State of the Bangladesh Economy in FY2015

(First Reading)

Dhaka: 3 January 2015

CENTRE FOR POLICY DIALOGUE (CPD)
BANGLADESH
a civil society think tank

Contents

Expert Group Consultation

The CPD team is grateful to all of those presented at the consultation on 30 December 2014 for sharing their views, insights and comments on the draft report

Mr Mohammed Nurul Amin	Managing Director & CEO, Meghna Bank Limited and Former Chairman, Association of Bankers, Bangladesh Limited
Mr Ranjit Kumar Chakraborty	Former Additional Secretary, Ministry of Finance and Director, Sonali Bank
Dr Mahabub Hossain	Member, CPD Board of Trustees Advisor to the Interim Executive Director, BRAC and
Mr Asif Ibrahim	Former President, DCCI and Vice-Chairman, New Age Group and Industries
Dr Rizwanul Islam	Independent Economist and Former Special Advisor on Growth, Employment and Poverty Reduction, ILO-Geneva
Dr Mustafa K Mujeri	Director General Bangladesh Institute of Development Studies (BIDS)
Dr Sultan Hafeez Rahman	Executive Director BRAC Institute of Governance and Development (BIGD), BRAC University Former Director General, South Asia Department, Asian Development Bank (ADB), Manila
Dr Kaniz Siddique	Economist
Mr M Syeduzzaman	Member, CPD Board of Trustees and Former Finance Minister
Mr Md Farid Uddin	Member (Customs Policy, Statistics & Research) National Board of Revenue

CPD IRBD 2015 Team

Professor Mustafizur Rahman, Executive Director, CPD was in overall charge of preparing this report as the Team Leader.

Lead contributions were provided by *Professor Mustafizur Rahman* (Section V and VI)*; Dr Fahmida Khatun*, Research Director (Section IV); *Dr Khondaker Golam Moazzem*, Additional Research Director (Section III) and *Mr Towfiqul Islam Khan*, Research Fellow, CPD (Section II).

Valuable research support was received from *Ms Khaleda Akhter*, Senior Research Associate; *Mr Kishore Kumer Basak*, Senior Research Associate; *Mr Md. Zafar Sadique*, Senior Research Associate; *Mr Mohammad Afshar Ali*, Research Associate; *Ms Farzana Sehrin*, Research Associate; *Mr Md. Naimul Gani Saif*, Research Associate*; Ms Shahida Pervin*, Research Associate*; Mr Mostafa Amir Sabbih*, Research Associate; *Ms Kashfi Rayan*, Research Associate; *Mr Nirman Saha*, Research Associate; *Ms Nusrat Afroz Tania*, Research Associate; *Ms Sana Kainat Moyeen*, Programme Associate and *Mr A F M Rafid Hassan Akand*, Former Research Intern, CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2015 Team.

The CPD IRBD 2015 Team would like to register its sincere gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report.

Dr Debapriya Bhattacharya, Distinguished Fellow, CPD has provided valuable guidance in the design of the study and given helpful comments on the initial drafts of the various chapters.

I. Introduction

- In FY13 and FY14 economic growth fell well short of the ambitious targets

SFYP Targets and Actual Achievements

Indicators	FY11		FY12		FY13		FY14		FY15
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
Real GDP Growth (%)	**6.7**	**6.7**	**7.0**	**6.2**	**7.2**	**6.0**	**7.6** **7.2***	**6.5** **(6.1)**	**8.0** **7.3***
Gross Domestic Investment (% of GDP)	24.7	25.2	26.8	26.5	29.6	26.8	31.0	26.5 (28.7)	32.5
Private Investment (% of GDP)	19.5	19.5	22.2	20.0	22.7	19.0	23.8	18.9 (21.4)	25.0
Public Investment (% of GDP)	5.3	5.6	6.6	6.5	6.9	7.9	7.2	7.6 (7.3)	7.5
National Savings (% of GDP)	28.4	28.8	26.7	29.2	29.4	29.5	30.7	27.8 (30.5)	32.1

Note: Figures in parentheses denote GDP base year 2005-06 estimates. * represents revised target announced in the budget.

I. Introduction

- Since the national elections, held in January 2014, economy benefitted from absence of major political violence
- Challenge was to make the best of the prevailing macroeconomic stability to instil growth momentum
- The present report aims to:
  - analyse the recent macroeconomic developments
  - assess the impact of policy decisions related to macroeconomic management
  - examine performance of some selected sectors that are key to economic performance in FY15
- The report considered –
  - latest data and information from the official and international sources
  - information was also gleaned from key informants

II. Macroeconomic Performance: Mixed Signals

Revisiting Macroeconomic Trends in FY2014

- GDP fell short of target & remained almost same as FY13
- Private investment continued to remain sluggish
- Ambitious fiscal targets did not come true for both income and expenditure – e.g. revenue shortfall Tk. 25,855 crore
- A much better year for crop production
- Inflation tamed during the last months
- Growth rates of the monetary aggregates remained rather subdued as against their respective targets
- Classified loans escalated
- Export was close to target
- Net foreign aid was lower
- Remittances inflow declined
- BoP remained comfortable
- Exchange rate was stable
- Foreign exchange reserve accumulated

II. Macroeconomic Performance: Mixed Signals

Macroeconomic Trends in FY2014

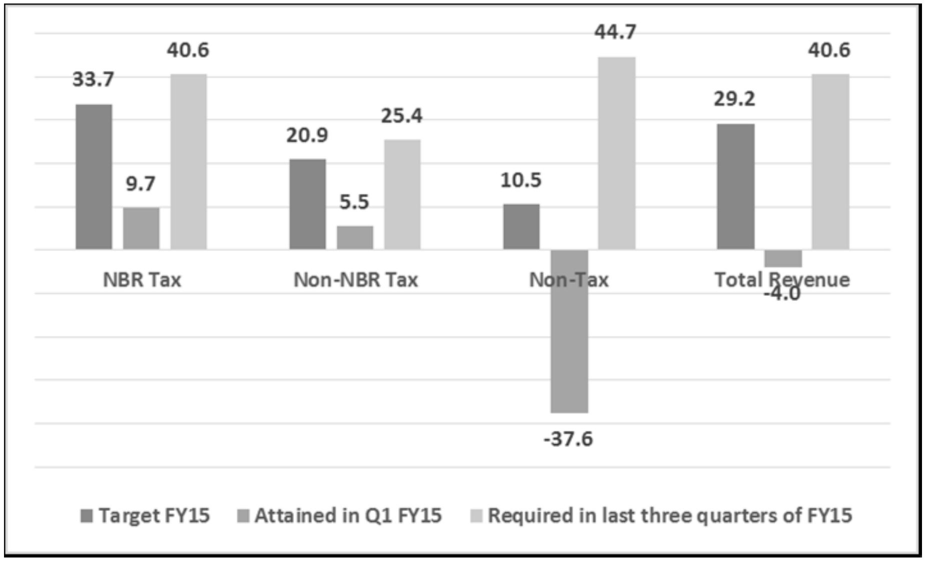
Positive Trends	Mixed Signals	Challenges
Export	GDP Growth	Private Investment
Foreign Exchange Reserve	Food Security	Revenue Collection
Balance of Payment	Inflation	ADP Implementation
Exchange Rate	Budget Deficit Financing	Foreign Aid
Subsidy Requirement	Import	Debt Servicing Liability
	FDI	Classified Loan
		Liquidity Situation
		Remittance

CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

II. Macroeconomic Performance: Mixed Signals

Revenue Mobilisation in FY2015: Disquieting Signals

GROWTH RATES OF REVENUE COLLECTION COMPONENTS (%)



- Two significant recent developments –
  - Implementation of VAT and SD Act deferred
  - Public sector pay scale revision from FY16

- Revenue shortfall in FY15 could be Tk. 25,000 crore
  - Unrealistic targets
  - Incentives in budget
  - absence of any lumpy non-tax source
  - Lack of improvement in administrative capacity
  - Low international price
  - Stable exchange rate
  - Slow recovery of economic activities

CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

II. Macroeconomic Performance: Mixed Signals

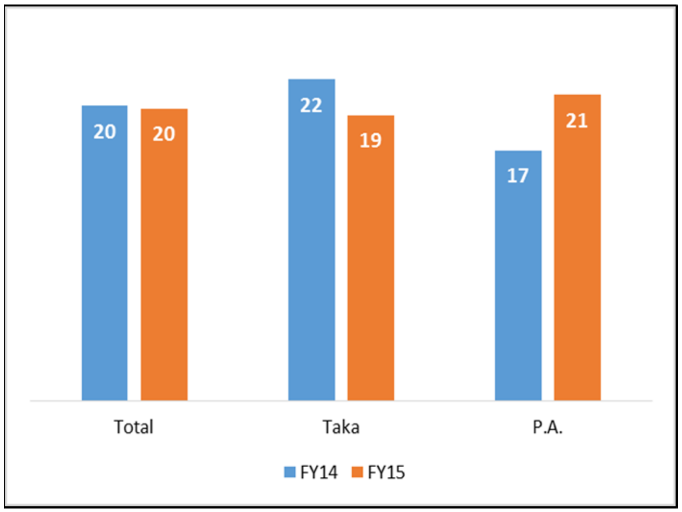
Subsidy and prices adjustments: Cautious policies needed

- Non-development revenue expenditure in Q1 of FY15 rose by 18.5%
- 'Pay and Allowances' accounted for 57.0% of this growth
- Final outcome of non-development expenditure will largely depend on decision as regards the subsidy package and recapitalisation of state-owned banks
- Subsidy was lower thanks to falling international prices
- The administered prices of oil, gas and electricity under scrutiny
- BPC's subsidy (allocation - Tk 3,000 crore) will not be required
- For BPDB's subsidy about Tk 7,500 crore was earmarked
- BPDB subsidy driven by liquid fuel powered electricity
- Without any price adjustment, the total amount of subsidy requirement for electricity in FY2015 could be around 8,000 – 10,000 crore
- BERC also received proposals for increase in tariff value of natural gas
- Gas prices for electricity and fertilizer are considerably low - upward adjustments of prices will shift subsidy requirement to BPDB and agriculture
- Government may stay away from any administered price adjustments for now

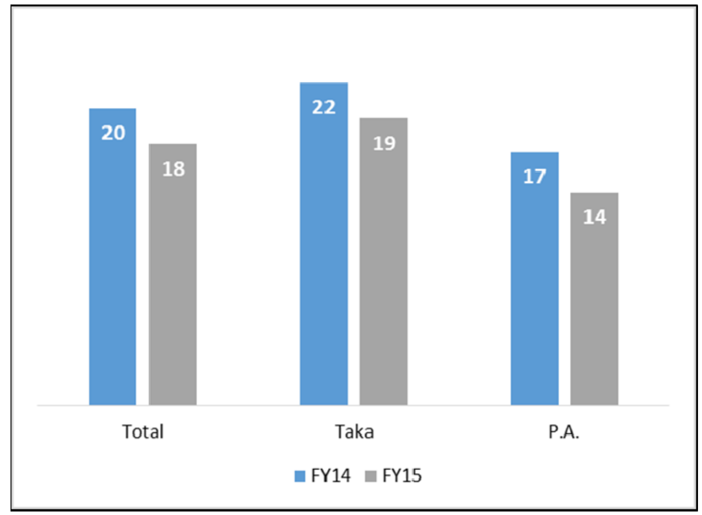
ADP: Remained in the same trap

- After lagging behind for 4 months, ADP expenditure caught up to the level of FY14 in November - without MoST, remained below par

ADP IMPLEMENTATION WITH MoST



ADP IMPLEMENTATION WITHOUT MoST



- Cost and time overrun has become more pervasive in recent years
- in FY13, only 22.8% projects were completed within the stipulated time and planned allocation (34.7% in FY08)
- Planned completion period was about 2.9 years; it took about 5.32 years
- Cost overrun was 33.4% in FY13 (31.6 %in FY08)

CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

II. Macroeconomic Performance: Mixed Signals

Financing budget deficit: Reliance on non-bank borrowing

- Fiscal deficit in Q1 of FY15 was limited to 2.6% of planned budget
- Compared to previous FY (with budget surplus), it was quite high
- Net sales of NSD certificates was encouraging due to the falling deposit rates offered by the commercial banks on fixed deposits
- large borrowing from the sales of NSD certificates was in fact used to repay government borrowing from other sources (including banking)
- High NSD certificate sale is likely to have negative implication for medium term debt servicing liability (Review of rate/ceiling)
- Growing strain is becoming more evident, particularly on account of lower revenue collection

II. Macroeconomic Performance: Mixed Signals

Inflation and Monetary Developments: Stabilised at a lower level

- Inflation gradually slowed down in FY15 (7.1% in November)
- Food inflation still at a high level (8.2% in November)
- Non-food inflation remained at about 5.5% in November
- Despite having a good harvest, satisfactory procurement and better stock of foodgrains, a substantial amount of rice (590.7 MT) was imported during H1 of FY15 by the private sector (57.7% higher)
- Public sector did not import rice
- Imported price of rice from India (including transport cost) in December 2014 was Tk. 32.2 per kg
- (coarse) rice in Dhaka markets was selling at the price ranging Tk. 34-37 per kg
- Procurement price of Aman was announced Tk. 32 per kg
- Decline of international price and the increase of domestic price at the retail level (despite having a good harvest, comfortable stock and high import) led to this alignment
- Made import by private sector profitable
- Bangladesh is also exporting rice (G to G)
- Need careful monitoring from the perspective of food security

II. Macroeconomic Performance: Mixed Signals

Balance of Payments and Exchange Rate: Creeping pressure

- BoP position was not in the comfort zone as was the case in FY2014
- Current account balance in Jul FY15, was in the negative
- Export growth target of 10.0% may not be achievable
- Surge in import payments was largely contributed by intermediate goods and capital goods which contributed about 60.5% and 32.7% respectively of the incremental import payments
- Thanks to positive financial account balance ($2.9 bln) overall balance continued to remain positive
- Foreign exchange reserves continued to increase ($22.3 bln on 30 Dec)
- Targeted market intervention helped maintain exchange rate stability
- Since Nov, it is observed from foreign exchange reserve and exchange rate data that there was a creeping pressure on the BoP
- Some sign of depletion in the foreign exchange reserve was observed while BDT, experienced depreciation, albeit rather marginally, against the USD

II. Macroeconomic Performance: Mixed Signals

Macroeconomic Trends in the Early Months of FY2015

Positive Trends	Mixed Signals	Challenges
Subsidy Requirement	GDP Growth	Revenue Collection
Remittances	Private Investment	Debt Servicing Liability
Foreign Exchange Reserve	ADP Implementation	Foreign Aid
Exchange Rate	Food Security	Export
	Inflation	Classified Loan
	Budget Deficit Financing	Liquidity Situation
	Import	
	FDI	
	Balance of Payment	

CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

III. Private Investment in the Post-Election Year

- Private investment in the first post-election years at least, tends to follow a political business cycle
  - Encourages investors to take favourable decision on investment
- 1st year of the current government approaches the finishing line
  - An assessment of the current investment scenario can be made from the particular perspective of the political business cycle
- It is not conceivable that investment-GDP ratio will rise to 33.8% in FY15 from the existing level of 25.9% in FY15
  - Domestic and external factors have influenced investment decision

State of Private Investment during FY2015

Credit to Agriculture and Non-farm Activities

- Both agriculture and non-farm credit have registered a decline during July-November, 2014; mixed trend in import of machineries
  - Partly due to crop loss in flood-affected districts; Lowering the interest rate may not help small farmers

III. Private Investment in the Post-Election Year

Investment in Manufacturing and Services

Registration of New Investment by BOI

- Registration of new investment was not buoyant in recent years; the trend is likely to continue in FY15
  - 345 new (USD 2573.4 million) projects were registered with the BOI - 318 local projects (2353.8 million)

Industrial Term Loan

- Disbursement registered the highest rise (44%, Q1 FY15) over the last five years
  - Led by LSI (66.1%), negative growth for small scale industries
- Cautious interpretation of this rise is needed
  - Partly due to non-investment in FY14 owing to political unrest
  - A part of these loans are rescheduled LTR
- Recovery of term loan was less impressive; lowest in last five years
- Repeated rescheduling of loans may depict an apparent improvement in the overall picture
  - A part of the term loan will not have implications for creation of fixed capital

III. Private Investment in the Post-Election Year

Import of Machineries

- Import of machineries (settlement of L/Cs) has significantly increased in Jul-Oct FY15 (43.2%)
  - Changes are not necessarily in the same direction for all categories of industries
- Analysis of NBR data on import of capital machineries reveal some doubtful growth trends
  - Exceptionally high import of machineries, which do not tally with offtake of term loan
  - Whether there is an issue of 'misdeclaration' or mispricing or whether flight of capital is taking place
- Needs to be examined thoroughly by competent authorities

Suspicious Growth in Import of Machineries (% change)

HS Code (2 Digit)	FY14 over FY13	Jul-Nov 14/Jul-Nov 13
Base metals and articles of base metal (72-83)	8.00	595.00
Electrical equipment parts thereof (84-85)	32.58	134.89
Vehicles, and associated transport equip (86-89)	4.82	44.38

CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

III. Private Investment in the Post-Election Year

SME Loan

- SME finance has experienced a rise in FY15 (20.7% higher in Q1 FY15) due to rise in working capital
  - Disbursement of term loan to SMEs was low (0.57%); it was negative for SSIs; but recovery was quite impressive
- SME financing is overwhelmingly concentrated in urban-based economic activities
  - Lack of regulatory bindings to disburse SME credit in rural areas
- Rescheduling of loan in 2013: Significant difference in recovery of loan between SMEs and LSEs

FDI and FPI Inflows

- FDI inflow in FY15 has yet to pick up - USD 463 million Jul-Oct, 2014 (5.6% higher): FPI has registered a significant rise (53%)
  - Investors are taking interest in EPZs outside Dhaka and Chittagong
- Concerns raised regarding 'round-tripping' nature of FDI

III. Private Investment in the Post-Election Year

Capital Market

- Investment in the capital market is significantly high
  - However, concern has been raised as regards quality of IPOs and oversight of SEC

Entrepreneurs' Perception on Investment Situation

- About 60% entrepreneurs made new investment during FY15 but rest 40% did not go for new investment (Box)
  - Growth of production was not very impressive
  - Employment has remained at the same level in 80% enterprises

Perception of Entrepreneurs

New Investment (FY2015)	Yes (60%)	No (40%)	
Share of new investment	15% - 50% of existing investment		
Source of finance	Self-finance (15%)	Financial institutions (85%)	
Changes in production (Jul-Nov. FY15 compared to Jul-Nov. FY114)	Increased (30%)	Decreased (20%)	Same (50%)
Changes in employment (Jul-Nov FY15 compared to Jul-Nov FY114)	Increased (0%)	Decreased (20%)	Same (80%)

CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

<u>Exploring the Bottlenecks</u>

- Major bottlenecks have been identified by the respondents
  - Most sectors are facing constraints for not having 'basic' infrastructure and 'efficiency enhancing' facilities (Table 3.9)
  - Each sector faces its unique set of bottlenecks

<u>Investment suffers due to lack of adequate power supply</u>

- Improved situation in power generation did not adequately cater to the growing demand (Table 3.10)
  - Distribution of additional generated electricity is not supportive for the industrial sector
  - Slow progress of implementation of the ongoing projects (Table 3.11)

Power generation and distribution

Power	Growth of sales of energy (%)	Share in total sales (%)
FY11	6.3	36.0
FY12	10.6	35.3
FY13	8.2	35.0
FY14	7.2	33.9

CPD (2015). State of the Bangladesh Economy in FY2015 (First Reading)

III. Private Investment in the Post-Election Year

<u>Industrial production suffers owing to inadequate supply of gas</u>

- Slow rise in gas production can hardly meet the existing capacities of industries let alone gas for the newly established one
  - Shortage of gas (500 mmcfd) is almost a quarter of current supply of gas (2,300 mmcfd)
- Ongoing initiatives will not meet the demand of industrial units
  - A large part of the additional supply of gas are destined for generation of electricity (Table 3.12)

Gas production and distribution

Users	Year	Growth of gas distribution (%)	Share in total distribution (%)
Captive Power	FY11	8.0	16.9
Industry		2.1	16.9
Captive Power	FY12	-3.1	16.5
Industry		-0.8	16.9
Captive Power	FY13	14.5	17.9
Industry		12.8	18.1
Captive Power	FY14	-0.3	16.8
Industry		-0.1	17.0

III. Private Investment in the Post-Election Year

Inadequate development of transport infrastructure raises industries' operational costs

- Slow start of projects along with unsatisfactory progress in project implementation are causing huge burden on industries.
    - Dhaka-Chittagong highway 4-lane project (50% complete, Jun '14)
    - Joydebpur-Mymensingh highway (60% complete, Nov '14)

High interest rate remains a problem particularly for the SMEs

- Despite recent drop by 1.5%, interest rate is still very
    - Interest rate is somewhat low for large scale enterprises; SMEs continue to face high rate of interest (16-18 per cent)
    - Large firms opted for foreign borrowing, with significantly low rate of interest - SMEs cannot take advantage of such opportunities

Limited Impact of fiscal and budgetary measures for the industrial sector

- Govt. has provided various fiscal and budgetary support to domestic industries to encourage private investment
    - It appears that fiscal incentives are not proving to be adequate to stimulate investment

CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

III. Private Investment in the Post-Election Year

Medium Term Outlook for Private Investment

- Need structural reforms and overhauling of related institutions to create enabling environment for investment (Figure 3.6)
  - Restructuring and reform in public expenditure, infrastructure, business start-up, and technology & quality improvement

Infrastructure Support

- New power sector master plan is being prepared-coal will be the main source of primary fuel
  - Poor progress of fast-tracked power and energy projects (Table 3.13)
- Prospect of developing domestic industries based on the reserves of natural gas is rather bleak
  - Establishment of LNG terminal by 2016 is unlikely (Table 3.13)
- Concerns have been raised as regards slow progress in some of the fast tracked road projects (Table 3.14)

III. Private Investment in the Post-Election Year

Institutional Reforms

- Public institutions are unable to cater to the needs of the growing private sector
  - BOI needs structural overhauling in order to make it efficient and effective
  - BB needs to fully utilize its supervisory powers in order to address vulnerabilities and weaknesses in the banking system
  - SEC needs to further strengthen its oversight
  - Budgetary allocation for MoLE and MoE needs to be increased

Sectoral Initiatives

- Need to improve productivity, raising efficiency, diversify products and markets and enhance quality and create the needed skilled manpower
  - RMG sector needs a detailed action plan for the next six years with special focus on productivity improvement, reducing lead time and raising compliance capacities

CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

III. Private Investment in the Post-Election Year

Sectoral Initiatives

- Reassessment of the future outlook of the jute sector is needed
- High priority needs to be put in place to complete the relocation of tannery on time and to monitor efficient operation of the CETPs at the Leather Industrial Park
- Timely implementation of SEZs to cater to the need of domestic and foreign investment

Concluding Remarks

- Private investment is yet to pick up the steam
  - Relative political calm did not remove investors' uncertainty
- No noticeable progress has taken place with regard to
  - Improvement of basic infrastructure and efficiency enhancers
  - Limited impact of fiscal and budgetary incentives on investment
- SMEs face additional hurdles in doing business
- Medium term industrial strategy will call for better governance and management of the industrial sector

IV. Banking Sector: Navigating through Troubled Waters

- The size of the banking sector has increased over time in terms of deposit-GDP ratio and credit-GDP ratio.

- However, the soundness of the banking is being affected due to several problems including management inefficiencies, malpractice and scams in recent times.

- Major highlights of the sector are presented here.

Low appetite for credit is a demand side problem

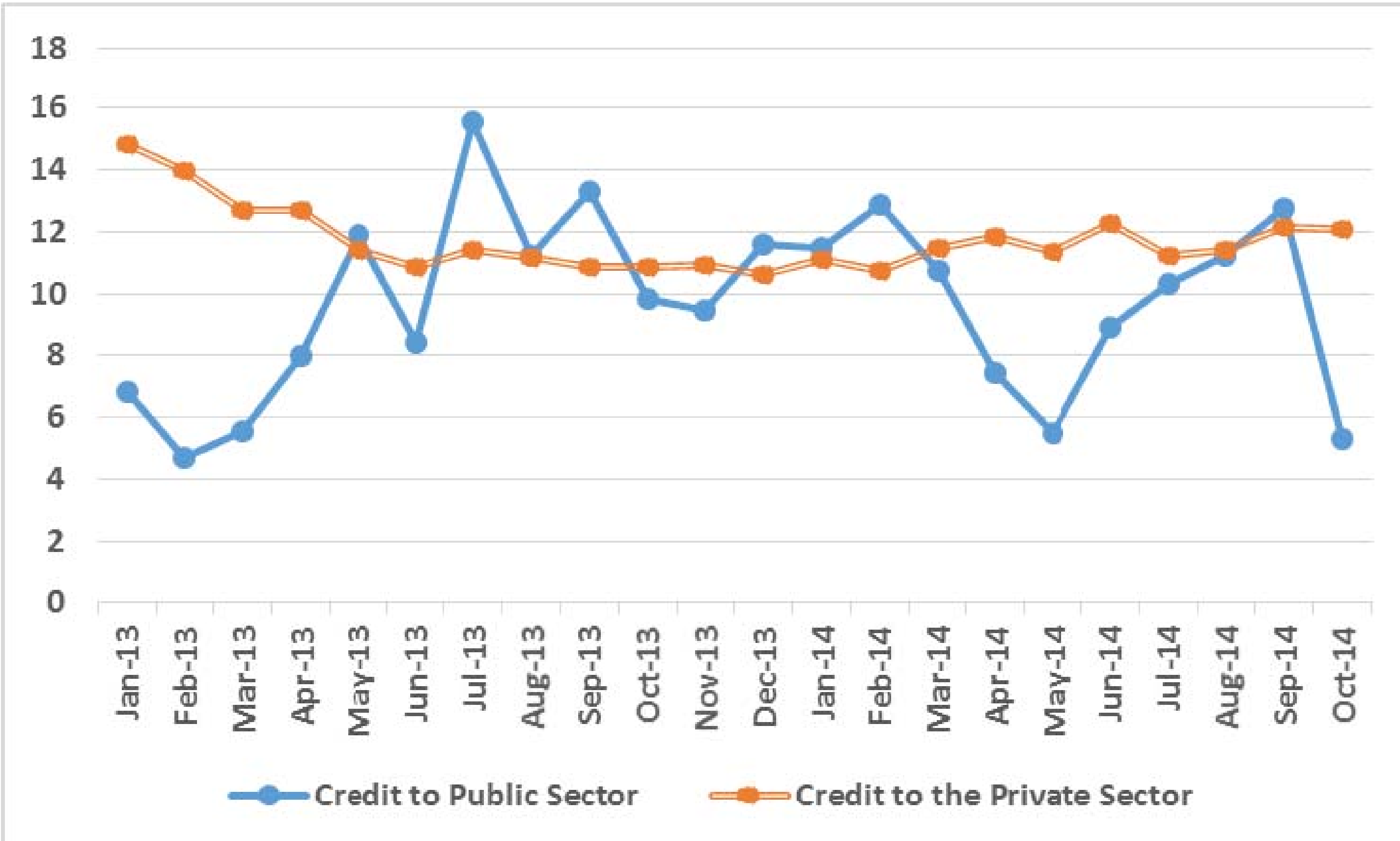
- Growth of credit to both public and private sectors has been anemic for last several months and remained at lower levels than the targets by Bangladesh Bank.
  - industrial activities and investment are still to pick up
  - opportunity of the private entrepreneurs to borrow loans in foreign currency from foreign sources

Credit demand is not constrained by liquidity

- Banks are awash with liquidity due to lower domestic credit
- However, interest rate spread is still high – due to structural weakness
- Interest rate is of course, one of many tools to boost up investment

IV. Banking Sector: Navigating through Troubled Waters

GROWTH OF DOMESTIC CREDIT (%)

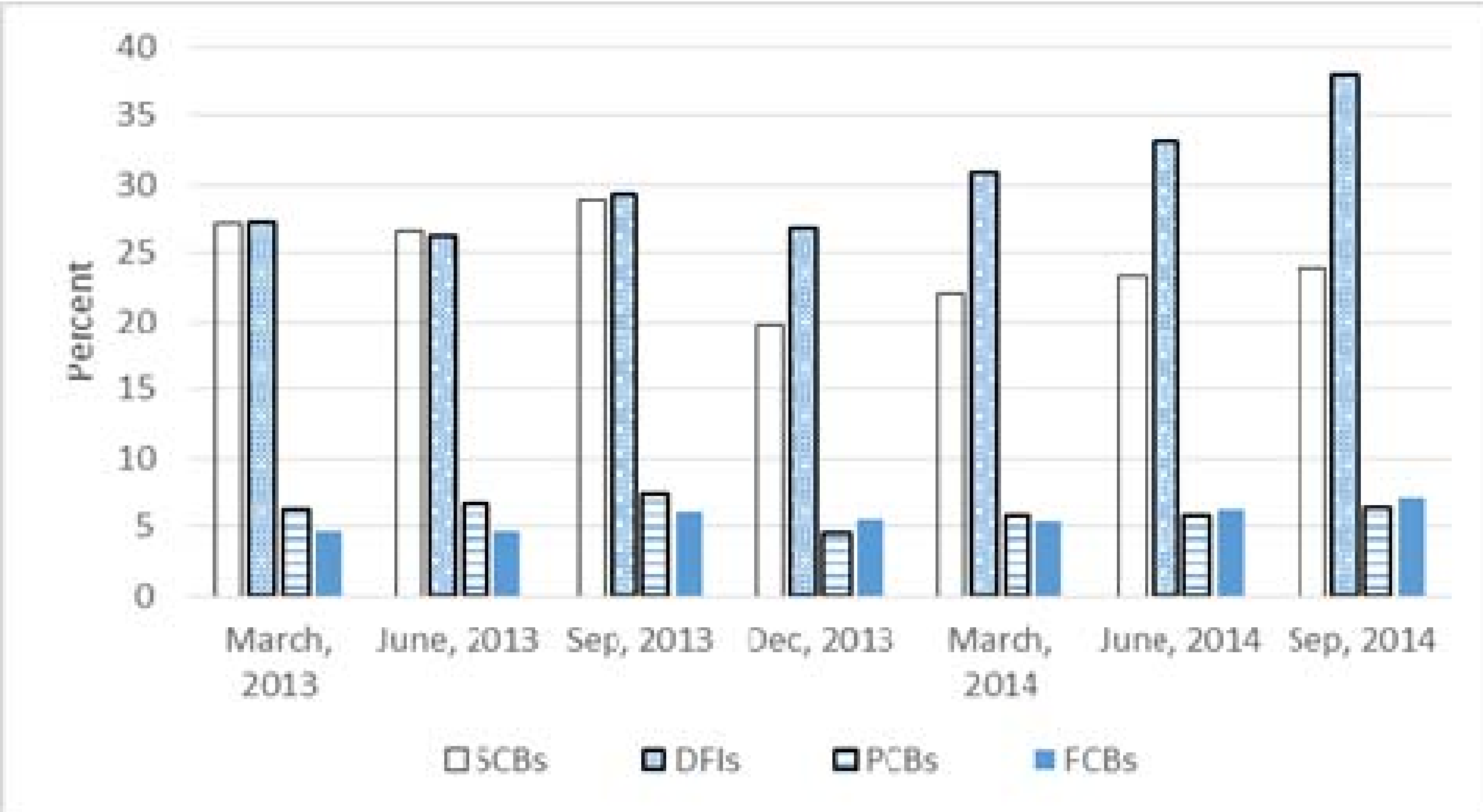


CPD (2015): State of the Bangladesh Economy in FY2015 (First Reading)

Banks are struggling with NPL

- Though rates of NPL have declined from 12.79 per cent to 11.6 per cent between September 2013 and September 2014, the volume is still large at Tk 57,291 crore as of September 2014
- Defaulted loan of BASIC Bank has gone up to as high as 55 per cent of its total loan portfolio in October 2014.
- Flexible loan rescheduling policy adopted in December 2013 in order to provide respite to borrowers in view of the political turmoil during most of 2013 and reduce the burden of NPL did not lead to fruition
    - High NPL is due to lack of proper screening of loan proposals and due diligence, non-adherence to project selection criteria, consideration of non-economic factors in sanctioning loans and lack of monitoring during project implementation.
    - Recent slump in the real estate market

NPL TO TOTAL LOANS BY TYPE OF BANKS



- **NPL takes toll on Capital adequacy and profitability**
  - Capital adequacy ratio (CAR) is below 10% in state owned commercial banks (SCBs)
  - NPL of all banks averaged at 11.6% as of Sept 2014 while that of SCBs stood at 23.9%.
  - High NPL coupled with lower demand for loan affected profitability of banks reflected through return on asset and return on equity.
  - Implementation of Basel III under which minimum capital adequacy ratio of the banking sector will have to be raised to 12.5 % of their risk-weighted assets by December 2019 needs streamlining from now on.

- **State support for banks - at whose cost?**
- With generous support from the government, the state owned banks were able to adjust their accounts and make up for their losses created through various financial malpractices.
  - allocation for other priority areas including social sectors remain less than adequate.
  - Financial inclusion is also an unfinished agenda
- **Governance taking a faltering route**
  - Several incidences of malpractice have exposed serious flaws in the governance of the sector and the associated corruption in the sector

- **Outlook of the sector**
- If the banking sector has to contribute to the economic growth of the country through mobilizing resources for investment in productive sectors, it needs a massive overhauling and clean up.
- Required measures can be categorized in three broad areas:
  - Strengthening internal governance of banks
  - Improving oversight function
  - Removing political influence
- Work towards mitigating shortcomings such as poor selection of creditors and politically motivated lending, poor risk management, lack of due diligence, weak monitoring and misreporting.
- Full autonomy of Bangladesh Bank
- Formation of a Commission for the financial sector

Declining Trend with Volatility

- Actual Export was lower than SFYP targets but in line with the EPB projections every year.
- But FY15 is proving to be a departure from this.

Table 5.1: EXPORT TARGETS SET OUT IN SIXTH FIVE YEAR PLAN AND BY THE EPB AND ACTUAL EXPORTS

BILLION USD

Fiscal Years	Target in the SFYP	Target Set by the EPB	Actual Export
FY2011	22.4	18.5	22.9
FY2012	25.7	26.5	24.3
FY2013	29.4	28.0	27.0
FY2014	33.8	30.5	30.1
FY2015	38.8	33.2	12.1 (in first five months)

Source: Sixth Five Year Plan and Export Promotion Bureau, 2014.

Declining Trend with Volatility (contd.)

- RMG exports **rose only by 0.39%** during Jul-Nov in FY15 compared to the same months of FY14.
- While knitwear exports increased by 2.0%, woven wear exports had experienced a decline by (-) 1.3% in this period.
- Month on month growth data shows some volatility but the growth appears to have gained some momentum in Nov (9.7%).
- Required growth rate is very high (16%) for attaining the targeted 10% growth.
- A crucial question is whether the November recovery augurs a sustainable (modestly) high growth trend over the remaining months of FY15 or not.
- Market decomposition analysis reveals a mixed picture.
- RMG exports registered a positive growth in the EU (4.2%) and a negative growth (-6.8%) in the US market.

V. Deceleration in RMG Export

Market Decomposition

- *EU Market (during Jul-Sep of FY15 as compared to Jul-Sep of FY14)*
  - RMG sector of Bangladesh achieved 5.1% growth in the EU market.
  - All major competitors of Bangladesh experienced higher growth: China (6.2%), Cambodia (23.9%), Vietnam (28.9%), Pakistan (30%).
  - GSP Plus facility accorded to Pakistan has started to show its results.
- *US Market (during Jul-Oct of FY15 as compared to Jul-Oct of FY15)*
  - RMG export declined by (-) 2.9% in the US.
  - Some of Bangladesh's competitors have posted moderate to high growth: Vietnam (15.0%), India (6.3%); Turkey (5.0%).
- *South-South Trade (during Jul-Nov of FY15 as compared to Jul-Nov. of FY14)*
  - Bangladesh's South-South trade in apparels has seen some rise: Japan (5.2%); Russia (5.9%); China (18.0%) (EPB, 2014).
  - Growth of apparels export to the Indian market remained sluggish.

V. Deceleration in RMG Export

Price Effect or Volume Effect

- Both price and volume affects contributed to the low growth.
- In the US market, analysis of volume and price impacts give mixed signal (**volume**: -6.7%, **Price**: 2.6% and **Value** -2.9%).

Table 5.1: GROWTH (%) IN VOLUME, PRICE AND VALUE TO THE USA AND THE EU MARKET

Market	Volume Growth	Price Growth	Value Growth
USA (Jul-Oct, FY15)	-6.7 (thousand dozen)	2.6	-2.9
EU (Jul-Sept, FY15)	1.9 (in Kg)	3.1	5.1

Source: USITC (2014) and EUROSTAT (2014)

- Apparels export growth of 5.1% in the EU shows that average volume (in kg) increased by 2.0% and average price has posted a rise of 3.1%.
- Another development: Cotton price declined by 17% (Jul-Oct, FY15) and Yarn has also declined by 10%: these also had some depressing affects on prices.

V. Deceleration in RMG Export

Fiscal Incentives for RMG Exporters

- Government took several policies to provide support to the RMG exporters including cash subsidy and reduction of tax at source.
  - Reduced tax at source to 0.3% from 0.8% : This is likely to provide tax relief of about Tk.1200 crore).
  - RMG factories outside EPZ were to receive 0.25% cash incentives calculated on FOB price.
  - Reduced interest rate by 1.0% point from EDF .
  - Will receive loan from the central Bank managed housing fund to build dormitories for workers, at 2.0% interest rate.
- The fiscal burden of the support put in place for the apparel sector is significant.
- It needs to be ensured that these support measures can be accessed by small and medium scale producers and these are appropriately used.

V. Deceleration in RMG Export

Compliance in the RMG Sector

- Following the Rana Plaza tragedy, several national and international initiatives were taken to ensure safety and security of workers and to improve overall compliance.
  - NTPA has till now inspected 380 out of 1500 factories.
  - ACCORD and ALLIANCE have inspected 1106 and 601 factories respectively.
- Accessing funds to carry out the remedial actions has remained a challenge: (a) On lending from development partners; (b) Funds made available by buyers; (c) Buyers as guarantors.
- Experts have estimated that USD 3.0 billion would be required to ensure workplace safety and environment related compliance.
- GoB should also look into sustainability of the current efforts once the initiative taken by ACCORD and ALLIANCE and under tripartite agreement come to an end (by 2018).

V. Deceleration in RMG Export

Future Prospects

- As regards future prospects of the RMG exports, the signals are mixed.
- BGMEA figures indicate that UD has declined by 7.8%.

Table 5.2: GROWTH (%) in UTILISATION RATE (UD)

	FY14 (Jul-Nov)	FY14 (Jul-Nov)	Growth
Number of UD	27,329	25,215	-7.8

Source: BGMEA, 2014

- This is indicative of order placements for the next few months.
- on the other hand, import of textile fabrics and accessories are robust (increased by 8.3%) during Jul-Oct in FY15 compared to Jul-Oct in FY14.
- Import of textile machineries has also increased significantly (49.0%).

V. Deceleration in RMG Export

Future Prospects

- A review of import trends of raw materials, L/C figures, import of machineries and order placement
  - gives the signal that there will be some upturn in apparels exports in the coming months.
- However, this is not likely to be enough to raise growth rates to the required 16.0% over the next months to enable the average growth of apparels to reach the target rate of 10.0% in FY15.
- On the other hand, once the current adjustments and remedial measures are in place, there are signals that 'brand Bangladesh' will regain its momentum from the early months of the next fiscal year.

V. Deceleration in RMG Export

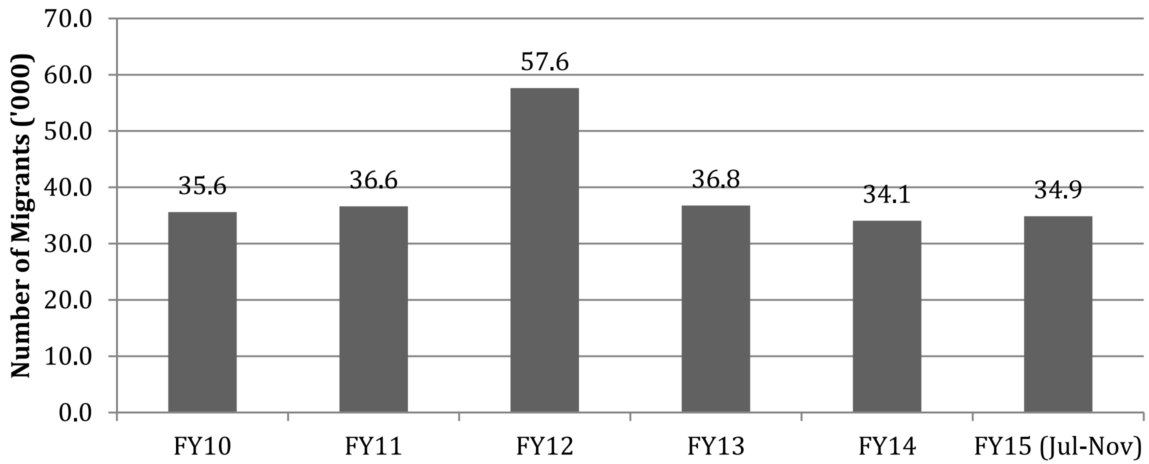
Future Prospects

- However, for this to happen, the needed homework will have to be done in due earnest.
- It is reckoned that in view of the current restructuring and mergers taking place in the sector, exports will continue to rise albeit with fewer (larger) factories and lower labour absorption.
- In view of the above, non-RMG diversification and market diversification will need to be given due importance in Bangladesh's trade policy, keeping in purview the opportunities of S-S trade, regional market and developments in the WTO.

Migration Trends

- Average number of migrants in early five months of current FY marginally picked than that of previous FY
  - However, it has yet to regain the momentum of FY2012 as the average number of Bangladeshi workers going abroad per month during July-November of FY2015 was the lowest in last five years, except FY2014

FIGURE: AVERAGE NUMBER OF MIGRANTS PER MONTH ('000)



Source: Calculated from BMET data

- Market composition of migrants worker from Bangladesh has shifted from KSA and UAE to Oman and Qatar over the last five years.

Remittance Flow

- Remittances has posted double digit growth in July-Nov of FY15 in the backdrop of negative (-1.4 %) growth in FY14
- Inflow of remittances remained steady amid falling number of migrant workers.
  - Inward remittances to Bangladesh during first five months of FY15 stood about USD 6.2 billion
    - which was 11.4 % higher than comparable period of previous fiscal year.
- Although number of migrants to KSA declined notably in recent years, the high stock of Bangladeshi labour residing in KSA helped towards sustaining remittances inflow to Bangladesh.
- Malaysia could emerge as one of the potential sources of remittance for Bangladesh in the coming years as share of remittance received from Malaysia has been increasing consistently over the last five fiscal years

Current Challenges

- *High Cost of Migration*
  - On average, a Bangladeshi migrant had to incur a cost of Tk. 3.1 lakh (ILO, 2014)
  - Maximum ceiling is fixed on fees that can be charged by recruiting agencies

TABLE: MAXIMUM CEILING ON FEES FOR SELCECTED COUNTRIES

Destination Country	Ceiling (without travel costs, in Tk.)
Saudi Arabia	17,400
Lebanon	20,000*
Qatar	40,000
Libya	35,000
Malaysia	30,000
Oman	40,000

Note:* This is applicable for women migrant workers
Source: BMET

  - Bangladeshi migrant workers had to pay a several times more that the stipulated government fees

Current Challenges (Contd.)

- *Limited Success of Recent Government Efforts*
  - Until 22 December 2014, under the G2G agreement 8,931 workers could depart for Malaysia (3853 in 2013 and 5078 in 2014)
  - Major factors afflicting implementation of G2G – (i) weak management from the part of Ministry of Expatriate Welfare and Overseas Employment (MoEWOE); (ii) slow recruitment process of Malaysian employers'; and (iii) lack of experience of government agencies in delivering these services
  - By September 2014, in KSA only 4 lakhs MRPs have been issued whereas according to official statistics, currently there are 13 lakhs Bangladeshi migrant workers in KSA
    - The embassies of Bangladesh may not be able to deliver in time, which may put a large number of Bangladeshi migrant workers into 'illegal' category

Current Challenges (Contd.)

- *Gender Dimensions of Migration*
  - The share of female migrants in the international migrant stock declined from 13.9 % in 2000 to 13.4 % to in 2013 in Bangladesh, which was the lowest among other Southern Asian countries
  - During first five months of FY2014-15, about 31,508 female workers went abroad
    - this was roughly 18.1 % of male migrants and 21.1 % of total workers
  - Lack of safety and secured home environment is one of the key concerns responsible for dismal share of female migrants from Bangladesh.

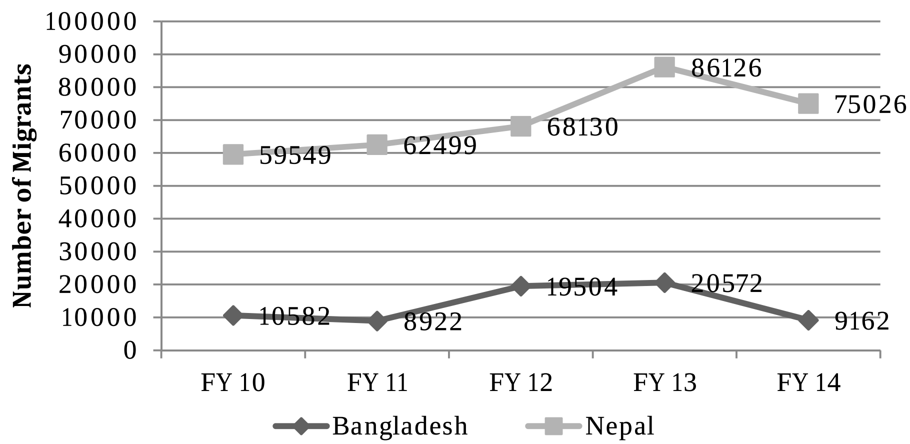
- *Skill Composition of Bangladeshi Migrant Workers*
  - Bangladesh has traditionally been an exporter of workers belonging to the semi-skilled and less-skilled categories
    - Although relatively lower number of skilled workers and professionals have gone overseas in recent times, semi-skilled migrant workers have posted some rise

VI. Migration and Remittances: Recovery with Shifts

Current Challenges (Contd.)

- *Bangladesh and Nepal: Two Stories*
  - Slump of migrant workers to the KSA is one of the major emerging concerns of recent times.
  - However, Saudi Arabia continued to take a large number of workers from Nepal, Sri Lanka and Philippines.
    - Migrants workers to KSA from Nepal increased from 59,549 in FY2010 to 75,026 in FY2014, while the corresponding figure for Bangladesh declined from 10,582 in FY2010 to 9,162 in FY2014

FIGURE : COMPARATIVE ANALYSIS OF MIGRANT WORKERS GOING TO KSA



Source: BMET and Department of Foreign Employment of Nepal

VI. Migration and Remittances: Recovery with Shifts

Measures to Overcome Challenges

- ***Reducing the Cost of Migration and Sending Remittance***
  - Probashi Kallyan Bank (PKB) should be supported by providing adequate manpower and logistics
  - Priority should be given to enhance the number of potential migrants who could receive credit support
  - PKB must open up exchange houses in major labour-importing countries
- ***Initiating Export of Skilled Workers***
  - Needs to set up more technical and vocational institutions that will have a demand-driven curriculae, training modules and strategy
  - A comprehensive training on language and laws applicable in the host countries should be provided
- ***Taking Advantage of New Market Opportunities***
  - Qatar and Oman have emerged as two promising markets for migrant workers
    - Qatar is going to organise FIFA World Cup in 2022
    - Moderate growth prospect of these two countries also substantiate their potential
- ***Curbing Reverse Remittance Flow***
  - In 2013, about USD 3.7 billion, was remitted from Bangladesh to India
    - GoB should initiate necessary steps to curb reverse remittance flow, deal with the issue of illegal migrants in Bangladesh and develop the skilled human resources for substitution

Measures to Overcome Challenges (Contd.)

- ***Strengthen the Capacity of Government Bodies***
  - Capacity of MoEWOE needs to be significantly enhanced particularly in view of oprationalising G2G mechanism
  - G2G should be reviewed and revisited. A suitable public-private partnership should be developed in this connection.
  - GoB needs to improve delivery capacity of MRPs including additional manpower, required equipment and financial allocation for the timely completion of conversion passports into MRPs
- ***Reintegration of Returnee Migrants***
  - All returnee migrants should be registered at the airports
  - A comprehensive database should be maintained and posted on a dedicated website
  - The reintegration programme should include
    - Awareness campaign and information dissemination as regards the opportunities available to the returnees
    - A dedicated fund to provide credit support
    - A counseling cell and hotline for the returnee migrants which will advise them on investment facilities
    - Training programmes in accordance with the domestic labour market demand
- ***Effective Implementation of Overseas Employment and Migration Act 2013***
  - The Act incorporates the provision of five to seven years term jail with monetary fines of Tk. 1 lakh for fraudulent practices by the recruiting agencies
  - Government should initiate necessary steps for effective implementation of this Act

VII. Concluding Remarks

- Traditionally, the post-national election years have witnessed upswing in both private investment and in terms of economic growth
- Available data and information does not support the prospect of regaining the momentum significantly in FY15
- A number of disquieting fault lines are emerging (revenue, current account balance etc.) which could undermine macroeconomic stability
- Stagnation in private investment is the major concern
  - Higher growth of industrial term loan and high imports of capital machineries and intermediate inputs do not fully correspond with real investment on the ground (growing questions as regards trade mispricing/declaration leading to capital flight)
  - Infrastructural bottlenecks coupled with lack of reform measures held back private investment
- Problems afflicting the banking sector, in terms of rising NPL and loans of questionable quality are likely to have adverse implications for private sector investment performance

VII. Concluding Remarks

- Crowding in of the private investment will hinge critically on the speedy implementation of the major public sector infrastructure projects
- Present private investment level looks to be inadequate for the economic growth target for FY15
- Consumption demand, as demonstrated by the proxy indicators, remained at low levels - may help keeping inflation under control, but at the same time, it will keep economic growth in check
- A recent MoF assessment has also mentioned three challenges –
  - lack of private investment
  - slow implementation of ADP
  - revenue shortfall
- While this diagnosis by and large reflects the reality, it is not clear what will be the concrete measures to address the attendant challenges in each of these areas, both from short and medium-term perspectives

VII. Concluding Remarks

- Policymakers will need to give priority attention to a number of areas –
- Review budgetary targets for FY15 at the earliest and adjust them in line with the reality and give revenue mobilisation urgent priority
  - Take demand for significant resources to implement the proposed public service pay scale revision into cognisance
  - Materialise longstanding agenda (expansion of tax net, digitisation, implementation of NBR Modernisation Road Map, establishment of ECR in businesses)
  - Forthcoming VAT and SD Act may not turn out to be the magic bullet
  - Customs authority needs to be more vigilant to curb trade mispricing
- Decisions as regards subsidy management and administered prices will need to be dealt with due seriousness
  - Assess the impact on business environment and private investment
- ECNEC with the help of Planning Commission needs to prioritise projects within the ADP that can immediately catalyse private investment (e.g. list them and bring them under close monitoring)

VII. Concluding Remarks

- Utilisation of foreign aid needs to be prioritised
- There is a need for significant strengthening of the oversight function of the central bank to ensure good governance in the financial sector, in the areas of prudential management, measures against malpractices, streamlining of policies as regards rescheduling facilities, etc.
  - An independent Banking Sector Reform Commission should be set up immediately to look into the anomalies and fault lines, to come up with remedial measures and strategic recommendations
- Central bank needs to go beyond allowing private sector to borrow from abroad and seek ways to raise demand for credit by private sector
- Central bank should continue to calibrate its policies to keep exchange rate of BDT stable

VII. Concluding Remarks

- Strengthen public sector delivery institutions and undertake the reforms many of which were identified in various policy documents (e.g. the proposed Civil Service Act)
  - Raise efficiency and effectiveness of serviced delivery institutions, institute a culture of reward and sanction, and develop public service on the basis of meritocracy
- Facilitate implementation of the measures in the tripartite agreement as regards compliance in the RMG factories
- As regards migration, there is a need for energetic search of new markets and exploring new segments of the market demand
- Macroeconomic policies are often taken in an isolated manner considering only their partial impact on a single sector
- Coherence and coordination among the policies and implementing authorities have to be better ensured if the needed growth momentum is to be generated
- Importance of good quality, reliable, disaggregated and real time data is becoming increasingly evident

VII. Concluding Remarks

For stimulating private sector investment and regaining the growth momentum, a conducive political environment that generates confidence in entrepreneurs, and inclusive politics that ensures predictabilities and business-friendly environment, will be key determining factor as the economy enters into the second half of FY15

Thank You