	-8.3
Share (%)				
Capital Goods	100.0	100.0	100.0	100.0
Capital machinery	31.3	35.4	28.4	27.9
Other capital goods	68.7	64.6	71.6	72.1

Source: Estimated based on the Bangladesh Bank data.

[24]Besides a number of activities have registered a lower share in advances such as jute mills, fertiliser, pharmaceuticals, soaps, detergents, cements and gas distribution which seem to be operated at large-scale enterprises.

[25]Available domestic supply of machineries partly met the demand of engines and turbines (HS code: 3832), metal and wood working machines (3834), textiles machinery (3841), electrical machinery and apparatus (3843), electric appliances (3846), batteries (3849), electric apparatus (3851), ship-building and repairing and industrial machinery (Bakht *et al*. 2002).

because of slow pace of export growth as is evident in case of textiles and apparels industries which accounted for about 30 per cent of total import of machineries. Import of various kinds of other capital machineries such as motor vehicles and parts, iron and steel products, motor vehicle and motorcycle products, and computer and accessories has significantly increased in recent years. Rise in investment for machineries and other equipments have contributed to capital deepening in the manufacturing sector; however it is also important to examine the overall productivity and contribution of capital towards this. According to the Survey of Manufacturing Industries 2005, productivity of capital (measured in terms of ratio of gross value added with fixed assets, machinery, transport and other equipments) has improved over the previous years.

5.3 Foreign Direct Investment (FDI) in the Manufacturing Sector

Contribution of FDI in private sector gross capital formation has not been significant in Bangladesh (only 5.5. per cent) as well as in GDP (1 per cent). In recent years, contribution of FDI has marginally improved in terms of both the indicators (Table 41). Despite the large number of FDI proposals registered with BOI in recent years (USD 3.5 billion in FY2011-12), only a small share of these proposals was finally realised on the ground (USD 1.1 billion in 2011). For most sectors, amount of local investment registered with the BOI are significantly high compared to that of FDI except in services sectors such as banking, telecommunication, etc. (Table 42). In case of manufacturing sector, foreign investment

Table 41: Domestic Private Investment in Bangladesh (2001-2011): Share of FDI

Component	2001	2005	2008	2009	2010	2011
GCF, private sector (Million USD)[a]	7170.00	10557.80	15319.30	17517.60	19338.20	20704.00
GCF, private sector (% of GDP)[a]	16.00	18.30	19.30	19.70	19.40	19.00
FDI (Million USD)[b]	354.50	845.00	1086.00	700.00	913.00	1136.40
FDI (% of GFC private sector)	4.90	8.00	7.10	4.00	4.70	5.50
FDI (% of GDP)[b]	0.78	1.40	1.37	0.78	0.91	1.05

Source: [a]World Development Indicator (WDI); [b]United Nations Conference on Trade and Development (UNCTAD).
Note: GCF refers to Gross Capital Formation.

Table 42: Registration for Investment: Local Investment vs FDI

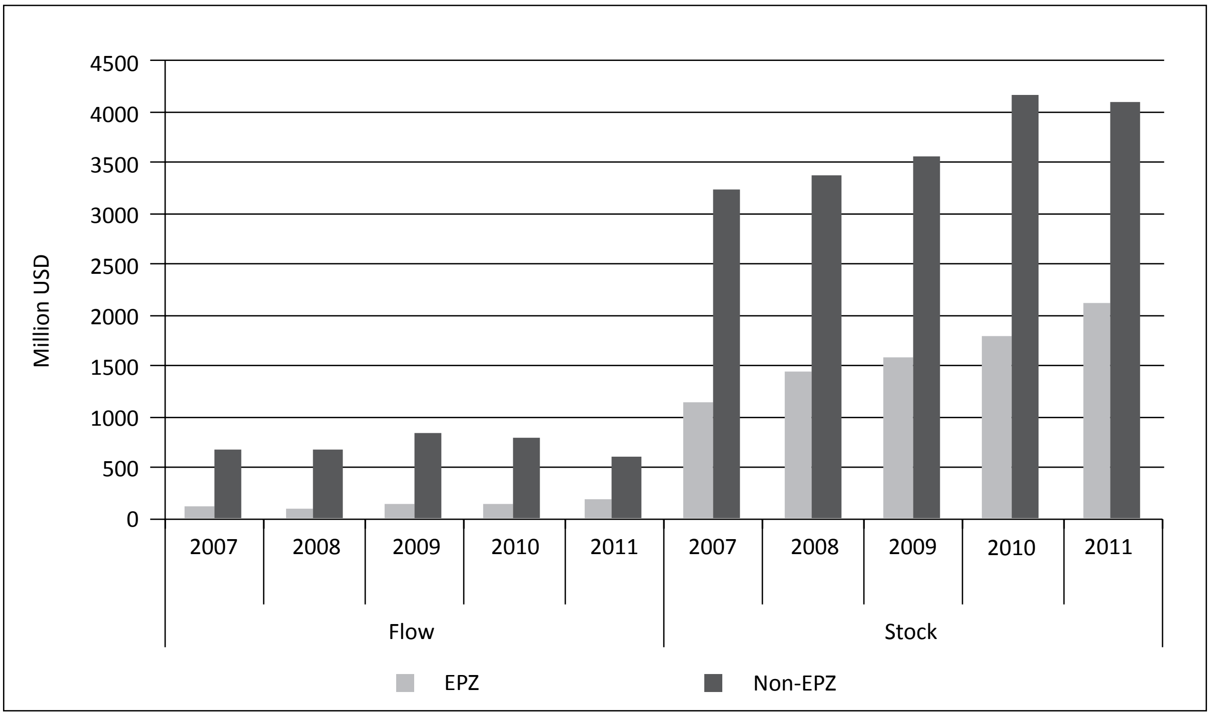
Sector	FY2008-09			FY2009-10			FY2010-11		
	Total (Million USD)	Local (%)	Foreign (%)	Total (Million USD)	Local (%)	Foreign (%)	Total (Million USD)	Local (%)	Foreign (%)
Agriculture	322.5	93	7	896.7	97	3	280.2	44	56
Food	27.7	93	7	247.5	100	0	87.6	15	85
Clothing	799.2	95	5	923.7	92	8	425.7	38	62
Printing, packaging and publication	11.5	100	0	34.4	92	8	0.6	0	100
Leather and rubber	4.2	49	51	40.8	64	36	83.4	6	94
Chemical	299.8	98	2	732.9	92	8	226.3	31	69
Engineering	349.9	65	35	261.1	93	7	3726.1	35	65
Services	2210.6	16	84	1125.6	42	58	3743.2	92	8
Glass and ceramic	90.2	80	20	29.2	100	0	36.4	72	28
Miscellaneous	2.2	100		0.2	51	49	0.9	85	15
Total	**4117.6**			**4292.1**			**8610.3**		

Source: Board of Investment (BOI).

proposals generally tend to be associated with export-oriented industries such as leather and rubber, textile and clothing and engineering. According to BOI, more than 200 FDI proposals were registered in FY2011-12, and the majority of these are related to small-scale investment (with an amount between USD 1-125 million).

Despite the fact that FDI inflow has increased in recent years and has crossed the USD 1 billion mark in FY2011-12, its flow is still lower compared to Bangladesh's major competing countries including India (USD 32 billion), Indonesia (USD 19 billion), Vietnam (USD 7 billion), and even the war-torn Pakistan (USD 1.3 billion).[26] About one-third of these investments generally tend to be in different manufacturing industries which are mostly located in the export processing zones (EPZs) (Figure 15).[27] In other words, foreign investors usually look for a secure area such as EPZs to avoid risks and uncertainties. A large part of investment in EPZs is in the form of reinvested earnings and intra-company loans of existing companies. This is indicative of their preference for continuing investment in safe locations. Thus expansion of specialised, secured areas such as EPZs/SEZs is important to attract existing and new investors for investment.

Figure 15: Share of EPZ and Non-EPZ in FDI Inflow



Source: Bangladesh Bank and Bangladesh Export Processing Zone Authority (BEPZA).

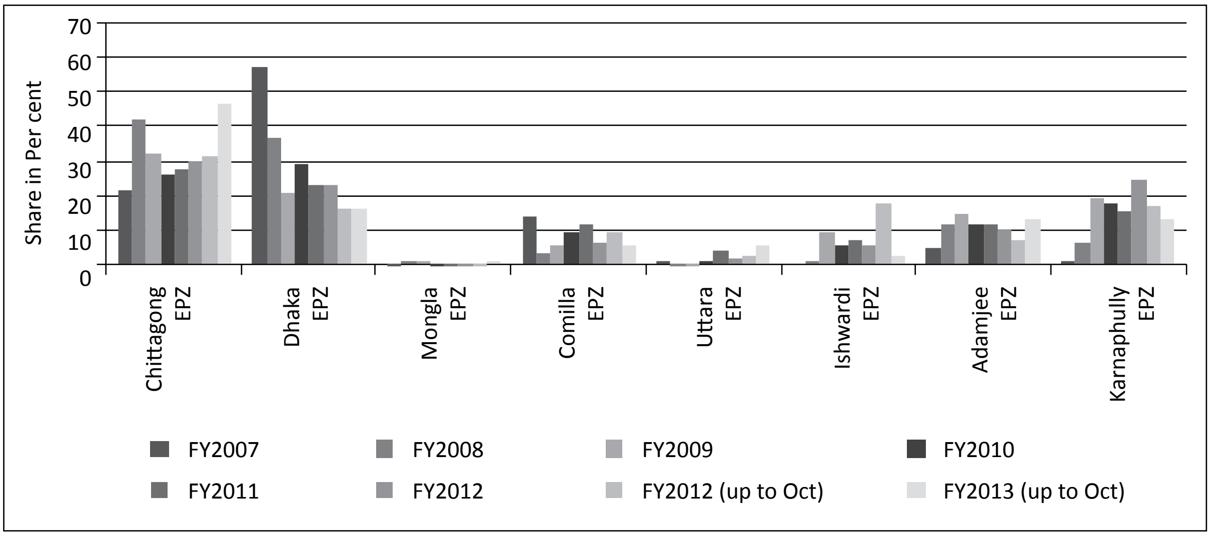
The overwhelming share of investment in EPZs is usually on account of two main EPZs of the country – Dhaka EPZ and Chittagong EPZ (Figure 16). These two EPZs accounted for USD 1.8 billion worth of FDI stock till October 2012. This is mainly because of their advantages in terms of location, infrastructure and logistics.[28] Since the capacity to absorb new investment has been exhausted both in Dhaka and Chittagong EPZs, new foreign investment has to be attracted to other EPZs which have available plots. However, infrastructure, logistics, housing for workers and other facilities have to be developed if FDI is to come to these locations.

[26]Average FDI flow during FY2005-06 to FY2010-11 was USD 860 million compared to USD 470 million in FY2000-01 to FY2004-05. In 2011, Bangladesh received USD 1.1 billion worth of FDI which was highest ever.

[27]Needless to mention, majority share of FDI in the country is particularly targeted to various kinds of services and other industries such as oil and gas exploration, telecommunication and banking sectors which are by and large located outside EPZ area (usually called domestic tariff areas (DTAs)).

[28]Growth of investment in Dhaka EPZ is slower than that of Chittagong EPZ which is reflected in the decline in their share of FDI flow.

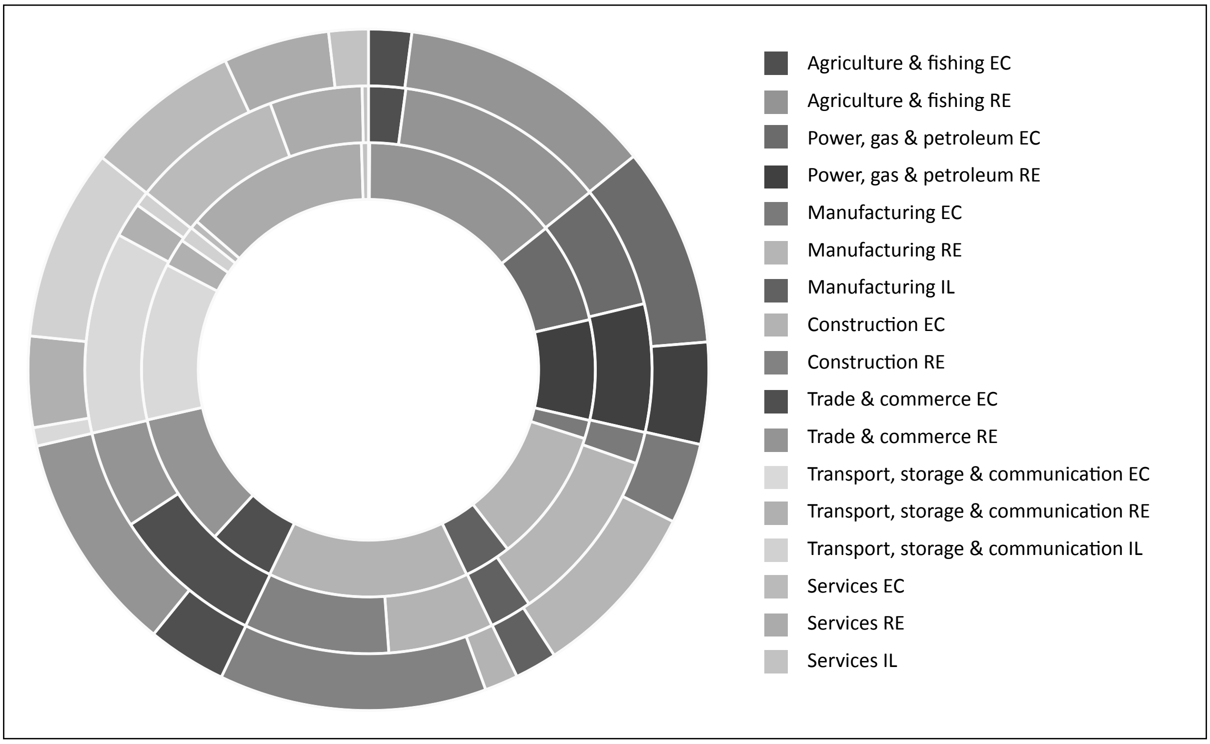
Figure 16: Distribution of Investment in Different EPZs



Source: Bangladesh Export Processing Zone Authority (BEPZA).

Of the total FDI inflow of USD 1.13 billion in 2011, only 14 per cent was in the manufacturing sector. There is a rising trend in FDI flow in the manufacturing sector both in absolute amount and relative share. Major share of FDI in the manufacturing sector comprised of reinvested earnings of existing companies. This is somewhat different compared to what is observed in other sectors. For example, FDI in power and energy sector is largely in the form of equity capital and reinvested earnings (Figure 17); in telecommunication sector this is largely equity capital or intra-company loan; in banking sector this comes in the form of equity capital and reinvested earnings. In view of this scenario, it is important to encourage new investment in the manufacturing sector in the form of equity capital, particularly in the DTAs, by addressing the difficulties concerning such investment.

Figure 17: Component-wise Distribution of FDI in Different Sectors



Source: Bangladesh Bank.
Note: EC: Equity capital; RE: Reinvested earnings; IL: Intra-company loan.

Major home countries for FDI in the manufacturing sector in Bangladesh are both developed and developing countries (Table 43). Developing countries were found to invest relatively large share of their respective FDI in manufacturing activities. The pattern of investment generally tends to follow their specialisation. The investment coming from developing countries to the manufacturing sector generally tends to be in the form of reinvested earnings and intra-company loans.

Table 43: Sources of FDI in Bangladesh

Country	2009 (Total)			2011 (Total)		
	Total USD 700 Million	Manufacturing (%)	Non-Manufacturing (%)	Total USD 1.13 Billion	Manufacturing (%)	Non-Manufacturing (%)
Australia	-	-	-	72.8	0	100
China	2.2	93	7	18.7	60	40
Denmark	5.8	30	70	12.1	57	43
Egypt	72.7	0	100	152.3	0	100
Hong Kong	75.6	58	42	104.8	43	57
India	6.3	32	68	25.7	63	37
Japan	17.5	91	9	46.6	70	30
Malaysia	43.8	0	100	-	-	-
Netherlands	49.6	36	64	116.8	31	69
Norway	45.6	0	100	24.3	0	100
Pakistan	30.1	1	99	70.5	85	15
Singapore	19.1	16	84	13.7	63	37
South Korea	46.0	87	13	113.1	69	31
Sri Lanka	7.4	0	100	31.6	67	33
Sweden	10.1	0	100	-	-	-
Switzerland	29.1	64	36	10.8	92	8
Taiwan	8.6	85	15	6.5	93	7
UAE	67.1	0	100	10.1	11	89
UK	88.1	30	70	116.3	39	61
USA	42.9	6	94	117.7	5	95

Source: Bangladesh Bank.

5.4 Raising Equity from the Capital Market for Manufacturing Enterprises

Raising financial resources from the equity market faced a number of challenges in 2012. The artificial bubble created in the capital market in 2009 and 2010 came to an end in December 2010 (the boom and bust story). Manufacturing sector initial public offerings (IPOs) were rather few till FY2010-11.[29] After the collapse of the market, a number of reform measures were undertaken to raise market efficiency, particularly focusing on the primary market. As a result, number of IPOs for setting up manufacturing enterprises has increased significantly in FY2011-12 (Table 44). New IPOs included engineering, textiles and food and allied products which accounted for about 18 per cent of total IPOs in FY2011-12. However, number of IPOs for mutual funds in FY2011-12 and the amount to be raised by these through public offers were still high. In view of allegations about market manipulation, to ensure transparency and reduce malpractices, operations of the concerned companies should be properly

[29]Before the collapse of the market, even primary market was used by opening IPOs for mutual funds, particularly for increasing transaction in the secondary market – there were as many as nine new mutual funds introduced in FY2009-10 with a public offer of Tk. 9,225 million which constituted more than 60 per cent of the total public offer in that year.

audited.[30] To address some of the attendant concerns, it is important to implement the Financial Reporting Act on an urgent basis.

Table 44: IPOs in the Capital Market

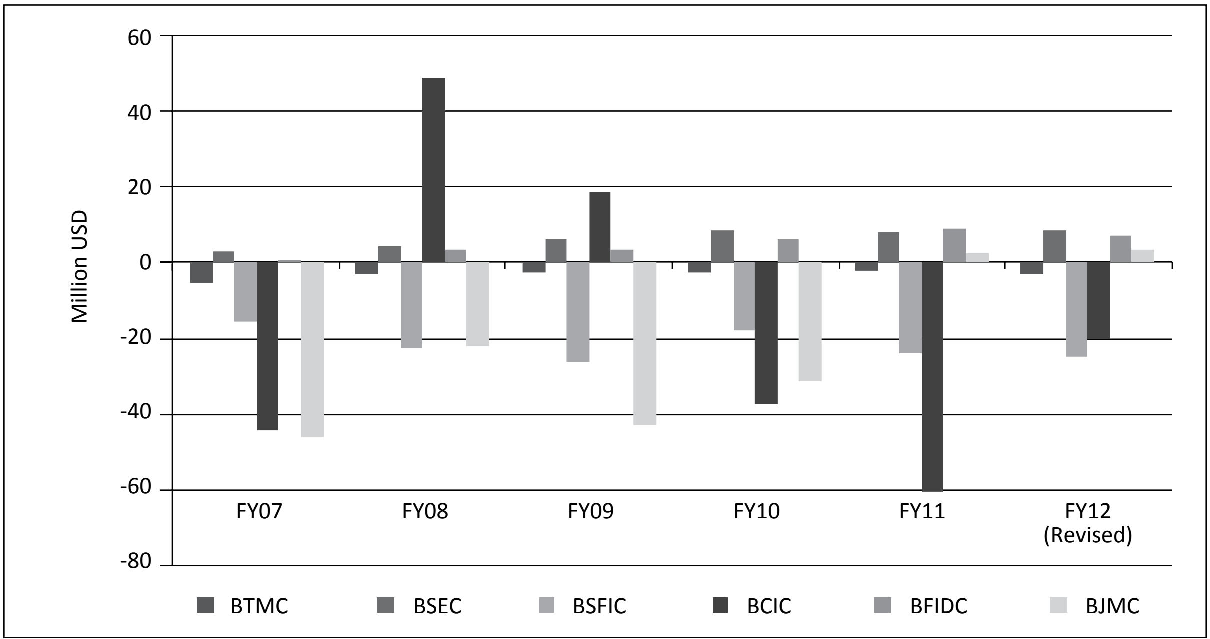
Sector	FY2009		FY2010		FY2011		FY2012		FY2013 (Jul-Dec)	
	No.	Public Offer (Million Tk.)	No.	Public Offer (Million Tk.)	No.	Public Offer (Million Tk.)	No.	Public Offer (Million Tk.)	No.	Public Offer (Million Tk.)
Pharmaceuticals & chemicals	-	-	2	834	-	-	-	-	-	-
Engineering	1	200	2	185	4	780	2	700	-	-
Textiles	1	80	2	700	-	-	1	475	2	600
Food & allied	-	-	-	-	-	-	1	294	-	-
Fuel & power	-	-	-	-	-	-	1	205	-	-
Financial institutions	3	1905	-	-	-	-	1	200	-	-
Insurance	6	3735	3	288	-	-	1	120	-	-
Corporate Bond	-	-	-	-	1	300	-	-	-	-
IT	-	-	-	-	-	-	2	526	-	-
Services	1	100	2	4961	-	-	1	260	-	-
Mutual Fund	2	300	9	9225	10	6775	5	5508	-	-
Total	**14**	**6320**	**20**	**16193**	**15**	**7855**	**15**	**8287**	**2**	**600**

Source: http://www.dsebd.org/

5.5 State-owned Manufacturing Enterprises

Despite the various initiatives taken to revitalise the state-owned manufacturing enterprises, particularly in light of the new Industrial Policy 2010, performance of most of the corporations did not improve significantly (Figure 18). This is observed from net profit/loss of various corporations and

Figure 18: Net Loss and Profit of the State-owned Manufacturing Enterprises



Source: Ministry of Finance (MoF).

[30]Auditing company should be equally responsible for any irregularity or misrepresentation in the audited report.

the amount of outstanding and classified loans. The majority of the corporations operated either at low levels of profit or at loss (e.g. Bangladesh Textile Mills Corporation (BTMC), Bangladesh Forest Industries Development Corporation (BFIDC)); indeed, some suffered significant losses (e.g. Bangladesh Chemical Industries Corporation (BCIC), Bangladesh Sugar & Food Industries Corporation (BSFIC)). Few enterprises were able to make profit in recent years, thanks primarily to freezing of their respective classified loan. BJMC is a case in point where huge public debt was partly responsible for making losses over the years (CPD 2009). Outstanding and classified loans tend to vary across corporations. A number of corporations have very high outstanding loans – these include BCIC and BSFIC. Some of the others have reasonable amount of classified loan (e.g. BTMC). A number of corporations were able to reduce the amount of classified loan (e.g. Bangladesh Steel and Engineering Corporation (BSEC), BSFIC and BJMC). Despite the support measures of the government, the majority of the manufacturing corporations could not operate profitably.

In addition to running public sector corporations, government also provided support in the form of infrastructure and utility facilities to attract investment in BSCIC Industrial Estates (Table 45). Out of the over 10,000 plots belonging to BSCIC, 9,700 plots have already been allotted, where 5,700 industrial units have been established or are at different phases of establishment. Whilst some of the industrial estates were functioning well, thanks to adequate infrastructural facilities and market linkages, many others were not found to be in good shape because of lack of required facilities.

Table 45: BSCIC Industrial Estates

Division	Land Area (Acre)	Allocable Plots	Allotted Plots	Particulars of Allotted Plots					Plots Waiting for Allotment
				Total	On Production	Under Implementation	Construction Not Started	Sick/ Inactive	
Dhaka	713.63	3738	3645	2752	1894	403	369	86	93
Chittagong	440.72	2440	2231	1270	920	143	126	81	209
Rajshahi	456.26	2378	2298	974	808	85	46	35	80
Khulna	358.60	1791	1583	692	415	76	129	72	208
Total	**1969.21**	**10347**	**9757**	**5688**	**4037**	**707**	**670**	**274**	**590**

Source: http://www.bscic.gov.bd/

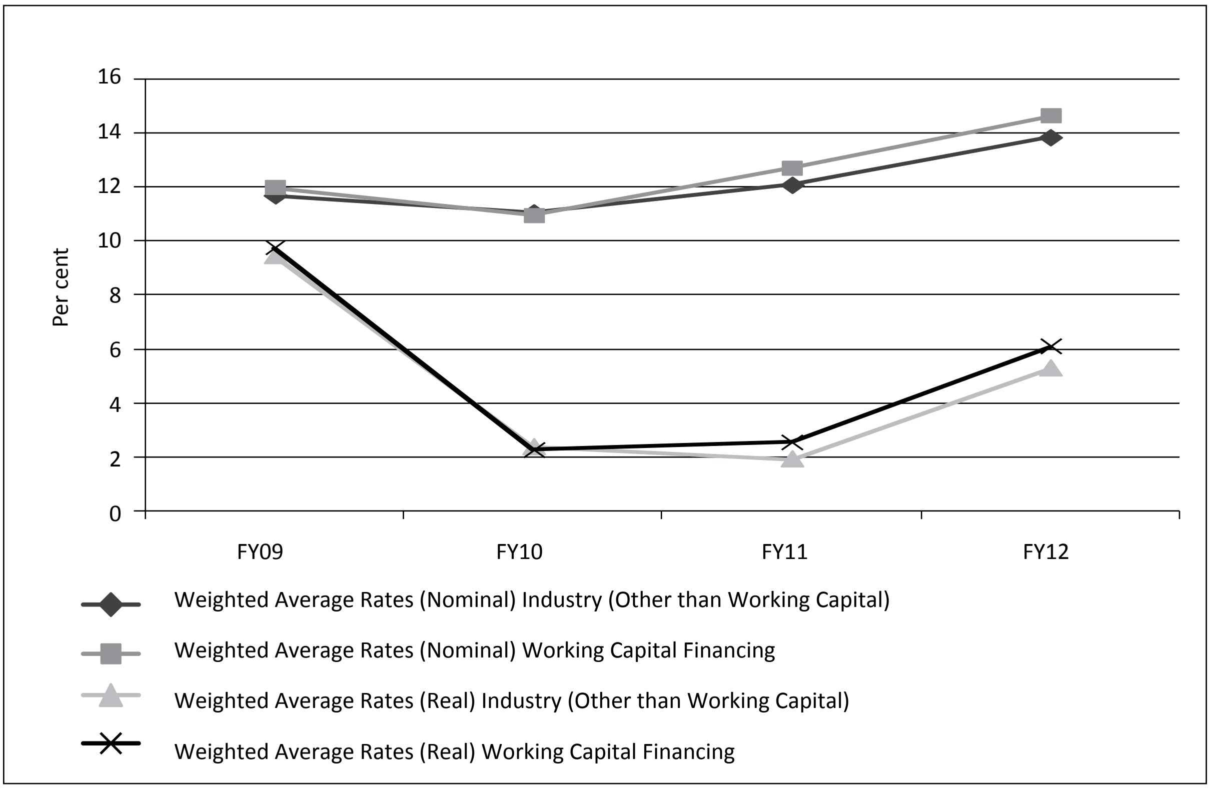
5.6 Changes in the Business Enabling Environment

Growth of manufacturing sector in recent years was adversely affected because of absence of appropriate business enabling environment in the country. Rising interest rate for bank loans, lack of adequate supply of gas and electricity, weak infrastructure support, changes in effective rates of protection and weak development of supply chains added to the difficulties faced by the manufacturing industries. As a consequence, barring few, many of Bangladesh's manufacturing units lack the capacity to compete in the domestic and international markets.

5.6.1 Rise in Interest Rate for Bank Loan

High rate of interest for bank loan is a key concern for entrepreneurs operating in the manufacturing sector. Since FY2009-10, interest rate has significantly gone up both in nominal and real terms (Figure 19). Weighted average interest rates applied for term loan and working capital has significantly increased since June 2010; this was relatively high in case of working capital (compared to that in term loan). Besides, removal of cap over interest rate in June 2012, ostensibly to infuse competitiveness in the market, has contributed to the rise in interest rates both for deposit collection as well as for advances and loans. This has adversely affected the growth of working capital, both for LMIs and SMIs.

Figure 19: Rise in Interest Rates: Nominal and Real



Source: Estimated based on the Bangladesh Bank data.

5.6.2 Lack of Adequate Supply of Energy and Power

Despite the rise in generation and supply of electricity and gas over the last three years, industrial sector still faces significant high unmet demand for these. While the second highest recipient of electricity was industrial sector, after the household sector with increased share between FY2009-10 and FY2011-12 (till March) (Table 46) the supply has not been able to match the required need of the sector. There is a large gap between installed capacity for generation of electricity and usable load available for consumption; this has widened over the years. The supply of electricity could be much higher if the existing power plants could generate electricity as per their installed capacity. On the other hand, industrial sector was deprived of adequate supply of gas since a large part of the gas resources had to be used for electricity generation (Table 47). As a result, gas supply for industrial usages has significantly declined both in amount and share over the recent years (from 12 per cent in FY2007-08 to 2 per cent in

Table 46: Sector-wise Electricity Consumption

Sector	FY2010	FY2011	FY2012 (up to March)
Domestic (MkWh)	11628	12760	11598
Share (% of Total Electricity Consumption)			
Domestic	48.2	46.1	51.8
Commercial	9.7	9.3	8.9
Irrigation	5.1	4.6	5.5
Industrial	27.1	34.4	32.2
Others	9.9	5.6	1.6
Total	**100.0**	**100.0**	**100.0**

Source: Bangladesh Power Development Board (BPDB).
Note: MkWh: Million kilowatt-hour.

August 2012).[31] Unless gas supply can be increased for industrial usage, growth prospects for gas-based industries (e.g. knitwear industries, textiles, etc.) will continue to suffer.

Table 47: Sector-wise Gas Distribution

(in Per cent)

Year	Total (mmcm)	Sector-wise Distribution						
		Electricity	Fertiliser Industry	Captive Power	Industry	Commercial	Domestic	CNG
FY2008	2827	20.6	34.2	10.2	11.9	1.9	16.4	4.9
FY2009	2881	15.2	33.1	11.8	13.1	2.0	17.2	7.6
FY2010	3035	21.3	22.6	12.9	14.4	2.1	18.3	8.6
FY2011	664	26.2	1.0	11.7	6.5	4.8	29.9	19.9
FY2012	2999	70.0	12.1	2.5	1.7	1.2	7.7	4.9
FY2013 (up to August)	536	76.1	6.7	2.6	1.7	1.2	7.2	4.5

Source: Petrobangla Management Information System (MIS) Report.

5.6.3 Changes in Effective Tariff Rates

Import liberalisation has multiple impacts. Import duty on raw materials, capital machineries and intermediate products has come down significantly in the past; this has helped to reduce cost of production for industries.

5.6.4 Lack of Developed Value Chain

Most of the value chains relating to local manufacturing industries are underdeveloped. This undermines their competitiveness in the global and local markets. However, in recent years a gradual rise in the quality of various indicators related to the supply chain is becoming visible. According to the Global Competitiveness Report (GCR), positive changes have been observed (in terms of higher score in recent years) in case of quality of local suppliers, state of cluster development, control of international distribution and production process sophistication (Table 48). On the other hand, changes in terms of other indicators were either negative or insignificant – these included sophistication of buyer, availability of local suppliers, value chain breadth and extent of marketing, etc. Overall, most of the attributes related to value chain need significant improvement for raising the competitiveness of Bangladesh's manufacturing sector in local and global markets.

Table 48: Score of Selected Indicators of the Value Chain (Out of 7)

Perception	2005	2006	2007	2008	2009	2010	2011	2012
Buyer Sophistication	3.3	3.5	3.2	3.2	3.2	3.0	3.1	3.1
Local Supplier Availability	4.7	4.4	4.3	4.4	4.5	4.5	4.6	4.6
Local Supplier Quality	3.9	3.5	3.8	4.0	4.1	4.2	4.4	4.3
State of Cluster Development	-	-	3.4	3.4	3.5	3.7	3.9	3.9
Value Chain Breadth	3.0	3.1	3.0	2.9	3.0	3.4	3.4	3.3
Control of International Distribution	3.5	3.4	3.5	3.3	3.2	3.5	3.6	3.8
Production Process Sophistication	2.6	2.4	2.4	2.3	2.5	2.9	2.9	2.9
Extent of Marketing	3.3	3.4	3.4	3.4	3.2	3.3	3.4	3.3

Source: Global Competitiveness Report (GCR) by the World Economic Forum (WEF), various Issues.

[31] Even supply of gas to captive power plants run by industrial units has significantly declined.

5.7 Concluding Remarks

Bangladesh's manufacturing sector has witnessed considerable growth over the past decade. However, in view of increasing competitiveness in the local (vis-à-vis imported goods) and global (vis-à-vis other countries and domestic producers in the importing countries) markets, there is a need to ensure structural changes in the country's manufacturing sector. This challenge is further accentuated because of rising intensity of competition. All categories of industries are having to operate in an environment which is by and large not investment-friendly – high interest rate, high inflation, lack of power and gas supply, weak infrastructure, absence of well-developed supply chain, etc. Low capital and labour productivity can only be addressed through capital infusion, technology adoption and skill development. A major policy choice for Bangladesh will be to put emphasis on the development of domestic market-oriented industries to cater to growing domestic demand. There is a need to take strategic approach that looks at industrial development from a holistic approach combining trade, investment and regulatory regime that could promote industrialisation of Bangladesh.

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Annex Table 1: Status of a Number of Large Projects in ADP

(in Per cent)

Project	Duration	Project Cost		Cumulative Expenditure up to Nov 2011	Cumulative Expenditure up to Oct 2012	FY13 Allocation (Lakh Tk.)	FY13 (Jul-Oct) Expenditure % of Allocation
		Total (Lakh Tk.)	Aid Share				
Construction of Padma Multipurpose Bridge (rev)	2009-2015	2050720.0	79.0	4.3	6.1	80400.0	5.3
Bheramara combined cycle plant (360 MW) development	2010-2014	414048.0	78.0	1.1	1.7	2800.0	12.2
Revitalisation of community healthcare initiatives in Bangladesh	2009-2014	267749.0	19.0	0.0	11.5	32500.0	17.8
Construction of Shiddhirganj 335 MW peaking combined cycle power plant (rev)	2009-2015	423947.0	43.0	0.0	6.4	14500.0	0.1
3G network technology establishment and extension of 2.5G network	2011-2012	190099.0	78.0	0.0	47.4	101779.0	12.6
Construction of meter gauge line at Dohajari-Cox's Bazar and Ramu-Gungdum	2010-2013	185235.0	64.0	0.5	0.6	100.0	0.0
Feasibility study and railway construction from Khulna to Mongla Port	2010-2013	172139.0	70.0	0.0	0.0	4800.0	0.0
Bibiana-Kaliakoir 400 KV and Fenchuganj-Bibiana 230 KV transmission line	2010-2013	171435.0	37.0	9.0	13.6	9400.0	13.3
South-West rural infrastructure development	2010-2013	148072.0	72.0	3.9	20.4	25000.0	24.9
Rural electrification upgradation project (Rajshahi, Rangpur, Khulna, Barisal divisions)	2010-2015	132218.0	75.0	0.1	18.4	46195.0	24.8
Construction of 820 MW peaking power plant (rev)	2009-2012	695986.0	0.0	52.5	67.8	105400.0	5.0
Priority based important rural infrastructure development project	2010-2013	469113.0	0.0	11.9	30.7	119823.0	49.8
Development of physical infrastructure of selected non-government high schools	2011-2014	211480.0	0.0	0.0	13.0	21200.0	49.3
Ekti bari, ekti khamar project (rev)	2009-2013	149292.0	0.0	14.9	49.8	47000.0	24.3
Dredger and related machinery procurement for capital dredging of rivers of Bangladesh	2010-2012	130988.0	0.0	0.0	1.1	7000.0	19.0
Asrayan-2	2010-2015	116918.0	0.0	0.0	13.7	18000.0	9.7
Important urban infrastructure development project	2011-2014	115099.0	0.0	0.7	5.8	4500.0	46.9
Total 17 Largest Projects		6044538.0	47.0	9.3	18.2	640397.0 (11.6)	20.9
ADP FY2013						5500000.0	19.5

Source: Implementation Monitoring and Evaluation Division (IMED).
Note: Figure in parentheses denotes share of total ADP.

Annex Table 2: Status of Advance for Selected Manufacturing Enterprises: FY2007-08 to FY2011-12

Industry	Advance as of June 2008		Advance as of June 2012		Change in Share between 2008 and 2012
	Amount (Lakh Tk.)	% of Total Advance	Amount (Lakh Tk.)	% of Total Advance	
A. Other Than Working Capital Financing					
Large and Medium Manufacturing					
Rice, Flour, Oil & Pulse Mills	69932	0.39	262975	0.68	Increased
Milk & Milk Foods Processing	5907	0.03	28481	0.07	Increased
Jute (Pressing, Baling & Yarn)	14624	0.08	81419	0.21	Increased
Jute Mills (Carpet, Bags & Textiles)	56374	0.31	74092	0.19	Decreased
Printing, Publishing & Allied	9411	0.05	49182	0.13	Increased
Newspapers & Periodical Publishers	2309	0.01	17156	0.04	Increased
Fertiliser Factories	17154	0.09	24170	0.06	Decreased
Drugs & Pharmaceuticals	121665	0.67	211501	0.55	Decreased
Plastic & Plastic Products	34827	0.19	101535	0.26	Increased
Soaps & Detergents	13284	0.07	2211	0.01	Decreased
Other Chemicals & Chemical Products	64752	0.36	72089	0.19	Decreased
Cement & Asbestos	91841	0.51	155174	0.40	Decreased
Bricks & Tiles	22491	0.12	95721	0.25	Increased
Others	42269	0.23	22157	0.06	Decreased
Electrical Equipments & Spares	30776	0.17	115002	0.30	Increased
Automobiles	12553	0.07	41586	0.11	Increased
Electricity	72436	0.40	287504	0.74	Increased
Petroleum (Refine & Supply)	4164	0.02	24008	0.06	Increased
Gas (Elevation, Supply & Distribution)	19095	0.11	16830	0.04	Decreased
Oxygen Gas	7	0.00	3462	0.01	Increased
Others	12856	0.07	36228	0.09	Increased
Small Scale Manufacturing and Cottage Industries					
Rice, Flour, Oil & Pulse Mills	18540	0.10	83769	0.22	Increased
Leather & Leather Products	541	0.00	58852	0.15	Increased
Paper & Paper Products	5486	0.03	22069	0.06	Increased
Wood & Wood Products	2548	0.01	16572	0.04	Increased
Saw Mills	652	0.00	5852	0.02	Increased
Cosmetics	471	0.00	4147	0.01	Increased
Jute & Jute Goods	565	0.00	18372	0.05	Increased
Livestock & Poultry Feed	4631	0.03	19080	0.05	Increased
Other Industries	55641	0.31	86131	0.22	Decreased
Cottage Industries	7723	0.04	8658	0.02	Decreased
B. Working Capital Financing					
Large and Medium Scale Industries	3084644	16.99	4513305	11.69	Decreased
Small Scale and Cottage Industries	129169	0.71	214888	0.56	Decreased
Small Scale Industries	115241	0.63	195597	0.51	Decreased
Cottage Industries	13928	0.08	19291	0.05	Decreased

Source: Bangladesh Bank.

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Centre for Policy Dialogue (CPD)
House 40/C, Road 32
Dhanmondi R/A, Dhaka 1209, Bangladesh
Telephone: (+88 02) 8124770, 9143326, 9126402
Fax: (+88 02) 8130951
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd