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Surfing in Uncertain Times

An Outlook for the Upcoming Budget

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Contents

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Section 1: Introduction

National budget for FY2016 is being prepared at a time when the country is going through another round of political turbulence. It may be recalled here that in its review in January 2015 CPD had observed that in the first half of FY2015 macroeconomic stability had been maintained, to a large extent (CPD, 2015). As political instability aggravated during second half of the ongoing fiscal year, disquieting trends may be observed as regards a number of macroeconomic correlates including revenue mobilisation, import of capital machineries and disbursement of private sector credit. At the same time, macroeconomy continued to evince stability as regards correlates such as exchange rate against United States Dollar (USD), foreign exchange reserves, inflationary trend and the budget deficit. Regrettably, the Bangladesh economy may once again fall short of the planned targets for economic growth and private investment in FY2015. Under the present circumstances, the objective of the upcoming national budget for FY2016 should be to support the economy to shift towards a higher economic growth trajectory and maintaining macroeconomic stability. In order to attain these objectives, an assessment of incurred losses from the political impasse is perceived to be critical. It is also important that the budget for FY2016 takes cognisance of the emerging global economic scenario. Indeed, the ongoing global economic trends pose both opportunities and challenges for the Bangladesh economy in FY2016. It is also expected that future direction of economic policies in Bangladesh including fiscal and budgetary measures will be influenced by the ongoing reform programmes under the Extended Credit Facility (ECF) arrangement of the International Monetary Fund (IMF) and the budgetary support programme with the World Bank which is currently under negotiation.

In this backdrop, the outlook for budget FY2016 focuses on a number of key areas which will have important implications for the performance of the Bangladesh economy during FY2016 period and hence will inform fiscal-budgetary measures for FY2016:

i. a review of macroeconomic developments in FY2015 and the needed macroeconomic policy measures including formulation of a sound fiscal framework for FY2016
ii. an assessment of economic losses due to political violence during the third quarter of FY2015
iii. an appraisal of key developments at the global level and implications for budget FY2016
iv. a critical look at IMF's ECF and World Bank's proposed development support credit and their implications for the upcoming national budget.

It may be recalled that, the budget for FY2016 will be the first one and be considered as the 'benchmark year' in view of the Seventh Five Year Plan (7FYP) of Bangladesh. Accordingly, the targets set for budget FY2016 need to be formulated carefully and to be in consonance with the 7FYP targets. Besides, within next few months the global development agenda for next fifteen years (2016-2030), known as the Sustainable Development Goals (SDGs), will be finalised at the United Nations. The budget for FY2016 will also be the first step towards implementation of the global development agenda in the Bangladesh context. In view of all these, the budget for FY2016 will be an important policy document for the incumbent government.

Section 2: Macroeconomic Backdrop in the Run-up to the National Budget for FY2016

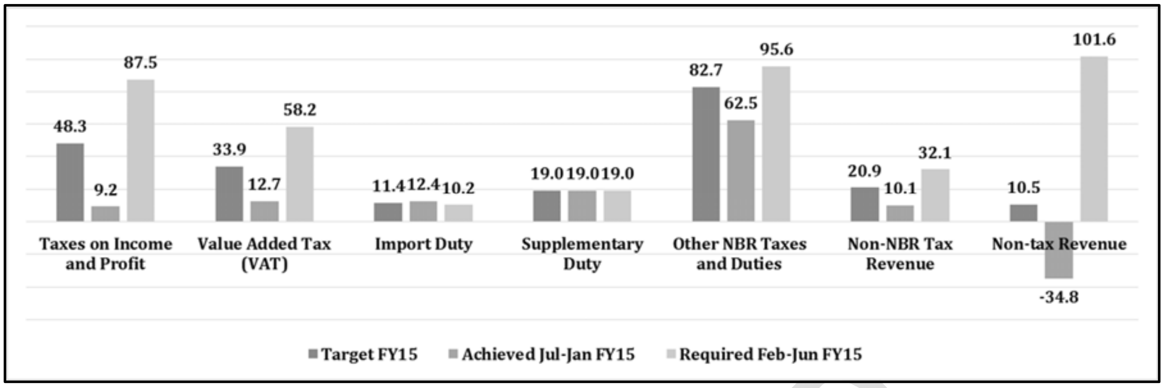
2.1 Setting the macroeconomic benchmark for FY2015

It is important that formulation of the national budget for FY2016 takes cognisance of current macroeconomic trends in Bangladesh in the backdrop of which fiscal-budgetary measures and incentives will need to be calibrated and designed. In consideration of this the present section reviews performance of major macroeconomic correlates in the ongoing fiscal year, and sets the benchmark for the forthcoming national budget. It may be recalled here that in January 2015, CPD in its first interim review of Bangladesh's macroeconomic performance analysis in FY2015, pointed out that despite relative macroeconomic stability, the economy was unlikely to achieve the envisaged economic growth and private investment targets. As is known since January 2015, Bangladesh has been experiencing higher degree of political instability with detrimental implications for performance of economy. The cautionary note in CPD's review has now been further strengthened by subsequent development in the economy unforeseen at the time.

Revenue mobilisation in FY2015 is likely to miss target by a significant margin. The resource mobilisation target will not be achieved as collection of both tax revenue and non-tax revenue continued to suffer while chasing their ambitious targets. It is likely that National Board of Revenue (NBR)[1] will miss its target for the third consecutive fiscal year. Tax revenue collection by NBR has seen a growth rate of 13.1 per cent during July-January of FY2015 as against its target of 34.4 per cent growth over the actual earnings in FY2014. It may be noted that, in January 2015, revenue earnings by NBR declined by (-) 11.8 per cent; in large part, a reflection of the disruptions to the economy witnessed in this period. Among the sources, thanks to strong growth in import payments, import duty was the only revenue head which surpassed the annual target during the first seven months. Collection of supplementary duties was also on track to attain the annual growth target (19.0 per cent). Indeed, target for these two heads were more realistic, when compared to those set for income tax and value added tax (VAT) components of revenue earnings. Non-tax revenue collection declined by (-) 34.8 per cent during July-January of FY2015. CPD had estimated in its first reading of Bangladesh's economy in January 2015 that, overall revenue collection may fall short by a margin of Tk. 25,000 crore against the ambitious target for FY2015 (of Tk. 1,82,954 crore), if effective remedial measures were not put in place (CPD, 2015). Regrettably, trends of updated data indicate that the situation has not changed in any significant manner.

[1] NBR is the core revenue collection authority, which is responsible for generating about 80 per cent of the total revenue collected in Bangladesh every year.

Figure 2.1: Growth rates of revenue collection



Source: Ministry of Finance (MoF, 2015)

Total public expenditure will be lower than planned in FY2015. On the expenditure side, government's non-development expenditure remained under the targeted limit. Expenditure for Annual Development Programme (ADP) did not mark any significant breakthrough from its past trends of low rate of implementation in the early quarters. During July-January FY2015, 41.7 per cent of non-development budget[2] for FY2015 was spent, evincing only a 2.0 per cent growth.[3] Barring 'Pay and Allowances', which has experienced a growth of 13.8 per cent during the mentioned period against the annual target of 8.8 per cent, other sub-heads remained within the limit of budgetary growth. Government has disbursed Tk. 1,716 crore for recapitalisation of the state-owned commercial banks (SCBs) till January 2015, for which a budgetary provision of Tk. 5,000 crore was set aside in the budget for FY2015.[4] Expenditure for the major two sources of non-development spending, i.e. 'Subsidies and Current Transfers' and 'Interest Payments' were well within the limit, with respectively 4.2 per cent and 1.6 per cent growth during July-January of FY2015. Thanks to drastic fall in international oil prices, Bangladesh Petroleum Corporation (BPC) moved to the profit earning terrain in FY2015 and will not require further subsidy. Subsidy demands from Bangladesh Jute Mills Corporation (BJMC) also remained within the planned limit. However, the subsidy requirement for Bangladesh Power Development Board (BPDB) will be higher than budget target as it appears that the government has refrained from any upward revision of electricity prices for the time being. Administered price of gas has also remained unchanged. The higher demand of subsidy requirements for BPDB and fertiliser could be met from unutilised fund earmarked for BPC. Indeed, CPD (2015) earlier recommended not to revise these prices on grounds of the need to catalyse private investment.

ADP implementation remained business as usual. ADP implementation found to be a business as usual scenario with 38.5 per cent spending of original ADP during the first eight months (July-February) of FY2015, which was 38.3 per cent over the corresponding periods of FY2014. Indeed, spending in the form of foreign funding (project aid) fared marginally better in the reported period of FY2015 compared to the corresponding figure of FY2014 (36.0 per cent in July-February FY2015 as against 34.7 per cent in July-February of FY2014). While revising the ADP, a number of ministries (e.g. Power Division, Ministry of Railways, Ministry of Health and

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[2] The head includes non-development revenue expenditure, capital expenditure and other programmes financed from non-development budget.
[3] In corresponding periods of FY2014, 46.5 per cent of the similar budget was spent and the growth target for FY2015 was planned at 23.7 per cent over actual spending in FY2014.
[4] In FY2014, government spent Tk. 4,477 crore for this account.

Family Welfare, Bridges Division and Ministry of Water Resources) had demanded and received reduced allocation. None of the mentioned ministries could spend their respective allocations above the overall average of 38.5 per cent during July-February of FY2015. Indeed, allocations for most of the line ministries/divisions were slashed, while finalising the Revised ADP (RADP) for FY2015. According to Planning Commission official documents, due to resource constraints and slow pace of implementation of the programme, the RADP has slashed Tk. 5,315 crore (or 6.6 per cent) to Tk. 75,000 crore from the original ADP of Tk. 80,315 crore. Project aid component was reduced by Tk. 2,800 crore (or 10.1 per cent), while the GoB allocation was reduced by Tk. 2,515 crore (or 4.8 per cent).

Budget deficit remained within limit. Budget deficit was not a matter of concern in the early months of FY2015 and remained within the comfort zone. The deficit was a mere 0.9 per cent of gross domestic product (GDP) while planned limit was 5.0 per cent.[5] The budget deficit was likely to rise in the second half of FY2015. However, it is expected to remain close to the budgetary target. Although it is apprehended that there will be large revenue shortfall, the impact was likely to be offset by unutilised budgetary allocation. Data for first seven months (July-January) of FY2015 indicated that, financing of budget deficit followed the similar trend as was seen in the same periods in FY2014 – low net intake from foreign sources and heavy reliance on domestic sources. Within domestic financing structure, buoyant sale of high benefit yielding[6] national savings certificates, and hence, limited borrowing by government from banking sources, were observed. Sale of National Savings Directorate (NSD) certificates was more than three times higher during July-January period of FY2015 (Tk. 15,747 crore) than the corresponding months of the previous fiscal and has already surpassed the annual budgetary target of Tk. 9,056 crore.

Inflation remained stable despite supply chain disruption. The declining trend of annual average headline inflation continued throughout the first eight months. In February 2015, annual average inflation was 6.8 per cent which was 7.4 per cent in FY2014. Non-food inflation was 5.7 per cent at the same time, while food inflation was higher at 7.5 per cent. Low level of international commodity prices, stronger value of Bangladeshi Taka (BDT) against major currencies of import sources and slower growth of money supply helped contain inflation. The growth rate of broad money (13.0 per cent as of January 2015) remained well below the target limit of 16.5 per cent (at the end of June 2015). At the same time, limited economic activities also held back demand-side pressure.

Export remained resilient against all odds but off-target. Growth of export earnings during the first eight months (July-February FY2015) was 2.4 per cent with 2.6 per cent growth in export of readymade garments (RMG) products. Obviously, the 10 per cent annual growth target for FY2015 is likely to be missed. During January-February, RMG export growth experienced some rebound with 7.6 per cent growth while earnings from non-RMG exports declined by (-) 7.1 per cent (Table 2.1). Market-wise analysis of July-February data revealed that, total export to the USA market experienced negative growth driven mainly by the (-) 4.3 per cent growth in woven products.[7] On the other hand, export to the European Union (EU) market has grown up by 4.3

[5] The share is calculated taking 1995-96 base of GDP.
[6] The rates for savings instruments are at least 13 per cent, which remain above the commercial deposit rates.
[7] Woven products (Chapter 62) accounted for 70.6 per cent of total export to the US market in FY2014.

per cent largely due to 6.7 per cent growth in woven products in the EU markets. In the non-traditional market, export to Australia, Brazil (led by RMG products) and India (led by non-RMG products) have experienced significant growth of 23.1 per cent, 21.3 per cent and 36.8 per cent respectively.

Table 2.1: Periodic growth (%) of export products in FY2014 and FY2015

Product	Jul-Sep (Q1)		Oct-Dec (Q2)		Jan-Feb		Mar-Jun	
	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15
RMG	24.2	**0.5**	15.7	**1.1**	8.3	**7.6**	8.7	**NA**
Non-RMG	10.0	**2.7**	-2.1	**7.4**	2.1	**-7.1**	3.2	**NA**
Total export	21.2	**0.9**	11.9	**2.3**	7.1	**5.0**	7.6	**NA**

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

Growth of import payments was strong. Import payments during July-January period of FY2015 was 16.5 per cent growth (Table 2.2). Impressive growth was observed on account of petroleum, oils, and lubricants (POL), fertiliser and textile articles imports. POL products accounted for about one-fourth of the overall import payments during the mentioned period with a 58.5 per cent growth. Import of crude oil has also seen a significant increase (over USD 200 million import in each of the last two months). Taking into account the current low price of these products in the world market, it is to be noted that the growth in volume terms would be much higher. Import payments growth recorded a significant fall in the month of January 2015 with 6.2 per cent growth (Table 2.2). It is likely that growth of import payments will come down during the remaining months of FY2015 in view of high benchmark growth and falling letter of credit (L/C) opening growth. Prevailing lower prices of commodities are also expected to contribute towards this.

Table 2.2: Category-wise import payments

Product category	Share in FY14	Growth (%) in FY14			Growth (%) in FY15	
		Jul-Dec	Jan-Jun	Jul-Jun	Jul-Dec	Jan
Food Grains	2.2	92.2	32.5	57.2	50.0	-23.6
Consumer goods	11.1	-3.4	-0.5	-1.9	2.5	37.2
Intermediate Goods	57.1	3.6	10.3	7.1	20.4	3.4
Capital Goods	21.7	6.8	29.8	18.2	20.5	-9.1
Others	7.9	15.9	-1.6	6.1	10.9	47.0
Grand Total	**100.0**	**5.5**	**12.1**	**8.9**	**18.3**	**6.2**

Source: Calculated from the Bangladesh Bank data.

Growth of inward remittances had been fading out. Inflow of remittances increased by 7.0 per cent in first three quarters of FY2015. It may be recalled that during the first quarter of FY2015 remittances inflow recorded a strong growth of 22.6 per cent. Indeed during the third quarter of FY2015, inflow of remittances merely increased by 0.9 per cent, compared to the corresponding period of FY2014. On a positive note, following revitalisation of the Saudi Arabian market, manpower export had experienced a modest rise. In the first three quarters of FY2015, average outbound migration of Bangladeshi workers per month was 36,268 which was 32,298 in the same periods of FY2014.

Balance of payments was at ease. As import payments rose at a faster pace than export earnings, the trade balance widened to USD (-) 5,723 million during July-January FY2015. Current account deficit on the other hand stood at USD (-) 1,337 million as inflow of remittances remained modest. Thanks to hefty financial account surplus (to the tune of USD 3,317 million), overall balance of payments surplus was USD 1,706 million. As a result, foreign exchange reserve continued to swell and reached above USD 23.0 billion at the end of March 2015, which was equivalent to six months of annual import payment of Bangladesh.

Exchange rate of BDT remained strong against all major currencies except Chinese Yuan. Value of BDT remained stable against USD, a currency which in recent times has become stronger against all major currencies. The fall of Euro value has been the highlight of global foreign exchange market in recent months. Indeed, BDT has appreciated by 16.5 per cent against the falling Euro during the last one year (between February 2014 and February 2015). Concurrently, Cambodian Riel and Vietnamese Dong have appreciated by 15.2 per cent and 15.8 per cent respectively against the Euro. The lower appreciation of these currencies may give exporters of these countries some competitive edge in the European market compared to their Bangladeshi counterparts.

Table 2.3 Macroeconomic situation in FY2015

Indicators	Actual FY13	Actual FY14	Target FY15	Latest
GDP Growth (%) (1995-96 base) GDP Growth (%) (2005-06 base)	6.0 6.1	6.1 6.2	7.3 NA	NA NA
NBR Revenue Growth (%) (MoF sources)	12.8	7.8	34.4	Achieved: 6.6 (Jul-Jan FY14) **Achieved:13.1 (Jul-Jan FY15)** Required: 57.83 (Feb-Jun FY15)
Non-Development Expenditure Growth (%)	9.3	18.4	23.7	19.2 (Jul-Jan FY15) **2.0 (Jul-Jan FY15)**
ADP Implementation (% of Budget Allocation)	91.0	86.1	41.5% more of actual expenditure in FY14	38.3 (Jul-Feb FY14) **38.5 (Jul-Feb FY15)**
Budget Deficit (% of GDP; 1995-96 base)	4.4	4.0	5.0	1.1 (Jul-Jan FY14) **0.9 (Jul-Jan FY15)**
Money Supply (end June)	16.7	16.1	16.5	16.2 (as of Jan 2014) **13.0 (as of Jan 2015)**
Private Sector Credit	10.8	12.2	15.5	11.1 (as of Jan 2014) **13.3 (as of Jan 2015)**
Inflation (2005-06) Moving Average; end June	6.8	7.4	6.5 (MPS, Jan 2015)	7.6 (Feb 2014) **6.8 (Feb 2015)**
Export Growth (%)	11.2	11.7	10.0	14.0 (Jul-Feb FY14) **2.4 (Jul-Feb FY15)**
Import Growth (%)	0.8	8.9	15.0 (MTMF, 2015-17)	4.0 (Jul-Jan FY14) **16.5 (Jul-Jan FY15)**
Remittances Growth (%)	12.6	(-) 1.6	16.1 (MTMF, 2015-17)	(-) 5.6 (Jul-Mar FY14) **7.0 (Jul-Mar FY15)**
Average outbound migrant workers; per month	34,073	35,137	NA	32,998 (Jul-Mar FY14) **36,268 (Jul-Mar FY15)**
Forex Reserve (billion USD; end June)	15.3	21.6	17.9 (MTMF, 2015-17)	19.4 (as of 1 April 2014) **23.0 (as of 1 April 2015)**

Source: Author's compilation.

Note: MPS denotes Monetary Policy Statement; MTMF denotes Medium Term Macroeconomic Framework.

2.2 Proposed macroeconomic stance for Budget FY2016

Recent developments concerning the macroeconomic correlates and the emerging global economic scenario, will have important implications for preparation of the national budget for FY2016. NBR has already scheduled discussions with key stakeholders including trade bodies, business leaders and sectoral associations to start negotiations on their respective demands. It is also equally important to structure the budgetary framework in a prudent manner so that the plans evince realism and is implementable.

Set revenue earnings targets more realistically. The shortfall of revenue collection in recent years has become a major concern from the perspective of budget formulation and implementation. It may be recalled that in reaction to the proposed budget FY2015, CPD termed the revenue targets unrealistic. Before setting the revenue earnings targets for FY2016, the revision of FY2015 targets needs to be realistic.[8] At the same time, the discrepancy between revenue earning data reported by the NBR and the MoF needs also be taken into consideration. In FY2014, the discrepancy was Tk. 9,087 crore. During the first seven months of FY2015, the discrepancy has already reached Tk. 3,835 crore. It will perhaps be prudent to follow the revenue statistics reported by the MoF while planning revised revenue targets for FY2015 and budget target for FY2016.

Emphasise revenue mobilisation. In FY2016, a major challenge for government will be to cater to the growing need for higher revenue mobilisation. No doubt it will be the NBR which will need to mobilise most of the incremental revenue. The challenge for NBR is to widen the tax net and explore new sources of tax revenue. Implementation of NBR Modernisation Plan needs to be prioritised. There will be a higher demand for expanding fiscal incentives, particularly in view of losses arising from the ongoing political impasse. The NBR will need to review the existing and proposed tax incentives for FY2015 in order to draw practical lessons for FY2016. Taking into cognisance that small and medium enterprises (SMEs) had incurred significant losses because of the political disturbances, fiscal proposals, particularly that concern SME-led sectors, should be geared to safeguarding their interests. It is estimated that about Tk. 25,782 crore of revenue is currently eligible to be referred to Alternative Dispute Resolution (ADR) for settlement. NBR must make proper use of the ADR window to settle tax claims in an expeditious manner. The government will have to put emphasis on collection of wealth tax surcharge, which apart from raising additional funds can also contribute towards economic and social justice. To generate adequate amount of revenue from this source, there is a need to review the method of valuation of wealth, particularly those of real estates. NBR needs to be vigilant to curb tax evasion emerging from trade mispricing, re-invoicing and misdeclaration. A strong and well-equipped specialised taskforce should be set up to deal with this issue appropriately; a number of public institutions (e.g. NBR, Bangladesh Bank and others) will need to act in a coordinated manner to make this successful. The Transfer Price Cell at the NBR will need to be further strengthened with human and financial resources.

[8] The target setting for FY2015 did not consider the possible shortfall in FY2014 which in effect had a detrimental impact on fiscal framework for FY2015. In FY2014, total revenue shortfall was Tk. 27,123 crore against original budget target. Compared to the target set at the revised budget FY2014, the shortfall was Tk. 16,335 crore. As the budget targets of FY2015 were set against the optimistic revised budget targets of FY2014, they have now become vulnerable.

Prioritise mobilisation of non-tax revenue. Coordinated steps are required to increase non-tax revenue. The fees, tolls, commission and service charges need to be revisited and rationalised periodically on a regular basis. Bangladesh Telecommunication Regulatory Commission (BTRC) has called for an auction of the unused 2G/3G spectrum bandwidths to generate additional revenue. BTRC recently came up with a guideline to sell 10.6 megahertz of unused 2G spectrum and 15 megahertz of 3G spectrum to the mobile operators in the country. The base prices for 1,800 megahertz and 2,100 megahertz have been settled at USD 30 million and USD 22 million respectively. However, the mobile operators have urged government to first settle the existing tax-related disputes prior to the auction. The date of auction has already been deferred once, for a month, and is now expected to be held in end of May, 2015. These issues need to be resolved without compromising the country's interest.

Finalise the new VAT and SD Act. The implementation of the forthcoming VAT and SD Act has already been deferred for one more year and will not be implemented in FY2016. However, it is important that the disputed issues are settled without further delay (for details, see Section 5).

Take cognisance of implication of the forthcoming pay scale for government employees. The forthcoming new pay scale will entail a significant amount of additional revenue expenditure. If the proposed pay scale is implemented, the Commission estimated that, an additional Tk. 22,953 crore (excluding pay and allowances for defence) revenue expenditure will be required. This is 63.7 per cent higher than the earmarked figure of FY2015. The Commission also recognised that to finance such an expenditure package, the government will need to explore new sources of revenue collection. It is important that while finalising and implementing the new pay scale, the government takes note of the fiscal viability and may consider phased implementation.

Strengthen monitoring of ADP. There was no breakthrough in implementation of the ADP over the last couple of fiscal years. CPD has prepared a list of 26 projects under ADP (see Annex 2.1), implementation of which should be the top most priority of the government. These projects, if implemented in a timely manner, can leverage and crowd-in private sector investment, help attainment of higher economic growth and generate new employment opportunities in the economy. For example, there are 11 power generation projects in the list which are scheduled to be completed by FY2016. If these power projects are implemented about 2,842 MW electricity will be added to the national grid. A special task-force needs to be formed which can closely monitor implementation of these projects. It is also important that the forthcoming ADP allocate sufficient funds for these projects. The ADP for FY2016 must avoid allocating the practice of 'symbolic allocation' (the minimum to keep the project in the ADP list). It may be recalled that 10 investment projects under ADP for FY2015 received only Tk. 1 lakh while another 26 projects received Tk. 1 crore or less (but more than Tk. 1 lakh).

Revisit incentives for NSD certificates. It is observed that due to lack of demand for private sector credit, deposit interest rate offered by the commercial banks have seen some decline over the last 2/3 years. As a result, sale of NSD certificates, interest rates on which are significantly higher than bank deposits, has increased more than what was planned for. Although this has helped government to finance the budget deficit in a non-inflationary manner, it is important to keep in mind that these certificates also entail higher fiscal burden for the government. MoF must address the issue of high dependence on the NSD sales for financing the budget deficit which was likely to have negative implication for medium term debt servicing liability. In view of the emerging situation where domestic debt servicing already accounts for a significant amount of revenue expenditure, MoF may need to revisit the issue of NSD certificates. A combination of interest rate reduction and lowering of the ceiling may be considered in this context.

Better delivery of national budget needs meaningful district budgets. Through district budgets, it was expected that local level needs and expectations would better reflected in the national budget. At the same time it will promote efficient distribution of resources and empower district administration in the areas of budget formulation and implementation. A recent study at the CPD (Khan and Sabbih, 2015) argued that recent efforts towards preparing district budget could bring hardly any improvement in fulfilling the objectives of district budget. The present challenge for the MoF is to craft district budgets as per the needs of the particular district. To make implementation of district budget meaningful, strengthening the local government should be prioritised.

Section 3: Economic Losses Arising from Political Violence during January - Mid-March, 2015

3.1. Introduction

Bangladesh has experienced a high intensity political turmoil during January-mid-March, 2015 period when non-stop blockade and continuing general strikes (81 days of blockade and 67 days of strike), accompanied with significant violence, afflicted considerable losses to the economy. Over a period of 85 days, more than 100 people suffered from burning with many succumbing to the injuries; more than 1,200 vehicles were vandalised/torched (Table 3.1). All these had severely disrupted day-to-day economic activities resulting in losses to various sectors of the economy to varying degrees. Prolonged periods of blockade had disrupted supply chains and led to a disconnect between rural and urban markets and between domestic and international markets. Whilst the wrath of violence and its consequences appear to have eased somewhat in more recent times (Table 3.1), the short and medium to long-term impact for the economy is set to remain quite significant. Despite that, an uncertainty has been lingering due to lack of effective settlement of political issues.

Table 3.1: Extent of violence

<table>
<tr><th>Phases</th><th>Duration of date</th><th>No of Vehicles Vandalised/Torched (Transport + Rail)</th><th>No. of People Died</th><th>No. of People burned</th></tr>
<tr><td>First 12 Days</td><td>5 Jan-16 Jan</td><td>429</td><td>18</td><td rowspan="3">111</td></tr>
<tr><td>Second 10 Days</td><td>17 Jan-26 Jan</td><td>237</td><td>9</td></tr>
<tr><td>Third 10 Days</td><td>27 Jan-5 Feb</td><td>173</td><td>23</td></tr>
<tr><td>Fourth 10 Days</td><td>6 Feb-15 Feb</td><td>138</td><td>21</td><td>8</td></tr>
<tr><td>Fifth 10 Days</td><td>16 Feb-25 Feb</td><td>48</td><td>19</td><td>4</td></tr>
<tr><td>Sixth 10 Days</td><td>26 Feb-7 Mar</td><td>125</td><td>5</td><td>...</td></tr>
<tr><td>Seventh 10 Days</td><td>8 Mar-17 Mar</td><td>61</td><td>5</td><td>...</td></tr>
<tr><td>Total</td><td></td><td>1211</td><td>100</td><td>123</td></tr>
</table>

Source: Based on the Daily Prothom Alo.

3.2 Magnitude of economic losses as claimed by trade bodies

By any count, private sector has been a major party that had to borne the brunt of the economic consequences arising from the political unrest. Various trade bodies have made an effort to collect information on losses suffered by their members and respective sectors. According to the national dailies, as many as 16 associations/trade bodies have come up with estimates about the losses incurred. Based on these reports, a ball-park figure about daily loss is estimated to be about Tk. 2,278 crore per day.[9] This amount of losses is equivalent to 61.5 per cent of one day's GDP of Bangladesh. Table 3.2 compares per day GDP generated by different sectors of the Bangladesh economy and per day loss estimates made by the private sector. As the Table would show, estimated losses for a number of sectors are almost equivalent to per day's GDP of the respective sector. Whilst no one would doubt that various sectors of the economy have suffered losses, to varying extent, for many of the sectors the estimates appear to be very much on the high side and improbable. In many cases, such high estimates of losses arose from errors of double counting.

Table 3.2: Comparison of Per Day Loss Reported by Different Sectors and Per Day's GDP

Sector/Sub-sector	Per Day GDP (Current Value) (2013-14) Tk. Crore	Per Day Losses Reported by Different Associations/Organisations (Tk. Crore)
1. Agriculture and Forestry	443.1	Agri (288.1)+ Poultry (18.3)=306.4
2. Fishing	116.9	
3. Mining & Quarrying	59.2	
4. Manufacturing	606.7	RMG (147.5)+ Other Mfg (100)+ Ceramic (20)+Plastic (17.85)+Frozen food (8)=293.35
5. Electricity, Gas & Water	49.0	
6. Construction	267.2	
7. Wholesale & Retail Trade	472.1	Wholesale (150)+retail (15) =165
8. Hotel & Restaurant	35.7	
9. Transport, Storage & Communication	373.9	300
10. Financial Intermediations	135.6	
a. Insurance	14.8	15
11. Real Estate, Renting & other Business Activities	249.5	250
12. Public Administration and Defense	119.3	
13. Education	90.6	
14. Health and Social Work	73.8	
15. Community, Social and Personal Services	431.5	Tourism (210)

Source: Based on Bangladesh Economic Review and Dhaka Chamber of Commerce & Industry (DCCI).

[9] It may be noted that, on 25 February 2015, the Hon'ble Prime Minister, while addressing the Parliament, informed that the continued hartal and blockade caused a loss of over Tk1.2 trillion to the country. (http://www.dhakatribune.com/politics/2015/feb/25/pm-hartals-blockade-incur-losses-tk12-trillion#sthash.O1gbY0wQ.dpuf)

According to the projections made by the Bangladesh Bank, the economy was expected to register 6.5 percent growth in FY2015. If this is taken as a reference point, the additional GDP that would be generated in FY2015 would be to the tune of Tk. 50,345 crore. The loss estimates made by the private sector was based on 23.4 days of blockade-losses. If the average daily amount of losses incurred is estimated to have taken place for the entire period of the blockade, the economy would indeed experience a negative growth in FY2015. This is quite unlikely considering the current state of the economy and the projections that can be made. Nonetheless, the information on losses shared by the private sector is highly relevant to understand the nature of damage caused by the political unrest, and also in terms of raising awareness and concerns about the consequences of political violence for the economy of Bangladesh.

3.3 An estimate of economic losses due to political violence during January-March, 2015

Getting at a relatively more accurate estimates of losses to GDP, arising from the recent political violence, would have been a feasible exercise if adequate current data on sectoral GDP was available. In the absence of such data in Bangladesh, it is not easy to come at a reliable estimate of losses to the GDP. Relevant global literature shows application of either sophisticated econometric tools or deployment of descriptive statistical methods to arrive at estimates of economic losses. This study has taken resort to the second method – by using secondary data, the study has tried to come to a reliable estimate of losses. Applying the production method, the study has made an attempt to estimate losses to the GDP in different sectors of the economy. It is to be noted here, that CPD had earlier tried to estimate the economic losses occurred due to political unrest prior to the national elections that was held in 2014 (CPD, 2014a; CPD, 2014b). In one such estimate, CPD shows that 1 per cent losses to the country's capital stock leads to a 0.9 per cent loss of GDP. Another estimate shows that due to 55 days of strikes/blockades (from July 2013 to January 2014), total losses to the in land transport (rail and road), agriculture and agro-based industries, export-oriented clothing and textiles and tourism sectors was estimated to be to the tune of Tk. 49,017.9 crore which was equivalent to 4.7 per cent of the GDP (FY2013).

3.3.1 Methodology of the current study

According to Production method, changes in gross output in the economy occur either due to changes in output (changes in sales and inventory) or changes in input (intermediate input, compensation, taxes/interest rates, consumption of fixed capital and operating surplus). In order to maintain the balance in the equation, change in one side of the equation has to be adjusted by equivalent amount of changes on the other side.

Changes in Gross Output (GO):

ΔSale (S) + ΔChange in Inventory (CI) = ΔIntermediate input (II) + ΔCompensation (CM) + ΔTaxes/interest rates (T) + ΔConsumption of fixed capital (D) + ΔOperating Surplus (OS)

Given the diverse nature of damages, changes in output side and changes in input side are different for different sectors. Hence manifestation of losses would also vary for different sectors of the economy, depending on the nature of the product and the process involved. According to the input-output model, there is no scope for counting the changed value twice in the general equilibrium framework; otherwise 'double counting' problem would arise in estimating the losses. Aforesaid estimates of losses provided by the private sector appear to have arisen from the 'double counting' problem, resulting in the relatively 'high' figures for the losses.

The present analysis is based on secondary data and information as regards losses reported in the national dailies during January-March, 2015. CPD researchers collected information on losses from different associations and inquired about the types of losses different sectors faced because of the blockade. This information was examined in a thorough manner in order to identify the actual economic losses. As the violence gradually eased, the extent of damage had also gone down over time (Table 3.1). Taking cue from this, the entire period was divided into three phases –'high', when the vandalism and calamities were rather more intense, mainly during the first two weeks of January, 2015; 'medium' when the situation was found to be moderate (mainly in the following one month period after first two weeks) and 'low' when the situation was found to be near normal as was with March, 2015. Data reported on daily/weekly/monthly basis was calibrated, by putting weights on it.

3.3.2 Sectoral Estimate of Economic Loss

Agriculture sector

Agriculture sector mainly faced the problem of marketing of farm products, particularly vegetables which are perishable by nature. Rice and non-rice crops which were at different stages of cultivation did not face major disruption as supply of fertiliser, medicine, diesel for irrigation was reported to be 'normal'. Because of continuing blockades, supply chain of farm products was severely damaged and disrupted, particularly during the 'high' disruption period. Consequently, a number of products including potato, cauliflower, eggplant, milk, raw pepper and rice were often had to be sold including at lower than what the market would generally offer. In some instances vegetables perished in the fields. On both counts, farmers were severely affected.

From an economic point of view, products that perished in the fields are considered to involve economic losses incurred by farmers. Annex Table 3.1 shows that – as many as 11 incidences were reported in the national dailies where farmers in different districts had experienced losses from damage to perishable products. However, such incidences were not very frequent. In contrast, incidence of products sold at lower than market price to wholesalers was rather common. In most cases, those items were sold at market/higher prices in the retail market. Such incidences of shifting the burden from farmers to wholesalers and retailers would not be counted as economic losses; rather this would indicate readjustment of margins and distribution in the supply chain. Such readjustment is reflected in the rise of retail price of major agricultural commodities as presented in Table 3.3, often at the cost of farmers in rural areas. Overall, economic loss in the agriculture sector appears to be not that high. Considering the loss of vegetables during the political unrest (assuming the loss is not more than 10 per cent of total production), the loss in farm products is amounted to Tk. 398 crore.

However, farmers receiving lower prices, were affected and faced difficulty in repaying bank loans and other dues. According to Bangladesh Bank repayment of agricultural credit in January 2015 was 18.9 per cent lower compared to the same period in the previous year; this was indeed the largest fall in a month in FY2015. In view of this, farmers need to be supported by way of allowing them to take necessary adjustments as regards their outstanding agricultural credit particularly taken for non-rice crop cultivation.

Table 3.3: Average retail price of selected commodities in Dhaka

Commodities	Jan-14	Jan-15	Feb-14	Feb-15	Mar-14	Mar-15
Potato	12.2	12.2	12.2	12.5	12.2	13.5
Eggplant	25.7	17.2	17.2	32.5	25.2	30.0
Cauliflower	12.8		12.8		12.8	
Tomato	35.0		35.0		35.1	
Poultry	150.0	123.2	134.5	127.5	134.5	152.5
Rice	31.1	31.4	31.1	33.5	31.1	32.5
Egg (100 pieces)	633.5	689.0	633.5	737.5	633.5	737.5

Source: Based on Department of Agricultural Marketing (DAM).

Poultry sector

Poultry sector's main problem was related to marketing of their products due to the disruption in the supply chain. The affected products included egg, chicken meat and one day chicks. Part of the losses was adjusted with high retail price as shown in Table 3.3. According to the Bangladesh Poultry Industries Coordination Committee (BPICC), during the 'high' period of blockade (first two weeks) the sector's loss amounted to Tk. 256 crore (Tk. 18.28 crore per day) which included destroying of unsold eggs, high transportation charge, low selling price of egg and meat, incurring additional expenses for feed and medicine for chicks and hens. According to the industry insiders, problem of marketing had gradually eased over the following days. The loss per day was estimated to be Tk. 15 crore for next 14 days of blockade, and Tk. 7 crore for next 14 days and Tk. 3 crore for the following 14 days. The total loss for the poultry sector is estimated to be Tk. 606 crore.

Shrimp and frozen food sector

Similar to other sectors shrimp and frozen food sector had to confront the challenges of disruption in the supply chain. Stock piling had led to fall in market price; also production during the peak production season of February to March was sluggish. At the same time, relative appreciation of BDT vis-à-vis Euro had undermined competitiveness of local products in the Eurozone and pushed down the selling price. According to the Bangladesh Frozen Foods Exporters Association (BFFEA), it was apprehended that export of shrimp reduce by 25 per cent when compared with target for FY2015 (USD 635.5 million). It was estimated that, of this: 10 per cent decline is due to the appreciation of BDT and the rest 15 per cent decline was due to political unrest. Hence the estimated loss due to political unrest would be to the tune of USD 95.3 million which is equivalent to Tk. 741.4 crore.

Apparels sector

According to the BGMEA, apparels sector has faced losses on different counts due to political unrest during January-March, 2015. These included: (a) cancellation of work orders by buyers; (b) compulsion to sell at highly discount rate; (c) higher cost incurred on account of higher airfreight charges; (d) additional charge due to delayed shipment; and (f) loss due to vandalism involving transport carrying apparels. As per a request from the BGMEA, a total of 41 factories have reported about different types of losses. However, many firms did not report their losses in order to avoid unnecessary queries from different organisations.

Cancellation of work orders in recent months is taking place mainly for two reasons - lack of confidence on the part of buyers in terms of receiving the orders on time due to ongoing political unrest; secondly, for undermining of competitiveness of local products due to appreciation of taka, mainly against major competing currencies. This was particularly true for apparels products destined for the EU market. Anecdotal information indicates that 50 per cent of cancellation of orders was related to political unrest. Hence the losses due to political unrest would be to the tune of USD 5.9 million which was 50 per cent of total losses arising for cancellation of orders (USD 11.8 million). Besides, losses for discount would amount to USD 0.85million. The additional expenses due to airfreight of goods was USD 1.1 million. Similarly, additional expenses for delayed shipment amounted to USD 6.2 million. The loss arising from vandalism which caused damage of either imported materials or exported products amounted to USD 0.94 million.[10] Such losses had obviously cut into profit margins of firms.

Thus total loss for RMG sector due to political unrest is estimated to be USD 15.0 million which was equivalent to Tk. 116.7 crore, for the 41 units. A major loss for the sector in general is cancellation of orders by the buyers/brands for the period May-June, 2015 due to various reasons including political unrest. According to the officials of BGMEA, this is amounted to USD 2.1 billion. Considering cancellation of orders due to political unrest as entrepreneurs' loss of prospective income (assuming 50 per cent of total order cancelled are due to political unrest for 56 per cent of RMG owners) total loss would be Tk. 1,318 crore. The overwhelming majority of enterprises had suffered losses due to the disruption and actual losses due to the sector arising from the disturbances and lost orders are projected to be quite significant.

Plastic sector

The plastic sector comprises of both domestic market-oriented and export-oriented firms. According to the Bangladesh Plastic Goods Manufacturers and Exporters Association (BPGMEA), plastic sector has faced a diverse range of difficulties during the period of unrest which include products remaining unsold leading to high storage and rental charges, additional shipping charge, lower work orders and damage suffered by delivery vans. In response to request of the BPGMEA, a total of 26 firms reported their losses during the first month; of these only 'financial loss' was taken into cognisance for estimation purpose.[11] About 500 firms had faced adverse consequences due to the political unrest.

The reported firms were categorised into large, medium and small, based on their extent of losses.[12] Average losses of large, medium and small firms during the first 30 days were Tk. 9.6 crore, Tk. 57.96 lakh and Tk. 25.25 lakh. Among the 500 factories, there are 11 'large', 139 'medium' and 350 'small' firms. Thus the average amount of losses during the first 30 days (10 January-10 February, 2015) is estimated to be Tk. 195 crore. During the next 30 days, the situation had seen improvements and production adjustments were made keeping in the purview the inventory pile up. Thus, loses over the following 30 days is projected to be

[10] Information of losses due to vandalism for one particular firm appears to be inexplicably high; no reasonable explanation was given. Hence the loss incurred by this firm was adjusted.

[11] It is assumed that 'other losses' are by and large included in the financial losses.

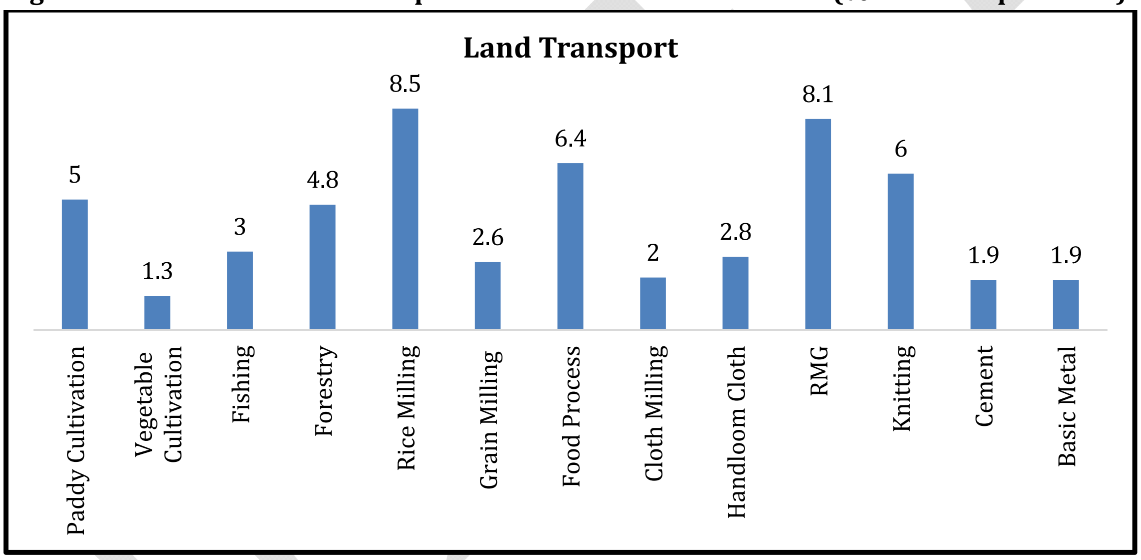
[12] Firms having a financial loss over Tk. 1 crore are considered to be 'large', those having a loss between Tk. 10 lakh to Tk. 1 crore are considered to be 'medium', and those having a loss of less than Tk. 10 lakh are considered to be 'small' firms.

significantly low (perhaps about a-fourth of the first month). This would be in the range of Tk. 49 crore. Thus total loss of the sector would be Tk. 244 crore.

Transport sector

Land transport service is resorted to by a wide range of production and services sectors including agriculture and manufacturing sectors. These are associated with rice cultivation, fishing, forestry, rice milling, grain milling, agro and food processing, handloom, RMG and knitting, wide array of manufacturing activities, construction services, materials movement, etc. Total contribution to these sectors is about 50 per cent of total land transport services (Figure 3.1). The loss of land transport services for those activities have been discussed under specific sectoral analysis of losses which include agriculture, poultry, apparels, plastic and food processing. Since components of losses should not be counted twice, (i.e. to avoid double counting) losses incurred by the transport sector which were already counted under the sectoral losses were not counted in this regard. Losses incurred by other economic activities amounted to Tk.432.0 crore.

Figure 3.1: Contribution of transport services in different sectors (% of total input value)



Source: Author's estimate based on Bangladesh Social Accounting Matrix (SAM), 2007.

Table 3.4 presents the losses of transport services in major sectors. Losses of transport services has been calculated taking cognisance of the sectoral losses against the share of transport services in major activities. This loss is estimated to be Tk. 302 crore. Together with the loss of rest of the sectors, the final amount of losses would be in the range of Tk. 744 crore.

Table 3.4: Loss in transport services in different sectors

	Sectoral Loss (in crore Tk.)	Share of transport input in different sectors (% of Total Input)	Loss for Transport (in crore Tk.)
Agriculture	398.0	9.7	39.0
Poultry	606.0	2.4	15.0
Shrimp farming	741.4	4.5	33.0
Apparels	1318	13.0	171.3
Plastic (chemical industry)	243.8	13.3	32.0
Banking and insurance	156.0	1.1	1.8
Tourism	825.0	1.2	10.0
Sub-total (41.2 per cent)			302.0
Rest (59.8 per cent)			438.0
Loss of prospective income for four months from vehicles which were torched			4.0
Total			744.0

Source: Author's estimate based on Bangladesh SAM, 2007.

A major loss in the transport sector took place due to vandalising or torching of vehicles during the time of blockade and strikes. As many as 1,405 vehicles were either vandalised or torched of which 1,390 were of tons/truck type and the rest 15 were railway compartments. As is known, vehicles such as CNG auto rickshaws and inter-district buses and railway compartments were also petrol-bombed and vandalised during this period albeit not on a large scale. According to the available information, about 35 per cent of vehicles were torched leading to capital loss and the rest 65 per cent were vandalised leading to partial capital loss (assuming the loss is about 25 per cent of the asset value). Hence an estimated 486 vehicles were torched and the rest 904 vehicles were vandalised to varying degrees. Considering that an average market value of a half-life bus or truck is about Tk. 12 lakh, total loss of assets would be Tk. 85.44 crore. In absence of insurance, this would call for some measure of support. Recently, Prime Minister's Office (PMO) has come up with a list of 823 vehicles which were vandalised/torched; owners of 270 vehicles received financial assistance to the tune of Tk. 1.57 crore.[13] The rest of the vehicle owners were assured of getting similar type of financial support.

Tourism sector

Tourism sector faced a wide range of difficulties due to the prolonged political unrest. According to the association of tour operators the sector faced following kinds of losses: hotel/motel & resort bookings, food and beverage industry, transport sector in the tourist areas, entertainment attraction (i.e. theme park, eco-park, cinemas, etc.) and retailers, souvenir shops in tourist destinations. As October-February is the peak tourist season in the country, the losses were significant. According to the Tourism Board (reported on 15 January, 2015), the sector would incur a loss of Tk. 150 crore during this season. Besides a significant number of foreign arrivals are associated with business purposes and the losses on that count would be also

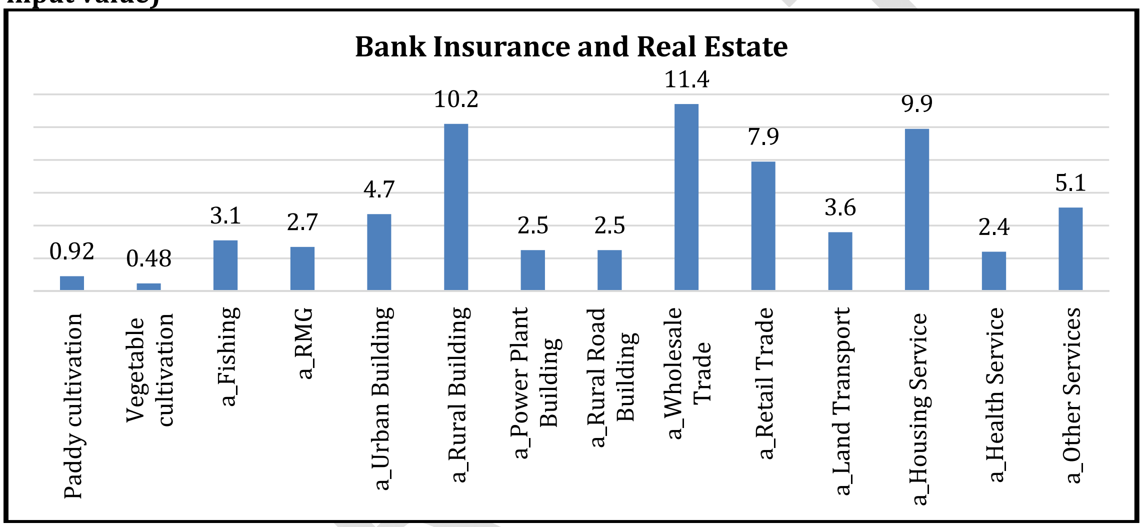
[13] Among the 823 vehicles against which financial support was sought, 287 were torched and the rest 536 were vandalised.

significant (about Tk. 675 crore).[14] Overall total loss incurred by the sector would be about Tk. 825 crore.

Banking and insurance

A major part of banking and insurance activities is related with RMG, real estate, power plants, whole sale and retail trade, land transport, fisheries sector, housing services, health and other services. These activities account for 74.4 per cent of total value added in the services sector of the economy (Figure 3.2). Losses to other sectors appear to be low. Table 3.5 presents the losses incurred by banking and insurance services in those sectors – these amounted to Tk. 50 crore. A significant portion of losses incurred by this sector was included in the loses reported by the other sectors. Estimated loss suffered by rest of the sectors is about Tk. 67 crore. Thus, total losses suffered by the banking and insurance services amounted to about Tk. 156 crore.

Figure 3.2: Contribution of banking and insurance services in different sectors (% of total input value)



Source: Author's estimate based on Bangladesh SAM, 2007.

Table 3.5: Loss in banking and insurance services in different sectors

	Sectoral Loss	Share of Banking and Insurance Services Input in Different Sectors (% of Total Input)	Loss for Banking
Agriculture	398.0	0.5	2.0
Poultry	606.0	0.8	5.0
Shrimp farming	741.0	0.1	0.7
Apparels	1,318.0	0.7	9.2
Plastic (chemical industry)	244.0	0.1	0.2
Transport	267.0	1.1	2.3
Retail and wholesale trade	448.0	3.2	14.3
Tourism	825.0	4.0	33.0
Sub-total (43.1 per cent)			67.0
Rest (56.9 per cent)			89.0
Total			156.0

Source: Author's estimate based on Bangladesh SAM, 2007.

[14] According to tour operators, about 90 per cent travelers visit Bangladesh are business travelers. During the period of blockade their visits were affected as well.

Wholesale and retail trading

A large part of wholesale and retail trading is associated with paddy cultivation, fishing, forestry, rice milling, grain milling, food processing, cloth milling, handloom, RMG, knitting, cement, basic metals, mining and land transport. These together accounted for over 70 per cent under this broad heading (Figure 3.3). A large part of these activities have been covered in the aforesaid sectoral measures. Table 3.6 presents losses incurred by trading activities which is estimated to be Tk. 232 crore. If similar losses are incurred by the rest 48.2 per cent of activity, the total losses for wholesale and retail trading would be Tk. 448 crore.

Figure 3.3: Contribution of wholesale and retail trade in different sectors (% of total input value)

Source: Authors' estimate based on Bangladesh SAM, 2007

Table 3.6: Loss in wholesale and retail trade in different sectors

	Sectoral Loss	Share of wholesale and retail trading in different sectors (% of total input)	Loss for trading
Agriculture	398.0	23.5	94.0
Poultry	606	3.1	19.0
Shrimp farming	741.4	-	-
Apparels	1,318.0	-	-
Plastic (chemical industry)	243.8	32.4	79.0
Transport	267.0	4.2	11.0
Tourism	825	3.0	25.0
Banking	156.0	3.2	5.0
Sub-total (51.8 per cent)			232.0
Rest (48.2 per cent)			216.0
Total			448.0

Source: Author's estimate based on Bangladesh SAM, 2007.

Real estate sector

Real estate sector has been facing a plethora of problems in the recent past, leading to significant fall in sale of apartments. According to Real Estate & Housing Association of Bangladesh (REHAB), realtors are facing a number of challenges including high bank interest rate, depressed demand from middle-income households due to high apartment prices and reduced bank loan facility for purchase of apartments. In addition, blockade and transport disruption have adversely affected their business. Also, in some cases realtors did not receive installments from their clients who suffered from depressed cash flow because of adverse implications of the disruptions.[15]

Education

Education sector was severely affected during this period. Government education services account for 48.5 per cent of contribution of this sector. Due to political unrest, most of the educational institutes remained closed throughout the period excepting the weekly holidays when these were open. Both the public and private sector had to bear the brunt of the disruption. The medium to long-term losses to the country and society were significant, and whilst difficult to measure, losses in terms of economic value remained formidable. However, quantification of losses from the short-term perspective and in GDP terms remained a rather difficult exercise.

Labour related losses

Workers, both skilled and unskilled, take part in wide ranging economic activities. They are involved in paddy cultivation, fishing, rice milling, RMG, knitting, urban and rural building, retail trade, wholesale trade, land transport, health services, education services, other services, administration, banking and communication. Labour use in such activities covered about 76.7 per cent of their value addition. In case of contractual and fixed wage employment, a large part of the losses were incurred by the employers. These losses were covered in different sectoral analyses. However, adverse impact on informal sector workers may not have been covered under those activities. However, the extent of impact and its measurement is rather difficult in this case.

3.3.3 Overall loss arising from political unrest

The analysis presented here provides only a partial estimate of the economic losses incurred by the major sectors of the Bangladesh economy. These sectors covered about 60.0 per cent of the country's GDP. As per the estimation, total losses suffered by these selected sectors during January to mid-March, 2015 due to political unrest would be to the tune of about Tk. 4,900 crore which would be 0.55 per cent of GDP of FY2015 (Table 3.7). This estimate is based on the information available in public domain and also information gleaned from various sources through key informant debriefings and discussions. If it was possible to capture all possible sources of losses, this would obviously raise the estimate of losses that this quick study has come up with. Needless to mention, different sectors have experienced different types of adverse effects; there is also short and medium to long-term aspect of this discourse, not to mention about the indirect and multiplier impacts having adverse impact on the economy.

[15] According to REHAB, due to various reasons (not necessarily for political unrest) per day loss of the sector amounted to about Tk.36 crore.

Table 3.7: Overall economic loss due to political unrest in selected sectors

Sectors	Loss Due to Political Unrest	Loss Due to Other Reasons	Estimated Loss due to Political Unrest (Crore Taka)	Loss of Operative Margin due to political Unrest
Agriculture	Moderate	No	398.0	Significant (farmers)
Poultry	Significant	No	606.0	Significant
Shrimp	Significant	Significant	741.0	Significant
Apparels	Moderate	Significant	1318.0	Moderate
Plastic	Significant	No	244.0	Significant
Transport	Significant	No	744.0 (+85.0)	Significant
Tourism	Significant	No	825.0	Significant
Banking & insurance	Moderate	No	156.0	Moderate
Wholesale & retail trading	Significant	No	448.0	Significant
Real estate	Marginal	Significant		Marginal
Education	Marginal	No		Marginal
Total (excluding services counted in other activities)			4880 (+85.0)	

Source: Author's estimate based on Bangladesh SAM, 2007.

3.4 Addressing the economic loss in the upcoming national budget for FY2016

The upcoming national budget should address the issue of economic losses and the consequent adverse implications on various economic agents, through appropriate fiscal and budgetary support. A dedicated fund can be set up to take corrective measures to help various sectors and stakeholder groups to undertake the adjustments.

a) Although loss incurred by the agricultural sector could appear to be relatively low in monetary terms, farmers were badly affected by not being able to get market price and from lower operative margins. In some areas farmers are not being able to pay installments against loans. Central bank may consider providing rescheduling facilities for repayment of agricultural credit particularly concerning non-crop cultivation.

b) Transport sector's losses have been significant. Although the PMO has taken some measures by donating lump sum amount to some vehicle owners, many remain without support. It is still unclear whether the insurance companies have provided 50 per cent of the claim for damage as mentioned by State Minister for Home Affairs. Central bank could create a window to provide low-cost credit facility to the owners of vehicles.

c) The blockade had caused significant losses to wholesale and retail operators and the SMEs. Fiscal and budgetary proposals in the FY2016 budget may be designed to provide some relief to the involved operators. Tax and SD policies may be calibrated accordingly. Special provision for time-bound rescheduling and low cost credit window may be thought of for them.

d) Sectors dealing with perishable goods were significantly affected due to disruption in the supply chain and lack of adequate storage/warehouse facilities. In order to address these problems and make the supply chains more efficient, private sector may be encouraged to invest in domestic supply chain particularly in building warehousing facility, cold storage facility for perishable products and emergency support facilities, etc. Upcoming national budget may consider putting in place incentives towards special incentives towards supply chain development which will have positive impact on market management during times of disruption and also value retention by small operators.

e) Finally, there should have an institutional mechanism to estimate economic losses arising from either natural calamities or from man-made disasters. Recently Bangladesh Bank has taken an initiative to appreciate the adverse impact on the banking sector, and have collected information from commercial banks on status of disbursement and repayment of credit during the period of unrest. However a comprehensive assessment on economy wide impact requires developing the methodology for estimating the losses in different sectors. In this context, Bangladesh Bureau of Statistics (BBS) is in appropriate position to undertake this kind of exercise.

Section 4: Key Developments at the Global Level and Implications for Budget FY2016

4.1 Recent global economic trends and outlook

Bangladesh's relatively small and open economy is mostly a taker in view of developments in the global economy. Consequently, budgetary measures and fiscal framework for FY2016 has to take into cognisance global economic outlook for the near term future. Potential channels of transmission of the implications of the emerging scenario will need to be considered in designing the budget. In view of this, the present section reviews the ongoing developments in the global economy, the outlook for the time that coincides with implementation of the upcoming budget, and attempts to capture their implications for budget FY2016.

Global growth outlook indicates a mixed scenario. Global growth is expected to rise moderately, to 3.5 per cent, in 2015 and 2016. High income countries are projected to grow by 2.2-2.4 per cent in 2015 and by 2.4 per cent in 2016.[16] The outlook for the US economy improved in the backdrop of lower energy prices and higher job creation with dollar gaining strength. The US Bureau of Labor Statistics reported fall in unemployment rate to 5.5 per cent in February 2015 from the peak of 10.0 per cent in October 2009, and 9.8 per cent in February 2010. On the other hand, EU is experiencing an anemic recovery which is evident from its sluggish pace of growth, weak investment, persistently depreciating Euro, and exceptionally low rates of looming inflation with risks of deflation (UN/DESA, 2015). The growth outlook for the Euro area has been revised downward in the latest projections.

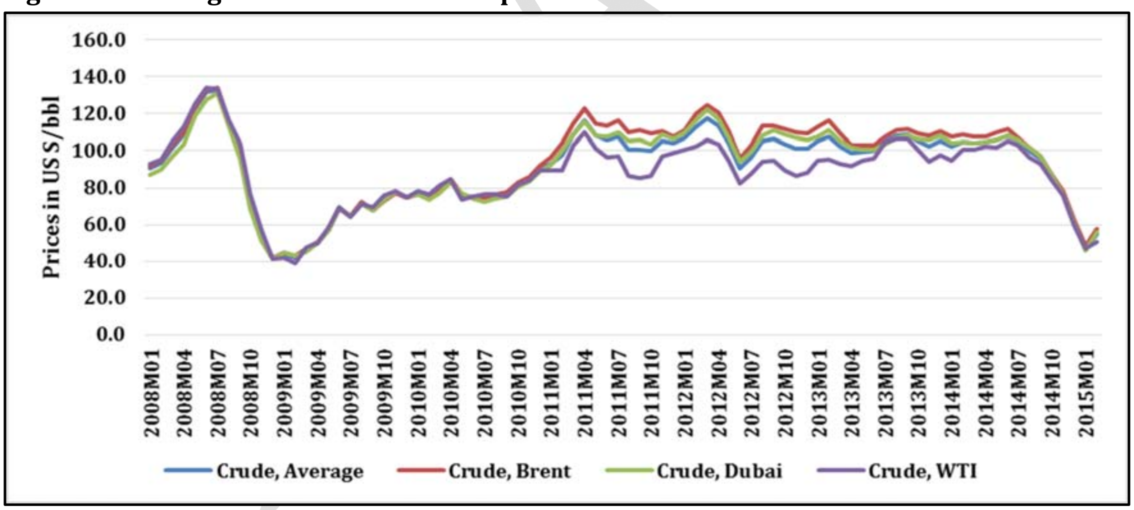
According to projections by the IMF (2015), Middle East and North Africa are expected to grow by 3.3 per cent in 2015 and by 3.9 per cent in 2016. However, projections by the World Bank evince a less optimistic scenario, with growth rates of 2.5 per cent and 3.0 per cent projected for 2015 and 2016 respectively. Projections for Saudi Arabia remain mixed with projections for UAE, Oman and Bahrain remaining fairly consistent. These projections are important as the Middle East region is the major source of employment and remittance flow for Bangladesh.

[16] The range of projections are obtained from the Global Economic Prospects and World Economic Outlook, provided by The World Bank and The IMF accordingly.

Growth projections are promising for the emerging markets and the developing economies at 4.3-4.9 per cent for 2015 and 4.7-5.3 per cent for 2016.

International oil price is expected to remain at the current lower level. From the peak of USD 115 per barrel in June 2014, the (crude) Brent oil price experienced a significant fall to below USD 50 per barrel in January 2015, following four years of high and stable prices (European Commission, 2015). As of 30 March 2015, the price stood at about USD 56 per barrel (Bloomberg, 2015). Current projections estimate the average price of crude oil to remain at about USD 53 per barrel in 2015 which is 45 per cent lower than prices in 2014. It is envisaged that it will remain at a similar low level throughout 2016 (World Bank, 2015). World Bank (2015) highlighted three reasons for the drop in oil prices: weak demand in many countries due to slower economic growth coupled with surging US production and reluctance of the oil cartel by OPEC to reduce output to prevent further falls in prices. Saggu and Anukoonwattaka (2015) also mentioned three sets of reasons: China's transition to a lower level but more sustainable economic growth, continued Eurozone stagnation (by the exacerbated economic crisis in Greece), and lower growth across the commodity exporting economies resulting in lower demand for petroleum products. On the supply side, the authors mentioned shell-energy boom in the US, OPEC's strategic shifts towards price targeting to maintain market share, export bans on certain minerals, and record agriculture harvest in the US. Saggu and Anukoonwattaka (2015) also pointed out two monetary factors driving lower oil price: appreciation of USD led to fall in lowered prices in USD-denominated commodities and the expected interest rate tightening by the US Federal Reserve.

Figure 4.1: Changes in international oil prices



Source: World Bank Commodity Price data.

The reduction in prices is expected to have global redistribution of income from oil-exporting countries to oil-importers and is anticipated to boost global growth because oil-importing countries are projected to spend more of the additionally available funds than oil-producing countries are expected to reduce through spending cuts.[17] Additionally, falling oil prices will have favourable impact on countries in Asia as estimated by the IMF in their World Economic Outlook. It should, however, be noted that within the exporting nations there will be significant

[17] IMF, *World Economic Outlook Update*, January 2015. In the two IMF scenarios, the 2014-15 oil price decline pushes global GDP by 0.3-0.7 per cent in 2015 and by 0.4-0.8 per cent in 2016.

departures in terms of consequences.[18] A sharp reversal in oil prices could undermine the outlook presented above which will then call for immediate policy responses because of possible uncertainties. This reversal of fortunes could induce households to postpone spending decisions if real disposable income falls, producers to delay investment decisions because of rising production costs, and could have overall negative impact on business activities in general. The projections of oil prices stated above could be subject to volatility because of increasing geopolitical tensions of the recent times.

Prices of other commodities also declined. In international market, prices of almost all commodities followed the price trends of oil and experienced a decline, to varying extent. The fall in the IMF Commodity Price Index began in July 2014 and continued until January 2015. The price index increased marginally in February (by 5.51 per cent) although prices remained below the pre-fall level (Table 4.1). Prices of agricultural commodities are expected to experience a 4.8 per cent decline in 2015 (and then may recover marginally in 2016) and food commodity prices are expected to come down by 4.2 per cent (World Bank, 2015). The fall in commodity and food prices have contributed to easing the inflationary pressure in the Bangladesh economy. Raw material prices are also projected to decline cotton and natural rubber by 13 per cent each, and timber by 3 per cent (World Bank, 2015). The fall in cotton prices is particularly important from the perspective of the competitiveness of the RMG exports from Bangladesh.

Table 4.1: Percentage changes of the monthly IMF Commodity Price Index and of price of commodities vital to the Bangladesh economy

Month	Commodity Price Index	TSP	Urea	Cotton	Rice, Thai 5%	Rice, Thai 25%	Rice, Thai A.1	Rice, Vietnam	Wheat, US SRW	Wheat, US HRW
Jun-14	0.5	1.7	-0.4	-2.0	2.3	2.9	2.8	3.6	-14.6	-8.4
Jul-14	-2.1	10.8	1.3	-7.8	6.3	5.3	8.2	4.1	-7.8	-8.5
Aug-14	-3.4	1.5	6.7	-11.7	5.5	10.4	5.8	5.2	0.9	-6.1
Sep-14	-3.9	-1.8	1.2	-0.8	-2.9	-0.7	-2.3	-0.1	-8.0	-7.5
Oct-14	-6.5	0.0	-1.4	-4.1	-0.9	-0.5	-2.7	-1.2	8.5	0.7
Nov-14	-5.7	-1.2	-3.1	-4.0	-2.3	-2.2	-3.2	-3.4	7.2	5.4
Dec-14	-11.9	-1.0	0.4	1.1	0.0	-0.5	-0.6	-9.4	10.9	4.2
Jan-15	-12.1	-0.3	2.2	-1.4	0.5	0.5	-0.6	-2.1	-11.6	-7.9
Feb-15	5.5	0.0	-7.0	3.7	0.0	0.0	-0.4	-5.6	-5.0	-4.6

Source: IMF Commodity Price Index, World Bank Commodity Price data.

Global trade growth will remain moderate. Since the global financial crisis, world trade growth (in volumes) has slowed significantly from the trend of pre-crisis level. Global trade rose by less than 4 per cent per annum during 2012-14, well below the pre-crisis average annual growth of about 7 per cent (World Bank, 2015; UNDESA, 2015). Part of this slowdown can be attributed to the reduced import demand originating from weak economic growth in advanced economies. The implication of low demand in high-income countries was reflected in the lower import volumes, which deviated from trend by more than 20 per cent in both the United States and the

[18] Russia is the hardest hit from this decrease in oil prices as the value of ruble plummets and Venezuela is teetering on the brink of a recession with massive inflation rates. OPEC members such as Saudi Arabia, U.A.E and Kuwait are able to sustain low prices because of considerable foreign currency reserves, whilst other members such as Iran, Iraq, and Nigeria have very little opportunity for continuing with the current strategy of inaction.

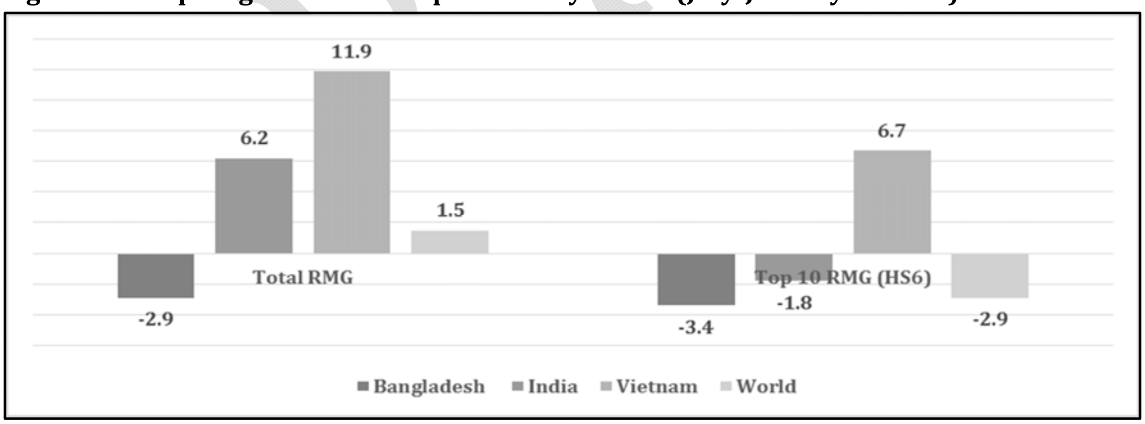
Euro Area. With high-income economies accounting for about 65 per cent of the global imports, this lingering weakness contributed to the slow recovery in global trade.

Despite somewhat optimistic projections, global trade growth is not expected to revert to the steeply rising trajectory of the pre-crisis years. Strengthening of demand by high-income countries is expected to lift exports of developing countries (albeit to different degrees, depending on their major trading partners, and the composition of their export baskets). For 2015–17 period, improvements in the performance of the United States will support manufacturing exports from Central America and Asia. Stabilising, or slowly expanding, activities in other high-income countries, particularly in the Euro Area and Japan, is also expected to add some momentum.

In view of the above, it is to be noted with some concern that, pace of growth of export from Bangladesh is on the decline in FY2015. According to EPB data, during July-February FY2015 export earnings from the US declined by (-) 2.6 per cent. Thankfully, Bangladesh's export to the EU during the mentioned period increased by 4.3 per cent. As would be expected, export of RMG, which is the single dominant product of Bangladesh, influenced the performance of Bangladesh's export in these two major markets.

According to the US import data (reported by the United States International Trade Commission (USITC)), during July-January FY2015 period, total RMG import from Bangladesh declined by (-) 2.9 per cent (Figure 4.2). Compared to Bangladesh, growth rates of RMG import from India (6.2 per cent) and Vietnam (11.9 per cent) had been impressive. Indeed, overall import of top 10 RMG products (HS6)[19] by the US declined by (-) 2.9 per cent whereas import of those products from Bangladesh declined by (-) 3.4 per cent. In contrast, import from Vietnam of these 10 RMG products during the reported period increased by 6.7 per cent.

Figure 4.2: Import growth of RMG products by the US (July-January FY2015)



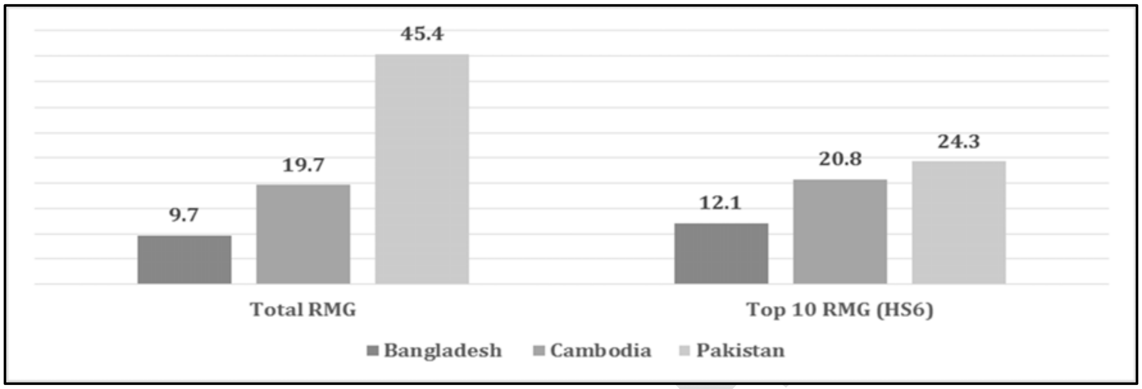
Source: Estimated from USITC data.

In the EU market, performance of Cambodia and Pakistan were more robust compared to Bangladesh as regards export of RMG products. During July-December FY2015 period, import of RMG from Bangladesh to the EU increased by 9.7 per cent, whereas Pakistan recorded an impressive growth rate of 45.4 per cent (Figure 4.3). The corresponding growth rate for

[19] The product codes are 610821, 610910, 611020, 611030, 620342, 620343, 620462, 620520, 620630, and 620920. The share of these products in total RMG import by the US from Bangladesh is more than 70 per cent.

Cambodia was 19.7 per cent. For the top 10 RMG product (HS6) of Bangladesh[20], the import growth rates from Cambodia and Pakistan were also higher than that from Bangladesh. Pakistan's exceptional surge in the EU market can be attributed to their inclusion in the GSP (Generalised Scheme of Preferences) Plus, from 1 January 2014, which enabled them to export at zero tariff. It should also be taken into consideration that weak estimates and projections of economic growth for the EU may have adverse impact on the prospects for Bangladesh's export of RMG in the near-term.

Figure 4.3: Import growth of RMG products by the EU (July-December FY2015)



Source: Estimated from Eurostat data.

It appears that Bangladesh's RMG export in the US market is struggling while export in the EU market is facing greater competition. The budget for FY2016 needs to consider these trends while coming up with fiscal proposals including incentives.

The falling Euro and strong USD is dominating global foreign exchange scenario. The USD is appreciating steadily, while the Euro appears to be plunging inexorably to below Dollar parity. There has been an 8 per cent gain of the USD against the Euro (IMF, 2015) which was set off at the end of June 2014- early July 2014. Appreciation of the USD was driven by greater job creation and improvements in the macroeconomic performance of the US. The weakening of the Euro was attributed to the *quantitative easing* (QE) programme of the European Central Bank resulting from weak recovery, undesirably low inflation and the uncertainty as regards the outcome of the Greek adversity for the Eurozone (European Commission, 2015). Consequently, the BDT has depreciated marginally (by 0.2 per cent) against the strengthening USD during the period of March FY2014-March FY2015 whilst appreciating by 20.8 per cent against the Euro over the same period. However, it may also be noted that Euro depreciated against all major currencies (including those of competitors of Bangladesh's export) during the same period, although by varying degree.

A point to observe is that the rate of depreciation against the US Dollar is only marginal because the exchange rate policy of Bangladesh is directed to maintaining a stable rate of BDT against USD. However, this policy has led to a significant appreciation of the BDT against a persistently weakening Euro. Moreover, the BDT has appreciated against the Indian Rupee and depreciated against the Chinese Yuan. Concerns arise from these movements in the exchange rate since

[20] The product codes are 610821, 610910, 611020, 611030, 620342, 620343, 620462, 620520, 620630, 620920. The share of these products in total RMG import by the US from Bangladesh is more than two-third of total.

countries in the EU are major RMG export destinations for Bangladesh which faces strong competition from India, China, Vietnam, Cambodia and Pakistan.

Morgan Stanley[21] forecasts the appreciation of the Dollar to continue till the fourth quarter of 2015, to a rate of 1.12 Euro/USD; a reversal of this trend is expected only in the second quarter of 2016 to 1.13 Euro/USD. The extent of the adverse effect of the movement towards a Dollar-Euro Parity, alongside a steady USD-BDT exchange rate, remains to be seen. It must be kept in mind that forecasts are underpinned by various factors and are dynamic, and hence subject to change. The speculation about the impending rise in the federal funds rate in the US later this year (2015), depending on the economic outlook, will undeniably affect the current forecasts and currency flows. Thus, the sustainability of these trends are indeterminate and demands continuous monitoring and prudent exchange rate of management policies.

4.2 Implications of global economic trends for budget FY2016

Developments in the global markets have important consequences for the Bangladesh economy at a time when the budget for FY2016 is being prepared. Thus care must be taken to mitigate the effects of the shocks arising from these fluctuations.

Lower international oil and commodity prices will provide additional policy spaces. A critically important issue at hand is the persistently falling oil prices. Bangladesh being a net importer of crude oil stands to make formidable gains from low oil prices. The falling oil prices at the international level has already allowed the government greater fiscal space. As was discussed in Section 2, lack of demand for subsidy from BPC has helped the government not to go for another upward adjustment of electricity prices. The price of oil, as was also noted is projected to be at low level throughout FY2016. According to the BPC data, the average prices of crude and refined oil were USD 109.6 per barrel and USD 125.27 per barrel respectively for the period FY2014. If there is no drastic change in demand and administered prices of petroleum products are kept unchanged, CPD estimates indicate that about Tk. 3,000 crore may be saved by lower oil price in FY2016. This implies that there will be zero subsidy demand and BPC may make some profit to recover from its losses incurred in earlier years. Indeed, oil-importing countries around the world now have an opportunity to reduce subsidies associated with oil. For Bangladesh, it is important that in FY2016 subsidies are diverted to BPDB keeping the electricity prices unchanged. But at the same time, it is also pertinent to note that the government makes full use of this opportunity and complete the electricity production-related ADP projects according to the planned timeline so that the electricity production dependency on high-cost liquid fuel may be reduced. Indeed, in Section 2 of this paper, nine such ADP projects have been identified which were planned to be completed by FY2016 and can add more than 2,500 MW electricity (to be produced using natural gas as fuel) to the national grid.

In general, the lower commodity prices should result in lower inflationary pressure in domestic market. Hence, the government will have some additional policy space for using expansionary fiscal and monetary policy instruments which can then be used to catalysing private investment and promote economic growth.

[21] (January 15, 2015). Retrieved from Morgan Stanley: http://www.morganstanley.com/institutional/research/pdf/FXPulse_20150115.pdf

No major breakthrough in overseas employment. As has been mentioned above, the growth outlook in the Middle East countries are stable but not very encouraging. Overseas employment may remain at the current level of about 4 lakh in near term future. Hence, it will be important to more proactively pursue the cause of generating new employment in the domestic market by promoting private investment in FY2016.

Consider policy support for export. A major concern for Bangladesh is the growing competition in both US and EU market as regards export of RMG products. One may recall that a number of fiscal policy support measures were put in place in favour of exports from Bangladesh during April-October 2014 period (see Annex 4.1). In view of the falling value of Euro, the government is considering a special cash incentive (to the tune of 2-3 per cent on free on board (fob) value) for exports to the EU. Fiscal implications of any such measure could be as high as Tk. 2,400-3,000 crore in FY2016. It may be noted that BDT is not the only currency which have appreciated against Euro, although it is true that the degree is marginally higher for BDT compared to the currencies of major competitors (e.g. India, Cambodia and Vietnam). Hence, the extent of policy support should be examined carefully.

Prudent exchange rate management will be called for in FY2016. It is important that the central bank monitors BDT exchange rates against other major currencies, beyond the USD. The accumulated foreign exchange reserve should give Bangladesh some cushion in this regard. According to some projections, current trends in the international currency market could be reversed in the coming months (Morgan Stanley, 2015). The dynamics in this regard will need to be monitored more closely and on a regular basis.

Promote trade facilitation measures. The budget should also keep in purview the commitments Bangladesh envisages to make in view of the Trade Facilitation Agreement in the Bali package of the World Trade Organization (WTO). Allocations will have to be made in the budget for the required investments in projects in this regard.

Section 5: IMF's ECF and World Bank's Proposed DSC: Implications for the Upcoming National Budget

5.1 IMF's Extended Credit Facility (ECF)

As part of its commitments under the IMF's three-year long Extended Credit Facility (ECF) (2013-2015), Bangladesh has carried out a wide range of reform measures since FY2013. These commitments are related with cash and debt management which include tax and revenue administration reforms, strengthening public financial management (PFM) and expenditure control, containing subsidy costs, strengthening safety nets and reinforcing priority social spending, ensuring sound debt management, non-concessional borrowing and debt sustainability. Till March 2015, IMF has carried out six reviews and disbursed USD 704 million in five installments out of total approved amount of USD 887.6 million.

The progarmme is to continue over the next fiscal year and as such a number of budgetary concerns are linked to its envisaged measures. IMF reviews have highlighted the progress that Bangladesh has made till now in addressing the IMF conditionalities. According to the fourth review report which is the latest, published in June 2014[22], major progress were made in areas of management of subsidies and State-owned enterprises (SOEs) in terms of bringing down the cost of energy, improvements in internal financial management of BPC, improvements in public debt management through tightened procedures and controls over non-concessional external borrowing (NCEB), preparation of a draft medium term debt strategy, finalisation of a Debt Management Performance Assessment, maintaining external debt ceiling, better financial supervision in terms of amended Bank Companies Act (BCA), temporary relaxation of loan rescheduling guidelines to help mitigate the impact of political unrest, reforming SCBs through signing of MoUs with Bangladesh Bank to enact new policies for better credit and liquidity risk management and strengthening internal control, completion of action plan for automation of SCBs and moving forward towards gradual liberalisation on exchange regulations on current and capital account transactions. Despite such institutional and operational reforms, financial sector continues to experience challenges and evinces concerns in a number of areas which have put under question the efficacy of IMF-inspired reforms as also the state of governance in the broader banking-financial sector.

A number of initiatives envisaged under the IMF programme is currently at different levels of progress and these are set to continue in the next fiscal year. IMF has put emphasis on implementation of the VAT Act. It has called for further automation of the tax administration, introducing ongoing online taxpayer registration and increased staffing levels and training at the NBR. Efforts from the government is recommended to contain the rising fertiliser subsidies through better targeting, stricter monitoring, and price adjustments and rationalising tax benefits and cash subsidies provided to different sector. In view of concerns raised by key stakeholders with regard to provisions in the new VAT Act and in view of the lack of preparedness to introduce the new act, its implementation has been shifted to July 2016 from the earlier envisaged July, 2015. In this backdrop, it is important to examine how the remaining activities under ECF will be carried out in FY2016 and what could be possible implications of undertaking the proposed IMF reform programme concerning cash and debt management.

5.2 Implementation of various activities under IMF's ECF Programme in FY2016 and their implications for the national budget

5.2.1 Implementation of New VAT Law

Implementation of new VAT law has been pushed back to July, 2016 due to strong opposition from the private sector concerning a number of issues. Private sector has contested the proposal of introducing a single VAT rate for all types of economic activities. In cognisance of the diverse nature and level of development in various sectors, private sector has called for introduction of multiple VAT rates pointing out that this is practiced in many other developing countries. FBCCI has recommended for abolishing provisions as regards Advanced Trade VAT (ATV) and withholding VAT (Khan and Sadique, 2014). However, IMF and World Bank have pressed for a uniform VAT rate (15 per cent) as well as elimination of truncated base and tariff value exemption on the grounds of simplifying the VAT collection process and making the

[22]IMF has yet to make public its fifth and sixth review reports on the performance of the committed activities.

process transparent. While announcing the national budget for FY2016, Finance Minister will need to take a stand on these issues. Indeed, earlier the government had set up a committee with FBCCI and NBR representatives to come up with a solution. It is uncertain at this point what the locus standi of this committee is. At a national dialogue organised by CPD on 10 December, 2014, major private sector stakeholders had expressed their strong opinion in support of three issues which include: a) low VAT rate, b) multiple VAT rate, and c) more time for taking preparation.

Deferral of the implementation of the VAT law is also linked with slow pace of progress in setting up necessary infrastructure at relevant government institutions. Initial timeline could not be maintained for a number of activities related to VAT infrastructure. For example, most of the activities envisaged under Phase II of the VAT implementation project (March 2013 to March 2015) could not be started within the stipulated time. These concerned designing and development of the new VAT administrative apparatus including its organisational and staffing arrangements, administrative processes, and information systems. The VAT implementation plan was subsequently reviewed and revised in December 2014. In the revised VAT implementation plan COTS (Commercial Off-the-Shelf Software) and hardware tenders have been combined as one procurement and contact and processing centres have been combined as one procurement (Revised VAT Implementation Plan Schedule Report 2014).

A number of projects in support of strengthening the governance and capacity of tax administration as well as establishment of taxpayers' information and service centre are currently being undertaken with a total expenditure of Tk. 709.6 crore. Most of those projects would not be completed within the stipulated timeline (December 2015). Even if 100 per cent allocated fund is disbursed in FY2015, only 54 per cent of those projects would be completed. Implementation of the envisaged works and activities including setting up the needed infrastructure will need to be reflected in the FY2016 budget with necessary allocations.

5.2.2 Strengthening Financial Management

As part of strengthening financial management, government has decided to amend at least three acts: a) inclusion of the bank resolution and lender of last resort (LOLR), facilities under the Bank Company Act 2013, b) Bangladesh Bank Order 1972 and c) Deposit Insurance Act. The facility of LOLR would provide the central bank to intervene in case any bank or financial institution fail to cope up with the emerging adverse situation. Given a number of large loan scams which made the position of some of the SCBs vulnerable, Bangladesh Bank is considering implementing the LOLR facility.

Although Bangladesh Bank allowed temporary relaxation of loan rescheduling facility in order to help the private sector to mitigate the risk of political unrest during FY2014, the facility was not always used with proper justification. Later on, Bangladesh Bank has reintroduced the rescheduling facility for large-scale borrowers (Tk. 500 crore and above) with extended maximum timeline of 12 years for term loans and six years for demand and/or continuous loans (Bangladesh Bank, BRPD Circular 04). Recently Bangladesh Bank has announced a plan to extend special facilities to 'good borrowers' and will also provide other facilities including loan rescheduling and restructuring to 'affected borrowers' to realise loans and keep businesses going (Bangladesh Bank, BRPD Circular 06). It is apprehended that if strict guidelines to identify affected borrowers are not followed, there will be room for discretion, and hence likelihood of lack of discipline in financial management.

5.2.3 Power and Energy Tariff Adjustment

In view of declining global prices of petroleum products there is growing pressure on the government to reduce the administered prices of petroleum products (CPD, 2015). On the other hand, Bangladesh Energy Regulatory Commission (BERC) has initiated a process to review the electricity tariff (as well as gas tariff) with a view of making adjustments in the backdrop of higher power generation cost. Considering the declining global fuel prices, government and IMF have agreed not to go for upward adjustment of power tariffs, the idea is also to allow space to BPC to make necessary adjustment of its losses. As per the understanding, administered price of petroleum at present moves within the differential limit (not more than Tk. 10) between local and international prices. IMF has agreed to provision of budgetary support to BPC, BPDB and BCIC to cover subsidy costs. The upcoming budget is likely to come with a comprehensive proposal with regard to adjustment of power, gas and petroleum tariff and allocation of subsidy for the power and energy sector.

As per the fourth review of IMF, rental power plants will have to be put under tighter pricing rules in order to reduce energy costs and to be gradually replaced with base-power plants. The FY2016 budget will have to come up with a plan as regards adjustment of power generation by reducing dependency on rental power plants.

5.3 Proposed Development Support Credit (DSC) from the World Bank

Bangladesh is seeking development support credit from the World Bank with a view to meet its various budgetary requirements.[23] The amount of budgetary support is yet to be fixed although USD 500 million has been sought by the government. The GoB and the World Bank have been discussing relevant issues for over a year now particularly those concerning various reforms. Both sides have identified as many as nine areas of reform which include public fund management, banking, energy, transport, ICT, local government, public-private partnership, financial management, and migrant workers (Table 5.1). Most of these are related to adoption of new laws, rules and action plans, and timely implementation of various projects related to infrastructure and ICT and other sectors. While both sides have common positions with regard to a number of areas including PPP, setting up of special economic zones and infrastructure projects, there are differences of opinion as regards some of the other areas. These include time-bound action plan to strengthen the financial sector and undertaking energy sector reform. As part of reform issues, World Bank is interested to include other tax-related issues including Customs Act and direct tax. World Bank supports IMF's stance on introduction of unified VAT rate instead of the existing multiple VAT rates. IMF's stance as regards automatic adjustment of energy price with international market is also supported by the World Bank.

[23]In 2008, Bangladesh took USD 320 million as budget support under which various reform measures have been undertaken. World Bank approved two budgetary support programmes in June 2008 worth $320 million. The support was provided to help the GoB to implement its wide-ranging governance and economic policy and energy reforms. Of the fund, USD 200 million had been provided as Transitional Support Credit to help lessen pressure on the budget for 2007-08 fiscal year and the rest for the power sector (Dhaka Tribune, 12 October 2014).

If Bangladesh government and World Bank reach an agreement in the coming months, FY2016 budget will need to address a number of reforms-related issues. Issues which are included in the first year in the proposed activity list include formation of an apex body to coordinate activities of different government agencies functioning in the Dhaka city, preparation of urban transport policy, finalisation of an action plan to integrate with regional and global markets, time-bound action plan to strengthen the SCBs, preparation of a public fund management strategy, devising of a formula for revenue sharing with the local government, updating of telecom policy, design of a strategy for increasing efficiency of existing thermal plants, revising of the energy policy and preparation strategy for reducing cost of remitting funds from abroad. This is a long list and the needed activities will need to be reflected in FY2016 budget if the DSC is approved in the coming months. GoB will need to carefully examine the proposals before these are finalised.

The need for budgetary support from the World Bank remain unclear. National budget during FY2014 and FY2015 did not face major resource constraints. Moreover the amount of support that is sought (USD 500 million) also not significant. CPD has always maintained that reforms, whilst much-needed, must be domestically-owned and nationally-designed. If there is any shortfall in resources, funds may be mobilised from development partners including the World Bank. Regrettably, both in case of IMF-support and World Bank DSC reform agendas are being imposed as conditionalities for receiving funds. This undermines both the national cause of policy making independence and also the prospect of implementation of these reforms.

Table 5.1: Commitments of Bangladesh for getting Budgetary Support from World Bank

Sectors	Commitments	Timeline
Transport	• The government will form an apex body to coordinate activities of various government agencies in Dhaka to successfully complete the large ongoing projects. • Prepare an urban transport policy. • The government will finalise and approve a draft action plan to enhance the economy's integration with regional and global markets.	• First year
	• The metro rail law will be placed before parliament. • Prepare an action plan to operationalise Dhaka Transport Coordination Authority to effectively implement the strategic transport plan.	• Second year • Approved and operationalised in final year
	• The government will also start work on dual tracks for the main rail line between Dhaka and Chittagong to increase the movement of containerised cargo. • It will also set up a rail inland container depot in Tongi with a capacity of 150,000 twenty-foot equivalent units with financial assistance from the Asian Development Bank. • The government will also work with India and Myanmar to improve efficiency of common border posts. • A comprehensive national logistics strategy will be prepared.	• Second year
Financial Reform	• The government will prepare and update a timebound action plan to strengthen the SCBs, particularly improving governance, human resources, risk management capacities and internal control.	• First year
	• Will approve the action plan and initiate the reforms as well as prepare a diagnostic report of low-performing private banks.	• Second Year
	• Authorities will prepare a draft guideline on banking norms for	• Third year

Sectors	Commitments	Timeline
	commercial banks.	
Public Fund Management (PFM)	• The government will prepare a revised public fund management (PFM) strategy • The government will prepare a strategy paper to pave the way for devising a revenue sharing formula with local government institutions that are cash-strapped, and have little revenue raising authority and limited control on government departments at local levels. • It will promote institutional change in external statutory audit, increase transparency of the budget and design new modalities to support strengthening of PFM.	• First year
ICT	• It will develop an integrated ICT solution for PFM, foster budget integration and strengthen the Medium Term Budgetary Framework.	• Second year
	• The National Telecommunication Policy 1998 and Bangladesh Telecommunication Regulatory Act 2001 will be updated.	• First year
	• The government will formulate a spectrum roadmap as well as draft licensing guidelines.	• Second year
	• The policies, laws, roadmaps and guidelines will be approved to help the sector leap forward.	• Third year
Local Government	• It will also work to transform local bodies into effective institutions. • The government will prepare a roadmap based on the recommendations of the strategy paper, and approve and initiate implementation of the roadmap.	• In the following two fiscal years
Energy	• The government will revise the Power Sector Master Plan and prepare an Energy Efficiency and Conservation Master Plan.	• Revise in first year • Will be approved in the following year
	• It will prepare a strategy aimed at increasing efficiency of existing thermal generation plants, diversifying generation of fuel mix to enhance energy security and taking initiatives to implement market-based pricing.	• First year
	• The government will form the Bangladesh Energy Research Council to conduct research and development work in the power and energy sector.	• Second year
	• It will also revise and approve the energy policy.	• Final year
PPP	• The government will place the draft law on the PPP framework at parliament.	• First year
	• It will formulate rules to operationalise the PPP law. The reforms are aimed at encouraging the private sector to undertake more PPP projects.	• Second year
Migrant Workers	• It will prepare a strategy to reduce the cost of remittance they send home.	• First year
	• It will be followed by new measures to do the same.	• Second year

Source: The Daily Star, 6 March 2015. http://bd.thedailystar.net/business/govt-sends-reform-proposals-wb-get-budget-support-3629

Section 6: Concluding Remarks

The review indicates that, notwithstanding the deterioration of the political environment, particularly during the third quarter of the current fiscal year, Bangladesh economy continues to enjoy relative macroeconomic stability in the form of low inflation, manageable fiscal deficit, stable exchange rate and favourable BoP position. A loss of almost half a percentage point equivalent of the GDP, as our preliminary estimates show, is a substantial dent on the economic prospects of the country. One feels concerned also because of some of the fault lines appearing in the global economy including a slowdown in remittance flow, falling economic growth in the EU and sluggish demand for Bangladesh RMG products in the US market, significant decrease in export growth and higher appreciation of the BDT against the Euro vis-à-vis Bangladesh's export competitiveness. All these make the effort to break out from the six per cent GDP growth trap a more challenging task.

In view of our foregoing analyses, some of the key areas that FY2016 budget will need to address include more resultative efforts towards domestic resource mobilisation (including non-tax revenue), invigorating and incentivising private investment, smooth functioning of the supply chains and removing the obstacles to higher growth of human resource export. However, reform outlook continues to be dim. Such an assessment impinges upon the delivery and effectiveness of the reform measures envisaged under the IMF programme and upcoming World Bank budgetary support.

There is a heightened need to arrest the downward slide in the current political uncertainties through an inclusive politics. A renewed effort will be needed in terms of institutional strengthening and significant improvements in good governance practices. This is also the time to put into practice the much-awaited result-based management system in budget implementation and strengthening of the institution of local government, as CPD's district budget exercise has suggested.

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Annexure

Annex 2.1. Top 26 projects that should be implemented by June FY2016

In crore tk

Sl. No.	Project Name	Sector	Project Cost	End date
1	Padma multipurpose Bridge project	**Transportation**	20,507	31/12/15
2	Dhaka-Chittagong 4-Lane		3,190	31/12/14
3	Joydebpur-Mymensingh Road Development		1,815	30/06/15
4	Construction of Third Karnaphuli Bridge (Revised)		651	31/12/15
5	Support to Dhaka Elevated Expressway PPP Project		3,217	30/06/15
6	Dhaka-Chittagong Railway Development Project		2,575	30/06/16
7	Construction of Bypass Road in Shatkhira Town Connecting Bhomra Land Port		117	30/06/14
8	Ashugong 450MW PP	**Power**	3,400	30/06/15
9	Construction of Haripur 412 MW Combined Cycle Power Plant and Associated Substation		3,966	30/06/15
10	Construction of Bibiana-3, 400 MW Combined Cycle Power Plant		3,358	31/12/15
11	Construction of Ghorashal 365 MW Combined Cycle Power Plant		2,512	30/06/16
12	Siddhirganj 335 MW PP		4,239	30/06/15
13	Shahjibazar 330 MW Combined Cycle Power Plant		2,844	31/12/15
14	Shikalbaha Duel Fuel 225 MW Combined Cycle Power Plant		2,022	30/06/16
15	Bhola 225 MW Combined Cycle Power Plant		2,001	30/06/15
16	Chapainawabganj 100 MW HFO Based Power Plant		1,113	30/06/15
17	Bheramara Combined Cycle Plant (360 MW) Development		4,140	30/06/15
18	Providing Electricity Connection to 18 lakh Clients through Rural Electricity Extension		5,413	31/12/15
19	Shahjalal Fertilizer Project	**Industry**	5,409	30/06/15
20	Power Production and Sugar Refinery Establishment through Co-generation Process in Northbengal Sugar Mill		73	31/12/16
21	Leather Industrial City, Dhaka (Second Revised)		1,079	30/06/16
22	Mubarakpur Oil/Gas Well Exploration Project	**Oil, Gas and Mineral Resources**	89	30/06/15
23	Augmentation of Gas Production under Fast Track Program (Dredging of 5 Wells and Workover of 1 Well under BGFCL and SGFL)		1,224	30/06/14
24	Establishment of Gas Compressor Station in Ashuganj and Elenga		1,494	30/09/15
25	Construction of 950m long PC Guarder Bridge over Dharla River at Phulbari Upazila of Kurigram District	**Rural Development & Institutions**	207	30/06/15
26	Construction of 520m long Bridge in Nagarpur-Mirzapur Via Mokna over Dhaleswari River under Nagarpur Upazila of Tangail District		70	30/06/16

Annex 3.1 District-wise economic losses

District	Loss
Dinajpur	-Growers of winter vegetables in Dinajpur and Joypurhat are either selling the produces at throwaway prices or leaving those at fields. It has been that many farmers left their harvested vegetables on the field due to the blockade programme. Source: http://www.thedailystar.net/unsold-veg-rotting-prices-of-broiler-egg-drop-59460
Lalmonirhat	-Some vegetable traders at Goshala Bazar, the biggest vegetable market in the district destroyed huge cauliflowers January 12, 2015. Source: http://www.thedailystar.net/unsold-veg-rotting-prices-of-broiler-egg-drop-59460 -Vegetables in the fields are rotting due to the absence of buyers. Many of the farmers are seen destroying vegetables as the time for farming another crop has arrived. However, some growers in the district are still waiting with stacks of cauliflowers for buyers, who normally come from other districts, including Dhaka. A farmer earlier sold three mounds cauliflower at only Tk 200. Source: https://www.google.com.bd/webhp?sourceid=chrome instant&ion=1&espv=2&ie=UTF-8#q=rotting%20of%20vegetable%20due%20to%20blockade
Magura	-A wholesale trader of Ramanagar area under Magura sadar upazila said he was incurring the loss of Tk. 5000 each day and he also added that he wouldn't be able to continue his business.
Moulovibazar, Hobigonj and Sunamgonj	-Growers of winter vegetables in Moulovibazar, Hobigonj and Sunamgonj are either selling the produces at throwaway prices or leaving those at fields. Huge quantities of popular vegetables like cauliflower, cabbage, broccoli, bean, tomato, and gourd are getting damaged due to the situation. Source: http://thedailynewnation.com/news/39360/unsold-vegetables-rotting-prices-of-broiler-egg-drop.html
Shylet	-Any farmers left their harvested vegetables on the field due to the blockade programme. In many cases, farmers refrained from plucking matured crops. -A grower and some other vegetable traders destroyed huge cauliflowers at noon of January 14, as the item lying unsold due to lack of transport said by a trader at Subhanighat, the biggest vegetable market in the district. Source: http://thedailynewnation.com/news/39360/unsold-vegetables-rotting-prices-of-broiler-egg-drop.html
Natore	-Some vegetable farmers of Baroharishpur area under Sadar upazila, informed that there was profuse supply of vegetables in the markets, but there were no sufficient customers. -As a result, vegetables are remaining unsold. Moreover, vegetables in the field have been left to rot. Now per piece of cauliflower is being sold at Tk 5 only as against the regular price of Tk 15. Source: http://www.observerbd.com/2015/01/27/68932.php
Pabna	-According to farmer sources, a large volume of vegetables have been rotted in the fields due to the political unrest over the last one month. This is the time to harvest the new potatoes. The farmers have even begun digging up the potatoes from the ground. -About 20 to 30% of the potatoes have been harvested. But due to the fear of petrol bomb attacks, about two million tonnes of potatoes have not been able to reach the consumers. These are rotting in the markets and the fields. Soure: http://www.observerbd.com/2015/02/10/71629.php
Chittagang (Sitkunda)	Many growers have stopped marketing of vegetables for the reduction of selling. Therefore there has been around crore Tk. Loss. Vegetables of 30-40 lakh Tk. usually sold in the market but it has now reduced to 5-6 lakh. The mohonter market usually is filled with vegetables but it is now reduced to half due to blockade and hartal. Source: http://www.bd24live.com/bangla/article/32115/index.html#sthash.5ipzive8.dpuf

Nationwide	About 40% of the vegetables produced round the year in the country, now lie rotting in the field. This is the time to harvest the new potatoes. The farmers have even begun digging up the potatoes from the ground. About 20 to 30% of the potatoes have been harvested. But due to the fear of petrol bomb attacks, about two million tonnes of potatoes have not been able to reach the consumers. These are rotting in the markets and the fields. Source: http://en.prothom-alo.com/bangladesh/news/58373/Farmers-face-losses-in-blockade About 40% of the vegetables produced round the year in Bangladesh, now lie rotting in the field. Source: http://www.potatopro.com/news/2015/protests-and-transport-blockades-bangladesh-disastrous-potato-farmers

Annex 4.1. Policy support measures taken by the Government in 2014 for exporters

Announcement Period	Fiscal Policy Support Measures
April 2014	NBR **slashed export tax** to compensate the manufacturers for the losses made during the political unrest preceding the election, effective from April 1, 2014 to 30 June, 2015: • On RMG products: from 0.3 per cent from 0.8 per cent and, • On all other products: from 0.6 per cent from 0.8 per cent
June 2014	• The **import duties** on raw materials of pre-fabricated building and fire safety equipment were **fully exempted**. Bangladesh Bank provided the following **cash incentive**: • Additional cash incentive for export of RMG or Textile (entitled for customs bond/duty drawback): 0.25 per cent (on fob value); • for new products within garments sector/new market expansion (except USA, Canada, EU): 3 per cent (from 1 January, 2014 to 30 June, 2015);
July, 2014	Bangladesh Bank announced Export subsidy/cash incentive for FY2015: **Export subsidy** • for light engineering products: 10 per cent; • for ship export: 5 per cent; • for export of agricultural products (vegetables/fruits): 20 per cent; • for agro-processed products: 20 per cent; • for 100 per cent halal meat: 20 per cent, and • for pet bottle: 10 per cent **Cash incentives** • for export of frozen shrimp: 10 per cent; • for potato export: 20 per cent; • for garments (except duty bond or duty drawback): 5 per cent; • additional incentive for SME garments industries: 5 per cent; • for leather products: 15 per cent; • for export of handmade products from hay, sedge, sugarcane: 15-20 per cent; • for bone powder export: 15 per cent; • for jute final products: 10 per cent, and • for jute cotton: 7.5 per cent

Announcement Period	Fiscal Policy Support Measures
	NBR issued SRO on **tax rebate for new and existing industries**: • for new and relocating industries starting operation in the first half of 2014 : 20 per cent • for the existing industries (up to 30 June, 2019): 10 per cent
August 2014	NBR **discontinued the special tax rates** for the FY2015 **for the apparel exporters** who used to enjoy 10 per cent special tax rate at the time annual assessment instead of the higher 35 per cent corporate tax rate.
September 2014	Bangladesh Bank granted **cash incentive** to the exporters of frozen fish other than shrimp: 5 per cent.
October 2014	Bangladesh bank provided **additional cash incentive** for all RMG exports (including industries which remain outside EPZ but receiving customs bond/ duty drawback): 0.25 per cent (on fob value).