Draft

State of the Bangladesh Economy in Fiscal Year 2015

(First Reading)

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Contents

SECTION 1. INTRODUCTION 5
SECTION 2. MACROECONOMIC PERFORMANCE IN FY2015: MIXED SIGNALS 6
SECTION 3. PRIVATE INVESTMENT IN THE POST-ELECTION YEAR: WHY IT DID NOT PICK-UP? 24
SECTION 4. BANKING SECTOR: NAVIGATING THROUGH TROUBLED WATERS 45
SECTION 5. DECELERATION IN RMG EXPORT: IS IT ONLY A SHORT-RUN PHENOMENON? 55
SECTION 6. MIGRATION AND REMITTANCES: RECOVERY WITH SHIFTS 65
SECTION 7. CONCLUDING REMARKS 77
REFERENCES 80
ANNEXURE 84

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The CPD IRBD 2015 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

State of the Bangladesh Economy in FY2015
(First Reading)

SECTION 1. INTRODUCTION

Over the last two fiscal years (FY2013 and FY2014) economic growth in Bangladesh fell well short of the ambitious target set out in plan documents and corresponding budgets. Past research works concerning Bangladesh showed that capital accumulation (through private investment) played a major role in driving and accelerating the pace of economic growth, followed by growth in the labour force. Compounding the situation, slow progress in implementing the necessary economic reforms has made it increasingly difficult to attain a breakthrough in the economic growth front. One may recall that political confrontation which was often accompanied by violence also constrained economic activities in FY2014, contributing to a slowing down in the pace of economic growth. However, since the national elections held in January 2014, the economy had benefitted from absence of major political violence. To a large extent, macroeconomic stability was maintained. On the flipside, for the policymakers the challenge was to make the best of the prevailing macroeconomic stability to instil growth momentum in the economy. In this backdrop, it is thus important to analyse the recent macroeconomic developments (during the early months of FY2015) and assess the impact of policy decisions related to macroeconomic management taken by the incumbent government in order to understand their implications from the perspective of reinvigorating the growth momentum in the economy.

The present report is the first reading of State of the Bangladesh Economy in FY2015, which is prepared under the flagship programme of the Centre for Policy Dialogue (CPD) titled *Independent Review of Bangladesh's Development* (IRBD). The purpose of this report is to assess the performance of a number of key economic sectors of Bangladesh including the macroeconomic management during the first half of the ongoing fiscal year. The report considered the latest available data and information from the official sources and also consulted information from various international sources. Data and information was also gleaned from key informants. Following this introduction, the next section revisits the macroeconomic trends in FY2014 to establish the benchmark for the ongoing FY2015 and reviews performance of key macroeconomic correlates during the early months of the ongoing FY2015. Four thematic areas have been taken up for closer scrutiny in view of their key importance in driving growth in FY2015. These include private investment, banking sector, RMG export and, migration and remittances. The remaining sections are organised in this aforesaid order. The report ends with some concluding remarks.

SECTION 2. MACROECONOMIC PERFORMANCE IN FY2015: MIXED SIGNALS

In April 2013, an earlier study carried out by the CPD apprehended that Bangladesh economy's performance in FY2014 was likely to be adversely affected by persistent political impasse in the run-up to the National Elections (Bhattacharya *et al.* 2013). As part of regular assessment of Bangladesh economy before the national budget, on 01 June 2014, CPD had released its third interim report on Bangladesh's macroeconomic performance in FY2014 (CPD 2014). The report was based on data for the first three quarters relating to different macroeconomic variables. The report underscored that the Bangladesh economy had experienced formidable challenges as the economy was confronted with severe disruption in production, transport and service delivery in the first half of FY2014 prior to the 5th January National Election. On the other hand, in the second half of FY2014, GDP growth was affected by lack of favourable investment environment in the backdrop of political uncertainty. Both these impacts have informed the performance of the economy in FY2014.

2.1 Revisiting Macroeconomic Trends in FY2014[1]

Growth and Investment. Bangladesh Bureau of Statistics (BBS) data showed that GDP growth increased by only 0.1 percentage points, to 6.1 per cent in FY2014, from the 6.0 per cent in FY2013 indicating a levelling off in the growth performance. This was well off the track when compared to the ambitious GDP growth target of 7.2 per cent or even to the revised target of 6.5 per cent. As is known, at this time, BBS had published new GDP estimates taking the new base year of 2005-06 and discontinued the accounting in 1995-06 base. This growth was estimated by taking into account data for 6-8 months, a period that passed through a deteriorating political situation particularly in the first half of FY2014. Surprisingly, all the Services sector components[2] were found to register higher growth in FY2014 compared to that of FY2013.

[1] Performance of major macroeconomic correlates in FY2014 is presented Annex 2.1

[2] 9 components are: wholesale and retail trade; hotel and restaurants; transport, storage and communication; financial intermediations; real estate, renting and business activities; public administration and defence; education; health and social works and; community, social and personal services.

Table 2.1: SFYP Targets and Actual Achievements

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

Source: BBS and MoF Data.

Note: Figures in parentheses denote GDP base year 2005-06 estimates.

* represents revised target announced in the budget.

According to the BBS data, private investment declined for the second consecutive year from 22.5 per cent in FY2012 to 21.8 per cent in FY2013 and then to 21.4 per cent of GDP in FY2014. Indeed, as the track record suggests, many of the indicators had departed, to varying degrees, from the Sixth Five Year Plan (SFYP) targets (Table 2.1). The last quarter (Q4) data also suggests that private investment continued to remain sluggish during this period of FY2014. Growth of credit to the private sector stood at 12.3 per cent at the end of June 2014 as against the target of 16.5 per cent. The sluggish investment demand was also demonstrated by the augmented excess liquidity in the banking system. At the end of FY2014, the banks had about Tk. 143,398 crore as investible liquidity which was about Tk. 63,957 crore higher than the matched figure recorded at the end of June 2013. On the other hand, public investment has increased by 0.7 percentage points to 7.3 per cent of GDP in FY2014.

Fiscal Framework. CPD in its immediate reaction to the budget 2014 said that the fiscal targets were overambitious and identified the fiscal framework to be the weakest link in the budgetary framework (CPD 2014a). At the end of the FY2014, both from income and expenditure sides, the ambitious targets set for FY2014 did not come true. As a matter of fact, growth rates of both revenue generation and spending on development programmes were largely disrupted during the first half of FY2014. Government had revised NBR targets downward for the first time in the last five years, by Tk. 11,090 crore (8.15 per cent of the budgetary target). NBR had put an effort to uplift the momentum of revenue collection in the last quarter of FY2014, but failed by a significant margin. At the end NBR fall short of its revised target by Tk. 4,487 crore. According to MoF data, overall revenue earning (i.e. NBR tax, non-NBR tax and non-tax) in FY2014 experienced a shortfall of about Tk. 25,855 crore. Hence, revenue growth target for FY2015, which was set at 16.8 per cent based on the revised budget for FY2014, shot up to 29.2 per cent (Table 2.2). It may be noted here that, CPD had estimated that total revenue earnings may fall short by about Tk. 23,000 crore in FY2014 (CPD 2014b).

Similarly, the actual budgetary expenditure remained much lower compared to the targets upto the third quarter of FY2014. Only 51.8 per cent of budget was implemented during that time. At the end of FY2014, Government managed to implement about 87.2 per cent of the target.

According to MoF data, implementation of ADP projects was 83.4 per cent of original allocation.[3] This implies that ADP expenditure in FY2015 needs to grow by 41.5 per cent to achieve the FY2015 budgetary allocation, which is highly unlikely.

Low level of attainment of budgetary targets for FY2014 was reflected in the low level of budget deficit. With a target of budget deficit at 5.0 per cent of GDP, FY2014 closed with a much lower budget deficit of 3.5 per cent of GDP. Heavy reliance on domestic sources continued till the end of the fiscal year and closed at 86.7 per cent of total financing. In the last quarter, the financing structure of the budget deficit had changed significantly. Government's income from programmed sources such as sales of National Savings Deposit (NSD) certificates had increased notably and surpassed the revised target by Tk. 3,774 crore.[4] Moreover, the government relied on other non-banking sources rather than going for borrowing from banking sources. At the end, government borrowed Tk. 12,943 crore as loan from 'Others' sources of non-bank financing and kept borrowing from banking sources within the planned limit.[5]

TABLE 2.2: RESOURCE ENVELOPE FOR FY2015 BASED ON FULL FISCAL DATA

Particulars	Share in Actual FY14	Target Growth (%) FY14	Actual Growth (%) FY14	FY15 (Budget) over FY14 (Revised)	FY15 (Budget) over FY14 (Actual)
Revenues	**73.0**	**30.0**	**9.9**	**16.8**	**29.2**
Tax Revenue	60.1	31.4	8.5	19.3	33.2
NBR	57.7	31.7	8.3	19.8	33.7
Income Tax	19.8	40.4	11.5	26.4	46.2
VAT	21.2	29.2	6.3	19.9	33.9
Import Duty	6.8	16.2	3.9	8.5	11.4
Excise Duty	0.4	74.4	8.7	4.0	53.3
Supplementary Duty	9.2	27.9	10.0	11.4	19.0
Other Taxes	0.3	72.1	10.7	53.9	119.9
Non-NBR Tax	2.4	24.5	11.9	7.6	20.9
Non-tax Revenue	12.9	22.8	17.2	4.4	10.5
Domestic Financing (Net)	**22.1**	**6.2**	**34.0**	**5.6**	**0.9**
Bank Borrowing	9.4	-3.2	-32.3	4.1	71.8
NSD	6.1	504.2	1,331.0	13.2	-23.1
Others	6.7	-30.6	199.6	0.0	-76.8
Foreign Financing (Net)	**1.7**	**131.3**	**-47.4**	**43.3**	**452.3**
Foreign Grants	**3.2**	**3.8**	**-4.1**	**4.2**	**0.7**
Total Availability of Resources	**100.0**	**28.3**	**11.8**	**15.9**	**29.2**

Source: Calculated from MoF data.

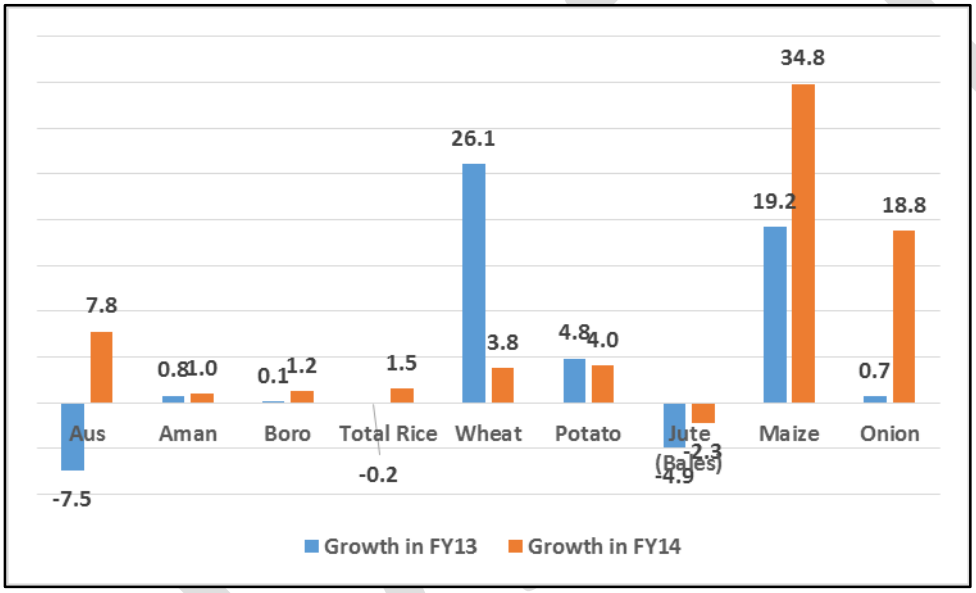
Evidently, the targets for FY2015 were set under the assumption that the revised targets for FY2014 will be attained when all accounts were closed. The year closing final figures now reveals

[3] IMED reports that actual ADP implementation was 86.1 per cent of original allocation.
[4] While preparing the revised budget for FY2014 the target for NSD sales was raised by Tk. 3,029 crore.
[5] Government borrowed Tk. 18,168 crore from banking sources while the programmed level was Tk. 25,993 crore.

that the revenue collection and public expenditure figures that were taken as reference numbers for preparation for the fiscal framework were on the high side by significant margins. Taking note of the past trends, one may safely assume that the financing plan for budget deficit in FY2015 will also diverge significantly.

Crop Production. FY2014 was a much better year for crop production. Except for jute, all other major crops registered strong production growth figures. Overall paddy production was 1.5 per cent higher compared to FY2013. Upsurge in production was observed in case of maize (34.8 per cent), wheat (3.8 per cent), potato (4.0 per cent) and onion (18.8 per cent) (Figure 2.1). Curiously, in the face of depleted public food stock in FY2013, a large growth in the import of rice and wheat was observed in FY2014. During FY2014, about 29.9 lakh metric tons of foodgrains were imported, which was 58.4 per cent higher than FY2013. On the flip side, despite having a good domestic production growth, the public sector heavily relied on imported sources for food stock. In spite of this, food stock at the end of FY2014 stood at 11.5 lakh MT which was about 3.5 lakh MT lower than the closing stock of FY2013.

FIGURE 2.1: GROWTH OF MAJOR CROP PRODUCTION (%)



Source: Calculated from BBS data.

Inflation, Monetary Growth and Financial Institutions. Inflationary trend had seen ups and downs during the first ten months of FY2014; however, it was somewhat tamed in the remaining two months of the fiscal year. Inflation reached its peak during November-February period when supply chains were disturbed due to strikes and blockades. The annual average inflation in June 2014 was 7.4 per cent, which remained higher than the target of 7.0 per cent. Food inflation remained above eight per cent level throughout the second half of FY2014 with 8.6 per cent food inflation at the end of June 2014. Food inflation was observed to be higher in urban areas (9.7 per cent in June 2014) compared to rural areas. General non-food inflation remained at 5.6 per cent in June 2014.

The growth rates of the monetary aggregates in the elapsed fiscal year remained rather subdued as against their respective targets. The growth rate of broad money hovered within the target limit of 17.0 per cent and stood at 16.1 per cent at the end of June 2014. Similarly, credit expansion

to the public sector was historically low (since November 2009) at 6.7 per cent at the end of June due to limited bank borrowing requirements by the Government to underwrite the fiscal deficit. Under low domestic demand scenario, growth of credit to the private sector reached its peak at 12.3 per cent in June 2014 while targeted level was set at as high as 16.5 per cent. This trend in the money supply was, however, underpinned by excessive flow of net foreign assets which posted a growth rate of 41.2 per cent against the target of 10.0 per cent for the mentioned period. As it is, it was the robust accumulation of foreign exchange reserve that contributed towards this strong growth.

In the backdrop of decelerating private investment, the classified loans in Bangladesh banking sector had increased during the second half of FY2014. Share of classified loan to total outstanding increased to 10.8 per cent as of June 2014 which was only 8.9 per cent during December 2013. As a result, the state-owned commercial banks (SCBs) faced serious capital deficit which in turn created additional fiscal pressure for the government. Government has spent Tk. 4,477 crore for recapitalisation of SCBs. As mentioned earlier, despite having a large surplus liquidity in the banking system and falling inflation, the lending rate did not decline by any significant margin during this period. At the end of June, the spread remained the highest during FY2014, at 5.31.

External Sector. Export earnings registered a growth rate of 11.7 per cent, nearly missing the target of 12.9 per cent growth set out for FY2014. Indeed, export performance was showing robust trends, and was above the target level, for the first ten months of FY2014. It was in the last two months, that export earnings recorded a lowly 5.5 per cent growth. Net foreign aid disbursement was about USD 1.9 billion in FY2014; it had seen some degree of volatility throughout FY2014 – for the first four months aid disbursement registered a negative growth; at the end of ten months the growth has revived to 24.4 per cent and finally ended up with a negative (-) 0.3 per cent growth. However, a major setback was experienced in case of inward remittance flow. Remittance inflow recorded (-) 1.6 per cent growth during FY2014, a first time in many years. As per the Bangladesh Bank record, the last time a negative growth was experienced was in FY2001 when remittance inflow registered negative (-) 3.6 per cent growth.

On the payment side, import payments increased by 8.9 per cent in FY2014. It may be noted that total import payments increased only by 1.6 per cent during Q2 (Oct-Dec) and 3.3 per cent during Q4 (Apr-Jun) of FY2014, indicating some volatility.

At the same time high inflow of foreign currencies and lack of payment demand resulted in a continuing rise in the foreign exchange reserves. This led to some appreciation in the real exchange rate of Bangladesh Taka (BDT) against all major currencies. Indeed, to maintain stability the exchange rate of Taka (vis-à-vis USD), the central bank continued to use market operation tools to withdraw excess foreign currencies from the market. Hence, foreign exchange holdings of the country rose further by about USD 6.2 billion in FY2014. As aggregate demand remained low, the excess money supply arising from accumulation of net foreign assets had a rather negligible impact on inflation. Interestingly, a stronger domestic currency did not have any visible negative implications on the export performance of key Bangladeshi commodities.

As the Bangladesh economy moved towards the end of FY2014, stagnation in private investment and depressed domestic demand continued to undermine economic growth. Lapse in attaining

revenue targets by the NBR, underutilisation of development programmes, heavy reliance on domestic resources in financing budget deficits were also identified as pressure points experienced by the Bangladesh economy at the end of FY2014. Lower intake from remittance inflows, with its adverse implications for domestic consumption, remained a major concern in FY2014.

At the same time, enhanced public investment, stable exchange rate, increased forex reserve, signs of revitalised export and import growth and contained inflation suggested macroeconomic stability as the FY2014 moved towards the finishing line. Declining global commodity prices in this period in the face of sluggish demand also helped to achieve this stability. Balance of payment situation remained within the comfort zone.

Assessment of performance of the Bangladesh economy for FY2014, carried out by the World Bank, Asian Development Bank (ADB), International Monetary Fund (IMF), and Bangladesh Bank, were similar to the one made by the CPD.[6] According to the analysts, both economic growth and private investment were afflicted by the political unrest. Among the major weaknesses having negative consequences for macroeconomic performance in FY2014, substantial shortfall in revenue mobilisation and weak implementation of ADP were highlighted. There was a broad consensus as regards restoration of macroeconomic stability. These reports also stressed a number of concerns including high level of inflation and weak governance in financial sector. It was also agreed that the prudent management by Bangladesh Bank contributed towards maintaining stable exchange rate and augmented foreign exchange reserve.

There was little divergence among analysts as regards major challenges facing the economy at the end of FY2014. Risks that were identified included resumption of political unrest, infrastructure deficit, declining flow of remittance, low levels of private investment and slow progress with economic reforms and particularly reforms in the RMG sector. ADB (2014), in somewhat of a departure, felt that inflation would not remain a concern in view of the falling oil prices. What concerned all analysts was the deteriorating health of the financial sector which called for immediate attention. With respect to what was to be done to address the challenges, there was some diversity. While World Bank (2014) put forward more issue-specific suggestions, IMF (2014) focused on macroeconomic reforms directed more towards liberalisation and stability. ADB (2014), on the other hand, focused on policies which are relevant to medium-term objectives. In its turn, CPD (2014) had also proposed a number of policy measures to restore macroeconomic stability and to stimulate private investment and accelerated economic growth.

2.2 Early Signals from FY2015

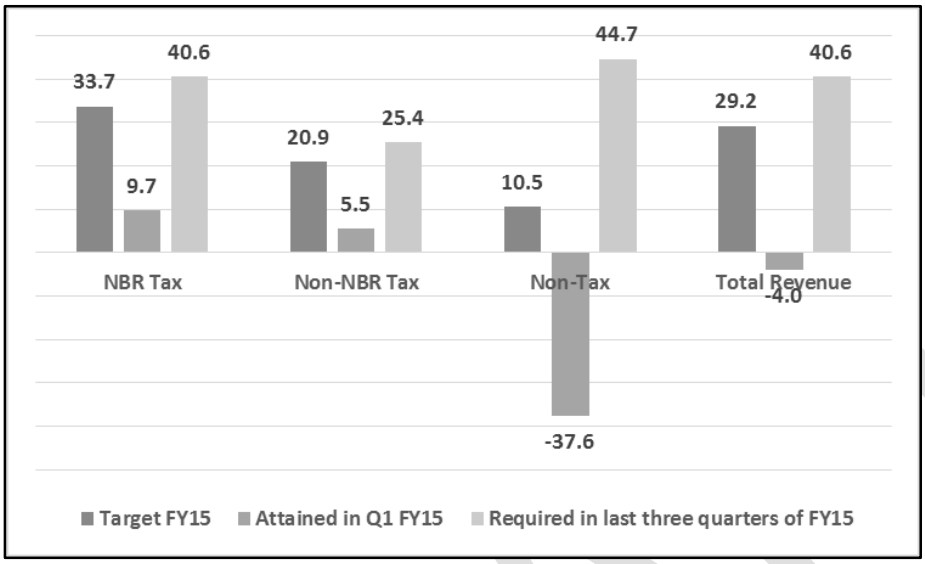
Revenue mobilisation in FY2015: disquieting signals

There is no doubt that, in FY2015, revenue mobilisation will fall short of the target for the third consecutive year. During the first quarter of FY2015, total revenue mobilisation was (-) 4.0 per cent lower than the corresponding period of previous fiscal year (Figure 2.2). Non-tax revenue

[6] The analytical reports, which were reviewed, are World Bank (2014); IMF (2014); ADB (2014); Bangladesh Bank (2014) and CPD (2014).

mobilisation, which was expected to account for 15.1 per cent of total revenue of FY2015, was in complete disarray and dragged the overall revenue collection growth into the negative terrain. Revenue earnings from non-tax revenue sources was (-) 37.6 per cent lower during July-September period of FY2015 compared to the first quarter of previous fiscal year. Non-NBR tax collection performance remained moderate which attained a growth rate of 5.5 per cent in the first quarter of FY2015 against an annual target of 20.9 per cent.

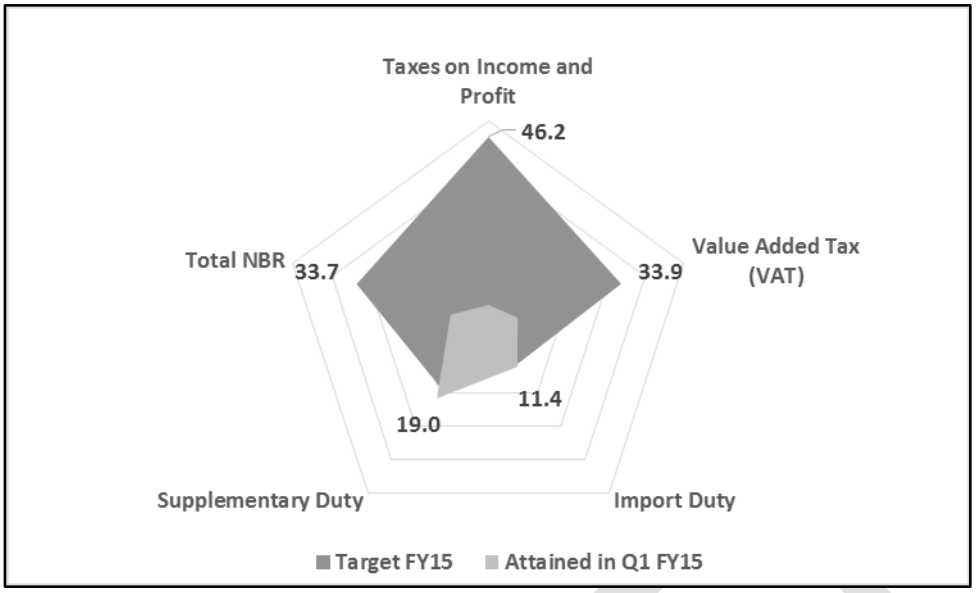
FIGURE 2.2: GROWTH RATES OF REVENUE COLLECTION COMPONENTS (%)



Source: Calculated from MoF data.

Revenue collection by the NBR had continued to struggle. According to MoF data, during the first three months of FY2015, NBR attained 9.7 per cent growth against the annual target of 33.7 per cent (Figure 2.2). Hence, NBR collection will need to now increase by 40.6 per cent in the last three quarters of FY2015. Income tax collection was able to register a low growth rate of 5.4 per cent during the reported period against the challenging annual target of 46.2 per cent (Figure 2.3). VAT collection rose by only 7.4 per cent for which the annual growth target was 33.9 per cent. Thanks to higher import demand, import duty and supplementary duty collections were on track and attained growth rates of 11.9 per cent and 21.4 per cent respectively. Data reported by the NBR, however, shows a somewhat better scenario for NBR revenue collection – a growth rate of 14.2 per cent during the first four months of FY2015. It is important to note that, the discrepancy between NBR and MoF data for revenue collection by the NBR has increased significantly in recent years with NBR continued to report overestimated figures.

FIGURE 2.3: GROWTH RATES OF NBR REVENUE COLLECTION COMPONENTS (%)



Source: Calculated from MoF data.

Without any urgent remedial measure(s), overall revenue shortfall in FY2015 could be as high as Tk. 25,000 crore as against the ambitious targets. MoF needs to undertake an early assessment to review the revenue collection situation and go for an early revised budget. One may highlight a number of reasons behind this below par performance in the area of revenue mobilisation. First, the target figures were set at unrealistic levels for the majority of the sources. This was flagged in CPD's reaction to the national budget for FY2015 (See CPD (2014c)). Second, a number of tax breaks (incentives) provided in the national budget, including lower corporate income tax rate for non-publicly traded companies, reduction in income tax at source for RMG (from 0.8 per cent to 0.3 per cent) and non-RMG exports (from 0.8 per cent to 0.6 per cent), significant reduction in supplementary duties, with a view to boosting private investment, resulted in lower revenue collection. Third, in absence of any lumpy sources (e.g. revenue collection from mobile spectrum fees) it has been difficult to attain the target for non-tax revenue. Fourth, administrative capacity and revenue collection effort did not see any major improvement. Fifth, international prices fell significantly for a number of imported commodities, while exchange rates of BDT against the currencies of major trading partners remained stable (and even appreciated somewhat). As a result, revenue collection at import stages experienced some decline. Finally, recovery of economic activities after the national elections did not post any major breakthrough. As it appears, revenue collection will remain a major concern throughout FY2015. There are two recent developments which are significant in the context of low intake of revenue. First, the VAT and SD Act 2012, which was expected to boost revenue generation, will not be implemented in FY2016 (see Box 2.1). Second, the recent proposal of Pay and Services Commission 2013 may require an additional Tk. 22,953.2 crore (if implemented fully and at one go) which would be 63.7 per cent higher than FY2015 allocation for pay and allowances. Indeed, revised pay and allowances for defence services is not included in this estimation. Indeed, a separate commission has proposed similar rise in pay and allowances for defence services. Thus, in all possibilities, maintaining fiscal discipline will continue to remain a major challenge in FY2016.

Box 2.1. Value Added Tax and Supplementary Duty Act 2012: Concerns and Implementation Challenges

The new VAT and SD Act was a major reform agenda for the government. The existing Value Added Tax (VAT) Act, 1991 was envisaged to be replaced by the recently enacted VAT and Supplementary Duty (SD) Act, 2012. The new Act proposed to bring significant changes in the earlier VAT rules and regulations. However, the business community led by the FBCCI raised concerns with regard to various provisions of the Act, and their possible implications for enterprise development. Questions have also been raised over the state of readiness as regards implementation of the new Act, both on the part of concerned government bodies and the business community. Some of the major areas of concern include: (i) single rate (15 per cent) and abolition of truncated value base; (ii) discontinuation of package VAT; (iii) significant expansion of documentation requirement; and (iv) additional powers vested in tax authorities to recover tax arrears, including freezing of a tax debtor's bank accounts. The FBCCI also argued that required reforms could be implemented by undertaking needed changes in the existing VAT Act 1991; hence, there was no need for a new Act. At the same time, the FBCCI also recommended abolition of provisions as regards Advanced Trade VAT (ATV) and withholding VAT. These provisions were part of the 1991 Act which have been also kept in the new Act. Stakeholders, including a number of economic analysts, argue that the existing VAT rate in Bangladesh (15 per cent), which is proposed to remain unchanged under the new law, is quite high. Indeed, VAT rate is found to be lower in many of the comparable countries in Asia. (A list of VAT rate in selected countries is included in Annex 2.3). Stakeholders also argued that since under the new VAT regime tax base is expected to be broadened, it was justified to revisit the VAT rate. They also felt that a lower VAT rate will improve VAT compliance and this could compensate for revenue foregone by lowering VAT rate and enhance competitiveness of business.

At present a joint review process has been set in motion with participation of NBR and FBCCI. The review is planned to be completed by the end of February 2015. It also needs to be mentioned here that the procurement of the software, hardware and networking materials which was needed to build the planned integrated VAT administration system will not be possible to complete by June 2015. In the abovementioned context, the deadline for implementation has now been extended by one year. According to a revised implementation plan, the (revised) ACT will come into effect from 1 July 2016.

Source: Based on Khan and Sadique (2014).

According to the data available for the first quarter of FY2015, public expenditure (including both development and non-development expenditure) recorded 13.4 per cent growth while the annual target was set to increase by 29.2 per cent. The sluggish growth was attributed mainly to lower expenditure under non-development heads and a lower amount of subsidy requirements. Net non-development revenue expenditure in the first quarter of FY2015 increased by 18.5 per cent while the annual target was set at 23.4 per cent. 'Pay and Allowances' accounted for a significant incremental share (about 57.0 per cent) in this growth. However, high negative growth of interest payments head (by (-) 5.2 per cent) compared to the corresponding period of FY2014 kept the overall non-development expenditure growth in check. Final outcome of non-development expenditure will largely depend on government's decision as regards the subsidy package and recapitalisation of state-owned banks.

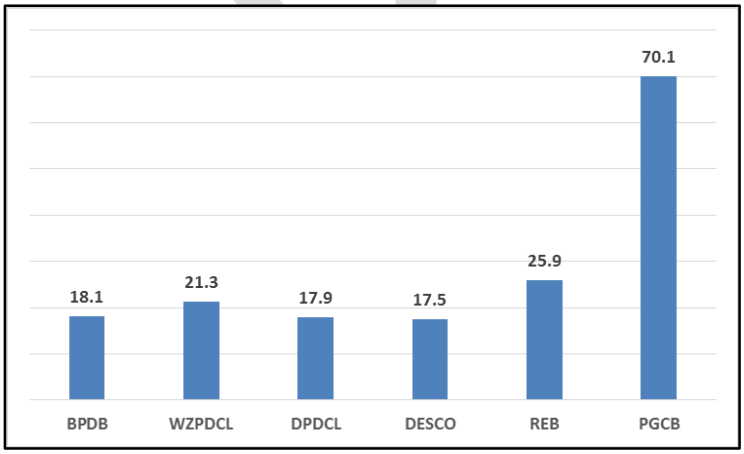
Subsidy and administered prices adjustments: Cautious policies needed

Subsidy management has become an integral part of fiscal policy in Bangladesh. In FY2015, a higher demand for cash subsidy for exports is expected following the government's decision to enhance cash subsidy for exports (See Annex 2.2 for details). The administered prices of electricity and gas will also be reviewed by BERC soon.[7] On the other hand, in view of the declining global prices of petroleum products there is growing pressure on government to slash the administered prices of petroleum products. However, so far, the government has declined to consider any such measure. It is important for the government to consider the subsidy requirements for power and energy sectors (for PDB and BPC). It is reckoned that adjustments of administered prices should be considered as part of a single package.

First, the subsidy may not be required for BPC during FY2015. Since October, BPC is making profit of about Tk. 4-5 on sales of a litre of diesel. Previously, about Tk. 7 subsidy per litre was required for diesel. International price of oil dropped significantly since July 2014 and currently the price is hovering at around USD 60-80 (based on products). Market analysts, including the World Bank, are expecting the prices to remain at about this level. It may be recalled here that, during FY2014 average import prices of crude petroleum and refined petroleum by BPC (per bbl) were USD 109.6 and USD125.3 respectively; the corporation incurred a loss to tune of about Tk. 2,477.7 crore on this count. If prices remain at about the present level for the rest of the fiscal year, BPC may earn a profit of Tk 2,000 crore. On top of this, the budgetary allocation for BPC's subsidy (about Tk 3,000 crore) will not be required. This situation may call for a downward adjustment of prices; however, in the Bangladesh context it cannot be guaranteed that the lower prices will be reflected in lower commodity prices. Nonetheless, this will help a reduction in the losses incurred by the BPDB on account of supplying liquid fuel for generating electricity.

Second, in absence of any major changes in the composition of the fuel demanded for electricity generation, subsidy requirement for BPDB will remain high. The budget for FY2015 earmarked about Tk 7,500 crore for BPDB with the assumption of an adjustments in the electricity prices in the middle of the fiscal year. In their submissions, several power related agencies have called for an increase in the tariffs to the tune of 17.5-70.1 per cent from the existing levels (Figure 2.4).

FIGURE 2.4: INCREASE IN TARIFF DEMANDED BY DIFFERENT AGENCIES (%)

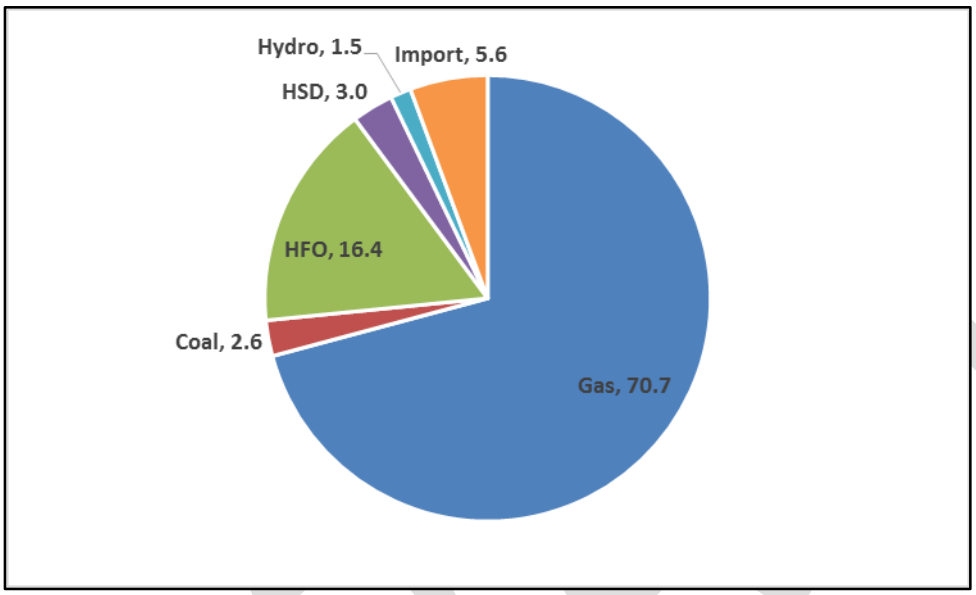


Source: BERC.

[7] Seven public hearings on electricity prices will be held between 20-25 January 2015. The hearings on gas prices is also expected be held during the month of January 2015.

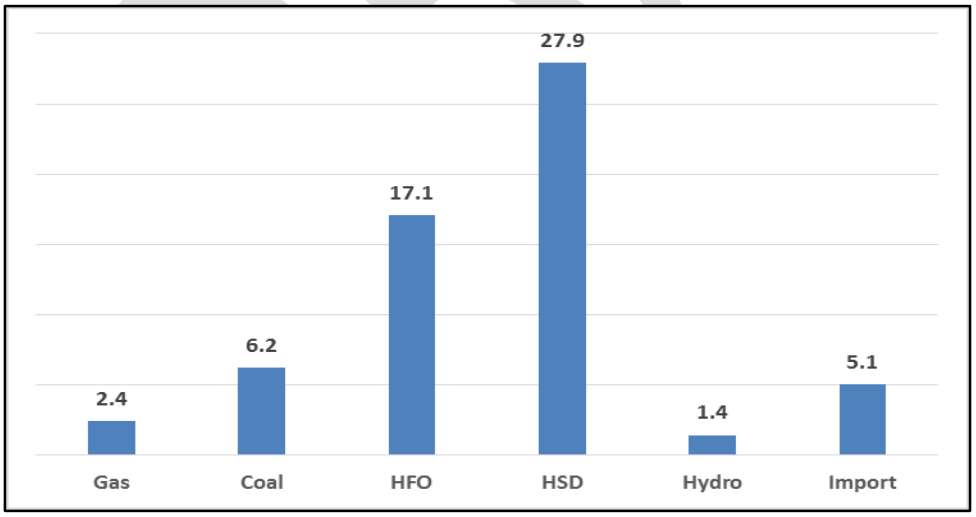
The high cost of electricity is largely driven by continuing dependence on liquid fuel powered electricity (Figure 2.5). According to the BPDB, the cost of per unit electricity generation by natural gas is currently about Tk 2.4. For per unit electricity generated from HSD and HFO the prices are Tk 27.1 and Tk 17.1 respectively (Figure 2.6). In FY2014, for about 20 per cent electricity generation BPDB relied on liquid fuel and hence average price of electricity generation stood at Tk 6.54 while tariff for bulk electricity was Tk 4.67. Hence, per unit loss incurred was Tk 1.87. Under the present scenario, without any price adjustment, the total amount of subsidy requirement for electricity in FY2015 could be around 8,000 – 10,000 crore.

FIGURE 2.5: COMPOSITION OF ELECTRICITY GENERATION IN FY2014 BY TYPE OF FUEL



Source: BPDB.

FIGURE 2.6: AVERAGE GENERATION COST OF PER UNIT ELECTRICITY IN FY2014 (TK)



Source: BPDB.

As mentioned earlier, BERC also received proposals for raising the tariff on natural gas. Table 2.3 provides information on proposed increase of gas prices for different purposes. The proposal came up with two arguments in favour of raising the tariffs: (i) reducing gap between national gas prices and imported LNG price (according to the proposal, which is about USD 16 or Tk

1,250)[8]; and (ii) introducing a price of gas (as a product) to the tune of Tk 25 per MCF[9]. The gap between domestic and imported prices is very high and realisation of the LNG project may take some time. Hence, based on this argument, the present proposal may not be a priority at this moment. Also, an introduction of a price of gas (as a product) will not require such high tariff adjustments. Gas prices for electricity and fertilizer are considerably low (compared to prices for other sectors); however, any significant upward adjustments for these two sectors will result in an increase in subsidy requirement for BPDB and agriculture.

TABLE 2.3: PRESENT AND PROPOSED TARIFF OF GAS BY CONSUMER GROUPS

Consumer	Present Tariff (Tk/MCF)	Proposed Tariff (Tk/MCF)	Proposed Increase (%)
Electricity	79.8	84.0	5.2
Fertiliser	72.9	80.0	9.7
Captive power	118.3	240.0	102.9
Industry	165.9	220.0	32.6
Commercial	268.1	350.0	30.6
CNG feed gas	651.3	905.9	39.1
CNG	849.5	1,132.7	33.3
Households with meter	146.3	235.0	60.7
Households with single burner	400.0	850.0	112.5
Households with double burner	450.0	1,000.0	122.2

Source: BERC.
Note: Tariffs for Households with single and double burners are for one month.

It needs to be recalled that an allocation to the tune of Tk. 9,000 crore was earmarked for subsidy to the agriculture (e.g. for irrigation and fertiliser). Given the falling prices in the international market, it may be envisaged that no additional allocation will be required for this purpose. Considering the aforementioned reasons, it may be argued that the government may stay away from any price adjustments at this moment. The total subsidy allocation is sufficient to meet the current demand on this account. This will also protect the interests of investors and consumers. The government ought to put necessary emphasis on fixing the structural weaknesses associated with high subsidy demand including reduction of reliance on liquid fuel for electricity generation, bringing more households under the meter based gas connection, and reducing system loss associated with energy and power sector. A major concern in respect of pursuing this for-now-no-price-adjustment strategy is the sluggish revenue collection which could compel a review of the current policy.

Annual Development Programme (ADP): Remained in the same trap

After lagging behind for four months, ADP expenditure caught up to the level of previous year at the end of November in FY2015. During the above mentioned period, 19.8 per cent of total ADP allocation for FY2015 has been spent which was similar to the corresponding figure of FY2014 (20.0 per cent). Expenditure from local finance (Taka) account, during July-November period of FY2015, remained well below (19.3 per cent of total allocation) the matched figure of FY2014

[8] The government has recently decided to import LNG. A deal was signed in June 2014. Towards this, a project under ADP is under consideration.
[9] The present pricing formula considers gas (as a product) price to be zero. The concern ministry recently issued a directive on this.

(21.8 per cent). On a surprising note, project aid expenditure had outpaced last year's performance. During July-November of FY2015, 20.7 per cent of total project aid has been disbursed while this was 17.0 per cent in the same period of FY2014. Expenditure in the month of November mainly picked up due to the highest utilisation of project aid (11.4 per cent) in one month, in November of this year, when compared to the last five fiscal years (FY2011-FY2015) (Table 2.4). M/O Science and Technology spent 100 per cent (Tk. 1,783 crore- Rooppur Nuclear Power Plant (First Phase[10])) of its project aid allocation in July-November FY2015 which was only 1 per cent (Tk. 16 crore) in July-October FY2015. Indeed, only this has salvaged the situation and has helped to increase both the total ADP expenditure and particularly project aid utilization to a large extent.

TABLE 2.4: MoM DIFFERENCE OF EXPENDITURE IN THE LAST FIVE FISCAL YEARS

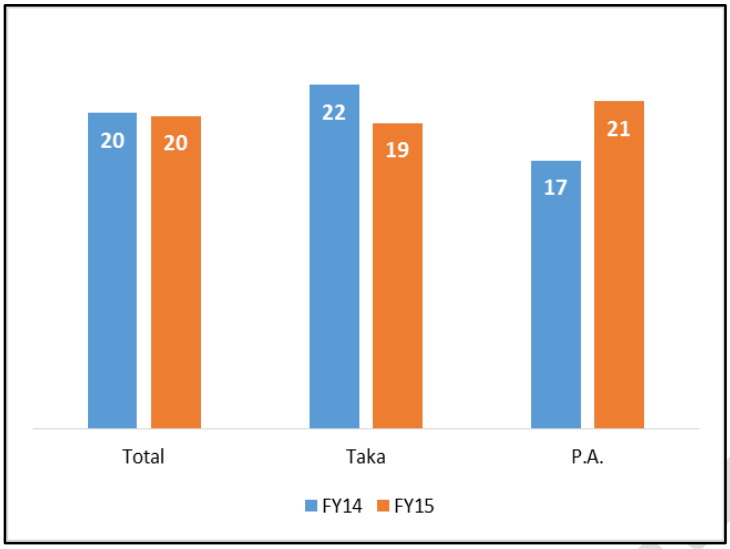
Growth (%)		FY11	FY12	FY13	FY14	FY15
Jul-Oct	Total	14.0	15.0	19.9	15.0	13.0
	Taka	17.0	21.0	21.1	17.3	14.9
	P.A	9.0	7.0	17.8	11.2	9.3
Jul-Nov	Total	20.0	20.0	24.7	20.0	19.8
	Taka	24.0	25.0	27.2	21.8	19.3
	P.A	15.0	13.0	20.8	17.0	20.7
MoM Difference	**Total**	**6.0**	**5.0**	**4.8**	**4.9**	**6.8**
	Taka	7.0	4.0	6.0	4.4	4.4
	P.A	**6.0**	**6.0**	**3.0**	**5.8**	**11.4**

Source: Author's compilation from IMED

Without Ministry of Science and Technology (MoST), overall project aid utilisation has been below par. Figure 2.7a and 2.7b shows that without the expenditure of MoST, both project aid utilisation and total ADP implementation drops by 7 percentage point and 2 percentage point respectively in July-November FY2015 while it makes no difference in either project aid expenditure or total expenditure for the same period of FY2014.

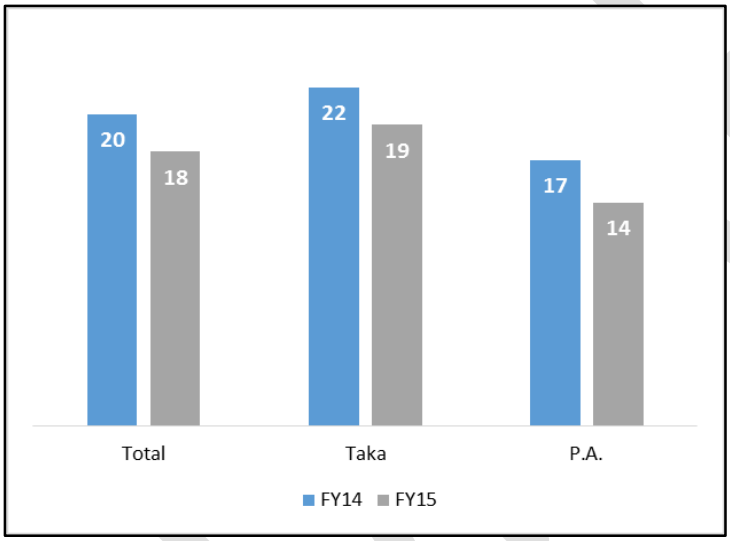
[10] Rooppur Nuclear Power Plan (First Phase) works include, conducting work and service related primary works for establishing Ruppur Nuclear Power Plant, Conducting feasibility study and engineering survey as well as environment related assessment and Design document, preparing report for primary safety issues and conducting quality measurement activities

FIGURE 2.7 A: ADP IMPLEMENTATION (% OF ORIGINAL ALLOCATION) WITH MoST



Source: Calculation from IMED data.

FIGURE 2.7 B: ADP IMPLEMENTATION (% OF ORIGINAL ALLOCATION) WITHOUT MoST



Source: Calculation from IMED data.

Institutional capacity as regards ADP on the part of both line ministries (responsible for implementation) and the IMED (responsible for monitoring and evaluating) remain a major concern. This issue has been repeatedly highlighted by earlier CPD studies. CPD (2010) argued that poor implementation of ADP was a combined consequence of three factors: i) resource constraints; ii) unrealistic targeting; and iii) lack of implementation capacity. CPD (2011) also flagged procedural lapses - from initiation to completion of a project life cycle - as the major reason for fall in ADP implementation. It begins with delays during the approval stage. Incomplete proposal, unreasonable expenditure target, improper feasibility study, etc. may delay the approval process. Corruption is also frequently blamed for delayed approval. Sometimes projects get approved and included in the ADP well after the planned inception date. Post-approval procedural delays in land acquisition and procurement also hold back effective commencement. By the time the project takes off, spending the full fiscal's allocation becomes difficult and cost has also seen significant escalation. Compared to the institutional capacity, the number of projects

taken up by some of the ministries/divisions is on the high side. Often, a number of projects (particularly at the earlier stage) do not receive the needed allocation. This then leads to subsequent revisions which consequently result in cost escalation and time overrun.

Cost and time overrun while implementing ADP projects has become more pervasive in recent years. An ongoing study by the CPD, based on IMED data showed that among the 206 projects completed in FY2013, only 22.8 per cent projects were completed within the stipulated time and planned allocation (see Annex 2.4). The share of such projects was 34.7 per cent in FY2008. About 70.4 per cent projects required extended time while 33.5 per cent projects required additional allocation. Regrettably, the phenomenon of cost and time overrun is becoming more common. Often additional allocations are associated with extended project implementation period. Among the projects completed in FY2013, on an average planned project completion period was about 2.93 years; however, it took about 5.32 years for the project to be actually implemented (see Annex 2.5). Similarly, the average cost overrun was 33.4 per cent in FY2013 which was 31.6 per cent in FY2008.

It is appreciated that the Ministry of Planning took an interest to address the challenges as regards ADP implementation. The challenges identified by the IMED were divided under three phases: (i) Planning and Approval Phase; (ii) Procurement and Implementation Phase; and (iii) Monitoring and Evaluation Phase. These challenges are longstanding and addressing them would require significant development of institutional capacity and implementation of necessary reforms.

Financing budget deficit: Reliance on non-bank borrowing continued

During the first quarter of the fiscal year, Bangladesh's budget deficit tended to remain within the safe zone and FY2015 was not an exception. Fiscal deficit (excluding grants) in the first three months of FY2015 was limited to only Tk. 1,737 crore (only 2.6 per cent of planned budget). However, when compared to the corresponding period of previous fiscal year, the figure is quite high. During the first quarter of FY2014, fiscal balance was positive (Tk. 4,032 crore). The current state is mainly attributed to lower revenue collection. Nevertheless, low off-take of foreign grants (11.3 per cent of planned budget) and the negative net foreign borrowing (to the tune of (-) Tk. 1,699 crore) had put a limited pressure on the budget deficit financing during the mentioned periods of FY2015. Net sales of National Savings Directorate (NSD) certificates was encouraging due to the falling deposit rates offered by the commercial banks on fixed deposits. Net sales of NSD certificates was Tk. 6,887 crore during July-September period of FY2015 which was only Tk. 2,116 crore during first quarter of FY2014. This large borrowing from the sales of NSD certificates was in fact used to repay government borrowing from non-bank sources (sources outside borrowing from sale of NSD certificates). Borrowing from the banking system was negative implying net repayment for the reported period to the tune of Tk. 34 crore. During the first quarter of FY2014 the repayment amount was Tk. 1,691 crore. Overall, the fiscal balance was not in a danger state during the first quarter of FY2015. However, the growing strain is becoming more evident, particularly on account of lower revenue collection. At the same time, the 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, MoF may need to revisit the interest rates and/or ceiling as regards NSD certificates.

Inflation and Monetary Developments: Stabilised at a lower level

During the first five months of FY2015, national inflation had experienced a gradual slowdown to reach 7.1 per cent in November 2014 (Figure 2.8). One may recall that, in the monetary policy statement (MPS) for July-December 2014 period, the Bangladesh Bank (BB), and in the national budget announced in June 2014 had aimed to keep annual average inflation target for FY2015 at 6.0 per cent which was 7.4 per cent in FY2014. One can identify a number of distinguishing features of the present inflationary phenomenon. *First*, one can observe that the average food inflation remained at above 8 per cent level. Food inflation in November 2014 was 8.2 per cent, which was 8.6 per cent in June 2014. In contrast, annual average non-food inflation remained at about 5.5 per cent in November 2014. *Second*, indeed, one can discern that both the components stabilised at these aforementioned levels in FY2015 (Figure 2.8). *Third*, inflation in urban areas (7.4 per cent in November 2014) remained higher than in rural areas (6.9 per cent in November 2014). Curiously, despite having a good harvest, satisfactory procurement[11] and better stock of foodgrains[12], a substantial amount of rice (590.7 MT) was imported during the first half of FY2015 by the private sector which was 57.7 per cent higher than previous fiscal year.[13] At the same time, the government has recently decided to export rice.[14] Perhaps, the lower international price of rice led to the higher import. According to the data of Ministry of Food, imported price of rice (5% broken) from India (including transport cost) as of end December 2014 was Tk. 32.2 per kg. During the same period, at retail level, (coarse) rice in Dhaka markets was selling at prices ranging between Tk. 34 and Tk. 37 per kg. This was about 4.4 per cent higher compared to the prices of last year. Also, the procurement price of Aman was announced at Tk. 32 per kg. Historically, retail price of rice in Bangladesh had remained lower than international price. The decline of international price and the increase of domestic price at the retail level (despite having a good harvest, comfortable stock and high import) led to this alignment which has made import somewhat profitable for private sector. In the above context, the government needs to carefully monitor this situation and ensure the dual objectives of ensuring fair price to the producers and keeping food prices stable.

A number of factors helped as regards stabilisation of inflation at its current state. First, international commodity prices for almost all products experienced a decline in the recent past. According to the IMF data, annual average global prices in November 2014 was (-) 3.9 per cent lower compared the corresponding figure of November 2013. Second, stable exchange rate also helped to keep prices stable. Third, lower consumer demand in the domestic market also arrested the upward pressure on prices. Particularly, low level of non-food inflation may be attributed to lower domestic demand. Growth of money supply at the end of October 2014 (12.6 per cent) was

[11] The procurement of Boro season ended on 26 October 2014. The total amount of procured rice was 10.6 lakh MT (97 per cent of the target). Currently Aman rice is being procured. As of end December 2014, 57.1 per cent of the target of 3.2 lakh MT procurement was attained. Procurement will be continued until end February 2015.

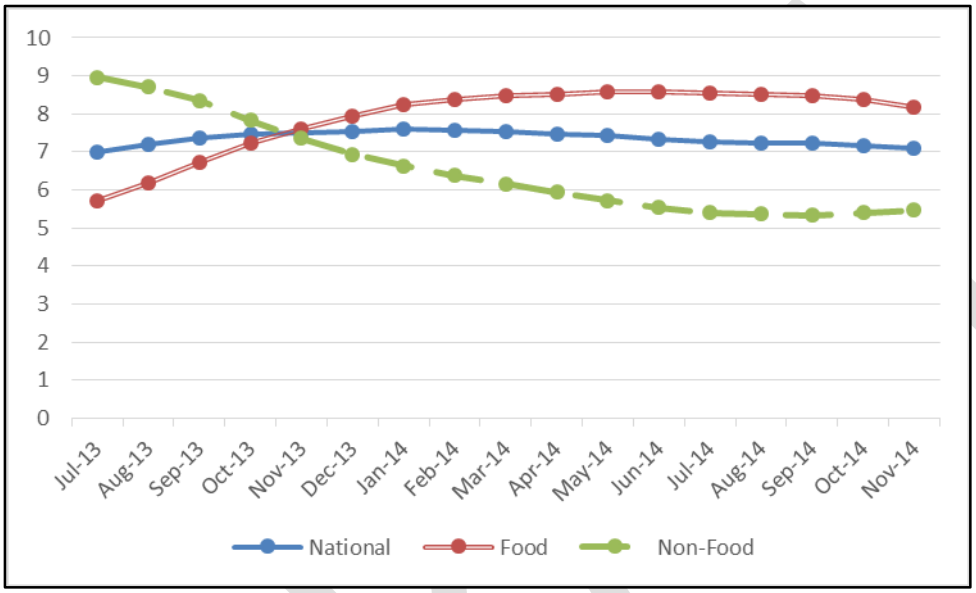
[12] As of end December 2014, the stock of rice was 11.8 lakh MT. The stock as of corresponding period of previous year was only 6.7 lakh MT. Total stock of foodgrains (rice plus wheat) was 12.9 lakh MT as of end December 2014.

[13] Public sector did not import rice during the reported period.

[14] On 26 December 2014, the first consignment of rice left for Sri Lanka with 12.5 thousand MT of rice. It may be recalled that an agreement for exporting 50 thousand MT of Bangladeshi rice to Sri Lanka, as USD450 per metric ton, was signed on 3 December 2014 between the governments of the two countries. Bangladesh had earlier exported aromatic rice to other countries in small quantities but this is for the first time that the country is exporting rice in bulk quantity under G2G agreement.

the lowest in last one and half decade and remained well below the target of 16.5 per cent (for end of June, 2015). Indeed, much of this growth is explained by the high growth of net foreign assets which was 28.9 per cent as of October 2014. In contrast, growth rates of domestic credit and credit to private sector, which were 10.7 per cent and 12.1 per cent respectively as of October 2014, remained at subdued levels. Targets for these indicators at the end June 2015 were set at 17.3 per cent and 15.5 per cent respectively. Indeed, some analysts, and also the Bangladesh Bank, had expressed satisfaction with this tame demand for credit and finance. Regrettably, this is also a reflection of lower investment demand in the economy. Policy efforts to stimulate private sector investment and boost credit demand for investment remained inadequate.

FIGURE 2.8: ANNUAL AVERAGE INFLATION (%)



Source: Estimated from BBS data.

Balance of Payments and Exchange Rate: Creeping pressure

During the early months of FY2015, BoP position was not in the comfort zone as was the case in FY2014. The current account balance of the country, in July-October FY2015, was in the negative terrain due to flat export earnings growth and robust import payments which resulted in significantly higher trade deficit. During the first four months of FY2015, trade deficit increased to USD 3,718 million which was only USD 1,932 million during the corresponding period of FY2014. Export earnings during July-November could register only a meagre 0.9 per cent growth in FY2015. Growth of export earnings from RMG (0.4 per cent) was lower than the average export growth figures, while export growth performance of non-RMG group (3.1 per cent) was only marginally better. As it appears, annual export growth target of 10.0 per cent may not be achievable. In contrast, overall import payments during July-October of FY2014 had increased by 14.7 per cent. The surge in import payments was largely contributed by import payment for intermediate goods and capital goods which contributed about 60.5 per cent and 32.7 per cent respectively of the incremental import payments. Remittance inflow growth was also strong (11.4 per cent in July-November FY2015); however, this was inadequate to tackle the growing import payments and the consequent deficit in the trade account. However thanks to positive financial account balance (USD 2,885 million) during the first four months of FY2015, overall balance continued to remain positive and strong with a surplus of USD 1,246 million. As a result, foreign exchange reserves continued to increase and reached USD 22.3 billion on 30 December 2014. This

was equivalent to six months of import payments. This and targeted market intervention (mopping up dollars by the Bangladesh Bank) helped maintain exchange rate stability. More recently, however, particularly since November, it is observed from foreign exchange reserve and exchange rate data that there was a creeping pressure on the BoP. Some sign of depletion in the foreign exchange reserve was observed while BDT, experienced depreciation, albeit marginally, against the USD. This situation may persist for the coming months of FY2015. However, with the augmented foreign exchange reserves, the central bank should be able to maintain exchange rate stability, at least for the remaining months of FY2015.

SECTION 3. PRIVATE INVESTMENT IN THE POST-ELECTION YEAR: WHY IT DID NOT PICK-UP?

Private investment in developing countries, in the first post-election years at least, tends to follow a political business cycle. According to this theory, lower levels of political uncertainty and better predictability as regards medium term business environment have positive impact on investment decision by business people (Bhattacharya and Dasgupta and Neethi, 2013; Canes-Wrone and Park, 2014; Nordhaus, 1975). As the first year of the current government approaches the finishing line, in the backdrop of the national elections held in January, 2014, one can undertake an assessment of the current investment scenario from the particular perspective of the political business cycle. This assessment has been undertaken on the basis of information on the ground, as well as perception of business people. This section examines the state of private investment under the incumbent government over the second half of 2014 by drawing on available direct and proxy indicators relating to investment situation. A major focus of this analysis is to understand whether investment has picked up under the new regime. If not, then which factors are responsible for this state of situation? To understand the mid-term prospects of private sector investment, an attempt will be made to see whether the initiatives of the new government contributed to creating a favourable environment for enhancing investment.

A key question is to examine whether the existing rate of growth of investment is adequate enough to attain the targeted GDP growth at the end of the fiscal year (i.e.7.2 per cent in FY2015). In view of the recent slowdown in private investment, it is highly unlikely that the investment-GDP ratio, taking cognisance of the current ICOR, will rise to 33.8 per cent from the existing level of 25.9 per cent.

It is reckoned that investment decision in 2014 was at least partly influenced by the uncertainties that prevailed in consequence of the political unrest and violence in the latter half of 2013. Economic activities in agriculture, manufacturing and service sectors were severely disrupted which caused some loss of production and income in FY2014 (CPD, 2014). As a result manufacturing sector has registered a lower level of growth compared to that of the previous year (6.3-8.2 per cent in FY2014 vis-à-vis 9.3-11.6 per cent in FY13). Slowdown in the demand in major economies, appreciation of taka against major currencies, slow rise in temporary migration of Bangladeshi workers and its consequences on employment etc. were likely to have adverse implications for domestic investment in the country. On the other hand, falling commodity prices may have helped the investors.

3.1 State of Private Investment in FY2015

3.1.1 Credit to Agriculture and Non-farm Activities

Credit disbursed for the agriculture and non-farm activities by financial institutions may serve as a proxy for investment in these sectors. Disbursement of credit was rather disappointing in the first five months of FY2015 (Table 3.1). During July-November 2014, about 34.0 per cent of the annual target for disbursement was realised (Tk.5288.3 crore) which was 3.9 per cent lower

compared to the same period of the last year.[15]Agricultural credit has registered a decline by 3.4 per cent during July-November, 2014[16]; on the other hand, credit to non-farm activities has declined by 38.2 per cent during comparable period. According to the Bangladesh Bank, 14 SCBs have disbursed 15 per cent of their targetted annual credit outlay during July-November, 2014 period; however, seven banks did not disburse any farm loan in this period. Similarly, recovery of credit was also disappointing – about 4.0 per cent less was recovered during this period. Poor recovery of farm credit can be partly attributed to loss of crop due to flood in 21 districts during June-July, 2014. Anecdotal information indicates that loss of farm income in the flood affected region was not significantly high. Field level information suggests that, thanks to the use of more productive technologies, including submergence tolerance variety of Aman rice (e.g. BR51, BR52), production in some of the flood affected areas may have posted even some rise. To help the farmers with repayment of overdue loan, Bangladesh Bank has recently decided to reduce lending rate on agricultural credit from 13 per cent to 11 per cent (to be effective from January, 2015). Bangladesh bank has also encouraged banks to disburse fresh loans among farmers. It is to be noted that given the high transaction cost involved in lending to small scale farmers, a lowering of interest rate may further induce banks to avoid this particular segment of the market and focus on medium-to-large scale lending.

TABLE 3.1: AGRICULTURAL AND NON-FARM RURAL CREDIT

Disbursement (in crore Tk)		
	Agriculture	Non-farm
FY12	2,588.5 (-9.1)	421.8 (117.0)
FY13	2,872.7 (10.0)	455.1 (7.8)
FY14	3,579.6 (24.6)	542.8 (19.3)
FY15	3,546.8 (-0.9)	335.4 (-38.2)
Recovery (in crore Tk)		
FY12	3,468.5 (10.0)	613.0 (-13.0)
FY13	3,634.7 (4.8)	321.5(-47.55)
FY14	3,953.0 (8.8)	665.9(107.2)
FY15	4,033.6 (2.0)	466.4 (-29.0)

Source: Bangladesh Bank.

Growing agricultural mechanisation encourages farms to invest more in agricultural machineries. A large part of modern agricultural machineries have to be imported; however, import of machineries is limited to a few items only (Table 3.2). According to the NBR Data, import of machineries during July-November, 2014 evince a mixed scenario about investment in capital goods in the agriculture sector. Import value of 'Dryer' which is the single largest imported item was lower compared to the same period of the previous year (-60.5 per cent during July-November, FY2015). Import of a number of other machineries have registered a significant rise during this period which include tractors, machines for cleaning/sorting grain and seeds, ploughs, seeders, planters, transplanters, mower and disc harrows etc. On the other hand, import of a number of machineries has experienced a decline during this period; these include road tractors,

[15]Government has set the target for disbursement of credit for these activities of Tk.15550 crore.
[16] Agricultural credit is accounted for over 90 per cent of total credit under this category.

irrigation equipment and combined harvester-threshers etc. Overall, investment in agricultural machineries during the first five months of FY2015 has experienced a mixed trend.

TABLE 3.2: IMPORT OF AGRICULTURAL MACHINERIES

Hs Code	Description	Value (thousand USD)		% Change in FY14 over FY13	Value (thousand USD)		% Change in Jul-Nov FY15 over Jul-Nov FY14
		FY13	FY14		Jul-Nov FY14	Jul-Nov FY15	
84193100	Dryers For Agricultural Products	1051.5	165182.2	15609.9	100971.6	39920.1	-60.5
87019000	Tractors (excl. tractors of 87.09), nes	27780.8	33407.5	20.3	7857.8	18349.1	133.5
84371000	Machines For Cleaning/Sorting/ Grading Seed, Grain	27001.2	24866.5	-7.9	4318.4	8182.7	89.5
87012010	Road tractors for semi-trailers: CBU	2397.3	11477.8	378.8	5782.4	4534.8	-21.6
84248190	Irrigation equipments	1952.2	2973.4	52.3	1378.3	243.9	-82.3
84321000	Ploughs	519.0	1404.1	170.5	91.9	739.1	704.4
84323000	Seeders, Planters And Transplanters	99.7	450.0	351.3	165.1	464.6	181.3
84335100	Combine Harvester-Threshers	213.5	180.0	-15.7	33.2	10.5	-68.3
84332000	Mowers (Incl. Cutter Bars For Tractor Mounting)	47.4	176.1	271.4	1.1	30.0	2571.7
84322100	Disc Harrows	27.7	32.3	16.5	5.1	9.6	86.3
87011000	Pedestrian controlled tractors	0.04	2.6	7121.3		0.8	

Source: NBR Data.

3.1.2 Registration of New Investment by BOI

BOI data indicates that registration of new investment has been on a declining trend in recent years. During July-September, 2014 a total of 345 new projects were registered at the BOI with investment proposal worth USD 2573.4 million (Table 3.3). Out of those, 318 projects (with an investment proposal of USD 2353.8 million) were proposed by local entrepreneurs and the rest 27 projects (with USD 219.6 million) were proposed under joint venture and foreign investment. During FY2014, though the number of new companies registered was lower, their proposed investment was higher than the previous year. However, it is important to explore other investment related indicators to appreciate the current state of investment in FY2015. And as it is well known, actual investment and registration with BOI are two different things.

TABLE 3.3: REGISTRATION FOR PROPOSED INVESTMENT (LOCAL, JOINT AND 100 FOREIGN INVESTMENT)

	FY2013		FY2014		July-September, 2014	
	Number of projects	Proposed Investment Values (m USD)	Number of projects	Proposed Investment Values (m USD)	Number of projects	Proposed Investment Values (m USD)
Local investment	1,457	5,599	1,308	6,392	318	2,353.78
Joint & 100% Foreign Investment	219	2,733	124	2383	27	219.58

Source: BoI website accessed on 26 December, 2014

3.1.3 Investment in Non-agriculture Sector: Manufacturing and Services

During post-election period, investors in manufacturing and service sectors tend to invest more on two counts – investment to compensate the shortfall in the pre-election year and investment that target new business opportunities. In debt-based investment structure, trend of investment is reflected through disbursement and repayment of term loan, disbursement of SME credit, import of capital and other machineries by opening L/Cs in banks. A part of potential investible capital is targeted to the capital market.

Industrial Term Loan: Disbursement and Recovery

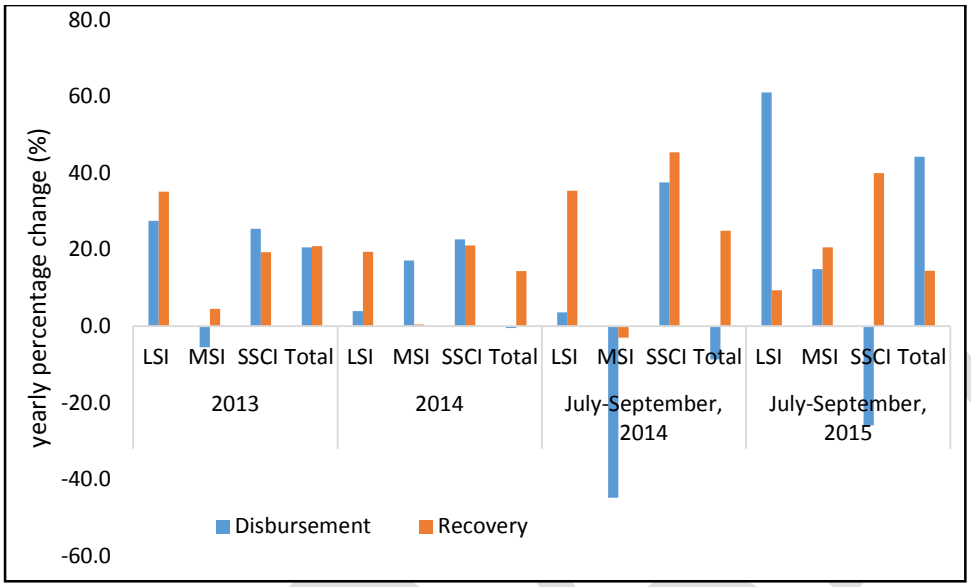
During July-September, 2014 term loan disbursement has registered the highest rise, at 44 per cent, over the last five years (Figure 3.1). However, this rise ought to be seen in the backdrop of the negative growth in disbursement over the same period of the last year (-8.6 per cent). A big jump is seen in the disbursement of term loan for the large scale industries (66.1 per cent) which contributed to this significant rise; however the growth of disbursement of term loan to small scale industries was negative. This significantly high rise in disbursement of term loan needs to be interpreted cautiously. One needs to note that, a part of the term loan are actually short term loan against trust receipt (LTR) which were rescheduled as long term credit. In fact, about 32 per cent of non-performing loan (NPL) during 2013 was LTR that was primarily related to financing of the RMG and textile industries (16.7 per cent).[17] Recent initiative to reduce bad loan and bring its share under 10 per cent of the total outstanding loan through rescheduling of long term loan, may include a large amount of LTR. This is likely to push the amount of term loan further in the coming months. Thus, a part of the term loan will not have direct implications for creation of fixed capital in the private sector. A part of the term loan that was invested in FY2015 could also be due to non-investment in FY2014 owing to political unrest.

Unlike disbursement, growth rate of recovery of term loan was less impressive (14.4 per cent in July-September, 2014 which in fact was the lowest rate of recovery of credit in last five years (Figure 3.1). A sluggish growth of recovery in LSI has slowed down the overall growth of repayment. The rise of overdue term loan (Tk.13424 crore, 12.8 per cent of total outstanding loan in November, 2014) even after the rescheduling undertaken in December, 2013 (8.93 per cent in

[17] For detail, please see http://www.thefinancialexpress-bd.com/2014/10/23/62550/print

December, 2013) with a view to accommodate the losses caused by disruption in the second half of 2013. Central Bank has provided directives to banks once again to reschedule the loan with a view to reduce the default loan less than the level of 10 per cent of outstanding loan. This type of repeated rescheduling of loans may improve the overall picture of term loan disbursement through adjustments and manipulation but did not depict the actual situation as regards long term investment.

FIGURE 3.1: GROWTH (%) OF DISBURSEMENT AND RECOVERY OF INDUSTRIAL TERM LOAN



Source: Bangladesh Bank

SME Loan

Financing SMEs is a major declared policy priority of the government. During July-September, 2014, a total of Tk.24,900 crore was disbursed which was 20.7 per cent higher compared to the same period of the previous year (Table 3.4). Over 90 per cent of the SME credit was for financing working capital and the rest was in the form of term loan. Growth of disbursement of term loan for SMEs is rather low (0.57 per cent) mainly because of negative growth of disbursement of credit for SSCI. SME financing is overwhelmingly dominated by private commercial banks but in recent years its growth has slowed down (growth of outstanding credit: 51 per cent in 30 September, 2008 to 17.6 per cent in 30 September, 2014) (Figure 3.2). In contrast, NBFI, though it accounted for a small share in overall outstanding of SME credit, was taking on interest in financing SMEs. Overall, growth of SME credit may look good in the backdrop of lower level of FY2014.

SME financing is overwhelmingly concentrated in urban-based economic activities. According to the Bangladesh Bank data (reported in a national daily on 20 December, 2014), only 24.2 per cent of SME loan (Tk.17,419.8 crore) under BB's small and medium enterprises credit programme has been targeted to rural entrepreneurs during January-September, 2014. Lack of regulatory bindings to disburse SME credit in rural areas perhaps induces financial institutions to target SMEs located in urban and peri-urban areas which have better financial record, better record for repayment of loan and higher demand for loan and having low transaction cost.

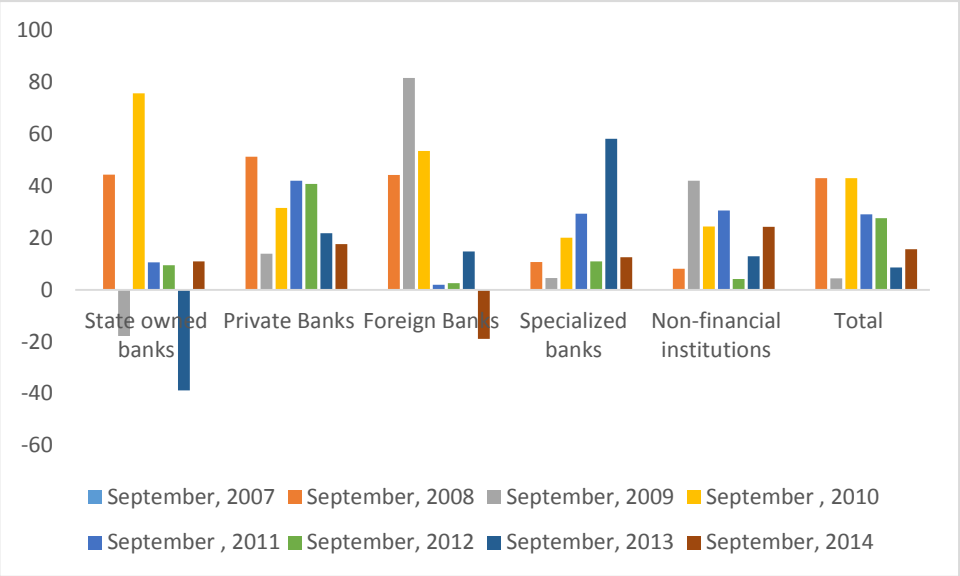
There is a significant difference in the recovery of loan between large scale enterprises and SMEs. Unlike the former, recovery of term loan of SMEs was quite impressive during July-September, 2014 period. Rescheduling of credit in December, 2013 in order to adjust the loss of income appears to have had a positive impact on repayment of SMEs. In contrast, LSI which generally tends to be less affected during times of political violence and transition were unable to take the benefit of rescheduling of credit. Consequently, default of large scale credit has once again increased.

TABLE 3.4: DISBURSEMENT AND OUTSTANDING POSITION OF SME LOAN

Issues	In crore Tk.				Percentage changes	
	2012	2013	Jul-Sept. '2013	Jul-Sept. 2014-15	2013 over 2012	Jul.-Sept., 2014 over Jul.-Sept., 2013
Disbursement	69753.68	85323.25	20623.98	24901.12	22.3	20.7
Outstanding	100813.2	115633.8	108599.5	125614.8	14.7	15.7

Source: Bangladesh Bank.

FIGURE 3.2: OUTSTANDING POSITION OF SME CREDIT



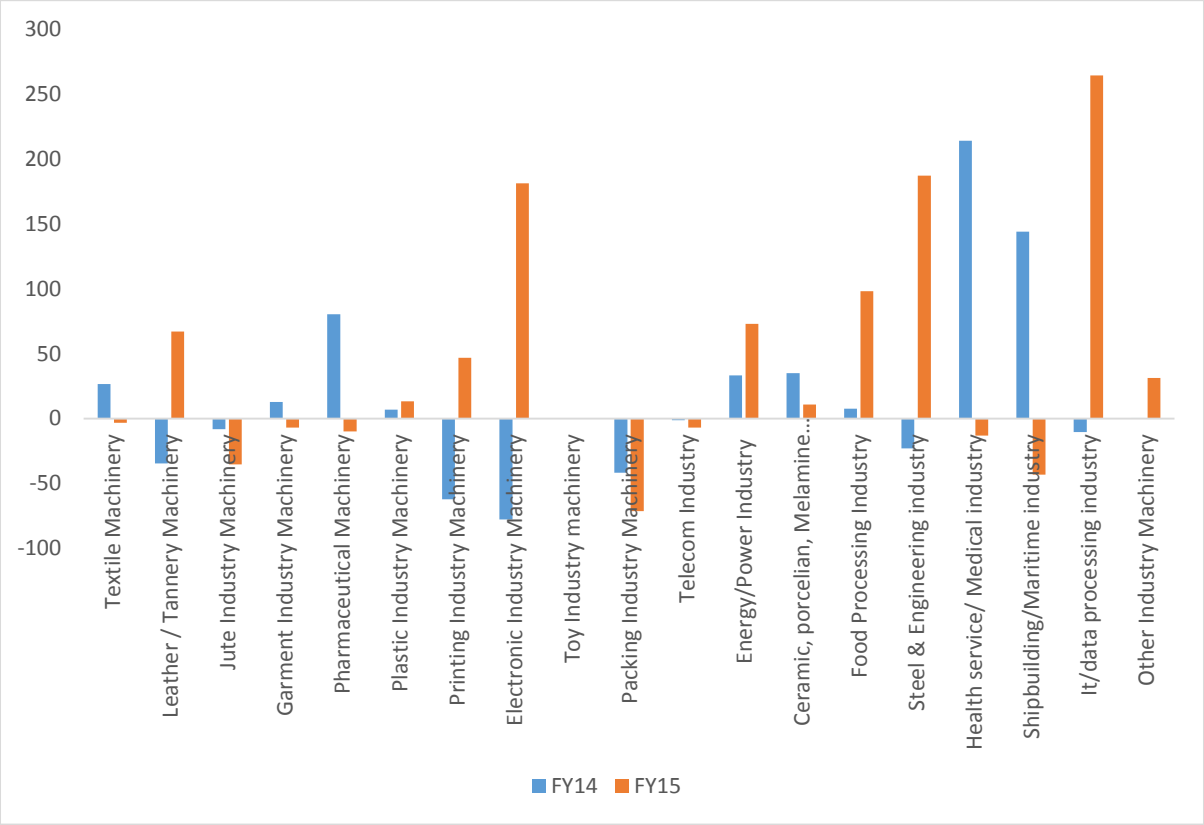
Source: Bangladesh Bank.

Import of Machineries

Capital machineries constitute about 45 per cent of total fixed assets in Bangladesh's manufacturing sector (BBS, 2013); consequently, changes in import of machinery is indicative of trends in investment. During July-October, 2014 import of capital machineries has increased by 43.2 per cent compared to that of 5.2 per cent in the corresponding period of the FY2014. A disaggregated data on settlement of LCs of capital machineries reveal a mixed picture as regards investment (Figure 3.3). Import of machineries by a large number of traditional industries were found to be negative during July-October, 2014 period. These included textile, jute, garment, pharmaceuticals, packing, telecom, heath service and ship building. On the other hand, a number of industries' import of machineries was found to be positive. These included energy and power,

plastic, printing, electronic, ceramic, food processing, steel and engineering and IT/data processing.

FIGURE 3.3: CHANGES (%) IN LC SETTLEMENT (AS OF JULY-OCTOBER)



Source: Bangladesh Bank.

Analysis of NBR data on import of capital machineries reveal suspicious growth in import during July-November, FY2015 (Table 3.5). The import for a large number of items are exceptionally high, and do not tally with offtake of term loan. Whether this is an issue of 'misdeclaration' or mispricing or whether flight of capital is taking place through this is something that needs to be examined thoroughly by competent authorities.

TABLE 3.5: FICTITIOUS GROWTH IN IMPORT OF MACHINERIES DURING JULY-NOVEMBER, 2014

HS Code	Volume		Value		Price	
	% change					
	FY14 over FY13	Jul-Nov 2014 over Jul-Nov 2013	FY14 over FY13	Jul-Nov 2014 over Jul-Nov 2013	FY14 over FY13	Jul-Nov 2014 over Jul-Nov 2013
Base metals and articles of base metal (72-83)	-2.34	810.89	8.00	595.00	-76.35	-13.51
Electrical equipment parts thereof (84-85)	14.27	541.06	32.58	134.89	71.26	-69.77
Vehicles, Aircraft, vessels and associated transport equipment (86-89)	-42.07	1171.18	4.82	44.38	22.12	541.28

Source: Calculation based on NBR Data.

3.1.4 Foreign Direct Investment and Portfolio Investment

FDI inflow in FY2015 has yet to pick up after facing an adverse situation in the second half of 2013 (Table 3.6). During July-October, 2014, FDI inflow was to the tune of USD 463 million which is mere 5.6 per cent higher compared to the same period of the last year. This rise took place over the negative growth examined in the same period of FY2014 (-16.6 per cent). Unlike FDI, foreign portfolio investment has registered a significant rise over the same comparable periods (53.4 per cent). Due to weak institutional structure and poor governance in the capital market, movements in major indices in the stock exchanges often failed to reflect actual economic scenario (Moazzem and Rahman, 2012). As a result, foreign investment in the capital market often takes place based on weak market information. Concerns have been raised in some of the other countries regarding 'round-tripping' nature of FDI whereby capital outflow returns to home country as 'foreign investment'. Time has come to look at this issue in Bangladesh as well. In fact, India has recently identified that about 10 per cent of its FDI are 'round tripped' which ranged between 1 per cent in IT and ITES sector to as high as 38 per cent in infrastructure sector (Rao and Dhar, 2011).

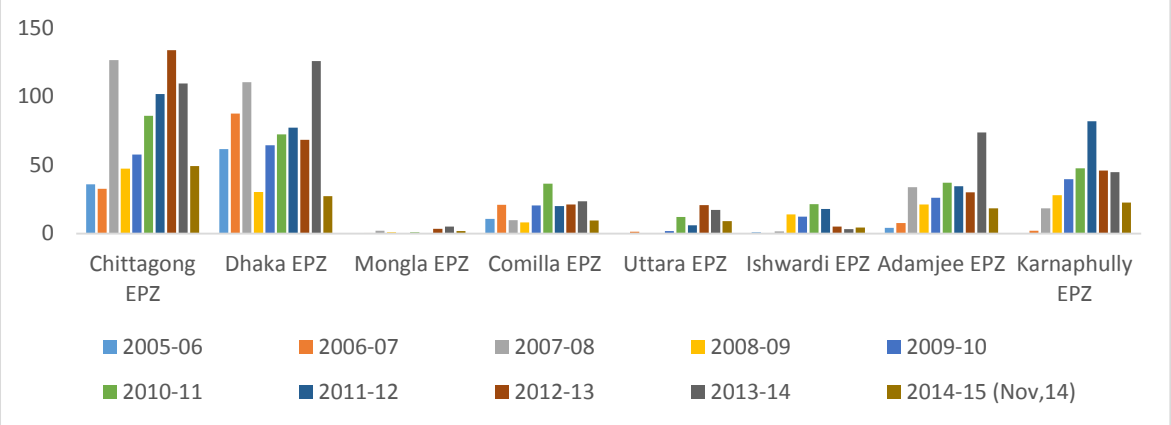
A part of FDI during July-November, 2014 was directed to different EPZs which was to the tune of USD 142 million (Figure 3.4). This FDI has been concentrated mainly in Chittagong, Karnaphully and Dhaka EPZs because of the relative advantages in terms of location, infrastructure and logistics. However, existing EPZs are increasingly facing constraints to accommodate new investment due to lack of adequate land and other infrastructural facilities. In view of this, foreign investors have started to take interest in other EPZs such as Mongla, Adamjee, Ishwardi and Uttara EPZs. But infrastructure, logistics, housing for workers and other facilities need to be much improved in these EPZs to attract and accommodate more FDI.

TABLE 3.6: FOREIGN DIRECT INVESTMENT AND PORTFOLIO INVESTMENT (IN MIL. US$)

Issue	FY12	FY13	FY14	July-October 2013	July-October 2014
Foreign direct investment	1191	1726	1550	443	468
Portfolio investment	240	368	825	189	290
% Change over previous year					
Foreign direct investment	55.1	44.9	-10.2	-16.6	5.6
Portfolio investment	-957.1	53.3	124.2	92.9	53.4

Source: Major Economic Indicator, Bangladesh Bank.

FIGURE 3.4: EPZ WISE FDI INFLOW



Source: BEPZA

3.1.5 Capital Market

In the backdrop of slow rise in investment through debt-based financial instruments, investment in the capital market appears to be unusually high. During July-November, 2014 a total of nine (9) companies were listed in the capital market with a total size of capital amounting to Tk.10.56 billion which was significantly higher than the same period of the previous year (5 companies and Tk.2.03 billion) (Table 3.7). In fact, total number of IPOs offloaded during January-November 2014 period was the highest (20) since 2008. The high rate of subscription of IPOs of different companies indicates strong public interest for investment in the capital market. Although enlistment of new companies in the capital market increases the depth of the market, there are concerns related to the quality of these IPOs. A number of concerns have been raised with regard to new IPOs which include providing of fictitious information on revenue, wrong information on profit and valuation of assets of the companies to the SEC, submission of false documentation about directors. Oversight by the SECs to tackle these concerns has become a necessarily. Curiously, issue manager for a number of companies under such allegation is the same. It is important to examine whether SEC has followed the rules and regulations properly while giving permission for new IPOs. A recent directives from the Ministry of Finance to follow the rules and regulations with regard to permitting new IPOs by the SEC alludes to the weaknesses in the regulatory system.

TABLE 3.7: IPOs OF NEW COMPANIES IN FY2014 AND FY2015 (JULY-NOVEMBER PERIOD)

Year	FY14	FY15
No. of IPOs during July-November	5	9
No. of IPOs during January-November	12	20
Information on July-November Period		
Total authorized capital(in crore tk)	1150	1200
IPO size in shares (in crore)	20.3	65.1
IPO size in Tk. at face value(in crore tk)	203	1056
Post IPO paid-up capital(in crore tk)	621.2	1799.6
Paid up capital as percentage of IPO at face value	306	170
Subscription rates of different IPOs (Times)	2.3,10.4, 45.9,17.6,44.3	8.8, 43.6,2.7, 9.7, 5.9, 43.8, 5.9, 24.9, 7.2

Source: Dhaka Stock Exchange (DSE)

Box 3.1: Perception of Entrepreneurs regarding the Production, Investment and Employment Situation during FY2015

Given the limited information available as regards private investment, a limited perception survey of knowledgeable informants was carried out for this study, to get some insights as regards investment situation in the country. Telephone interviews were carried to understand assessment of entrepreneurs and businessmen regarding the current state of investment, major determinants and possible future directions. Eleven (11) entrepreneurs/businessmen were interviewed – they were associated with RMG, pharmaceuticals, medical services, jute, IT, printing and publishing, light engineering, plastic and construction etc.

About 60 per cent of them have made new investment during FY2015 while the rest 40 per cent did not go for new investment; this indicates that some entrepreneurs continue to have uncertainty as regards business environment (Table 3.8). The share of new investment is ranged between 15 to 50 per cent of their existing investment which indicate different level of prospect for business by the investors of different sectors.

New investment is carried out by taking loan from the financial institutions although some sectors such as jute did not get loan from financial institutions as the sector was considered as 'unviable'. As a matter of fact, growth of production of these enterprises during the first half of FY2015 was not very impressive- only 30 per cent respondents mentioned about rise in production in their enterprises while 50 per cent mentioned about same level of production; the rest 20 per cent respondents mentioned about decline in production. Due to slow rise in production and investment, employment in most of the enterprises has remained at the same level- indeed, 20 per cent of the respondents mentioned about reduction of employment in their respective enterprises.

TABLE 3.8: PERCEPTION OF ENTREPRENEURS/BUSINESSMEN ON INVESTMENT, PRODUCTION AND EMPLOYMENT DURING FY2015 (% OF TOTAL NUMBER OF RESPONDENTS)

New Investment (FY2015)	Yes (60%)	No (40%)	
Share of new investment	15% - 50% of existing investment		
Source of finance	Financial institutions (85%)	Self-finance (15%)	
Changes in production (Jul-Nov. FY15 compared to Jul-Nov. FY14)	Increased (30%)	Decreased (20%)	Same (50%)
Changes in employment (Jul-Nov FY15 compared to Jul-Nov FY14)	Increased (0%)	Decreased (20%)	Same (80%)

Source: Interview carried out in December, 2014 (CPD, 2014)

3.2 Exploring the Bottlenecks

In the backdrop of relatively calm environment of the first half of FY2015, private investment was expected to pick up in FY2015. However, available data on investment, both from secondary sources as well as from the perception of the entrepreneurs, reveal only modest rise in the level of investment. Entrepreneurs/businessmen who took part in the interview have identified a number of bottlenecks that have negative consequences for investment and business decisions (Table 3.9). Most of the sectors have faced constraints for not having 'basic' and 'efficiency enhancing' infrastructure. These included lack of adequate supply of gas, electricity, in adequate rail and road links, dearth of skilled manpower and high rate of interest on bank borrowing. Besides, each sector faces its unique set of bottlenecks which are also important. These included slow progress in establishment of API park and high tariff for raw materials for pharmaceutical industries, lack of progress as regards Mandatory Packaging Act for the jute sector, demand for an industrial park for the light engineering industry, high tariff rates on printing materials for the publishing industry, poor ICT infrastructure and slow progress in implementing hi-tech park, unregistered clinic for medical services, lack of free and fair tender for the construction sector and lack of proper monitoring and enforcement of regulations in the capital market.

While most of the challenges are not new, investors' decision to invest in FY2015 has been constrained due to lack of progress as regards projects which were planned by the government. Following the national elections, the government had set a number of targets to attain over the next five years which were important from the perspective of investment. This included rise in electricity production to 24,000 MW, continuation of work on building digital Bangladesh, completion of construction of the Padma Bridge and building tunnel under the river bed of Karnaphully, starting construction of second Jamuna Bridge and Second Padma Bridge, building of deep sea port, provision of rationing facility for agricultural labourers and industrial workers. Immediately after the national election in 2014, Government has fast-tracked six projects which included construction of the Padma Bridge and the Rampal thermal power plant, Rooppur nuclear power plant, metro rail, deep-sea port at Sonadia in Cox's Bazar, establishment of Matarbari Power plant and constructing a liquefied natural gas (LNG) terminal. It is important to examine the progress of these projects with a view to appreciate investment environment in the coming years.

TABLE 3.9: CURRENT BOTTLENECKS FOR VARIOUS SECTORS

Sectors	Current bottlenecks
RMG	- Insufficient gas supply - Electricity disruption - Underdeveloped roads and highway
Pharmaceuticals	- Slow progress in establishing API Park - Higher tariff rates of raw materials - Frequent outage of electricity
Jute	- Lack of access to finance - Lack of implementation of Mandatory Packaging Act 2010 - Shortages of skilled labour force
Light engineering	- No industrial park for light engineering industry - Higher interest rates - Lack of access to finance
Printing	- Low level of market demand - Higher tariff on better quality printing papers - Higher business cost due to insufficient electricity
IT	- Poor ICT infrastructure - High cost of high speed internet - Slow progress in establishment of Hi-tech parks
Health	- Lack of sufficient public investment - Unregistered clinics and medical centres - Lack of proper attention to build an efficient medical sector
Capital market	- Ineffective regulation and monitoring to build the confidence of investors
Construction	- Corruption - Lack of free and fair tender - Political influence

Source: Interview carried out in December, 2014 (CPD, 2014)

3.2.1 Investment suffers due to lack of adequate power supply

Lack of availability of the needed power in the industrial units remain a major constrain impending higher levels of investment, despite the fact that power generation has improved considerably since 2010. With the utilisation rate of 65-70 per cent of the total installed capacity (derated capacity 10,390 MW) it is difficult to meet the growing demand of electricity. The number of application for new electricity connection that has been kept waiting as of October 2014 was about 1,077,241 which required about 1,595 MW of electricity[18]. The demand forecast of Bangladesh Power Development Board (BPDB) showed that peak demand for power would be about 10,283 MW in FY2015 which would be difficult to meet without increasing the utilisation capacity of the power plants. More importantly, the strategy for distribution of additional generated electricity over the years is not fully supportive for the industrial sector (Table 3.9). Due to slow rise in sales of energy for the industrial units, its share in overall energy sales has indeed decelerated.[19] This indicates that government's priority in distribution of electricity supply is not commensurate with its policy position to facilitate industries and to encourage investment.

[18]http://newagebd.net/71617/over-10-lakh-applicants-await-powerconnections/#sthash.qcGdrerd.dpbs

[19] While the supply of electricity has increased at a rate of 8 per cent since 2011, the supply of electricity for domestic use has increased at a rate of 12 per cent during the same period.

TABLE 3.10: POWER GENERATION AND DISTRIBUTION

FY	Category of consumers	Energy sales (million KWh)	Growth of energy sales (%)	Share (%)	Energy generation (million KWh)	Growth (%)
2011	Domestic	12757	9.8	48.0	31,355	7.2
	Industry	9566	6.3	36.0		
	Agri/Comm/Others	4256	7.2	16.1		
2012	Domestic	14678	15.1	49.0	35,118	12
	Industry	10579	10.6	35.3		
	Agri/Comm/Others	4716	10.8	15.7		
2013	Domestic	16351	11.4	49.9	38,229	8.9
	Industry	11445	8.2	35.0		
	Agri/Comm/Others	4944	4.8	15.1		
2014	Domestic	18453	12.9	50.9	42,195	10.4
	Industry	12270	7.2	33.9		
	Agri/Comm/Others	5511	11.5	15.2		

Source: Bangladesh Power Development Board (BPDB)

The slow progress of implementation of the ongoing power generation projects both under public and private sector fell behind the production targets for electricity (18,000 MW by 2017) (Table 3.10). According to the ADP 2014, implementation of nine of the ongoing projects were likely to fall behind the scheduled date of completion in 2015 (Table 3.11). Indeed, some of the projects are yet to be started. Shortage of electricity in existing industrial activities, slow progress in ongoing projects along with the huge number of new applicants waiting for electricity remain containing headache in the context.

TABLE 3.11: PROGRESS OF PROJECTS RELATED TO POWER GENERATION (AS OF OCTOBER 2014)

Project	Initial Timeline for completion of projects	Latest/revised timeline for completion of projects	Progress (as of October 2014)
Meghnaghat Summit 335 MW	Oct 2014	Mar 2015	97%
Bibiyana Summit 341 MW	Oct 2015	Dec 2015	50%
Siddhirganj 335 MW Isolux	Jun 2015	Apr 2016	70%
Ashuganj 224 MW Hyundai	Jun 2015	Mar 2015	90%
Ashuganj 450 Inelectra	Jun 2015	Jun 2015	76%
Ashuganj 450 North Technicas	Jun 2015	Oct 2016	28%
Ashuganj 200 MW Modular	Jun 2014	May 2015	70%
Bheramara 360 MW	May 2016	Jan 2017	20%
Bibiyana 3 Marubeni	Dec 2015	Dec 2015	1.7%
Bhola 225 MW China Chenga	Sep 2014	Aug 2015	50%
Shahjibazar 330 MW Guandong	Dec 2015	Dec 2016	14%
Ghorashal 365 MW CMC	Sep 2015	Jun 2016	0%
Chapainawabganj 100 MW	Jul 2014	Jun 2015	0%
Kodda 150 MW dual fuel	Jun 2014	Feb 2015	60%
Shikalbaha 225 MW L& T	Jun 2016	Jun 2016	0%

Source: Power Cell, Bangladesh

3.2.2 Industrial production suffers owing to inadequate supply of gas

Industrial sector is facing formidable challenges because of lack of adequate supply of gas. Slow rise in gas production can hardly meet the existing and increasing demand for gas coming from industrial units (Table 3.12). Recent reports on gas production suggest that there is a shortage of gas amounting to about 500 million cubic feet per day (mmcfd) which is almost a quarter of current supply of gas (2,300 mmcfd per day). In FY2014 gas distribution has increased by a mere 2.5 per cent whereas supply of gas for industries has declined. Thus, industries in operation are not getting gas for the existing capacities let alone gas for the newly established one or for the areas which are planned to come up. Due to poor generation and distribution of gas, government has stopped providing new gas connections for industrial units.

TABLE 3.12: GAS PRODUCTION AND DISTRIBUTION

FY	Category	Distribution of Gas (MMcm)	Growth of gas distribution (%)	Share (%)	Total (MMcm)	Growth of Total
2011	Power	7,753.4	-3.5	38.2	20,074.5	0.8
	Captive Power	3,432.4	8.0	16.9		
	Industry	3,438.1	2.1	16.9		
	Household	2,473.7	5.3	12.2		
	Others	3,137.7	0.1	15.4		
2012	Power	8,301.7	7.1	41.1	21,055.7	4.9
	Captive Power	3,327.8	-3.1	16.5		
	Industry	3,411.2	-0.8	16.9		
	Household	2,526.6	2.1	11.5		
	Others	2,760.1	-12.0	13.7		
2013	Power	9,357.6	12.7	44.0	22,669.5	7.7
	Captive Power	3,810.0	14.5	17.9		
	Industry	3,847.0	12.8	18.1		
	Household	2,612.7	3.4	12.3		
	Others	2,956.9	7.1	13.9		
2014	Power	9,311.9	-0.5	41.2	23,231.9	2.5
	Captive Power	3,798.4	-0.3	16.8		
	Industry	3,843.7	-0.1	17.0		
	Household	2,541.2	-2.7	11.2		
	Others	3,106.3	5.1	13.7		

Source: MIS, Petrobangla.

The ongoing initiatives to address the gas crisis may not be helpful to industrial units. Since a large part of the additional supply of gas are destined for generation of electricity. It is expected that within the next six months[20] Bibiyana, Jalalabad and Bapex gas fields are going to add about 500 mmcfd per day in the national grid. Nevertheless, a large part of Bibiyana's new gas will be used in three large power projects which are being built near the gas fields. Besides, the newly established compressor in the distribution line in Chittagong to ensure higher supply of gas could not be of much help due to limited rise in the supply of gas (251 mmcfd against the demand of 450 mmcfd). Recently ECNEC has approved a project titled 'natural gas efficiency project' which

[20]http://www.thedailystar.net/gas-crisis-may-ease-next-year-44981

was geared to improving the efficiency in gas use and supply of natural gas in the national grid[21]. According to some experts, the crisis of gas could not be resolved without import of LNG and through diversion of gas from generation of electricity (through coal-fired electricity generation). The progress of establishment of LNG terminal, which was to be a fast-tracked project is far behind the targeted timeline (also discussed in section 3.2.3). Consequently, there is hardly any opportunity for the industrial sector to get any respite as regards gas supply, at least in the short to medium term.

3.2.3 Inadequate development of transport infrastructure raises industries' operational costs

Inadequate transport infrastructure facilities has led to frequent congestion in roads and railways leading to higher lead time and increased transportation cost. This is raising the overall operational cost of industries. Slow start of transport related infrastructure projects along with unsatisfactory progress in project implementation are causing huge burden on industries. Slow progress of the work on Dhaka-Chittagong highway 4-lane project (about 50 per cent of the total works have been completed till June, 2014; completion date was December, 2014) has emerged as a major concern. The Joydebpur-Mymensingh highway is another important example where only about 60 per cent of the total works have been completed by the end of November 2014. The work is supposed to be completed in June 2015.

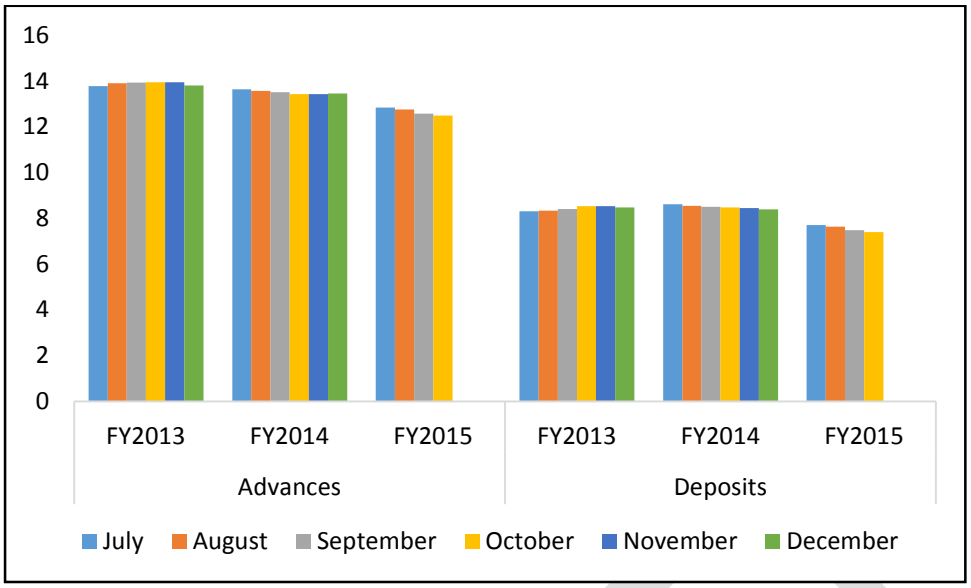
3.2.4 High interest rate remains a problem particularly for the SMEs

High interest rate has remained a problem for Bangladesh's industries for a long time. In recent months, weighted average interest rate has come down by 1.5 per cent, from 13.95 per cent in October 2012 to 12.49 per cent in October 2014 (Figure 3.5). However interest rate is somewhat low for large scale enterprises which get over 90 per cent of term loan, thanks to bank-client relationship; however, SMEs continue to face high rate of interest (16-18 per cent).

According to Bangladesh Bank data, BRAC Bank, which is a specialised bank for SMEs, provides term loan to small industry with an interest rates 17.0-23.7 per cent (November 2014); Basic Bank, another specialised Bank for SMEs, provides term loans to large & medium scale industries at a rate of 15-17 per cent. However, Central Bank's specialised scheme for financing SMEs at lower rate of interest cover only limited number of SMEs. Whilst, large firms can opt for raising fund through financial intermediaries abroad, with significantly low rate of interest (Libor plus 3 which is equivalent to interest rate of 4.5 per cent against the interest rate of 13-14 per cent at local commercial banks), SMEs cannot take advantage of such opportunities. During 2012 and 2013 local firms took loans worth USD 1.58 billion and USD 1.55 respectively from foreign sources. This type of borrowing from foreign sources is expected to be much higher in 2014. Credit from foreign sources are availed mainly by RMG, footwear, knitwear, agricultural goods, transport, telecommunications, shipping, power, pharmaceuticals, cement and steel. Most local industries are having to live with high rate of interest due to lack of adequate operational efficiency of banks and financial institutions, lack of competitive practices in the banking sector, high NPL and overall lack of good governance concerning the banking sector (Mujeri and Younus, 2009).

[21] http://www.theindependentbd.com/index.php?option=com_content&view=article&id=242663:ecnec-approves-11-projects-involving-tk-7017cr&catid=108:business-finance&Itemid=152

FIGURE 3.5: INTEREST RATES (WEIGHTED AVERAGE RATE) ON ADVANCES AND DEPOSITS



Source: Major Economic Indicator, Bangladesh Bank

3.2.5 Limited Impact of Fiscal and Budgetary Measures for the Industrial Sector

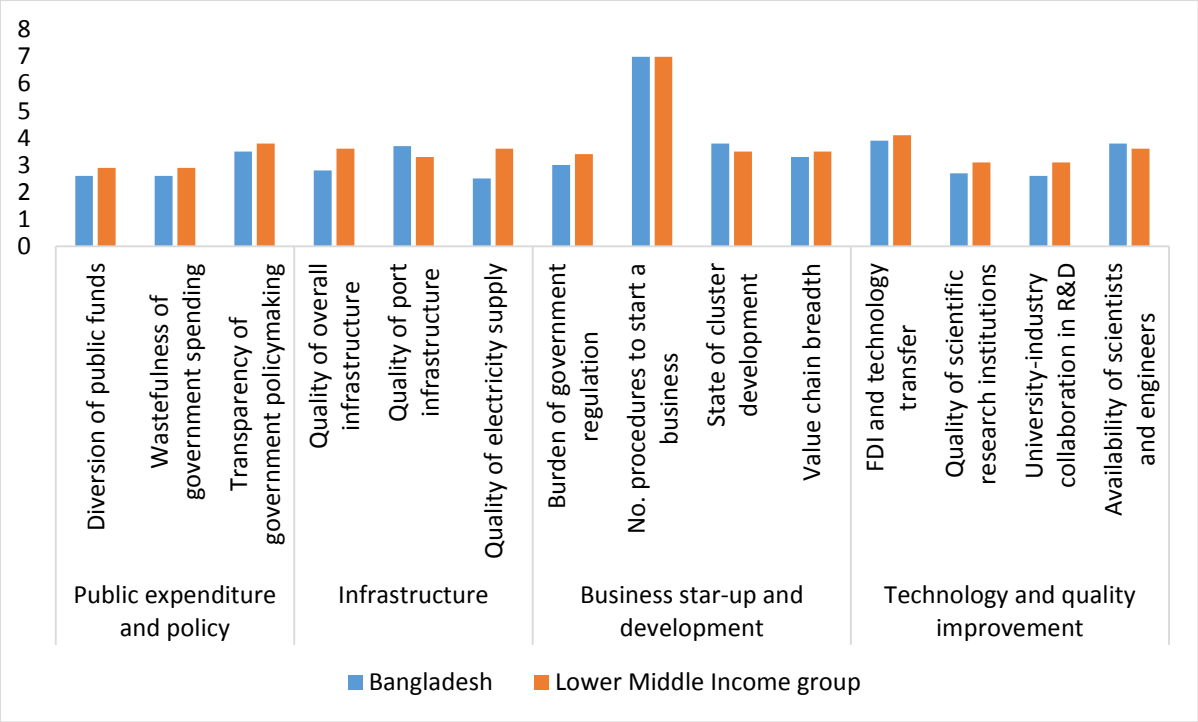
In successive national budgets, government has provided various fiscal and budgetary support to domestic industries in order to encourage private investment. In FY2014-15, government provided incentives to SMEs and export-oriented industries through reduction of CDs and SDs on raw materials and intermediate products. Reduction of tax at source from 0.8 per cent to 0.3 per cent for export-oriented RMG sector, reduction of SD on 40 basic raw materials of the pharmaceutical industry may be noted in this connection. In the national budget for FY2014 as well the government had provided various types of support to industries which included continuation of tax holiday facility for 17 industrial undertakings and 17 physical infrastructure, jute goods, fabrics, poultry, fisheries and shrimp, imposition of CD on imported agricultural products, exemption of CD on raw materials for textile sector and iron and steel etc. It appears that fiscal incentives are not proving to be adequate to stimulate investment. Only supported by improved basic infrastructures will such fiscal measures be able to have tangible impact on investment.

3.3 Medium Term Outlook for Private Investment

The prospect for higher investment in the medium to long term will depend on major structural reforms and overhauling of the related institutions to create the necessary enabling environment. This will call for strengthening key pillars of competitiveness including basic infrastructure, efficiency enhancers and innovative practices (CPD, 2014).

Bangladesh is lagging behind in almost all indicators of business competitiveness compared to many countries belonging to the middle-income category (Figure 3.6). Bangladesh will need to improve its performance in all major indicators such as public expenditure and policy, infrastructure, business start-up and development and technology and quality improvement. These are key to stimulate private investment in the near to medium term future.

FIGURE 3.6: COMPARISON BETWEEN BANGLADESH AND LOWER MIDDLE INCOME COUNTRY GROUP ON SELECTED COMPETITIVENESS RELATED INDICATORS IN 2014



Source: Global Competitiveness Report 2014-15, WEF and Doing Business Report, World Bank.
Note: Data ranges from 1-7 where 1 represents the lowest value and 7 is the highest value if not mentioned otherwise.

3.3.1 Infrastructure Support

Overcoming the Energy Crisis

Government is preparing a new power sector master plan as the previous master plan (2010) was considered to be dated by now. It is expected that the imported coal would be the main source of primary fuel to run the coal-fired power plants in Bangladesh; oil and domestic natural gas would be other two important sources. In this context, Bangladesh has fast tracked two coal fired power plant projects which are supposed to be completed in 2019 and 2023 (Table 3.13). However, the progress of those projects till now is not satisfactory. These projects need to be completed in due time in order to attract new investment in the medium term.

TABLE 3.13: PROGRESS OF SELECTED FAST TRACKED PROJECTS

Project Name	Estimated Project Cost (crore tk)	Allocation in FY15 ADP	Implementation till date	Start date	End date	Revised date
1000 MW Ruppur Nuclear Power Plan	24,000 5,087 (Phase-I)	2,139 (Phase- I)	5% (up to March 2014)	March 2013	June 2017	By 2023
1320 MW Rampal Coal Power project	1,458	No allocation		By 2015		By 2019
LNG gas terminal for importing liquid gas	416	No allocation		Deal signed in 26/06/14		By 2016

Source: ADP FY15, Daily Newspapers, https://portal.albd.org/index.php/en/resources/special-reports/809-fast-track-projects-a-new-bangladesh

Prospect of developing domestic industries based on the reserves of natural gas is rather bleak, at least for the forseable future. It has been reported that the country had a reserve of less than 14 trillion cubic feet (tcf) of natural gas which could be enough to supply by one tcf a year until 2018; afterwards, gas supply will gradually reduce. Bangladesh is not yet ready to use imported LNG for mass-scale industrial use. The establishment of LNG terminal which was to be fast tracked for implementation did not receive any allocation in FY2015 although the timeline for completion of the project is 2016. The prospect of taking advantage of 'blue economy' and development of off-shore gas blocks (some in collaboration with other neighbouring economies) is only at very early stage of discussion.

Improving Transport and Sea Port Facility

Government has fast-tracked three transport related projects which have implications on private investment in the medium term. The Padma Multi-purpose bridge is at early stage of implementation; the work will need to be geared up for its completion by the targeted timeline (2018) (Table 3.14). As yet there is no tangible progress as regards the deep seaport (phase I) although the targeted timeline for completion of the work is 2016. Similarly, no allocation has been made for metro-rail project in 2015 although it is a fast tracked project and targeted timeline is 2019. Besides, concerns have been raised as regards the extent of benefit that private sector would enjoy after completion of some of ongoing infrastructure projects such as Dhaka-Chittagong 4-lane highway project. Due to delay in implementing the project, the demand for further expansion of the highway is already a matter of discussion.

Despite the potentials, railway sector operates at below the expected efficiency level. Government has taken a large project (Tk. 6504 crore) to develop the Bangladesh Railway with a view to connect Dhaka-Chittagong railway with the Trans-Asian railway corridor. Timely implementation of this project is highly important. Poor infrastructure constraints mass scale use of inland waterways. Developing the necessary infrastructure here is important since rail and water transport systems is relatively cheap compared to other modes and could reduce the pressure on the road transport to some extent.

TABLE 3.14: PROGRESS OF PROJECTS RELATED TO TRANSPORT INFRASTRUCTURE

Project Name	Estimated Project Cost (crore tk)	Allocation in FY15 ADP (crore tk.)	Implementation till date	Start date	End date	Revised date
Padma Multipurpose Bridge	20,507	8,100	24% (financial) 15% (physical), December 2014	Jan 2009	Dec 2015	By Dec 2018
Deep seaport in Sonadia Cox's Bazar	55,000 16,00 (Phase-I)	No allocation			By 2016	
Metro Rail in Dhaka	21,985	120	0.5%	ECNEC approved the project in 2012		By Dec 2019

Source: ADP FY15, Daily Newspapers, https://portal.albd.org/index.php/en/resources/special-reports/809-fast-track-projects-a-new-bangladesh

3.3.2 Institutional Reforms

A number of public institutions facilitating private investment are unable to cater to the need of the growing private sector. This happens mainly due to their management and operational inefficiency. The Board of Investment (BOI) needs structural overhauling in order to make it functional and effective. The recent initiative to merge the Privatisation Commission with the BOI will hardly make any difference in terms of operational efficiency other than improving the human resource capacity of BOI. Entrepreneurs including foreign investors expressed their concerns about lack of adequate institutional capacity at the BOI which was also revealed in the telephone interview (CPD, 2014). Bangladesh Bank (BB) needs to fully utilize its enhanced regulatory and supervisory powers, following the amendment of Bank Company Act, in order to address vulnerabilities and weaknesses in the banking system. Private investment suffers because of inefficiency in the banking sector. The capital market will need to enhance its operating efficiency by undertaking the needed regulatory reform. SEC will need to take appropriate measures against unlawful practices in the market. The office of the PPP will need to play a more proactive role if it is to attract equity and participation of the private sector. It is expected that the enactment of the PPP Law 2013 will hopefully reduce operational bottlenecks and enhance its efficiency.

Government should seriously think of undertaking reforms as regards concerning management of public sector industrial enterprises which are operated by different ministries and departments. The decision to offload shares of these enterprises in the capital market could not be materialised due to lack of cooperation of respective ministries and departments. In view of the changing global demand for jute and jute goods, reforms in the jute sector, both public and private, needs active consideration. A number of ministries and departments need to be restructured – particularly ministry of industry need major overhaul to make it the leading ministry to deal with industry-related issues. Given the changing global perspectives on environment and labour related compliance issues, Government should increase budgetary allocation for ministry of labour and environment to improve and expand their operational efficiencies. Ministry of Labour and Employment needs to strengthen its capacity to help development of skilled professionals and workers with a view to meet the growing demand of the private sector and in view of the diversification of economic activity.

3.3.3 Sectoral Initiatives

Prospects of industrial development in Bangladesh will hinge on Bangladesh's ability to improve productivity, raising efficiency, diversify products and markets and enhance quality and create the needed skilled manpower etc. The ambition set by the RMG sector to achieve the target of USD 50 billion by 2021 needs a detailed plan of action for the next six years with special focus on productivity improvement, reducing lead time and raising compliance capacities.

Jute manufacturing sector is suffering due to lack of global and local demand and weak competiveness against poly-propylene products. Slow progress in implementing the Mandatory Packaging Act 2010 at domestic level has further aggravated the situation. Moreover, India has recently decided to lift out the mandatory packaging act which would further reduce the demand for raw jute and jute goods in the Indian market.[22] Under such circumstances, it is important to

[22]The government of India has decided to "completely phase out" the Jute Packaging Materials Act 1987, by reducing jute packaging of food grains to 70 percent in the first instance and then to zero within the next two to three years. (Source: The Hindu, Business Line,6 December,2014; the hindubusinessline.com)

reassess the future outlook of the jute sector in terms of global and local demand, requirement of production capacity and financial position of different manufacturing units, product diversification and branding jute as an environment-friendly product.

Relocation of the tannery to Savar Leather Industrial Park as per timeline with a view to make the operation of the leather industry environmentally complaint is a major challenge. In order to comply with the changing environmental compliance standard, as part of retaining the duty-free market access particularly in the European market, Government should put high priority to complete the relocation work on time and to monitor efficient operation of the CETPs at the Park. Government has taken initiative to develop five Special Economic Zones (SEZs) in order to attract both foreign and domestic investment. As part of attracting investors from major developed and developing economies, government has signed agreement with Japan to develop SEZs at Matarbari. However, progress of most of the SEZs is not up to the mark- as only land acquisition for Sirazgonj SEZ has been completed while this has been initiated in Matarbari SEZ; no mentionable progress has been made as regards the other SEZs. The work on establishing the SEZs must be speeded up.

3.4 Concluding Remarks

An overall comment on the situation of private investment during the first half of FY2015 appears to be difficult particularly in view of paucity of readily available information as regards some of the key indicators. Field level investigations indicate that private investment is yet to pick up the steam. Domestic politico-economic business cycle has yet to induce a favourable environment for private investment to be stimulated. A detailed investigation on data on key indicators rather questions about the state of actual investment. Unlike the previous years, when CPD had pointed this out, data on import of machineries for this year also raise doubts about its reliability. Similarly, high growth of term loan appears to be influenced by rescheduling of the LTR as long term loan. Given the growing practice of round-tripping of local capital, as is evinced in other countries, it is necessary to examine the sources of FDI inflow in the country.

Investors were unable to take the advantage of post-election era of improved politico-economic environment as uncertainty still persists. More importantly, no noticeable progress has taken place in terms of improvement of basic pillars such as basic infrastructure and efficiency enhancers which impact on investment decisions. As a results various fiscal and budgetary incentives provided to different sectors over the years only had limited impact. Compared to large enterprises SMEs face additional hurdles in doing business in Bangladesh. Despite significant potentials of this sector, particularly in terms of addressing the growing domestic demand in view of rising purchasing power of the people and potential opportunities of getting linked up with regional and global value chains, SME sector has remained neglected. A medium term industrial strategy will call for better governance in the development and management of the industrial sector. Energetic steps will need to be taken in the areas of institutional and policy reforms, sectoral initiatives, measures to improve capital efficiency and capital deepening, improved productivity and improved physical, social and environmental compliance capacity.

SECTION 4. BANKING SECTOR: NAVIGATING THROUGH TROUBLED WATERS

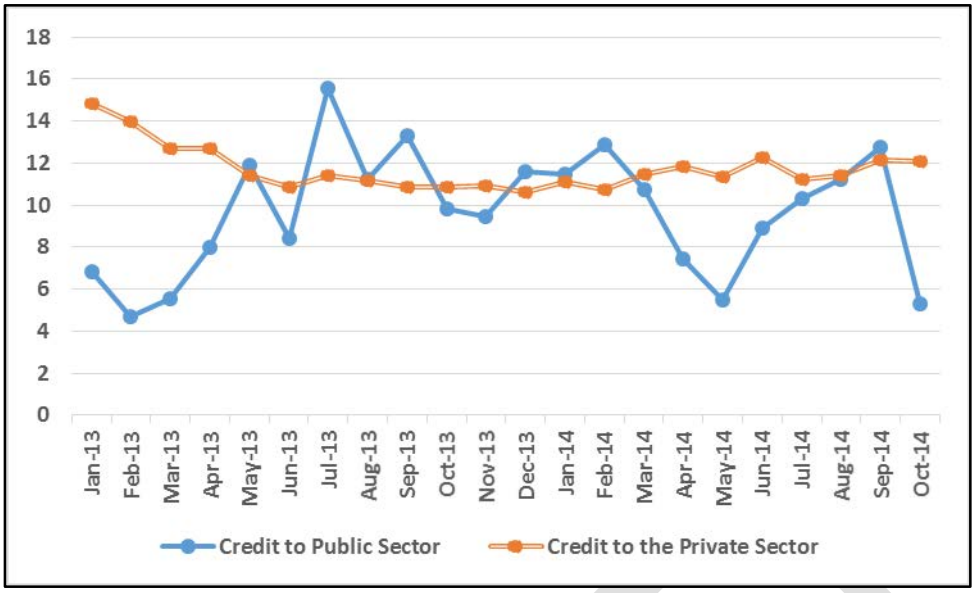
The banking sector in recent times has been plagued by several problems including management inefficiencies, malpractice and scams. This has impacted on the soundness of the banking system in the country and resulted in huge losses in the sector. While the sector is yet to recover from these shocks, new challenges continue to appear in new forms. Though the size of the banking sector has increased over time in terms of deposit-GDP ratio and credit-GDP ratio, the sector needs a massive cleaning up through implementation of appropriate measures and strengthening of monitoring and supervision mechanism. This section highlights some of the challenges that the sector is face with at present.

4.1 Low appetite for credit – a demand side problem

Growth of credit to both public and private sectors has been anemic for last several months and remained at lower levels than the targets by Bangladesh Bank. In its Monetary Policy Statement (MPS) for January-June 2014, Bangladesh Bank targeted a 22.9 per cent increase of public sector credit while the actual growth was only 6.7 per cent (Bangladesh Bank 2014a). Similarly, the private sector saw a growth of 12.3 per cent in June 2014 against the target of a credit growth by 16.5 per cent. In view of the weak demand for credit Bangladesh Bank revised the credit targets in the MPS for July-December 2014 downwards for both public and private sectors (Bangladesh Bank 2014b). The growth till October shows a somber trend (Figure 4.1). It is also alarming that several banks experienced a negative credit growth rate as reported by Bangladesh Bank in November 2014. Additionally, credit-deposit ratio (CDR) of banks declined during July-August 2014.

A relatively lower growth of credit during the first four months of FY2015 indicates that industrial activities and investment are still to pick up in the economy. Another reason for low demand for private sector credit is possibly the opportunity of the private entrepreneurs to borrow loans in foreign currency from foreign sources. It may be noted here that the central bank has liberalized its policy as regards borrowing from foreign sources in 2008 to facilitate resource mobilization for the private sector at lower interest rate from international financial markets. The decision was taken in view of high foreign currency reserve of the central bank and the maturity of some entrepreneurs of the country. The interest rate on such foreign exchange loans ranges between five to six per cent. A total of 203 companies received approval for foreign loans amounting to USD 5536.25 million during 2009-2014. Entrepreneurs of a number of sectors including telecommunications, power, ready-made garments, agriculture products, footwear and cement took loans from foreign sources. However, total disbursed loan is still lower than the approved amount (Statistics Department, Bangladesh Bank). Lower demand for credit by the public sector could also be due to relatively lower payment for imports by the government such as for petroleum products in view of falling oil prices in the international market. Besides, the government mobilized resources from other sources such as higher sales of NSD, instead of bank borrowing (detail in sub -section 2.1 of this report).

FIGURE 4.1: GROWTH OF DOMESTIC CREDIT



Source: Bangladesh Bank.

4.2 Demand for credit is not constrained by liquidity

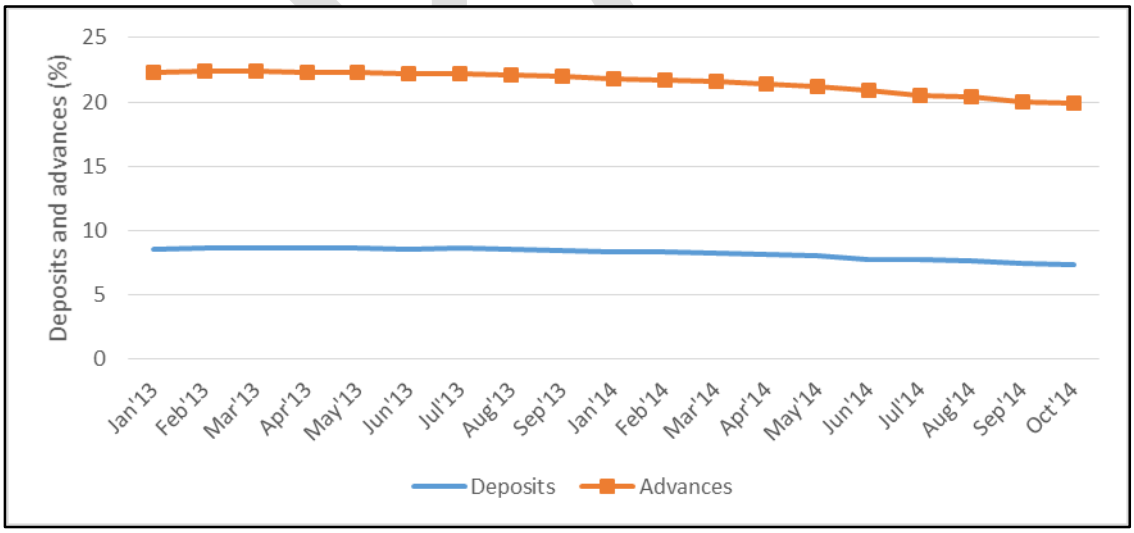
Due to lower demand for domestic credit banks are awash with liquidity which amounted to Tk. 153,107 crore as of end September 2014. This is more than 82 per cent higher than that of September 2013 and 6.8 per cent higher than June 2014. Except specialised banks, state owned commercial banks experienced higher growth of excess liquidity compared to private commercial banks (other than Islamic bank) and foreign banks during September 2013 –September 2014. Surprisingly, the call money rate, though lower in November 2014 than the previous month, is still high at 7.77 per cent, this was higher than November 2013. This could be due to banks' investment in government treasury bonds and higher demand for cash by the new banks which do not have adequate deposit. Non-bank financial institutions are also in need of cash which they borrow from the call money market different at times. This may have pushed the call money rate up.

Apart from dull investment situation, the excess liquidity situation has been compounded by a number of factors including falling prices of major commodities, particularly of oil prices in the global market. This has reduced the requirement for import credit from banks since a large share of this credit is directed towards L/C opening in Bangladesh. In an attempt to mop up about Tk 3000 crore and contain inflation Bangladesh Bank had increased the cash reserve ratio (CRR) in June 2014 whereby banks will have to maintain CRR at 6.0 per cent instead of 5.5 per cent on a daily basis and at 6.5 per cent on bi-weekly basis (Bangladesh bank 2014c). The last increase was in December 2010. It was apprehended by many that increased CRR may put a strain on the liquidity situation. However, about six months on, excess liquidity situation has deteriorated further with a high volume of unutilised money while inflation has been tamed to some extent. However, lower inflationary trend has largely been due to the confluence of a few positive developments in the domestic as well as international levels. For example, good harvest of Aush and Aman rice in FY2014 and a comfortable food stock situation during July - September FY2015 has reduced food inflation. However, the major impetus for lower inflation has come from lower

international commodity prices, particularly that of crude oil on which Bangladesh is heavily dependent. Thus low non-food inflation has driven the overall inflation rate down to 7.18 per cent in October 2014 when food inflation was 8.37 per cent and non food inflation 5.4 per cent.

Banks are trying to improve their credit portfolio through lowering interest rates. This has also led banks to reduce deposit rates in an attempt to maintain their profitability during the troubled days and amid heightened competition amongst themselves. Thus deposit rate declined to 7.4 per cent as of October 2014 from 7.79 per cent in June 2014. In the same vein, lending rate fell to 12.49 per cent in October 2014 compared to 13.1 per cent in June 2014. However, the gap between lending and deposit rates, that is, the interest rate spread (IRS) remained above 5 per cent during the aforesaid period, higher than the recommended limit of 5 per cent by Bangladesh Bank (Figure 4.2). High lending rates are due to structural weakness in the financial system that leads to inefficiencies. Thus, capital inadequacy and high non-performing loan (NPL) contributed to high IRS. There may be some implicit interest of banks as well in keeping the IRS high. Along with these supply side problems, higher demand for corporate loans is also associated with high lending rates. Without alternative sources of finance, such as the opportunity for equity finance through a developed capital market, banks will tend to lend at a high rate. Inflationary pressure and loan default risks (discussed below) also add up to the list of causes for an increased borrowing rate. While a lower interest rate on loan is desirable for boosting investment in the private sector, it is also to be noted that interest rate is only one of many tools to improve investment scenario. CPD had shown earlier that the correlation between interest rate and investment was not significant (CPD 2007). Supportive infrastructure and stable political environment are vital for enhancing investment. Interest rate spread in Bangladesh which is one of the highest in the world, should also be lowered than 5 per cent.

FIGURE 4.2: MOVEMENT IN COMMERCIAL LENDING AND DEPOSIT RATES



Source: Bangladesh Bank.

4.3 Struggling with non-performing loans

Banks in Bangladesh are currently filled with large volume of classified loans. Though rates of NPL have declined from 12.79 per cent to 11.6 per cent between September 2013 and September 2014 (Table 4.1; Figure 4.3), the volume is still large at Tk 57,291 crore as of September 2014;

this has indeed increased from Tk 48,172 crore in the first quarter of FY2014. NPL in state-owned commercial banks are way above the private commercial banks and foreign banks (Figure 4.4). Defaulted loan of BASIC Bank has gone up to as high as 55 per cent of its total loan portfolio in October 2014. These incidences have also contributed to the capital shortfalls in the state owned banks (discussed in the following sub-section). Though Bangladesh Bank adopted a flexible loan-rescheduling policy in December 2013 in order to provide respite to borrowers in view of the political turmoil during most of 2013 and reduce the burden of NPL on banks, the policy did not lead to fruition. Rather, the amount of NPL has increased partly due to such flexible loan scheduling policy itself. Large volume of loans to state owned enterprises (SoE) has also contributed to high classified loans. As of 31 December 2013 total outstanding loan to SoEs amounted to Tk 33,913 crore of which Bangladesh Petroleum Corporation (BPC) alone had a loan of Tk 14,183 crore followed by Bangladesh Power Development Board (BPDB) at Tk 6,175 crore and Bangladesh Chemical Industries Corporation (BCIC) at 4944 crore (GoB 2014a). Lack of proper screening of loan proposals and due diligence, non-adherence to project selection criteria, consideration of non-economic factors in sanctioning loans and lack of monitoring during project implementation are some of the major reasons behind high NPL in Bangladesh. The slump in the real estate market over the last one year or so arising from low demand has also contributed to loan default.

4.4 NPL takes a toll on capital adequacy and profitability

Capital adequacy ratio (CAR), measured as capital to risk weighted assets, is below the international standard of maintaining a minimum CAR of 10 per cent in the state owned banks. Except Bangladesh Development Bank, capital shortfall in all state owned banks has nearly doubled during June-September 2014 (Table 4.1). Capital shortfall in Sonali Bank alone was Tk 1,730 crore as of November 2014, an increase from Tk 1,511 crore in June 2014. CAR of BASIC Bank stood at a negative 14.25 per cent in October 2014 and that of Sonali Bank stood at 5.53 per cent.

On the other hand, at the end of September, defaulted loans of Sonali Bank stood at Tk 10,950 crore, which was about 38 percent of its total loan portfolio. Due to increased provision requirement and high NPL, Sonali bank faced high provision shortfall. High NPL coupled with lower demand for loan has affected the profitability of all types of banks, except the foreign commercial banks. Return on asset and return on equity have been negligible and even negative in the state owned banks. This not only reflects the quality of assets in the banking system, but also raises concerns about the sustainability of these banks. Increase in stressed assets that includes gross non-performing assets and restructured advances in the sector has also been reported by Bangladesh Bank (Bangladesh Bank 2013). Almost half of the stressed assets were concentrated in 10 banks, of which six were state owned.

Under these circumstances, implementation of BASEL III requirements, intended to begin from January 1, 2015 will require higher preparedness. Though this will not be fully implemented till December 2019 when the minimum capital adequacy ratio of the banking sector will have to be raised to 12.5 per cent of their risk-weighted assets under BASEL III norms, banks will have to improve upon their performances significantly during the interim period. In the backdrop of the performance trend, Bangladesh banks will face challenge to comply with BASEL III requirements.

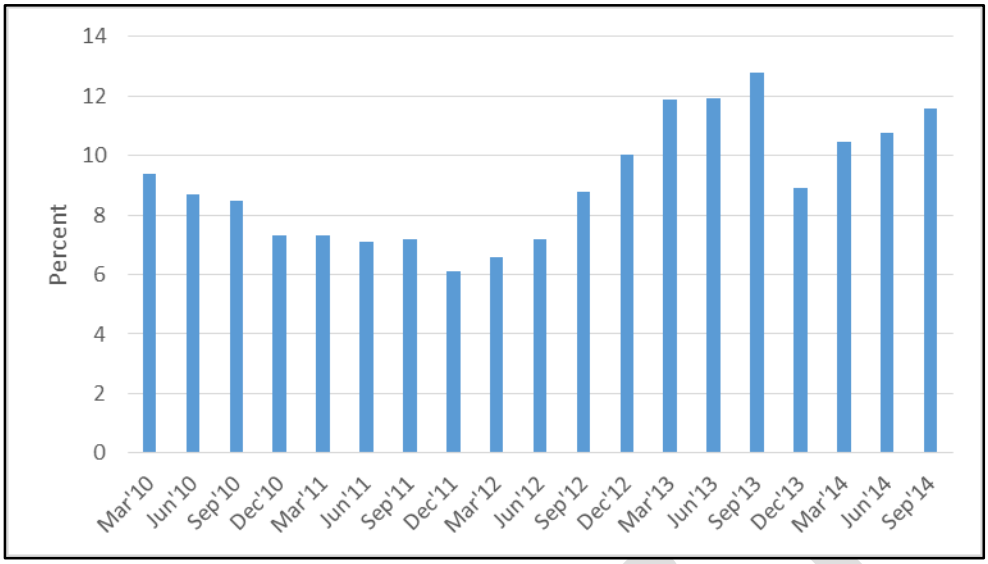
Bangladesh Bank also plans to implement the international regulatory standard from January 1, 2020. This will surely improve the quality o the banking sector. However, given the escalating defaulted loans, high NPLs and low CAR, implementation of Basel III will require streamlining the sector.

TABLE 4.1: PERFORMANCE OF VARIOUS TYPES OF BANKS

Indicators	Bank Type	2010	2011	2012	Jun 13	Sep13	Dec13	Mar14	Jun14	Sep14
Capital Adequacy	**Capital to Risk Weighted Asset (%)**									
	SCBs	8.9	11.7	8.1	1.2	1.3	10.80	9.80	8.70	8.66
	DFIs	-7.3	-4.5	-7.8	-9	-10.20	-9.70	-12.40	-13.70	-16.58
	PCBs	10.1	11.5	11.4	11.4	11.6	12.50	12.40	12.10	11.99
	FCBs	15.6	21	20.6	20.3	20.3	20.30	22.40	20.60	20.81
	All	9.3	11.4	10.5	9.1	9.14	11.52	11.32	10.68	10.57
Asset Quality	**NPL to Total Loans (%)**									
	SCBs	15.7	11.3	23.9	26.4	28.76	19.76	21.98	23.23	23.92
	DFIs	24.2	24.6	26.8	26.2	29.39	26.78	30.93	33.12	37.84
	PCBs	3.2	2.9	4.6	6.6	7.3	4.54	5.77	5.7	6.34
	FCBs	3	3	3.5	4.7	6.02	5.46	5.32	6.19	7.01
	All	7.3	6.1	10.0	11.9	12.79	8.93	10.45	10.75	11.6
Liquidity	**Liquid Asset (%)**									
	SCBs	27.2	31.3	29.2	37.9	38.18	44.27	38.55	41.16	38.15
	DFIs	21.3	6.9	11.5	16.4	8.69	11.38	6.23	6.07	6.13
	PCBs	21.5	23.5	26.3	27.4	27.98	27.96	23.33	21.65	21.92
	FCBs	32.1	34.1	37.5	43.5	47.26	46.15	45.87	47.07	49.49
	All	23.0	25.4	27.1	30.5	30.76	32.34	27.65	27.20	26.68
	Excess Liquidity (%)									
	SCBs	8.2	12.3	10.2	18.9	19.20	25.29	25.57	28.18	25.17
	DFIs	2.3	1.3	1.4	5.7	1.29	3.53	0.99	0.89	1.31
	PCBs	4.6	6.6	9.5	10.6	11.19	11.18	14.21	12.76	12.33
	FCBs	13.2	15.3	18.7	24.7	28.47	27.35	33.97	34.90	37.40
	All	6.0	8.4	9.9	13.3	13.77	15.34	17.59	17.29	16.35
Profitability	**Return on Asset (%)**					**December 2013**		**June 2014**		n/a
	SCBs	1.1	1.3	-0.6	0.6	0.6		-0.1		n/a
	DFIs	0.2	0.1	0.1	-0.5	-0.4		-0.9		n/a
	PCBs	2.1	1.6	0.9	0.4	1		0.8		n/a
	FCBs	2.9	3.2	3.3	3.4	3		3.5		n/a
	All	1.8	1.5	0.6	0.6	0.90		0.61		n/a
	Return on Equity (%)									
	SCBs	18.4	19.7	-11.9	11.7	10.9		-2.4		n/a
	DFIs	-3.2	-0.9	-1.1	-28.9	-5.8		-9.5		n/a
	PCBs	20.9	15.7	10.2	5.5	9.8		8.4		n/a
	FCBs	17	16.6	17.3	19.7	16.9		20.1		n/a
	All	21.0	17.0	8.2	8.2	11.10		8.36		n/a
Management	**Expenditure-Income Ratio (%)**									
	SCBs	80.7	62.7	73.2	84.2	n/a		n/a	n/a	n/a	n/a
	DFIs	87.8	88.6	91.2	107.6	n/a		n/a	n/a	n/a	n/a
	PCBs	67.6	71.7	76	78	n/a		n/a	n/a	n/a	n/a
	FCBs	64.7	47.3	49.6	51.6	n/a		n/a	n/a	n/a	n/a
	All	70.8	68.6	74.0	79.2	n/a		n/a	n/a	n/a	n/a

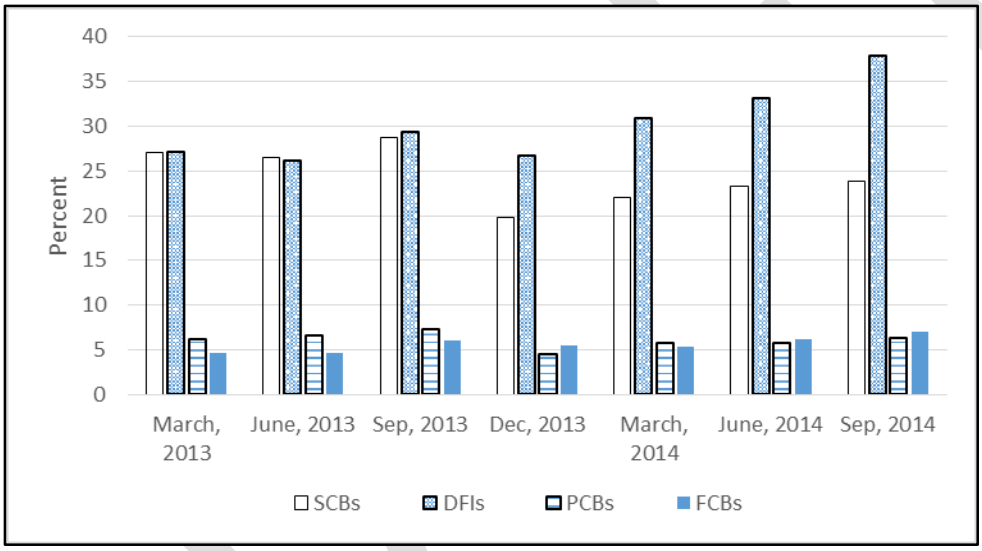
Source: Bangladesh Bank.

FIGURE 4.3: CLASSIFIED LOAN TO TOTAL OUTSTANDING LOAN (%)



Source: Selected indicators, Bangladesh Bank.

FIGURE 4.4: NPL TO TOTAL LOANS BY TYPE OF BANKS



Source: Bangladesh Bank.

4.5 State support for banks - at whose cost?

With generous support from the government, the state owned banks were able to adjust their accounts and make up for their losses created through various financial malpractices. In order to strengthen the banking sector Tk 5,000 crore was earmarked in the national budget (GoB 2014b). The government planned to provide Tk 1,500 crore in December 2014 to the problematic Sonali and BASIC banks. In 2013, Sonali, Janata, Agrani and Rupali received a total of Tk 4,100 crore where Sonali Bank alone received Tk 1,995 crore. While the government is injecting capital into these troubled banks in order to keep them floating, allocation for other priority areas including social sectors remain less than adequate. On the other hand, though financial inclusion in terms of population per bank branch has improved over the years, a large number of people still remain outside the banking services. Thus, recapitalization of these banks raises questions as regards the

prioritization of the allocation of public resources, particularly when the state owned banks continue to be fraught with governance challenges. The fact that such capital infusion has not seen any improvement in the receiving banks is rather frustrating.

4.6 Governance taking a faltering route

Following the unprecedented level of misappropriation by the Hall Mark group in 2012 from the state owned Sonali Bank, a number of other incidences of malpractices have been unearthed in other banks. Box 4.1presents a snapshot on only a few of those. These incidences have exposed serious flaws in the governance of the sector and the associated corruption in the sector and negligence of the responsible people. CPD had earlier discussed about the governance of the banking sector at length while analyzing the Hall Mark episode (CPD 2012). Sadly, the sector has not been able to make any visible progress in terms of restoring governance between then and now, with other scandals and problems cropping up in between.

Ironically, in most cases, these incidences have occurred in collaboration with officials and directors of banks through various types of dubious practices such as by setting up fake companies, forging bank documents, documenting fake board meetings and influencing the monitoring officials. In the state owned banks the senior management is appointed by the government. Hence they are not held accountable for irregularities of their respective banks. In the case of the scams in Sonali and BASIC banks, concerned chairpersons and the directors of the board were not questioned by the authorities.

Private commercial banks in Bangladesh are not unscathed either. Fraudulent activities are also observed in these banks (Box 4.1) where owners and the management have been party to. This has compelled the central bank to appoint observers in a few banks (Box 4.2). While, officials cannot go against the wish of the management for fear of losing their jobs, on the other hand, some are rewarded through high salaries for facilitating malpractices of the owners of private banks. Thus, governance of the banking sector faces challenges from within banks as well.

Box 4.1: Snapshot of a few scams in banking sector detected in 2014

Bangladesh Krishi Bank

Loans amounting to Tk 152 crore were found to be disbursed to a number of companies which were listed as defaulters. Furthermore, loan disbursement and sanctioning documents were concealed by the authorities of the bank. The scam is reported to have taken place in 2010 and was detected in 2014. The ACC has initiated a probe into the allegations and has interrogated senior officials of the bank (The Daily Star, 7 December 2014; http://www.thedailystar.net/acc-grills-4-krishi-bank-officials-over-embezzlement-53986)

Pubali Bank

A bank official was charged for misappropriating Tk 1.48 crore from the bank through fake vouchers. The fraud was detected in 2014, and the ACC has filed a case against the person involved (The Financial Express, 7 April 2014; http://www.htsyndication.com/htsportal/article/Pubali-Bank-official-held-on-graft-charges/4278442).

Prime Bank Limited

Officials of the bank and traders were found to have embezzled Tk 93 crore by forging fake loan, L/C documents and cheques. They arranged loans in the name of fake loan recipients and later withdrew the money by using bank accounts of the traders between 2006 and-2012. The ACC has approved a charge sheet against the allegedly involved people in the case (The Daily Star, 18 July 2014; http://www.thedailystar.net/swindled-by-bankers-33821)

In another case, members of senior management of the bank were found to be involved in the embezzlement of Tk 61 crore from a client's account by using forged cheques. The fraud is said to have occurred between October and November 2008, however it was detected in 2014. The ACC has launched an investigation into the case, however, so far they have failed to identify the responsible persons (The Daily Star, 16 October 2014; http://www.thedailystar.net/acc-probe-fails-to-identify-culprit-45888)

Sonali Bank

Forty three fake documents of telegraphic transfer (TT) were forged by 2 of the bank's employees in collaboration with others involving Tk 1.32 crore. Sonali Bank has filed a case against the accused, the ACC has approved the charge sheet (The Daily Star, 22 September 2014; http://www.thedailystar.net/acc-to-charge-10-people-42790)

Shahjalal Islami Bank Ltd.

It was alleged that directors of the bank had placed pressure on the bank's officials to lend Tk 140 crore to two steel mills. It was found that a certain company (owned by several members of the board) had received Tk 18 crore and Tk 7.63 crore in bribes from the aforementioned companies. The incident is said to have occurred in 2011, however it was detected in April 2014. The ACC has arrested one of the directors of the bank. The bank had earlier filed a case against the said director (The Daily Star, 26 June 2014; http://www.thedailystar.net/shahjalal-bank-director-held-30399).

4.7 Outlook for the sector

After several reforms in the banking sector since the eighties, the banking sector had begun to exhibit some signs of improvements in a few areas (CPD 2012). However, recent shocks have exposed the fragility of the sector and pointed out that reforms in the sector has been incomplete. There are evidences across the world, which indicate that failing banks always have high NPL, and asset quality has a significant correlation with bank insolvency (Demirguc-Kunt and Detragiache 1998; Demirguc-Kunt et al 2000; Barr and Siems 1994). If that is so, policy makers need to take up the issue of restoring discipline in the sector with more utmost seriousness.
In Bangladesh, capital shortfall and continuously rolled over NPL are mirror images of the ailing sector that cannot support a growing economy with required resources. If the banking sector has to contribute to the economic growth of the country through mobilizing resources for investment in productive sectors, it needs a massive overhauling and clean up. In brief, the required measures can be categorized in three broad areas, such as; (i) strengthening internal governance of banks; (ii) improving oversight function; (iii) removing political influence.

Most banks suffer from shortcomings such as poor selection of creditors and politically motivated lending, poor risk management, lack of due diligence, weak monitoring and misreporting. There is a lack of transparency and accountability in case of credit approval, administration, monitoring and recovery processes. Some banks do not follow the single party exposure norm set by the central bank. Credit concentration is common in banks. This has exposed banks to high default risks. Given that a significant proportion of these loans are NPL as highlighted above, this raises serious doubts as regards the quality of credit. Concentration of outstanding loans in the hands of a few business groups indicates high level of risk and vulnerability in the sector. There have been increased incidences of robbery and heists in a number of banks which also demonstrate the lack of capacities of the authorities to strengthen its monitoring capabilities.

Cases of special benefits to a select few in the private sector have also been noted. The recent initiatives of Sonali and Janata banks to reschedule a large amount of loan of one the largest conglomerates of the country is an example of such favour (details in Box 4.2). This is yet another example of a biased lending decision-making. Ironically, such political favors to the chosen sections of the society further encourage lenders to engage in malpractices which in turn weaken the banking sector. With a view to establish discipline in the sector, the central bank has to work independently without external pressure. CPD had earlier argued for the establishment of an Independent Commission for the financial sector which will identify the inherent problems and the emerging challenges facing the banking sector of the country and make recommendations for an efficient banking system.

Box 4.2: Recent developments as regards defaulted loans

Loan reschedule and subsequent NPL: Under BRPD circular no. 15 on 23 December 2013, loan rescheduling time was extended for all sectors up to 30 June 2014. Under the rule banks rescheduled Tk. 18,552crore, 36 percent of total classified loan until June 2014. Eight state and specialized banks accounted for about half of the total rescheduled amount. Following this large amount of loan rescheduling, in June total classified loan increased by 1.82 percentage point from December 2013. The increase is 3.47 percentage points for SCBs, 6.34 for DFIs, 1.16 for PCBs and 0.73 FCBs. Rupali Bank rescheduled the highest amount, at Tk. 3,137 crore; the figure for Agrani Bank was Tk 2062 crore and for Sonali bank it was Tk. 756 crore. Despite such move, default loan has gone up to 8.82 percent for Agrani Bank, 1.32 percent for Sonali Bank and 11.05 percent for Janata Bank. The target, however, was to reduce default loan by 20 percent from December 2013.

New loan reschedule started with Beximco: In the situation stated above, Beximco Group sought to reschedule its loans totaling Tk 52.69 billion, for repayment till 2026, mostly from 7 banks. In November 2014, Sonali Bank rescheduled loans of the group amounting Tk 982.44 crore at 10 percent interest rate for 12 years till 2026 which now awaits approval from Bangladesh Bank. Inspired by Sonali Bank, Janata Bank has also decided to reschedule Tk 1,849 crore given as loan to five garment and textile units of Beximco Group for 11 years, till 2025 at 11 percent interest rate. The other five banks namely Agrani Bank, Rupali Bank, National Bank, Exim Bank and AB Bank are likely to offer similar facilities to the group.

This is an unprecedented measure by the state owned banks since none has ever been given such a long time for repayment in the history of Bangladesh. Interest rate charged on its loans is far below the market rate which is about 13-14 per cent. This is also a violation of rescheduling norms set by Bangladesh Bank which says that no default loan can be rescheduled more than three times. However, Sonali Bank has so far rescheduled Beximco's loans seven times.

Appointment of observers to banks: In a move to tackle incidences of financial irregularities, Bangladesh Bank has appointed observers in a number of banks, both private and state-owned. These are National Bank, Islami Bank, ICB Bank, Bangladesh Commerce Bank, BASIC Bank and Mercantile Bank. Irregularities in processing loan approvals violating directives of the central bank and misappropriation of funds by officials and directors were observed in these banks. As per instructions of Bangladesh Bank, observers will have to attend all board meetings as well as the executive and audit committee meetings of the respective banks. Banks have to inform their observers of the agenda of meetings at least three days before those meetings. Bangladesh Bank will take its next course of action on the basis of reports from observers. It is hoped that the process will help improve performance and corporate governance of these banks.

SECTION 5. DECELERATION IN RMG EXPORT: IS IT ONLY A SHORT-RUN PHENOMENON?

As Table 5.1 shows, exports were lower than SFYP targets for the first four years, but more or less in line with EPB projections. However, FY2015 is proving to be a departure from this as a consequence of the significantly lower export growth over the first five months of FY2015.

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

(Billion USD)

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

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

5.1 Declining Trend with Volatility

As was noted earlier, the sluggish growth of only 0.9 per cent over the July-November, 2014 was mainly accounted for by the dismal performance of the RMG exports, its dominant component. RMG exports experienced fluctuating fortunes and some volatility in the first five months of FY2015. Export earnings from RMG sector was quite sluggish in this period by any comparison with recent past years. As is known, RMG sector faced several compliance related challenges and associated consequences in FY2015. There is a need to have a closer look to identify the reasons of lower growth in the RMG sector and to understand its growth prospects.

RMG exports rose by only 0.39 per cent during July-November in FY2015 compared to the same months of FY2014 (Table 5.2). While knitwear exports increased by 2.0 per cent, wovenwear exports had experienced a decline by (-) 1.3 per cent in this period.

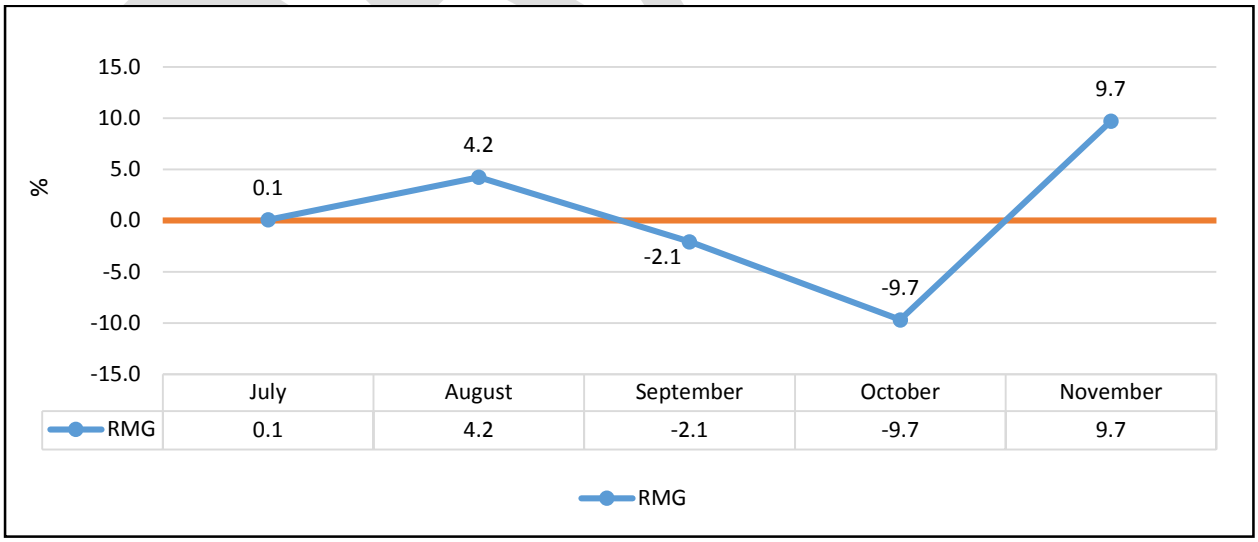
TABLE 5.2: EXPORT OF MAJOR RMG AND NON-RMG PRODUCTS BY BANGLADESH DURING THE JULY-NOVEMBER PERIOD OF FY2014 AND FY2015

Products	FY2013-14 (July-November)	FY2014-15 (July-November)	Growth (%)
	(Million USD)		
RMG	**9653.4**	**9691.3**	**0.4**
Knitwear	4899.8	4997.8	2.0
Woven wear	4753.5	4693.5	-1.3
Non-RMG	**2306.3**	**2378.8**	**3.2**
Home Textiles	297.8	298.6	0.3
Frozen Foods	324.8	300.8	-7.4
Jute and Jute Goods	332.4	348.6	4.9
Leather	78.0	87.8	12.7
Footwear	65.8	73.0	10.8
Other Non-RMG	**1207.5**	**1270.0**	**5.2**
Total	***11959.6***	***12070.1***	***0.9***

Source: Export Promotion Bureau, 2014.

Performance of the non-RMG exports was also sluggish with a lowly 3.2 per cent growth over the corresponding period.[23] Month-month growth data shows some volatility in the RMG export as is depicted by the month on month data presented in Figure 5.1. The growth appears to have regained some momentum in November when it posted 9.7 per cent growth.

FIGURE 5.1: MONTH ON MONTH GROWTH (%) OF RMG DURING IN THE FY2015 OVER FY2014 (JULY-NOVEMBER)

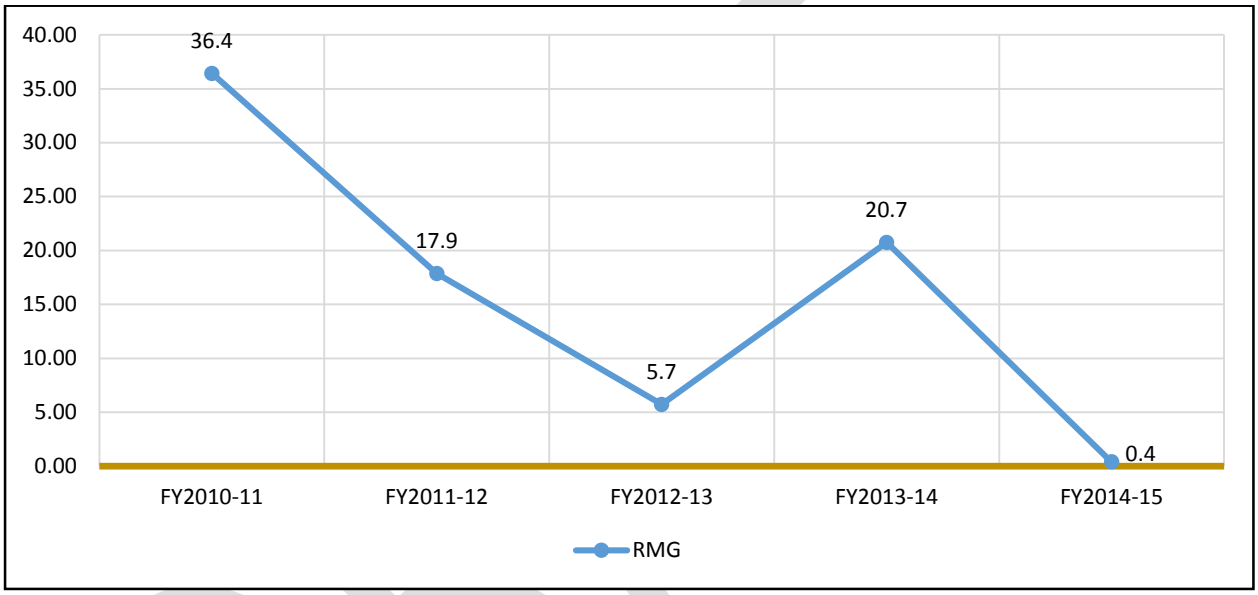


Source: Export Promotion Bureau, 2014.

[23] The exports of Jute and Jute goods (4.9 per cent) posted moderate growth whereas exports of Leather and Footwear (10.8 per cent) experienced higher growth during July-November in FY2015 compared to July-November in FY2014.

A crucial question is whether this augurs a sustainable (modestly) high growth trend over the remaining months of FY2015 or not. As Figure 5.2 shows, even with November upturn, RMG exports in the first five months was something that has not been seen in recent years.[24] The lower growth rate for RMG sector in the first five months of the current fiscal makes the required growth rate very high (16.0 percent) to attain the growth target (9.8 per cent) for FY2015.

FIGURE 5.2: GROWTH IN RMG EXPORT OF BANGLADESH DURING FY2011 TO FY2015 (JULY-NOVEMBER)



Source: Export Promotion Bureau, 2014.

Market decomposition analysis reveals a mixed picture albeit limited to low levels. EPB (2014) data shows that, in the first five months of FY2015 export earnings from RMG registered a positive growth (4.2 per cent) in the EU market, whilst it had entered into a negative terrain (-6.8 per cent) in the US market.[25]

It is to be noted from EuroStat (2014) data that excepting Indonesia, all major competitors of Bangladesh in the EU had experienced higher growth rate in the July-September period of FY2015: China (6.2 per cent); Cambodia (23.9 per cent); Vietnam (28.9 per cent); Pakistan (30.0 per cent). Pakistan's knitwear (30.3 per cent) and woven items (30.0 per cent) experienced robust growth of FY2015 during the above-mentioned period.[26] Apart from the post-Rana Plaza fallouts, two inferences are perhaps called for. Firstly, the initial advantage enjoyed by Bangladesh from the change in the rules of origin (ROO) for woven items appears to be tapering down. Secondly, GSP plus facility accorded to Pakistan has started to shows results. Performance

[24] RMG growth rate was 20.7 per cent in FY2014 (July-November) and 5.7 per cent in FY2013 (July-November).

[25] In the EU market, knitwear experienced 3.5 per cent growth whereas woven wear posted 5.3 per cent growth during July-November in FY2015 as opposed to the same months of FY2014. In the US market, Bangladesh's knitwear (-2.7 per cent) and woven items (-2.9 per cent) fell down during July-October period of FY20015 compared to the similar months of FY2014.

[26] Vietnam also experienced very high growth both for knitwear (37.3 per cent) and woven wear (26.4 per cent) in the US market during July-September in FY2015 over the corresponding months of FY2014. Cambodia performed better for the Knit wear (29.4 per cent) than woven items (9.1 per cent) in the US market during the same period.

of two of Bangladesh's key exporters, Vietnam and Cambodia, is to be particularly noted; same is the case with a resurgent Pakistan.[27] It is also to be noted here that, the growth performance of Bangladesh's competitors was recorded in the backdrop of no noticeable gains in terms of exchange rate movements. On the contrary, currencies of some of the competitors experienced appreciation (India: +1.9%, Vietnam: +0.4%, Pakistan: +3.2%), whilst for Cambodia (dollarized currency) and China (0.04% depreciation) the situation remained mainly unchanged. The GSP plus status provides Pakistan duty-free preferential access for a total of 3,500 products. It is important to mention that Pakistani exporters of apparels had to pay 11 per cent duty before the GSP plus facilities in the EU. Some studies found that EU GSP plus facility for Pakistan was not likely to have significant adverse effect for Bangladesh's RMG exports. Whilst validation of this will require more product-specific analysis, in a dynamic sense, duty-free access enjoyed by Pakistan is likely to gradually affect its competitors such as Bangladesh.

TABLE 5.3: GROWTH IN EXPORT OF RMG BY BANGLADESH AND OTHER COMPETING COUNTRIES IN THE EU AND IN THE USA

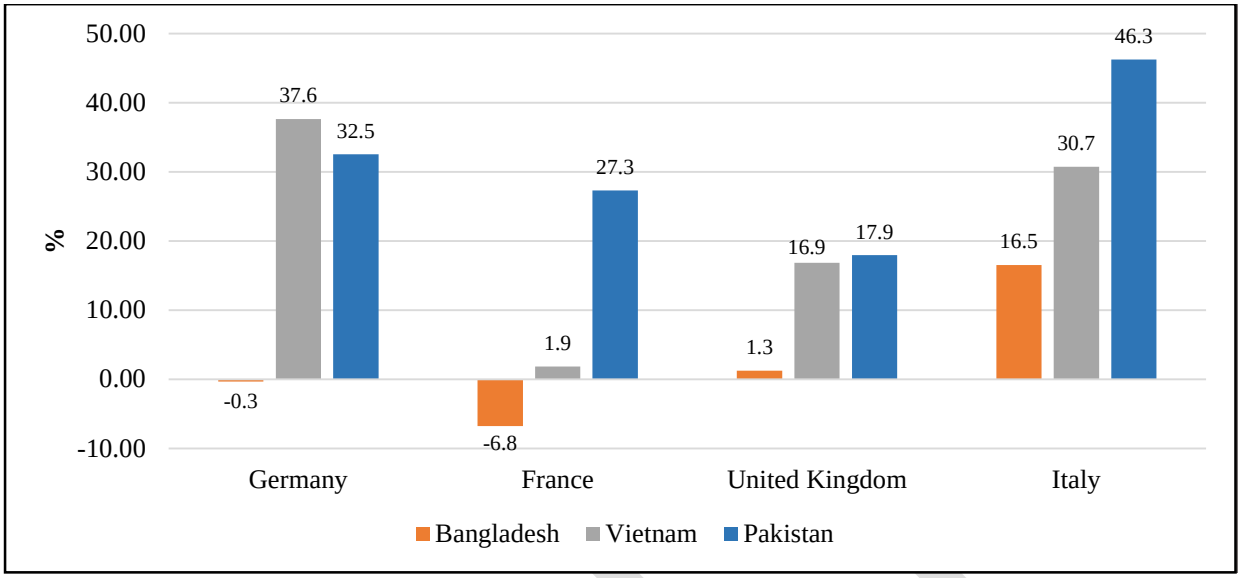
Countries	EU28 (July-September of FY2015)			USA (July-October of FY2015)		
	Knit	Woven	Total RMG	Knit	Woven	Total RMG
Bangladesh	4.7	5.7	5.1	-2.7	-2.9	-2.9
Pakistan	30.3	29.9	30.0	0.0	-6.8	-2.4
Cambodia	29.4	9.1	23.9	0.3	-16.0	-3.8
China	5.1	7.3	6.2	4.0	-4.6	0.2
Indonesia	3.4	3.2	3.3	1.7	-2.1	0.1
Mexico	-16.8	29.7	5.9	2.2	3.2	2.8
Turkey	5.5	7.3	6.1	6.5	3.8	5.0
Vietnam	37.3	26.4	28.9	16.5	12.6	15.0

Source: Computed from United States International Trade Commission, 2014 and Eurostat, 2014.

Bangladesh's performance in major markets in the EU indicates increasing competition from competing countries particularly from Vietnam and Pakistan. Figure 5.3 shows that Bangladesh's RMG exports declined by (-) 0.3 per cent in Germany and by (-) 6.8 per cent in France whereas exports increased by 1.3 per cent and 16.6 per cent in the UK and Italy respectively. On the other hand, Pakistan's export has seen robust growth in Germany (33.6 per cent), France (27.3 per cent), UK (18.0 per cent) and in Italy (46.3 per cent). Same is the case for Vietnam.

[27] Pakistan was given GSP plus facility in January 2014. The GSP plus facility is given to 13 countries including Armenia, Bolivia, Cape Verde, Costa Rica, Ecuador, Mongolia and Pakistan. Among the 13 new GSP+ beneficiary countries, 12 were already enjoying benefit earlier and the newcomer is only Pakistan. The new GSP Plus facility will give countries a duty free access for over 66% of tariff lines in the EU market.

FIGURE 5.3: GROWTH IN EXPORT OF RMG BY BANGLADESH AND OTHER COMPETING COUNTRIES IN THE MAJOR MARKET OF EU



Source: Computed from Eurostat, 2014.

Bangladesh's performance in the US is also not been encouraging – export growth was (-) 2.9 per cent during July-October period (USITC, 2014). Both knit ((-) 2.7 per cent) and woven ((-) 3.0 per cent) exports posted negative growth. It needs to be noted that over the corresponding period US imports of apparels had indeed posted positive growth of 3.1 per cent. And indeed, some of Bangladesh's competitors have posted moderate to high growth: Vietnam (15.0 per cent); India (6.3 per cent); Turkey (5.0 per cent).[28] Canadian market, where Bangladesh's RMG export performance has traditionally been good, also shows discouraging signs: EPB (2014) data shows that exports earnings have declined by (-) 16.4 per cent during July-November in FY2015 over the corresponding period of FY2014.

In a welcome note, Bangladesh's South-South trade in apparels has seen some rise in the first five months of FY2015: Japan (5.2 per cent); Russia (5.9 per cent); China (18.0 per cent). However, growth of apparels export to the Indian market remained sluggish (1.5 per cent). In a recent study, Rahman and Akhter (2014) identified major bottlenecks that inhibit the realization of the potential opportunities emerging from the duty-free market access accorded by India to Bangladesh: development of trade related infrastructure at the land customs stations (LCSs); introduction of single window and electronic data exchange; signing of mutual recognition agreements (MRAs); harmonization of standards; development of integrated customs facilities; simplification and reduction of complex export procedures.

5.2 Price or Volume effect?

It is important to identify whether this lower growth for RMG exports is driven by price effect or volume effect or both. For the US market, analysis of volume and price impacts give mixed signal for Bangladesh. Decomposition of the fall in RMG export earnings by (-) 6.2 per cent in the US

[28] While Cambodia experienced negative growth (-3.8 per cent), the performance of China (0.2 per cent) and Indonesia (0.1 per cent) remained stagnant in the US market.

market in first four months (July-October, 2014) shows that whilst average price rose by 2.6 per cent, volume (thousand Dozen) had indeed declined by (-) 6.7 per cent. As per the USITC (2014) data, total volume (thousand dozen) of knitwear and woven wear declined by (-) 7.0 per cent and (-) 6.4 per cent respectively in the US market.

As distinct from the US market, decomposition of apparels growth of 5.1 per cent in the July-September period in the EU shows that average volume (in kg) has increased by 2.0 per cent and average price has posted a rise of 3.1 per cent. These are reflected in positive export growth for Bangladesh in the EU market albeit at a low level.

TABLE 5.4: GROWTH (%) IN VOLUME, PRICE AND VALUE OF BANGLADESH'S RMG EXPORT TO THE USA AND THE EU MARKET

Market	Volume Growth	Price Growth	Value Growth
USA (July-October, FY2015)	-6.7 (thousand dozen)	2.6	-2.9
EU (July-September, FY2015)	1.9 (in Kg)	3.1	5.1

Source: Computed from United States International Trade Commission, 2014 and Eurostat, 2014.

If top five knit and woven items are considered in the US market, it is seen that the volume growth for item 610821 (single largest knit item by volume in the US market) declined by (-) 14.9 per cent during July-October in FY 2015.[29] For woven wear, volume growth for top three items out of top 5 items declined in the US market during the same period (volume growth declined by (-) 1.5 per cent and (-) 20.0 per cent and (-) 47.8 per cent for 620342 and 620462 and 620349 respectively).

Price data indicates a mixed picture for the RMG sector in the US market. Average price increased for some RMG items while the price has decreased for some others. USITC (2014) data shows that average price for top woven items have declined during July-October in FY2015: average price has declined for 620342, 620590 and 620349 by (-) 1.0, (-) 5.9 and (-) 8.2 per cent respectively whereas it has increased for 620520 and 620462 by 6.0 and 5.6 per cent respectively.

[29] The volume growth has declined by 6.4 per cent for 611090 and 8.6 per cent for 611020 in the US market during the abovementioned period. However, the volume growth has seen a robust growth (43.3 per cent) for 611090 during the same period in the US market.

TABLE 5.5: CHANGES IN PRICE FOR TOP FIVE KNIT AND WOVEN ITEMS IN THE USA IN FY2015 (JULY-OCTOBER)

(USD/Piece)

HS Code 6 Digit	FY 2014 (July-Oct)	FY 2015 (July-Oct)	Growth (%)
Top 5 Knit Wear Items			
610910: T-shirts, singlets and other vests, of cotton, knitted	1.6	1.6	-2.9
611090: Pullovers, cardigans &similar articles of oth textile materials, knittd	3.3	3.7	11.6
611020: Pullovers, cardigans and similar articles of cotton, knitted	3.3	3.6	7.4
611120: Babies garments and clothing accessories of cotton, knitted	1.6	1.4	-13.2
610821: Women's/girls briefs and panties, of cotton, knitted	0.7	0.7	8.4
Top 5 Woven Wear Items			
620342: Mens/boys trousers and shorts, of cotton, not knitted	6.1	6.0	-1.0
620520: Mens/boys shirts, of cotton, not knitted	5.0	5.3	6.0
620462: Womens/girls trousers and shorts, of cotton, not knitted	5.7	6.0	5.6
620590: Mens/boys shirts, of other textile materials, not knitted	5.8	5.4	-5.8
620349: Mens/boys trousers and shorts, of other textile materials, not knitted	3.7	3.4	-8.2

Source: Computed from United States International Trade Commission, 2014.

Thus, both price and volume effects appear to have contributed to low RMG growth in the first months of FY2015. Field investigations by the CPD IRBD team also reveal that entrepreneurs' cost of doing business has experienced some increase in the face of higher compliance related expenses following Rana Plaza tragedy (Tripartite Commitments; Accord and Alliance requirements). Bangladesh's competitors are not having to incur these additional costs and consequently it is having an impact on her price competitiveness. Another important development to be noted is the declined in input prices: price of cotton has come down by about 17 per cent during July-October 2015 period; yarn also by about 10 per cent. This was likely to have an impact on the offered prices and the cutting and making (C&M) charges. If that be the case, gross export earnings from the apparels export may not show the full picture and net export earnings situation may be somewhat better, although not very significantly.

5.3 Fiscal Incentives for RMG exporters

In view of the adverse implications of the Rana Plaza tragedy and the political developments in the second half of 2013, the government took several policies to provide support to the RMG exporters which included cash subsidy, loan rescheduling and reduction of tax at source.

The government reduced tax at source to 0.3 per cent from 0.8 per cent for the RMG industry which was to be allowed till June, 2015. This was likely to provide a one time tax relief of about 1200 crore taka. Export-oriented RMG factories located outside export processing zones (EPZs)

were to receive 0.25 per cent cash incentives calculated on FOB price.[30] The incentive was offered for exports during January 1, 2014 to June 30, 2015. An additional 3 per cent cash incentive was offered to exporters to new markets (excluding EU, United States and Canada). Available data indicate that about Tk 5.5 billion was released until April, 2014 for the RMG industry.[31] However, it is important to mention that RMG exporters applied for Tk 8.50 billion during that time. In the current fiscal, the government is planning to release Tk. 35 billion as cash incentive. It is important that, the exporters receive this support in due time.

Bangladesh Bank has also reduced interest rate by 1.0 percentage point to exporters from the Export Development Fund (EDF). Exporters can get loans up to USD 10 million from the EDF at an interest rate of 1.5 per cent. Field level information indicate that small and medium entrepreneurs face difficulty in obtaining the loan from the EDF. This issue needs to be looked into and their access to funds facilitated through appropriate steps including the reducing the onerous paper work.

It has also been decided that apparel industry will receive loans from the central bank managed housing fund to build dormitories for workers, at 2.0 per cent interest. Loan and equity shares will be 60:40. This is a good step which will help decentralised location of RMG enterprises.[32]

The fiscal burden of the support put in place for the apparel sector is significant. In view of this, it is important for policymakers to ensure that these support measures can be accessed by small and medium scale producers and the incentive measures are appropriately used.[33]

International organizations such as International Finance Corporation (IFC) and International Labour Organization (ILO) have put in place some facilities for RMG exporters. To manage performance standards in environmental and address social risks, the VF and IFC have granted loans to the VF's supplier factories between USD 100 thousand to USD 1 million from the new credit line.[34] Three factories will receive USD 1.3 million from the new credit system.

5.4 Compliance in the RMG Sector

As is known, following the Rana Plaza tragedy, several national and international initiatives were taken to ensure safety and security of workers and to improve overall compliance situation in the RMG industry. National Tripartite Plan of Action (NTPA) on Fire Safety and Structural Integrity in the garment sector of Bangladesh has till now inspected 380 factories out of 1500 factories. Both

[30] It is worthwhile to mention that, 0.25 per cent incentive comes in addition to 5 per cent cash benefits currently available for RMG exporters.
[31] The government has already released the second installment of cash incentives, about Tk. 8.75 billion, for disbursement in FY2015. The government provided cash incentives of more than Tk. 25.9 billion and Tk. 24.0 billion in FY2014 and FY2013 respectively.
[32] Other benefits granted to apparels exporters include allowance of completely duty free import of raw materials for the 100 per cent export oriented firms. Exporters who use local fabrics for their products destined for export will also get a 15 per cent cash subsidy on their fabrics cost.
[33] Recently, government has initiated a move to evaluate the outcome and impact of its cash incentive for few export items.
[34] VF is world's one of the largest apparel company which has highly diverse portfolio of 30 powerful brands.

ACCORD and ALLIANCE have completed their initial phase of inspection with Accord completing inspection of 1106 factories by September, 2014 and [35] ALLIANCE 601 factories.

TABLE 5.6: FACTORY INSPECTION REPORT BY THE NTPA, ACCORD AND ALLIANCE

Initiatives	NTPA	ACCORD	ALLIANCE	Total	No. of Workers Affected
Referred to Review Panel	2 (2)	38 (18)	25 (14)	65 (34)	20,724
Partially Closed	1 (1)	8 (5)	8 (4)	17 (10)	1,530
Closed	1 (1)	24 (9)	4 (2)	29 (12)	15,093
Allowed Operation	0	6 (4)	13 (8)	19 (12)	4,101

Source: Department of Inspection for Factories and Establishments (DIFE), 2014 (as of 15 September, 2014).
Note: Figures in the parentheses represent the number of buildings.

It can be seen from the Table 5.6 that about 30 factories have been closed because of safety concerns and several thousand workers being affected. How the laid off workers are to be supported has been a contentious issue and policymakers ought to look into their compensation, rehabilitation and reemployment concerns. Exporters mention that relatively small buyers from the EU and the USA who used to place orders to the small factories in Bangladesh have in recent times shifted their orders to the other countries such as Vietnam, India and Cambodia. Exporters also pointed out that their cost to ensure compliance issues have increased significantly. Production capacity had to be reduced to adjust to compliance requirements. However, exporters are also hopeful that once the necessary adjustments are done, buyers who left Bangladesh will return and order placements will grow.

Getting the fund to carry out the remedial actions in the factories has remained a challenge. At the Dhaka Apparel Summit held by the BGMEA, experts have estimated that USD 3.0 billion would be required to ensure workplace safety and environment related compliance. According to some estimates, even a minimum compliance assurance would require a factory to spend about 0.3 mln USD which would mean that a sum of about one billion dollar for the industry.

To ensure workplace safety and other compliance related issues, the Government should strengthen and oversight capacity of its related institutions and ensure good governance. It is also of high importance that the GoB starts to look into sustainability of the current efforts once the initiatives taken by Accord and Alliance under tripartite agreement come to an end (by 2018).

5.5 Future prospects

As regards future prospects of the RMG exports, the signals are mixed. BGMEA figures indicate that UD (utilisation rate) has declined by (-) 7.8 per cent during July-November in FY2015 over the corresponding period of FY2014. As can be seen from Table-5.6, BGMEA issued 25,125 UDs during July to November period of FY2015 against 27,329 UDs of the same months in FY2014.

[35] ACCORD has found faults in almost all factories but they require immediate remedial actions for 110 factories to ensure the safety level and continue the production.

TABLE 5.7: NUMBER OF UD ISSUED BY THE BGMEA DURING THE JULY-NOVEMBER PERIOD OF FY2014 AND FY2015

	FY14 (July-November)	FY14 (July-November)	Growth
Number of UD	27,329	25,215	-7.8

Source: BGMEA, 2014.

This is indicative of order placements for the coming months. One the other hand, import of textile fabrics and accessories are robust. Import of these during July-October of FY2015 over the corresponding period of FY2014 has increased by 8.3 per cent. Import under back-to-back L/Cs increased by 11.0 percent. Import of textile machineries has also increased significantly, by 49.0 per cent, during the above-mentioned period.

A review of import trends of raw materials, L/C figures, import of machineries, emerging demand-side scenario, order placement, buyers' perspectives gives the signal that there will be some upturn in apparels exports in the coming months. However, this is not likely to be enough to raise growth rates to the required 16.0 per cent over the next months to enable the average growth of apparels to reach the target rate of 10.0 per cent in FY2015. On the other hand, once the current adjustments and remedial measures are in place, 'brand Bangladesh' will hopefully regain its momentum in the next fiscal year. However, for this to happen, the needed homework, mentioned above, will have to be done in due earnest.

SECTION 6. MIGRATION AND REMITTANCES: RECOVERY WITH SHIFTS

From the perspectives of replenishing the foreign exchange reserves of Bangladesh, money remitted from overseas Bangladeshi migrants have traditionally played an important role. The contribution of remittances in maintaining a healthy overall balance of payments (BOP) is key factor in Bangladesh's context. During the post-global financial crisis period when export earnings decelerated, remittances inflow played a significant role in the economy. In addition, remittance played a significant role in attaining faster poverty alleviation during the 2000s. Khondker and Raihan (2007) estimated that growth in remittance led to 1.7 per cent out of 9 per cent decline in headcount poverty during 2000-2005. They also reported that in the Bangladesh context when a household receive remittances, it reduces the probability of it becoming poor by 5.9 per cent. International labour migration also reduces pressure on domestic labour market by absorbing a significant portion of incremental labour force. According to latest figure, since independence more than 9.8 million people had migrated abroad for jobs through formal channels.[36] Between January 1976 and November 2014, about USD 132.5 billion was sent to Bangladesh by migrant workers through formal channels.

From the perspective of maintaining sustained inflow of remittances, a number factors including high cost of migration, limited success of recent government efforts related to labour migration (government to government mechanism and ensuring delivery of machine readable passports), lack of skilled labour and gender dimension of migration have posed challenges for Bangladesh in recent times. The present section provides an analytical review of the emerging state of overseas migration and remittance situation with particular focus on the developments during the first five months of FY2015.

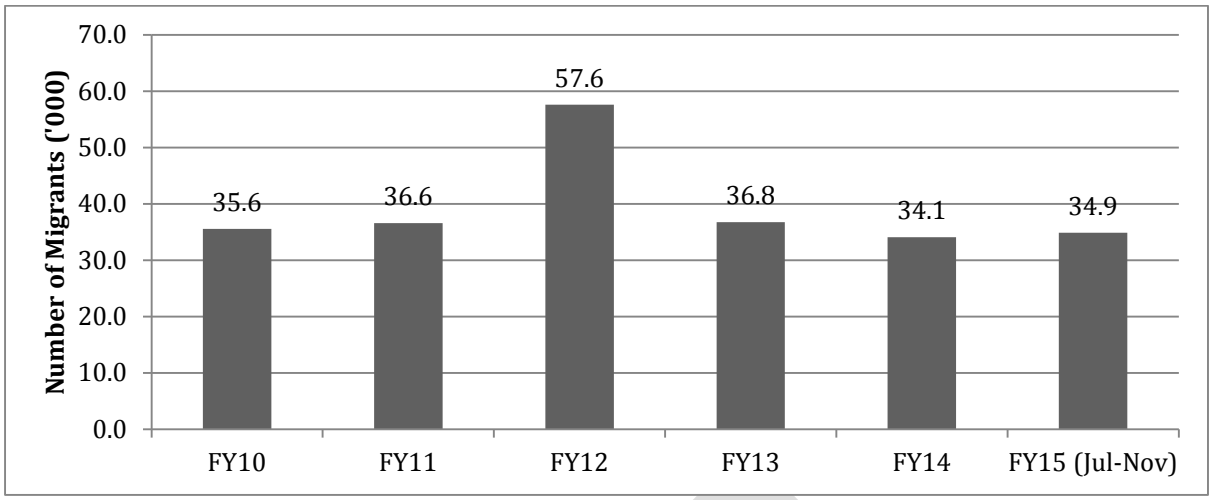
6.1 Recent Trends in Migration and Remittance

Migration Trends

Total number of Bangladeshi people going abroad for jobs abroad during the first five months (July-November) of current fiscal year (FY2015) was 174,341. This is about 6.8 per cent higher than that of the corresponding period of previous fiscal year when 163,307 workers went abroad. The figure is higher compared to the performance over the past two fiscal years. During similar periods (July-November) of FY2013 and FY2014 the corresponding growth rates were (-) 18.6 per cent and (-) 23.5 per cent respectively. It may be recalled here that during July-November period of FY2012 number of migrant worker increased by 71.0 per cent over the corresponding period of FY2011. Although number of migrant workers in early five months of current fiscal year demonstrated a positive growth, it has yet to regain the momentum of FY2012. The average number of Bangladeshi workers going abroad per month during July-November of FY2015 was only 34.9 thousand; except the average for FY2014, this is the lowest figure in last five years (Figure 6.1).

[36] Data till November 2014

FIGURE 6.1: AVERAGE NUMBER OF MIGRANTS PER MONTH ('000)



Source: Calculated from BMET data

Market concentration of Bangladeshi migrant workers evince certain variation in recent times (Table 6.1). Share of migrant workers to United Arab Emirate (UAE) from Bangladesh drastically fell from 49.3 per cent in FY2011 to 5.8 during July-November FY2015. The share of Kingdom of Saudi Arabia (KSA) only marginally increased from 1.3 per cent in FY2011 to 1.9 per cent in FY2015 during July-November. During the same period share of Oman rose gradually from 13.5 per cent in FY2011 to 24.2 per cent FY2015, while Qatar's share also increased significantly from 3.5 per cent in FY2011 to 23.1 per cent in FY2015 during July-November. The share of two traditional markets, KSA and UAE, was 51.2 per cent in FY2011 which came down to 7.7 per cent during July-November period of FY2015. In contrast, share of Oman and Qatar had increased from 24.3 per cent in FY2011 to 47.3 per cent in FY2015 (July-November). In a nutshell, market composition of migrant workers of Bangladesh has shifted from KSA and UAE to Oman and Qatar over the last five years. A number of other destinations are emerging as important destinations for Bangladeshi migrant workers, including Lebanon, Bahrain, Jordan, Mauritius, and Hong Kong.

TABLE 6.1: MARKET COMPOSITION FOR MIGRANT WORKERS FROM BANGLADESH: JULY-NOVEMBER (as % of Total MIGRANT WORKERS)

Country	FY2011	FY2012	FY2013	FY2014	FY2015
KSA	1.3	2.9	4.2	1.5	1.9
UAE	49.5	48.2	23.1	4.2	5.8
Kuwait	0.0	0.0	0.0	0.0	1.0
Oman	13.5	26.7	30.4	32.0	24.2
Qatar	3.5	2.2	6.9	15.2	23.1
Bahrain	6.2	2.7	4.7	5.9	6.4
Lebanon	5.0	2.8	2.9	3.7	4.2
Malaysia	0.3	0.1	0.2	1.4	0.9
Singapore	11.0	8.4	12.4	15.4	13.3
Others	7.8	4.8	13.4	18.4	16.4
All	100.0	100.0	100.0	100.0	100.0

Source: Authors' calculation based on the Bureau of Manpower, Employment and Training (BMET) Data.

Remittance Flow

Remittance earnings increased more than seven times during the past decade. Inward remittances to Bangladesh during first five months of FY2015 stood about USD 6.2 billion which was 11.4 per cent higher than comparable period of previous fiscal year. It may be recalled here that this growth was attained over a lower base as remittance inflow during July-November of FY2014 declined by (-) 9.0 per cent[37]. There has been same change in the composition of remittance received (Table 6.2). Historically KSA has accounted for the largest share in remittance inflow to Bangladesh. However, a marginal decline can be observed in KSA's share in total remittance inflow in recent years. KSA's share in total remittance received by Bangladesh stood at 21.1 per cent during July-November period of FY2015 which was 22.3 per cent during the corresponding period of FY2011. This implies that although number of migrants to KSA declined notably in recent years, the high stock of Bangladeshi labour residing in KSA helped towards sustaining remittances inflow to Bangladesh. Kuwait's share in total remittance inflow declined in recent years to reach 7.2 per cent in July-November FY2015 (9.2 per cent during the corresponding period of FY2011). It appears that lower number workers going to Kuwait in recent fiscal years affected the remittance inflow from Kuwait. On the other hand, share of remittance received from Malaysia during July-November rose gradually from 6.2 per cent in FY2011 to 8.6 per cent in FY2015. It is evident from the data of last five fiscal years that the share of remittance received from Malaysia has been increasing consistently. Indeed, Malaysia could emerge as one of the potential sources of remittance for Bangladesh in the coming years. In a similar fashion, the share of remittance earnings from Singapore increased from 1.6 per cent in FY2010-11 to 3.0 per cent in FY2015 (July-November).

TABLE 6.2: CHANGE IN COMPOSITION OF REMITTANCE RECEIVED: JULY-NOVEMBER (as % of Total Remittance Inflow)

Country	FY2011	FY2012	FY2013	FY2014	FY2015
KSA	22.3	27.9	27.0	21.5	21.1
UAE	16.8	18.2	19.7	18.9	18.5
Kuwait	9.2	10.1	8.0	8.0	7.2
Qatar	2.9	2.7	2.2	1.8	1.9
Oman	3.2	3.0	4.2	4.7	5.9
Bahrain	1.5	2.0	2.4	3.0	3.5
Singapore	1.6	1.9	3.1	2.8	3.0
Malaysia	6.2	6.4	6.5	7.1	8.6
U.S.A.	15.4	12.3	12.0	16.5	15.9
Italy	1.9	2.5	1.7	2.3	2.0
Other	19.0	13.1	13.2	13.4	12.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Authors' calculation based on Bangladesh Bank Data.

6.2 Current Challenges

High Cost of Migration

The cost of overseas migration in Bangladesh is considered to be higher than other manpower sending countries in the world. Using the data of the Bangladesh Household Remittance Survey

[37] However, the growth of money remitted during July-November of FY2012 and FY 2013 was 24.3 and 7.4 per cent, respectively.

2009 (conducted by BBS), ILO (2014) estimated that, on average, an average Bangladeshi migrant had to incur a cost to the tune of Tk. 3.1 lakh. The cost of migration for a female worker was observed to be lower compared to her typical male counterpart. This can be explained by the fact that in most cases the cost of visa fees and air fares for female workers are paid by the employers from the destination countries. As per the aforementioned survey data, out of total migration cost about 59.5 per cent was paid to intermediaries, 17.6 per cent to other helpers, 10.3 per cent to agency and 9.3 per cent for visa fee. It may be noted that the government fee and airfare constituted only 0.8 per cent and 2.5 per cent of total migration cost respectively.

Table 6.3 represents the maximum ceiling on fees (without travel costs) that can be for selected countries charged by recruiting agencies. (A few years back a maximum fee of Tk. 84,000 was fixed by the government.

TABLE 6.3: MAXIMUM CEILING ON FEES FOR SELCECTED COUNTRIES

Destination Country	Ceiling (without travel costs, in Tk.)
Saudi Arabia	17,400
Lebanon	20,000*
Qatar	40,000
Iraq	50,850
Kuwait	20,100
Libya	38,000
Malaysia	24,000
Oman	40,000

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

ILO studies and interviews conducted under the present study with migrants indicate that Bangladeshi migrant workers had to pay a several times more that the stipulated government fees. The government has recently established a database of potential workers for overseas employment. If this database is used effectively by the private and public stakeholders, the role of intermediaries may decline considerably. Hence, the cost of migration could also be reduced. If G2G modality can be effectively deployed, this will reduce migration cost.

Limited Success of Recent Government Efforts

Recently Government of Bangladesh has put a number of efforts to facilitate overseas employment. Government to government (G2G) is one of the noteworthy efforts among these. G2G is an agreement between the governments of Bangladesh and Malaysia to recruit workers from Bangladesh to Malaysia which was signed on November 26, 2012. 30 thousand workers were selected for Malaysian plantation jobs under G2G arrangement. However, until 22 December 2014, under the G2G agreement 8,931 workers could depart for Malaysia (3853 in 2013 and 5078 in 2014). Relevant government officials and experts on the issue of migration highlighted two major factors afflicting implementation of G2G that concerned both demand side and supply side of the issue – (i) limited capacity and experience the Ministry of Expatriate Welfare and Overseas Employment (MoEWOE) undertake the needed negotiations to expedite the G2G process; and (ii) slow recruitment process of Malaysian employers' (The New Age, 2014, December 22).[38] Government officials, on the other hand, feel that they are capable of efficiently

[38] http://newagebd.net/41335/g2gsystemfailstodeliver/#sthash.bZxaOfP1.dpbs

undertaking responsibilities concerning G2G. Indeed, in order to facilitate activities as regards G2G with Malaysia, BMET has established a separate specialised wing. The concerned officials reported that, on an average, BMET took about two weeks to complete all the processes including medical tests, visa, and emigration clearance. The government officials also acknowledged that placement of demand for workers from Bangladesh by the Malaysian employers remained slow and was only limited to the plantation sector. To address this issue, the Bangladeshi officials have attended a number of meetings of the Joint Task Force and the Joint Working Group. In addition, recently, a protocol has been signed with the State of Sarawak of Malaysia to recruit more Bangladeshi workers for the plantation sector. GoB has also placed a request to the Malaysian Government to open sectors beyond plantation. On a positive note, Malaysian government has shown interest in recruiting Bangladeshi workers for construction sector under G2G. More recently, Bangladesh and UAE started to negotiate recruitment of 10 thousand female workers as household help, baby sitters and drivers under G2G.

Another important policy being implemented by Bangladesh government involved conversion of old hand-written passports of all Bangladeshi overseas workers into Machine Readable Passports (MRPs). The government has to complete the process by November 2015, a deadline set up by International Civil Aviation Organization (ICAO). However, the embassies of Bangladesh may not be able to deliver in time, which may put a large number of Bangladeshi migrant workers into 'illegal' category. For example, by September 2014, in KSA only 4 lakhs MRPs have been issued whereas according to official statistics, currently there are 13 lakhs Bangladeshi migrant workers in KSA. The unofficial figure could be as high as 20 lakhs. Bangladesh Embassy in Riyadh could process only 700 to 1000 MRPs daily. Unless significant improvement in delivery capacity including additional manpower, required equipment and financial allocation, the target will not be fulfilled. However, it is to be noted that, a committee has been formed which include representatives from Ministry of Foreign Affairs (MoFA), MoEWOE, BMET, and Ministry of Home Affairs (MoHA) to address the concerns. The committee is optimistic as regards attaining the target on time. It may be also noted that, the government has already outsourced a part of the responsibilities in three countries, viz. KSA, Malaysia and UAE to the private sector.

Gender Dimensions of Migration

The share of women in total migration has consistently remained low compared to their male counterparts in Bangladesh. From Table 6.4 it is evident that share of female migrants in the international migrant stock declined from 13.9 per cent in 2000 to 13.4 per cent to in 2013 which was the lowest among other Southern Asian countries. To compare this across the region, the relevant figures for Eastern Asia, South-eastern Asia, Central Asia and Western Asia stood at 53.9, 48.3, 51.9 and 34.3 per cent respectively in 2013. During first five months of FY2014-15, about 31,508 female workers went abroad; this was roughly 18.1 per cent of male migrants and 21.1 per cent of total workers.

TABLE 6.4: SHARE OF FEMALE MIGRANTS IN THE INTERNATIONAL MIGRANT STOCK ACROSS REGION

Country/Region	Year		
	2000	2010	2013
Bangladesh	13.9 (0.2)	13.5 (7.1)	13.4 (13.8)
Southern Asia	44.9	43.5	43.4
Eastern Asia	52.7	54.2	53.9
South-Eastern Asia	49.3	48.4	48.3
Central Asia	55.3	52.6	51.9
Western Asia	40.0	34.8	34.3

Source: UNDESA (2014) and BMET.

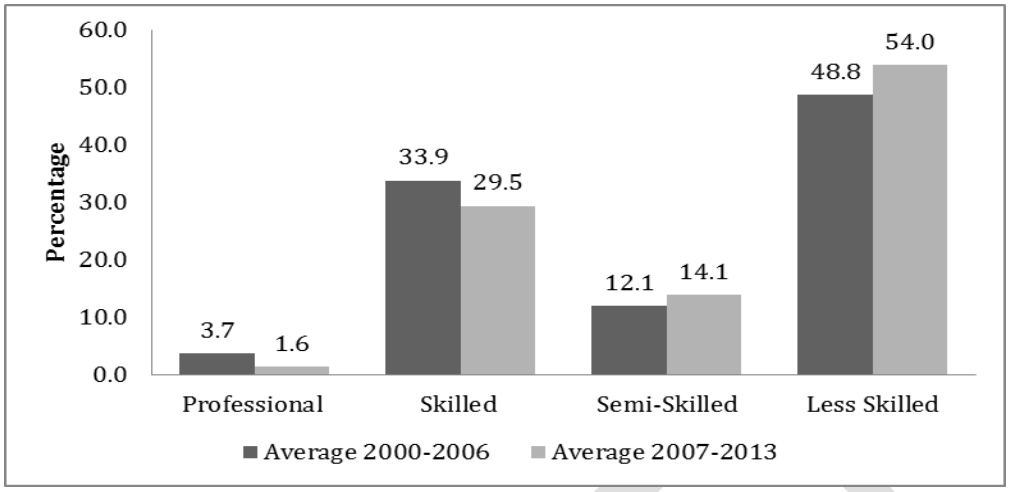
Note: Figures in parentheses show data from BMET which are significantly different from the UNDESA (2014).

Lack of safety and secured home environment is one of the key concerns responsible for dismal share of female migrants from Bangladesh. Female migrants often fell victim to verbal and physical harassment and abuse. Female migrants of Bangladesh working as maids in Gulf countries did not enjoy any guaranteed rights regarding working conditions and environment. Though female workers in the garment factories in Jordan or in fish processing factories in Mauritius are covered under the labour law, they constitute a very small proportion of migrant workers. Additionally Bangladesh embassies in various countries lack effective dedicated wings to help domestic workers from the country. On a positive note, BMET and the government authorised recruiting company of UAE named *Amala*, recently signed a deal in October 2014 to female domestic workers from Bangladesh. Initially UAE, through *Amala,* has agreed to hire 1000 female workers on a pilot basis. Under the agreement, *Amala* will provide protection to female workers in the form of safety, security, safe accommodation and travel with a minimum salary about Tk. 19,600 per month.

Skill Composition of Bangladeshi Migrant Workers

Skill composition of the workers is another key aspect in overseas migration. As is known, Bangladesh has traditionally been an exporter of workers belonging to the semi-skilled and less-skilled categories (Rahman and Hossain, 2012). Over the last two decades the scenario had barely changed. The most recent data showed that less-skilled and semi-skilled workers comprised of 50 and 15 per cent of total migrant workers respectively. Low per capita remittance earning calls for a strategy to move towards skilled and professional categories. The average share of less-skilled workers rose from 48.8 per cent during 2000-2006 to 54.0 per cent during 2007-2013 (Figure 6.2). The comparable figures for semi-skilled (from 12.1 per cent to 14.1), skilled (from 33.9 per cent to 29.5 per cent) and professional workers (from 3.7 per cent to 1.6 per cent) suggest that relatively lower number of skilled workers and professionals have gone overseas in recent times. The growth of less-skilled category can be explained by the growing demand for workers in agricultural sectors in Middle East.

FIGURE 6.2: SKILL COMPOSITION OF BANGLADESHI MIGRANT WORKERS (AS % OF TOTAL MIGRANTS)



Source: Authors' calculation based BMET Data

The discussion underpins the need to create more skilled and professional migrants. Technical Training Centers (TTCs) should be strengthened both in terms of manpower and logistics. Ministry of Expatriate Welfare and Overseas Employment (MoEWOE) has set up 48 TTCs, including four Institutes of Marine Technology (IMT). However, most of these do not provide training exclusively for potential migrants. Only one of these provides 2 months' training for potential migrants who could be employed as domestic worker in Hong Kong.[39] In addition, Ministry of Labour and Employment (MoLE) has set up 26 vocational training institutes which provide training in 19 different trades. In addition, the ministry has set up 4 residential training institutes in 4 Export Processing Zones (EPZs).

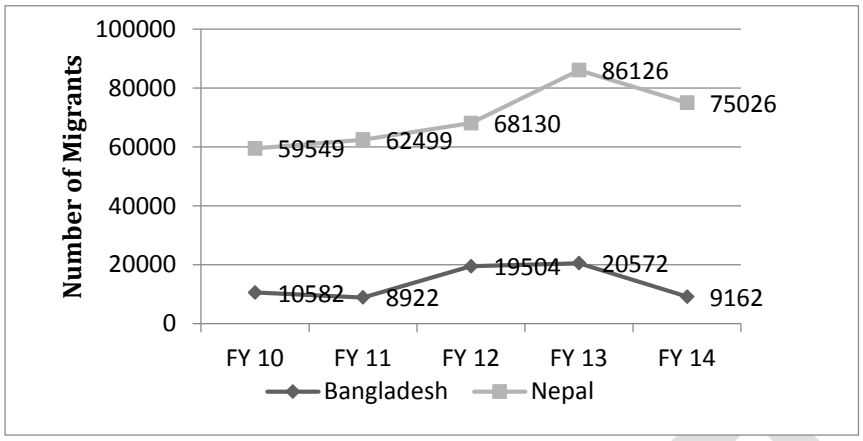
Bangladesh and Nepal: Two Stories

Slump of number of migrant workers to the KSA is one of the major emerging concerns of recent times. However, Saudi Arabia continued to take a large number of migrant workers from Nepal, Sri Lanka and Philippines. Number of migrant workers to KSA from Nepal increased from 59,549 in FY2009-10 to 75,026 in FY2013-14, while the corresponding figure for Bangladesh declined from 10,582 in FY2010 to 9,162 in FY2014 (Figure 6.3)[40]. It is to be mentioned here that the KSA government has restricted recruitment of more than 10 per cent workers by any company coming from a single country.

[39]Based on interview with a senior official of MoEWOE.

[40] Currently, about 2 million Bangladeshis are working in the KSA, which is significantly higher than the total number of Nepalese workers in the KSA.

FIGURE 6.3: COMPARATIVE ANALYSIS OF MIGRANT WORKERS GOING TO KSA



Source: BMET and Department of Foreign Employment of Nepal.

6.3 Measures to Overcome Challenges

Reducing the Cost of Migration and the Cost of Sending Remittance

Reduction of the cost of migration for Bangladeshi workers is one of immediate measures that need to be taken. In this regard, the Probashi Kallyan Bank (PKB) should be supported by providing adequate manpower and logistics. On the other hand, the cost of sending remittance through formal channels to Bangladesh still remains high in Bangladesh.[41] A major portion of remittances inflow to Bangladesh is transmitted through informal channels.[42] It is found that if the cost of remittances fell by 1 per cent inflow of remittance would rise by 0.22 per cent.[43] Reducing the cost of sending remittance will facilitate augmentation of remittance flow in Bangladesh. In this connection, PKB must open up exchange houses in major labour-importing countries to reduce the cost of sending remittance. The government is actively considering channelisation of remittances through PKB. The government is now working on appropriate modalities in this regard.

[41]Rahman and Sadique (2014)

[42] 54 per cent of total remittance inflow in Bangladesh was remitted through informal channel in 2003 (Freund and Spatafora, 2008).

[43] Gibson et al., 2007

Box 6.1: Probashi Kallyan Bank

The state-run Probashi Kallyan Bank (PKB) was established by Government of Bangladesh in 2011 to fund workers going abroad for employment, facilitate sending remittance, and reduce migration cost. Their activities includes providing potential migrants who are going abroad for work and creating employment opportunities for returnee migrants. Currently, PKB has branches in 28 districts and booths in 3 international airports. Up to June 2014, PKB has sanctioned loan worth of Tk. 45 crore with a recovery rate of 97 per cent. Since inception, PKB granted migrant loans to 5244 potential migrants. In FY2013-14, PKB granted loan to 3240 potential migrants with a recovery rate of 99 per cent.

The money is sanctioned to the migrants after securing employment contract, visa and passport. Maximum processing time for loan is 3 days. Usually PKB provide loan to jobseekers intended to migrate in any country, there is no restriction on it. The maturity period of loan provided by PKB depends on the employment contract. If one migrant goes abroad for 2 years, then first 2 months are considered as discharge period. The migrant has to repay the loan at interest rate of 9 per cent within next 22 months. The amount of loan for migrant is Tk. 84,000 for UAE and Tk. 1,40,000 for Europe Area. PKB faces no processing problem in sanctioning loans. However, there is little problem in funding. Migrants are not interested in opening savings account at PKB as it has no clearing house of its own. However, PKB has the facility of saving account from 2 year to maximum 10 years at 6 per cent to 6.5 percent interest rate. PKB has to take the help of other banks to clear the cheque of migrant workers and it is a time consuming process. If migrants could directly process their cheque through PKB, it can raise more funds to invest in different projects.

There are also rehabilitation and project loans for the returnee migrants. But the amount of loan given to returnee migrants is low. PKB provided rehabilitation loan to 100 people; the recovery rate is 95 per cent. For returnee migrants, PKB provides 70 per cent of total cost of projects as loan and it also provides suggestions about the projects. The amount of loan ranges from Tk. 5 lakh to Tk. 10 lakh. PKB is interested to provide group loan. The interest rate for project of returnee migrant is 11 per cent. It usually grants project loan within 2 weeks of application for the loan.

Source: Interview with an official of PKB and PKB website.

To curb the cost of migration, MoEWOA has made selection of workers from the recently established BMET data bank for prospective job seekers in overseas market. Besides, the ministry is currently undertaking several awareness building programme which may help to reduce the role of middlepersons. The ministry estimated that, on an average, about 77.1 per cent of total cost incurred for the migration was on account of charges paid to the middlepersons. The government is also considering a number of regulations to curb the migration cost.

Initiating Export of Skilled Migrant Workers

Per captia remittance earning of Bangladeshi migrants is very low as this sector is dominated by less-skilled and semi-skilled workers. In view of this, the government should reorganise the skill development training system. To build skilled manpower government needs to set up more technical and vocational institutions that will have a demand-driven curriculae, training modules and strategy. It may be mentioned here that the government has a plan to establish TTCs in every

upazilas. A timely implementation of this project needs to be ensured. A comprehensive training on language and laws applicable in the host countries should be provided to potential migrants with sufficient lead time.

Taking Advantage of New Market Opportunities

It is evident from the preceding analysis that Qatar and Oman have emerged as two promising markets for migrant workers from Bangladesh. In addition, Qatar is going to organise FIFA World Cup in 2022. So it can be expected that there will be an additional demand for manpower in Qatar in near term future. Bangladesh should take advantage of this emerging opportunity in a more strategic way. Moderate growth prospect of these two countries reported in Table 6.5 also substantiate the potential of Qatar and Oman as two major destinations of migrant workers of Bangladesh in coming years.

Table 6.5: Growth Prospect of Major Destination Countries of Bangladeshi Workers

Country	IMF	World Bank	
	2015	2015	2016
Oman	3.4	4.0	4.0
Qatar	7.7	n/a	n/a

Source: World Economic Outlook (October, 2014) and Global Economic Prospects (June, 2014).

Though the government has been trying to explore new labour market and take effective advantage in existing one, much more needs to be done. A major focus should developing appropriate modalities towards effective public-private partnership through consultations with relevant stakeholders.

Curbing Reverse Remittance Flow

Available information suggests that in 2013, a considerable amount of money, worth about USD 3.7 billion, was remitted from Bangladesh to India. Bangladesh is now the fifth largest remittance earning source for India. By some counts foreign professionals working in Bangladesh runs into hundreds of thousands. Most of them work in readymade garments, textile industries and NGO's, often without proper permissions and documentations (Silicon India, 2013, May 21).[44] Government should initiate necessary steps to curb reverse remittance flow, deal with the issue of illegal migrants in Bangladesh and develop the skilled human resources for substitution.

Increase Manpower to Strengthen the Capacity of Government Bodies

Shortage of manpower and inadequate capacity of relevant government bodies is one of the major reasons contributing to the deceleration in number of persons left for abroad on employment from Bangladesh. Government of Bangladesh needs to recruit enough manpower for the timely completion of conversion passports into MRPs. In addition, capacity of Ministry of Expatriate Welfare and Overseas Employment (MoEWOE) needs to be significantly enhanced particularly in view of oprationalising G2G mechanism and taking care of the needs of outgoing and returnee migrants. Government should work with private sector in this regard as government does not have the experience and tacks the expertise to deliver the needed service.

[44] http://www.siliconindia.com/news/business/15NationsSendingHighestRemittancestoIndianid147515cid3

Reintegration of Returnee Migrants

In view of the large number of migrants returning home in recent years, a comprehensive programme needs to be developed for their effective reintegration for the benefit of the economy. Towards this, all returnee migrants should be registered at the airports, and a comprehensive database should be maintained and posted on a dedicated website. The database should contain information about work experiences and skills of the returnee and details. Employers could make use of the information available on the website and hire them accordingly. The reintegration programme should be designed to address the manifold needs of the returnee migrants. The programme should include awareness campaign and information dissemination as regards the opportunities and support available to the returnees. A dedicated fund should be established to provide credit support to them to set up SMEs. A counseling cell and hotline should be set up for the returnee migrants which will advise them on investment facilities and proper utilisation of their savings. The programme should envisage training programmes for the returnees so that they can have the skills in accordance with the domestic labour market demand.

Effective Implementation of Overseas Employment and Migration Act 2013

The cabinet had passed the Overseas Employment and Migration Act 2013 on 27 November 2013. The Act aims to protect the interests of the outbound migrant workers and deal with fraudulent practices by the recruiting agencies with the provision of five to seven years jail term with monetary fines of Tk. 1 lakh. However, till date no case has been filed under this act.[45] Under the Act, a victim can also lodge a complaint to the ministry and s/he can also file a criminal case against the concerned agency. The government can also cancel the license and forfeit the security deposit of an agency. In 2014, six such licenses were cancelled while four licenses were suspended. During the same period about Tk. 88 lakhs was realized as fine, under the abovementioned Act. The government should initiate necessary steps for effective implementation of this Act to discourage malpractice by recruiting agencies but also create supporting environment for those who would work in good faith.

6.4 Concluding Observations

There has been a considerable shift of market composition of migrant workers of Bangladesh from KSA and UAE to Oman and Qatar in recent years. However, the share of remittance received by Bangladesh from KSA is still the largest among all other countries which is an indication that the number of migrant stock continues to remain high in KSA. To revitalise these sector, a number of areas will require attention and adequate measures on the part of policy makers. To facilitate the discussion these initiatives could be classified into two broad categories: short term and long term.

Among the short term measures, reviewing and revisiting of G2G mechanism should be given the highest priority. A suitable public-private partnership should be developed in this connection. Government also has to focus on non-traditional emerging markets including Malaysia and Singapore. There is an apprehension that number migrant workers from Bangladesh may face setback in coming years as oil-dependent economies in the Middle East may reduce their demand for labour due to recent fall in oil prices. It was found that every dollar increase in oil price per barrel increases monthly number of migrants from Bangladesh to selected MENA countries by

[45]http://www.thedailystgar.net/whereisthemigrationlaw201352917

288.[46] Reducing the cost of migration and the cost of sending remittance should also receive priority. PKB should establish branches in economically disadvantaged areas and also open branches in major labour-importing countries so that migrants could remit money at a lower cost. Moreover, immediate steps should be taken to create a database on returnee migrants. Priority should be given to enhance the number of potential migrants who could receive credit support.

Among medium term measures, strengthening of manpower in foreign diplomatic offices should be given the highest priority. Government should also conduct market research on regular basis to diversity the opportunities. Demand driven training programmes for the development of skills of potential migrants should be put in place. The government should also take appropriate steps for the successful implementation of Overseas Employment and Migration Act 2013 to safeguard potential migrants from unethical practices of some of the recruiting agencies.

[46] This result is based on a regression analysis using monthly data of oil price per barrel and number of migrants to KSA, UAE, Kuwait, Oman, Qatar, Bahrain and Libya ranging from January 2010 to October 2014. The coefficient is found out to be statistically significant at 1 per cent level of significance.

SECTION 7. CONCLUDING REMARKS

The present analytical review of year-closing figures of major macroeconomic correlates in FY2014 suggests that the Bangladesh economy experienced relative macroeconomic stability in this period, but the much-needed investment acceleration to spurt GDP growth rate into a higher trajectory remained wanting. Traditionally, the post-national election years have witnessed upswing in both private investment and in terms of economic growth. However, available data and information does not support the prospect of regaining the momentum significantly in FY2015. Early trends of macroeconomic aggregates in FY2015 suggest that whilst positive trends are recorded in terms of declining inflation, stable exchange rate, higher foreign exchange reserves and recovery of remittance growth, a number of disquieting fault lines are emerging which could undermine the macroeconomic stability. Growth of export earnings, an important indicator of vibrancy in the manufacturing sector, has not picked up as yet. Falling commodity prices will be helpful in terms of subsidy management and maintaining good balance of payments situation, but this will also have negative implications for revenue mobilisation. Revenue generation targets for FY2015 are already under serious strain, as was noted earlier. Whilst overall balance was comfortable in view of foreign exchange inflow on multiple counts, both trade and current account balance have come under pressure in the face of higher import and stagnating exports. Whilst high foreign exchange reserves will provide cushion, more care will need to be given to maintain exchange rate stability, also in view of weakened resource availability in terms of foreign aid and private debt service liability.

The major concern for the Bangladesh economy continued to be the stagnation in private investment in FY2015, as evidenced by some of the key proxy indicators. Higher growth of industrial term loan and high imports of capital machineries and intermediate inputs do not fully correspond with real investment on the ground; which has been highlighted in the present report. Analysis of disaggregated data on capital machinery import payments raises concerns about reliability of the data in view of growing questions as regards trade mispricing/declaration leading to capital flight. Infrastructural bottlenecks coupled with lack of reform measures have held back private investment. FDI availability also remained marginal. The problems afflicting the banking sector, in terms of rising NPL and loans of questionable quality are likely to have adverse implications for private sector investment performance, in addition to weakening the financial architecture and overall governance of the financial sector. Crowding in of the private investment will also hinge critically on the speedy implementation of the major public sector infrastructure projects where pace of implementation has been rather slow. The present private investment level looks to be inadequate for the economic growth target for FY2015. The consumption demand, as demonstrated by the proxy indicators, remained at low levels. Indeed, it may help keeping inflation under control, but at the same time, it will keep economic growth in check.

A recent Ministry of Finance assessment has also mentioned three challenges for Bangladesh economy from the macroeconomic management point of view, viz. lack of private investment, slow implementation of ADP and revenue shortfall. While this diagnosis by and large reflects the reality, it is not clear what will be the concrete measures from the government to address the attendant challenges in each of these areas, both from short and medium-term perspectives.

In view of the above, policymakers will need to give priority attention to a number of areas.

- The issue of revenue mobilisation ought to be given urgent priority. The budgetary targets for FY2015 needs to be reviewed at the earliest, and has to be adjusted in line with the reality. Without significant development of institutional capacity, revenue collection will pose a greater challenge for the coming fiscal year (FY2016) as well. In this context, demand for significant resources to implement the proposed public service pay scale revision will need to be taken into cognisance. It is important for the policymakers to understand that the forthcoming VAT and SD Act may not turn out to be the magic bullet in this context. The longstanding agenda as regards revenue mobilisation including expansion of tax net, digitisation, implementation of NBR Modernisation Road Map, establishment of electronic cash register (ECR) in businesses, etc. will need to be materialised without delay. Customs authority needs to be more vigilant to curb trade mispricing, while the Transfer Pricing Cell will need to be further strengthened.
- Decisions as regards subsidy management and administered prices will need to be dealt with due seriousness. It will be critically important to assess the impact of attendant decisions on business environment and private investment.
- ADP implementation capacity is in need of considerable strengthening. ECNEC with the help of Planning Commission needs to prioritise projects within the ADP that can immediately catalyse private investment (e.g. list them and bring them under close monitoring).
- Budget deficit financing should be made through judicious mix of available options. Utilisation of foreign aid needs to be prioritised and given precedence.
- There is a need for significant strengthening of the oversight function of the central bank to ensure good governance in the financial sector, in the areas of prudential management, measures against malpractices, streamlining of policies as regards rescheduling facilities, etc. An independent Banking Sector Reform Commission should be set up immediately to look into the anomalies and fault lines, to come up with remedial measures and strategic recommendations. This can also help the central bank in implementation of Basel III.
- The central bank needs to go beyond allowing private sector to borrow from abroad and seek ways to raise demand for credit by the private sector.
- The central bank should continue to calibrate its policies to keep exchange rate of BDT stable.
- There is an urgent need to strengthen public sector delivery institutions and undertake the reforms, many of which the government has identified in various policy documents (e.g. the proposed Civil Service Act). Whilst raising pay and allowing government employees decent salaries should be an ongoing exercise, efforts should also be made at the same time towards raising efficiency and effectiveness of service delivery institutions, instituting a culture of reward and sanction, and developing public service on the basis of meritocracy.
- Whilst attention will need to be given to facilitate implementation of the measures in the tripartite agreement as regards compliance in the RMG factories, sustainability of the measures, beyond the five year period of implementation, should be kept on the policy radar screen.
- As regards migration, in view of the significant market shifts, there is a need for energetic search of new markets and exploring new segments of the market demand. A comprehensive demand-driven skills development programme is an urgent necessity in this context.

In Bangladesh, macroeconomic policies are often taken in an isolated manner considering only their partial impact on a single sector. It is critically important to assess the economy wide impact of a policy. Coherence and coordination among the policies and implementing authorities have to

be better ensured if the needed growth momentum is to be generated in the economy. In the context of sound macroeconomic management, importance of good quality, reliable, disaggregated and real time data is becoming increasingly evident.

For stimulating private sector investment and regaining the growth momentum, a conducive political environment that generates confidence in entrepreneurs, and inclusive politics that ensures predictabilities and business-friendly environment, will be key determining factor as the economy enters into the second half of FY2015.

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ANNEXURE

ANNEX 2.1: MACROECONOMIC PERFORMANCE OF BANGLADESH ECONOMY IN FY2014

Indicators	Assessment at the Time of the Budget FY2015	Assessment with the Year Closing Data	Target Set for FY2015
GDP Growth	FY12: 6.5 per cent FY13: 6.0 per cent FY14: 6.1 per cent	Revised estimate of FY14 was not prepared yet	Growth Target FY15: **7.3 per cent**
Private Investment	FY12: 22.5 per cent of GDP FY13: 21.8 per cent of GDP FY14: 21.4 per cent of GDP	Revised estimate of FY14 was not prepared yet	NA
Public Investment	FY12: 5.8 per cent of GDP FY13: 6.6 per cent of GDP FY14: 7.3 per cent of GDP	Revised estimate of FY14 was not prepared yet	NA
Total Investment	FY12: 28.3 per cent of GDP FY13: 28.4 per cent of GDP FY14: 28.7 per cent of GDP	Revised estimate of FY14 was not prepared yet	NA
NBR Revenue Collection Growth	Revised Growth Target for FY14: 15.1 per cent Actual Jul-April FY14: 9.2 per cent *An evident shortfall (between Tk. 4,000 and Tk. 5,000 crore) in FY14*	Actual Jul-Jun FY14: 10.4 per cent *Shortfall: Tk 4,487 crore According to MoF report shortfall is Tk. 13,038 crore*	Growth Target for FY15 over Revised Budget Target FY14: **18.2 per cent** Growth Target for FY15 over Actual Revenue Collection in FY14: **24.2 per cent**
Net Non-Development Revenue Expenditure	Actual Growth in FY13: 11.8 per cent Growth Target for FY14: 15.1 per cent Actual Jul-Mar FY14: 10.1 per cent	Revised Growth Target for FY14 over Actual FY13: 17.0 per cent Actual Jul-Jun FY14: **14.6 per cent**	Growth Target for FY15 over Revised Budget Target FY14: **10.5 per cent** Growth Target for FY15 over Actual Revenue Collection in FY14: **12.8 per cent**
ADP Expenditure (over original ADP)	Actual Jul-Apr FY13: 56.3 per cent of allocation Actual Jul-Apr FY14: 49.8 per cent of allocation	Actual Jul-Jun FY13: 91.0 per cent of allocation Actual Jul-Jun FY14: **86.1 per cent** of allocation	Target growth for FY15 over original ADP FY14: **21.9 per cent** Target growth for FY15 over Actual spending in FY14: **41.5 per cent**

Indicators	Assessment at the Time of the Budget FY2015	Assessment with the Year Closing Data	Target Set for FY2015
Budget Deficit and Financing	Jul-Mar FY13: 9.3 per cent of planned budget financed Jul-Mar FY14: 32.7 per cent of planned budget financed *Bank borrowing to contribute 83.6 per cent of deficit financing during Jul-Mar FY14*	Jul-Jun FY13: 84.7 per cent of planned budget financed Jul-Jun FY14: 85.1 per cent of planned budget financed *Bank borrowing and non-bank borrowing contributed 44.1 per cent and 47.9 per cent of deficit financing in Jul-Jun FY14*	Financing as per cent of GDP in FY14: **3.0 per cent (2005-06 base)** Target financing as per cent of GDP in FY15: **4.0 per cent (including grants)**
Money Supply	Target June FY14: 17.0 per cent Actual March FY14: 15.3 per cent	Actual June FY14: **16.1 per cent**	Target June FY15: **16.5 per cent** (MPS Jul-Dec 2014)
Private Sector Credit	Target June FY14: 16.5 per cent Actual March FY14: 11.5 per cent	Actual June FY14: **12.3 per cent**	Target June FY15: **15.5 per cent** (MPS Jul-Dec 2014)
Inflation	Target June FY14: 7.0 per cent Actual April FY14: 7.5 per cent	Actual June FY14: **7.4 per cent**	Target June FY15: **6.5 per cent** (MPS Jul-Dec 2014)
Loan Default	June 2013: 11.9 per cent of total outstanding March 2014: 10.5 per cent of total outstanding	Actual Jun 2014: **10.8 per cent** of total outstanding	NA
Export	Target FY14: 12.9 per cent Actual Jul-Apr FY14: 13.2 per cent	Actual Jul-Jun FY14: **11.7 per cent**	Target FY15: **10.0 per cent**
Import payment (NBR reported)	Actual Jul-Mar FY14: 11.1 per cent	Actual Jul-Jun FY14: **8.9 per cent**	NA
Remittances	Actual Jul-Apr FY14: (-) 4.8 per cent	Actual Jul-Jun FY14: **(-) 1.4 per cent**	

Source: Authors' Compilation from Various Government Sourced Data.

ANNEX 2.2: A LIST OF SELECTED POLICIES UNDERTAKEN DURING 1 JAN 2014- 31 DECEMBER 2014

Month	Policies
Investment	
April, 2014	The government of Bangladesh signed an agreement for USD 110 million with ADB to implement the second phase of Private-Public Infrastructure Development Facility under the state-owned IDCOL. The loan was taken to support the country's private sector infrastructure projects. WB and JICA would co-finance the projects and the private sector would also contribute in terms of equity financing and debt funding.
April, 2014	The Prime Minister issued letter to 9 Secretaries with clear instructions to prevent corrupt practices in the 6 Mega projects under "Fast-Track".
May, 2014	Bangladesh Bank lifted restrictions on industrial enterprises in Export Processing Zone (EPZs) to borrow loan from overseas.
May, 2014	The Cabinet approved draft "Bangladesh Bridge Authority Act- 2014" updating existing law for construction, operation and maintenance of the bridges within 1500 metre length or more.
June, 2014	The Executive Committee of the National Economic Council (ECNEC) approved 5 Special Economic Zones (SEZs) of the Bangladesh Economic Zone Authority (BEZA) for development in Bagerhat, Chittagong, Moulvibazar and Sirajganj with a view to attract both domestic and foreign investment.
June, 2014	The government signed a deal with the China Major Bridge Engineering Company Ltd. To build the main part of the bridge for Tk. 12,133 crore.
September, 2014	The Parliament passed the "Investment Corporation of Bangladesh Act, 2014" replacing the former "Investment Corporation of Bangladesh Ordinance, 1976.
November, 2014	The Cabinet approved the Draft of Metro Rail Act 2014. The draft was already passed in principle on 28 April, 2014. The estimated Tk. 21,895 crore project was aimed at resolving traffic congestion and public transport problems. The government of Bangladesh and the JICA would co-finance the project.
November, 2014	The government enhanced surveillance on the fast track mega projects. For project implementation transparency the government has made separate guidelines under which report has to be sent to the fast track project monitoring Task Force within 15th of every month.
December, 2014	The government in order to enhance the project-approving capacity of the line ministries decided to empower the line ministries to approve development projects costing up to Tk. 500 million at their own discretion to reduce the approval processing time. Before, the Planning Commission (PC) used to approve all projects under ADP, and only technical Assistance (TA) projects with a maximum of Tk. 70 million cost used to be approved by the ministries.
Power and Energy	
March, 2014	Bangladesh Energy Regulatory Commission (BERC) increased average power tariff by 7.0 per cent.
April, 2014	Bangladesh government agreed to provide India "power corridor" to transmit 6000 MW of hydro-electricity from North eastern India to North western India across Bangladesh territory, while Bangladesh will be able to an agreed amount of power from the network.
April, 2014	Power Development Board signed an MoU with Chinese company China Huadian Hong Kong Co Ltd for 1320 MW coal-fired station at Maheshkhali island in Cox's Bazar district.
May, 2014	The government decided in principle to allow oil and furnace-oil based rental and quick rental power plants to import fuel oil without prior permission from Bangladesh Petroleum Corporation (BPC) by only paying a nine percent commission which would also allow them to use the storage of BPC.

Month	Policies
August , 2014	The government approved the open-pit mining method of coal extraction from the northern chunk of Barapukuria coal deposit. A power plant of 1,300 MW would be installed at the mouth of Barapukuraia mine.
December, 2014	The government put the Matarbari 1,200 MW coal fired power plant on fast-track for smooth operations with the government increasing monitoring and supervision of the mega-development schemes. The Matarbari project was approved by the ECNEC on 12 August, 2014 as the largest development project of Bangladesh costing Tk. 35,984.
Agriculture and Food Security	
March, 2014	The government hiked the procurement prices of boro (Tk. 31 per kg from Tk. 29), wheat (Tk. 27 per kg from Tk. 25) and paddy (Tk. 20 per kg from Tk. 18.5) in an attempt to give small and marginalised farmers some relief.
June, 2014	Bangladesh Bank imposed ban on export of green chili, brinjal, lemon cucumber and coriander leaves to ensure the smooth supply of essentials during the holy month of Ramadan.
July, 2014	Bangladesh Bank announced Export subsidy/ cash incentive for FY2015: Agricultural products (vegetables/fruits) and Agro-processed products export subsidy of 20 per cent ; for 100 per cent halal meat subsidy of 20 per cent ; for frozen shrimp cash incentive of 10 per cent ; for potato cash incentive of 20 per cent.
August, 2014	Bangladesh Bank decided that the exemption from quarterly installment repayment will apply regardless of import value in case of deferred payment imports of up to 6 month term in bulk for the following unprocessed/crude food items: (a) unrefined edible oil and oil seeds imports by refiners/millers, (b) crude sugar imports by refiners and (c) Unground (whole) wheat imports by flour mills.
September, 2014	Bangladesh Bank provided credit facility to the flood-affected farmers of 21 flood-affected regions in areas of winter crop cultivation and import of substitute crops like pulse, oil seed etc.
September, 2014	The cabinet committee on economic affairs approved a proposal of the food ministry to export 50,000 tonnes of coarse rice to Srilanka under special arrangement as there is a ban on non-fragrant rice export until June 2015.
September, 2014	Bangladesh Bank granted 5 per cent cash incentive to the exporters of frozen fish other than shrimp.
December, 2014	Bangladesh Bank encouraged participation of banks in disbursing agricultural and micro-credit amending the provision for short-term agriculture and micro-credit. Provisions for all unclassified credits (other than loans classified as "bad/loss") was changed to 2.5 per cent from current rate of 5 per cent.
December, 2014	Bangladesh Bank issued a circular amending the ceiling of interest rate for Agriculture and Rural credit from 13 per cent to 11 per cent with effect from 1 January, 2015.
December, 2014	Bangladesh Bank slashed maximum interest ceiling on agriculture credit by 2 percentage points to 11 per cent in view of downturn both lending and deposit rates as per the decision taken under Financial Sector Reforms Programme (FSRP).
Industries	
April, 2014	NBR slashed export tax on RMG to 0.3 per cent from 0.8 per cent and on all other products to 0.6 per cent from 0.8 per cent effective from April 1, 2014 to 30 June, 2015. This was mainly done to compensate the manufacturers for the losses made during the political unrest preceding the election.
April, 2014	Telecom Ministry slashed Voice Over Internet Protocol (VoIP) call rates by 50 per cent. The new rate was USD 1.5.
June, 2014	The import duties on raw materials of pre-fabricated building and fire safety equipment were fully exempted.

Month	Policies
June, 2014	Bangladesh Bank provided the following cash incentive: on FoB price 0.25 per cent additional cash incentive for export of RMG or Textile; 2-3 per cent for expansion in new market for textile industry; cash incentive for shipping goods.
July, 2014	The NBR issues SRO on Tax rebate for new and existing industries. The new and relocating industries starting operation in the first half of 2014 was given a 20 per cent tax rebate whereas the existing industries was given tax rebate of 10 per cent up to 30 June, 2019.
July, 2014	The National Board of Revenue (NBR) introduced Transfer Pricing Law (passed through Finance Bill 2012) was made effective from July 1, 2014.
July, 2014	Bangladesh Bank announced Export subsidy/cash incentive for FY15: for garments instead of duty bond or duty draw back cash incentive of 5 per cent ; For handmade products from hay, sedge, sugarcane cash incentive of 15-20 per cent ; for bone powder cash incentive of 15 per cent ; for light engineering products subsidy of 10 per cent ; for leather products cash incentive of 15 per cent ; for ship export subsidy of 5 per cent ; for new products ((garments sector))/new market expansion (except USA, Canada, EU) cash incentive 3 per cent (including 1 per cent special incentive by government for the period 1 January, 2014 to 30 June, 2015); additional incentive for SME garments industries of 5 per cent ; for pet bottle export subsidy of 10 per cent ; for jute final products cash incentive 10 per cent and for jute cotton cash incentive of 7.5 per cent.
August, 2014	NBR discontinued the special tax rates for the FY2015 for the apparel exporters by which they used to enjoy 10 per cent special tax rate at the time annual assessment instead of the higher 35 per cent corporate tax rate.
October, 2014	Prime Minister announced that there would be no more privatization i.e. no state owned institution would be transferred to the private sector.
October, 2014	Bangladesh bank provides additional cash incentive for exports of RMG in textile industry is provided on FoB value of 0.25 per cent.
December, 2014	A number of large corporations were relieved from environmental protection surcharge or Green tax.
December, 2014	The government formed two taskforces to oversee the post-inspection activities in the RMG sector including hiring consultancy firm to conduct detailed engineering analysis (DEA) and also approving corrective action plan (CAP) and monitoring its implementation. This decision was made in the 8th meeting of the National Tripartite Committee (NTC) on "National Tripartite Plan of Action (NTPA)" on Fire, Electrical and Structural integrity for the RMG sector.
Services	
March, 2014	Bangladesh Bank lifted the requirement for local contractor of taking permission in advance for bank guarantee in foreign exchange while implementing a government project for which international tenders are invited.
April, 2014	NBR issued a Statutory Regulatory Order (SRO) in view of exempting construction of all luxury hotels for all taxes on import of building raw materials and equipment except a 5 per cent customs duty. The exemption would be given only to the franchise of international chain hotels and local hotels of international standards certified by the tourism ministry.
April, 2014	The Cabinet approved the Government Transport (Usage Control) Act 2014 replacing the ordinance of 1986
Revenue	
March, 2014	Government approved the National Toll Policy -2014 on vehicles to use all regional, national, district-level roads and bridges. As per the policy, vehicles plying 22,000 km

Month	Policies
	under the Roads and Highways Department (RHD) would have to pay a minimum of Tk. 5 to a maximum of Tk. 1,000.
June, 2014	The VAT on imported mobile handsets were raised from 10 per cent to 15 per cent while reducing it for local mobile phone by 5 per cent. The duty on gold was also increased from Tk. 150 per 11.66 gm. to Tk. 3,300 per 11.66 gm.
June, 2014	In the budget tax rates on transfer of land and flat were set. For transfer of land the tax was set at Tk. 1.08 maximum per katha (1.65 decimal) while that for flat stood at Tk. 600 per square metre. The land transfer tax was set at 3 per cent on deed value for areas such as Gazipur, Narayanganj, and Munshiganj (but not under the jurisdiction of RAJUK or Chittagong Development Authority (CDA)) but higher at 4 per cent of deed value for areas under RAJUK or CDA. This was to be effective from July 1, 2014.
June, 2014	3 per cent tax was imposed on capital gains from stock exceeding Tk. 10 lakh and 5 per cent was imposed on amount exceeding Tk. 20 lakh.
July, 2014	The National Board of Revenue (NBR) introduced Transfer Pricing Law (passed through Finance Bill 2012) was made effective from July 1, 2014.
July, 2014	New taxes that were made effective from 1 July, 2014, included: • For land lords, it was made mandatory to make separate bank account for collection of rent exceeding Tk. 25,000 • For undisclosed money, whitening was allowed through purchase of House or flat. • For gross Income exceeding Tk. 44.20 lakh super tax of 30 per cent , were imposed • Under self-assessment scheme the tax payers would not have their "tax-return" audited if they earned 20 per cent more than previous return.
July, 2014	NBR issued rule covering 1 per cent surcharge on mobile handset both imported and locally produced.
September, 2014	NBR withdrew tax privileges for fish farming to prevent dishonest tax payer from evading taxes. The tax privilege of only 3 per cent on income from fish cultivation was withdrawn, and normal tax rates were imposed depending on their income levels. The tax rate for companies in fish farming was 35 per cent.
September, 2014	NBR issued strict guidelines on selection of tax files for auditing taxpayer s to prevent harassment. Under the guidelines, the taxmen should have valid and adequate reasons for selecting the taxpayer's files for auditing and he had to explain the reasons to the taxpayer. According to the new rules, he had to proceed with the reason and if there evidence of tax evasion he could immediately take actions.
October, 2014	NBR introduced the Bangladesh Integrated Tax Administration System (BITAS) or e-filling system in the country in order to extend the country's income tax network through easing the process of filing tax returns for the taxpayers.
December, 2014	NBR shortlisted a total of 750 industrial polluter to impose the green tax. The previous list of 2,500 was trimmed to reach the figure the VAT-Wing will collect the 1 per cent surcharge under the "Environmental Protection Surcharges Collection Rule 2014".
December, 2014	The government waived the duty and taxes on import of coal on 15 December, 2014 following the demand of local-brick manufacturing companies. This ban came after the Indian state of Meghalaya banned export of its coal. Imported coal is being used by brick kilns.
December, 2014	NBR issued Statutory Regulatory Order (SRO) in connection with reduction in customs duties on 4,610 products for 2013 and 2014 calendar years for trade under the South Asian Free Trade Area (SAFTA) with effect from 1 January for the years.
Government Debt and Foreign Loan/Assistance	
April, 2014	ERD signed contract with WB for USD 210 million for the construction of modern food storage under the Modern Food Storage Facility by 2020 in Barisal, Naraynagonj, Dhaka, Ashugonj, Mymensingh, Chittagong and Modhupur.

Month	Policies
May, 2014	World Bank approved USD 60 million as interest free credit to Bangladesh to modernize VAT administration and collection system.
June, 2014	The Cabinet approved the "Foreign Grant Regulation Act 2014" which prohibited foreign aid to political parties, supreme court judges and public officials.
September, 2014	Bangladesh Bank approved USD 125.05 million in loan to seven private sector projects at the 89th meeting of Bangladesh Bank's Scrutiny Committee.
October, 2014	Bangladesh launched the first foreign aid web-portal called the "Aid Information Management System or AIMS" with an aim to help understanding of national resources coming from both domestic and external sources.
November, 2014	The Finance Minister approved the maiden debt strategy where the government would borrow 60 per cent of the resources for deficit financing from external sources. This was a paradigm shift from the previous policy of 60 per cent financing from domestic sources.
Monetary and Financial Sector	
January, 2014	Bangladesh Bank drafted a "Credit Rating Methodology for SME" in order to ensure uniformity, transparency of external credit assessment and to determine the relative creditworthiness of firms in this segment and establish credit discipline in the banking sector.
January, 2014	Bangladesh Bank restricted the single borrower exposure limit to 35 per cent of the capital at any point in time.
February, 2014	Shipping lines/ air lines/ freight forwarders licensed by Customs Authorities were permitted to open and maintain accounts in USD or any other easily convertible currencies in order to facilitate their business transactions.
March, 2014	Bangladesh Bank provided the permission to foreign owned/controlled companies, engaged in manufacturing or services output for three years or longer, to access loans in domestic currency regardless of local content in their equity.
April, 2014	The roadmap for the Basel-III implementation was prepared which was to be effective from July 2014 and would be fully implemented by January 2019.
April, 2014	Bangladesh Bank formed the Grameen Bank Election of Director Rules 2014 replacing the rule of 1987.
April, 2014	Bangladesh Bank allowed Authorised Dealer (ADs) to issue bid bonds/ performance bonds/guarantees in foreign currency on behalf of residents which favoured local project authorities against goods or services procurement tenders financed by the government.
April, 2014	Bangladesh Bank set a total credit limit of Tk. 6,186 crore for the 4 State owned Commercial Banks (SCBs). Based on adjusted loan status of the previous year separate credit targets were set for the 4 banks.
May, 2014	Ministry of Finance extended the deadline to the year-end, 2014 for state owned enterprises to offload their shares in capital market.
May, 2014	Bangladesh Bank set a target for 4 SCBs to collect Tk. 623 crore from the top 20 defaulters of each bank by the end of the year. In addition BB asked Sonali Bank to make up for the capital shortfall of Tk. 895 crore.
May, 2014	Bangladesh Bank decided not to continue loan rescheduling policy after June 2014.
June, 2014	Bangladesh Bank increased Cash Reserve Requirement (CRR) from 6.0 per cent to 6.5 per cent, The banks were required to maintain on daily basis, the CRR at 6.0 per cent instead of the previous 5.50 per cent but the bi-weekly CRR at 6.5 per cent.
June, 2014	Bangladesh Bank in a circular regarding prudential guidelines on Capital Adequacy and Market Discipline for Financial Institutions made it mandatory that up to 10 per cent of revaluation of Equity instruments would be treated as Tier-II capital according to banking regulations.

Month	Policies
July, 2014	Bangladesh Bank asked the NBFIs to recover their revolving loan along with the interest at the end of the tenure and to follow the regulation about the classified loan.
August, 2014	Bangladesh Bank in a circular made it mandatory for the banks to submit their statement of Large Loan to the Bangladesh Bank Web Portal. The Banks were required to submit this for every month by the 10th of next month along with the "Loan overview of the Bank" and "Template for Sector wise Loan & Large Loan Concentration".
December, 2014	Bangladesh Bank approved the Non-Resident Bangladesh to transfer their money in their bank accounts to their home country. The fund could be used for subsistence expenses for the account holders and their family members. The BB did not set any ceiling for the amount of this outward remittance.
December, 2014	Dhaka Stock Exchange (DSE) launched a new automated trading system to accelerate share transactions and ensure more transparency in the trading procedures.
December, 2014	Bangladesh Bank issued a circular through which the Guideline on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III) would replace the previous one which was in line with Basel II and the action plan/roadmap for Basel III implementation was revised. This circular was intended to be effective from 1 January, 2015.
December, 2014	Bangladesh Bank issued a circular on indicative guidelines for CSR expenditure allocation for commercial banks where about 30 per cent of CSR fund would have to be spent on education while 20 per cent on preventive and curative healthcare.
Global Partnership	
December, 2014	Bangladesh signed one agreement and three Memorandum of Understanding (MoU) with Malaysia. The agreement signed was linked to facilitating Bangladeshis to get Malaysia Visa, a protocol amending the existing 'Memorandum of Understanding on the Employment of Workers-2012' between Bangladesh and Malaysia was signed allowing Bangladeshi citizens to work outside the mainland of Malaysia. Another MoU was signed to ensure bi-lateral cooperation in tourism sector. The other MoU was signed on cultural cooperation.
09 December, 2014	Bangladesh unilaterally offered Bhutan to use Chittagong and Mongla seaports as well as Lalmonirhat and Saidpur airports in the bilateral talks with Bhutan Prime Minister. They also discussed reducing trade gaps between the two countries.

Source: Authors' Compilation from Various Sources

ANNEX 2.3: PREVAILING VAT/GST RATES IN A SELECT SET OF COUNTRIES

Countries	GST/VAT rate	Countries	GST/VAT rate
Taiwan	25	Phillipines	12
Tujikistan	20	Sri Lanka	11
Turkmenistan	20	Cambodia	10
Uzbekistan	20	Indonesia	10
Israel	18	Laos	10
Russia	18	lebanon	10
Turkey	18	Mongolia	10
China	17	South Korea	10
Pakistan	17	Vietnam	10
Jordan	16	Afghnistan	2-10
India	12.5-16	Japan	8
Bangladesh	15	Singapore	7
North Korea	15	Thailand	7
Nepal	13	Malaysia	6
Nepal	13	Iran	6
Kazakhstan	12	Yemen	2
Kyrgyzstan	12		

Source: Compiled from http://www.vatlive.com/vat-rates/international-vat-and-gst-rates/

ANNEX 2.4: COST OVERRUN AND TIME OVERRUN OF COMPLETED PROJECTS FROM FY2001 TO FY2013

FY	No. of concluded projects	Projects concluded within designated timeline and cost (% of total)	Projects with cost overrun (% of total)	Projects with time overrun (% of total)	Projects with both cost overrun and time overrun (% of total)
FY01	162	22.8	6.8	34.0	36.4
FY02	162	40.7	6.8	23.5	29.0
FY03	169	31.4	13.6	32.5	22.5
FY04	232	50.0	9.9	22.4	17.7
FY05	164	59.8	15.9	12.2	12.2
FY06	225	53.8	18.7	11.1	16.4
FY07	181	32.0	1.7	30.9	33.7
FY08	239	34.7	2.9	35.1	27.2
FY09	173	24.9	8.1	41.0	26.0
FY10	195	47.2	6.2	26.2	20.5
FY11	257	29.6	6.2	38.9	25.3
FY12	199	18.6	6.5	39.7	35.2
FY13	206	22.8	6.8	43.7	26.7

Source: Author's compilation from IMED data.

ANNEX 2.5: AVERAGE IMPLEMENTATION PERIOD AND PROJECT COST

Fiscal Year	No. of concluded projects	Average implementation period (year)			Average project cost (crore tk)		
		Planned	Actual	(% increase)	Project Cost	Expenditure	(% increase)
FY01	162	3.3	4.2	29.4			27.0
FY02	162	3.8	6.2	63.6			34.3
FY03	169	3.0	5.6	86.0	46.5	83.6	79.9
FY04	232	3.7	6.8	85.5	60.9	82.6	35.6
FY05	164	3.7	7.1	95.1	70.6	102.4	45.0
FY06	225	3.9	7.2	84.6	78.3	143.5	83.2
FY07	181	4.6	7.6	67.5	152.6	206.6	35.5
FY08	239	3.7	6.4	75.2	91.1	120.0	31.6
FY09	173	3.2	5.8	78.4	65.4	87.3	33.4
FY10	195	3.5	6.3	80.4	108.9	137.0	25.8
FY11	257	3.5	6.2	77.9	115.6	149.3	29.1
FY12	199	3.3	5.3	63.8	88.9	115.1	29.5
FY13	206	2.9	5.3	81.6	106.2	141.6	33.4

Source: Author's compilation from IMED data.

ANNEX 3.1: GROWTH IN IMPORT OF TOP 20 MACHINERY PRODUCTS UNDER HS CATEGORY 84 AND 85: DOUBTFUL

		QTY(KG)		Value		Price	
HS Code	Description	% Change of FY14 over FY13	% Change of FY15 July-November over FY14 July-November	% Change of FY14 over FY13	% Change of FY15 July-November over FY14 July-November	% Change of FY14 over FY13	% Change of FY15 July-November over FY14 July-November
85022000	Generating sets with spark-ignition internal combu	-66.5	2482.5	-73.8	2072.1	-21.7	-15.9
85023900	Generating sets (excl. wind-powered), nes	279.4	27016.5	285.5	31265.6	1.6	15.7
84472000	Flat Knitting Machines; Stitch-Bonding Machines	21.5	9303.0	53.1	5444.8	26.0	-41.0
84798900	Machines, having individual functions, nes	335.7	2028.3	315.1	935.1	-4.7	-51.4
85021300	Generating Sets With Compression-Ignition Engines,	-6.3	63.5	-33.8	151.2	-29.3	53.6
84717000	Automatic Data Processing Machine Storage Units	149.2	1557.4	153.2	848.6	1.6	-42.8
84069000	Parts Of Steam And Other Vapour Turbines	861.7	-25.6	214.4	29.0	-67.3	73.5
84522100	Automatic Sewing Machines	-9.0	9252.2	-0.7	2991.1	9.1	-66.9
85234920	Optical media: Incorporating computer software	-40.2	170.0	118.9	-31.2	265.9	-74.5
84119900	Oth. Parts Of Gas Turbines (Excl. Of Turbo-Jets An	-19.9	1467.0	-8.8	1730.9	13.8	16.8
84193100	Dryers For Agricultural Products	2953.5	-45.2	15612.4	-60.8	414.6	-28.5
84518000	Machines For Wringing, Dressing, Finishing... Text	6.5	6332.1	13.0	7803.5	6.1	22.9
84029000	Parts Of Sheam On Oth.Vapour Genrtng.Boilers & Sup	214.3	-42.0	210.1	-27.9	-1.3	24.2
84118200	Gas Turbines, Of A Power >5000kw	-7.1	-26.2	-0.1	-20.4	7.5	7.9
84462100	Power Looms For Weaving Fabrics, >30cm Wide, Shutt	-23.2	21931.3	3.0	17592.0	34.2	-19.7
84713000	Portable Digital Adp Machines,Wt<=10 Kg,Comp.At Le	0.2	603.4	-3.0	422.7	-3.2	-25.7
84328000	Soil preparation/cultivation machinery; lawn/sport	61.1	2651.7	63.2	2862.0	1.3	7.6
84452000	Textile Spinning Machines	-32.5	1299.4	-32.1	2037.5	0.6	52.7

		QTY(KG)		Value		Price	
HS Code	**Description**	**% Change of FY14 over FY13**	**% Change of FY15 July-November over FY14 July-November**	**% Change of FY14 over FY13**	**% Change of FY15 July-November over FY14 July-November**	**% Change of FY14 over FY13**	**% Change of FY15 July-November over FY14 July-November**
84089020	Compre.-Ignition Internal Combustion Pisotn Engi.	-96.6	5944.7	-99.6	130551.6	-87.4	2061.4
84514000	Washing, Bleaching Or Dyeing Machines, Nes	31512.7	-5.1	-99.9	12061.2	-1.3	-61.5
84198900	Non-Domestic Heating/Cooling Equipment, Nes	1100.6	-14.1	-99.9	1972.5	8.5	72.6

Source: Author's calculation from NBR data.