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বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2017-18

Third Reading

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As part of the CPD IRBD tradition, CPD had organised an Expert Group Consultation on 28 April 2018. The working document prepared by the CPD IRBD 2018 Team was shared at this meeting with a distinguished group of academics and professionals. The CPD team is grateful to all of those present at the consultation for sharing their views, insights and comments on the draft report. A list of the participants of the meeting is provided below (in alphabetical order):

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The CPD IRBD 2018 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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SECTION I. INTRODUCTION

The present report is the third instalment of the State of the Bangladesh Economy in FY2018 prepared under CPD's flagship programme titled *Independent Review of Bangladesh Development (IRBD)*. The objective of this report is to track trends in major macroeconomic variables and present an assessment of the performance of key sectors of Bangladesh economy during FY2018 in the run-up to the national budget for FY2019. As part of its regular exercise to review the performance of the economy and analyse the key emerging development trends, CPD closely monitors the economy throughout a fiscal year. The final instalment of this year's IRBD analysis will be released immediately after the presentation of the FY2019 budget, with CPD's immediate reactions to the fiscal-budgetary proposals of the national budget.

This report highlights four key areas that informs macro-financial performance of the Bangladesh economy, focusing on vulnerabilities and weaknesses, and, suggests ways to deal with these issues in the short term through budgetary measures. These broad areas are: fiscal and budgetary framework (Section II), monetary and banking sector performance (Section III), capital market (Section IV), and external sector performance (Section V).

The report makes use of the most recent data from available official and credible international sources, as well as insights gleaned from key informants to review and analyse the trends of relevant macroeconomic and development correlates. The report concludes with highlighting a number of urgent measures to be pursued by policymakers and depicting the outlook for the economy in the coming days.

SECTION II. FORMULATING FISCAL AND BUDGETARY MEASURES FOR FY2019

2.1 Revenue mobilisation

There were indications at a pre-budget meeting of the Budget Monitoring and Resource Committee (BMRC) that the revenue target for FY2018 was to be slashed by about Tk. 28,990 crore (which included Tk. 23,190 crore for NBR) in the revised budget. Indeed, such a revision became inevitable. Following the marginal improvement in revenue mobilisation in the first six months (with 16.0 per cent growth) compared to the corresponding period of FY2017, it is likely that the revenue target for FY2018 will not be attained. Indeed, this has been the trend for six consecutive fiscal years. It is to be noted that, both tax revenue (17.6 per cent growth as against the annual target of 44.4 per cent) and non-tax revenue (2.9 per cent growth as against the annual target of 35.8 per cent) collection have missed their respective targets during the first half of FY2018 by a significant margin. According to CPD (2018a), revenue shortfall in FY2018 is expected to be around Tk. 50,000 crore. Under such a scenario, the revenue mobilisation target for FY2019, which is expected to be around 30 per cent higher than the revised target for FY2018, would actually require a growth of around 40 per cent (after accounting for the possible shortfall in actual collection over the revised target). Attaining the significantly high target is by any account an uphill task – success of which is highly doubtful.

Revenue mobilisation is not keeping pace with the 7FYP targets

Actual revenue mobilisation has lagged behind the corresponding medium-term targets. Indeed, revenue-GDP ratio was 10.2 per cent in FY2017 while the Seventh Five Year Plan (7FYP) target for the same year was 13.5 per cent. This gap is dominated by a shortfall in income tax collection which could only meet two-thirds of its planned target (Table 2.1). A large shortfall was also recorded in case of VAT and Supplementary Duties (SD), while non-tax revenue collection remained well below the potential. Indeed, failure to implement planned regulatory reforms, weak institutional capacities and absence of the needed administrative efforts have resulted in lack of improvement in mobilising additional revenue.

Table 2.1: Discrepancy between actual and 7FYP targets of revenue components

Component	Actual FY17 (in crore Tk.)	7FYP targets for FY17 (in crore Tk.)	Difference (in crore Tk.)	Gap (Difference as a share of 7FYP target, %)
Customs duty	22,578	23,420	842	3.6
VAT and SD	95,259	111,247	15,988	14.4
Income tax	52,489	80,020	27,531	34.4
Others	1,172	1,952	780	40.0
Non NBR tax	6,298	7,807	1,509	19.3
Non-tax revenue	22,956	39,034	16,078	41.2
Total revenue	200,752	263,480	62,728	23.8

Source: Authors' calculation using MoF and Bangladesh Planning Commission (2015) data.

Analysis of component wise revenue-GDP ratio in FY2017 revealed that, revenue collected from customs duties and non-NBR taxes are close to the targets of 7FYP whereas revenue from income tax, VAT and non-tax sources are off the mark. Regarding the tax-GDP ratio, the scenario is also pessimistic. In FY2017 the tax-GDP ratio was 9.0 per cent against the 7FYP target of 11.5 per cent.

Indeed, if the 7FYP target of tax-GDP and revenue GDP could be achieved, an additional amount of Tk. 49,421 crore and Tk. 65,981 crore respectively could be mobilised. Achieving the 7FYP targets in the area of revenue mobilisation for FY2020 is highly unlikely. During FY2018-20, total revenue collection needs to grow at an annual rate of 32.1 per cent to meet the target of 7FYP. Similarly, income tax collection needs to grow at an annual rate of 43.5 per cent to meet its target level in FY2020 (Table 2.2). In this backdrop, FY2018 progress, as was pointed out above, is not encouraging. Meeting the targets of revenue collection in line with the 7FYP will require significant additional efforts on the part of the NBR. Considering the abovementioned scenarios, two actions are called for: it is high time to set more realistic targets; energetic actions must be taken to broaden the tax base and significantly curtail the widespread tax evasion. The key question is, other than setting a set of ambitious targets, whether the government will be willing and able to take any concrete step in the above directions in an election year.

Table 2.2: Components of revenue collection

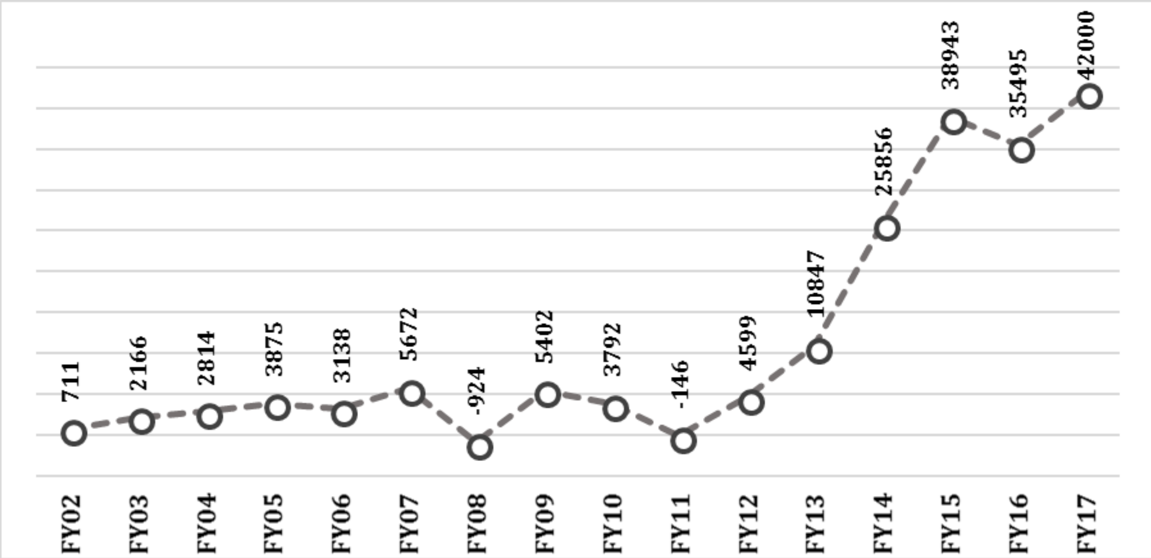
Component	Actual FY17	7FYP targets for FY17	7FYP targets for FY20	Required annual growth during FY18-FY20
	(% of GDP)	(% of GDP)	(% of GDP)	(%)
Customs duty	1.1	1.2	1.3	18.3
VAT and SD	4.8	5.7	7.0	28.3
Income tax	2.7	4.1	5.4	43.5
Others	0.1	0.1	0.1	34.8
Non NBR tax	0.3	0.4	0.4	22.2
Non-tax revenue	1.2	2.0	2.0	35.8
Total revenue	10.2	13.5	16.1	32.1

Source: Authors' calculation using MoF and Bangladesh Planning Commission (2015) data.

Revenue shortfall has skyrocketed in recent years

The mismatch between targeted level of revenue mobilisation and actual attainment has been a recurring phenomenon in the Bangladesh economy. As can be seen, except for two atypical years, the economy has generally suffered regular shortfalls in revenue mobilisation since FY2002. Although the shortfalls remained below Tk. 6,000 crore between FY2002 and FY2012, the deficit started to peak since FY2013 to skyrocket to the level of Tk. 42,000 crore in FY2017 (Figure 2.1). CPD (2018a) apprehended that revenue shortfall for FY2018 is likely to be about Tk. 50,000 crore. CPD had earlier estimated that tax effort in Bangladesh was far below the potential (CPD, 2016). According to UN-ESCAP (2014), actual tax collection level in Bangladesh was far below the potential level – with the gap equivalent to about 7.5 per cent of GDP. The report emphasised the need to enhance tax administration by way of streamlining procedures, widening ICT application, expanding tax base through rationalising prevailing tax exemptions and introducing new taxes. The report also stressed the need to address tax evasion and tax fraud.

Figure 2.1: Revenue shortfall in Bangladesh (in crore Tk.)



Source: Authors' calculation from MoF data.

Note: Negative numbers imply revenue surplus.

Low income tax collection has been the key driver behind revenue shortfall

As can be seen from Table 2.3, the gap between actual income tax collection and the target has generally been the major component of the overall revenue shortfall over the recent years. At the same time, failure to collect VAT at the targeted level also resulted in considerable revenue shortfall. Deficit in non-tax revenue mobilisation, particularly relating to dividend and profit, and interest/fees/tolls and other receipts, has further accentuated the difficulty of mobilising the revenue at the envisioned level.

Table 2.3: Component-wise share of revenue shortfall (%)

Component	FY12	FY13	FY14	FY15	FY16	FY17
Tax revenue (a+b)	**12.0**	**86.3**	**95.3**	**68.2**	**85.5**	**77.6**
a. NBR tax	**5.9**	**82.2**	**93.3**	**66.3**	**84.9**	**75.4**
a.1 Income tax	-13.0	8.3	38.4	39.5	56.0	46.3
a.2 VAT	8.3	16.6	34.3	24.9	27.3	21.5
a.3 Import duty	13.4	17.9	6.0	-0.7	2.7	4.0
a.4 Excise tax	-4.7	2.3	1.9	0.6	-0.9	6.4
a.5 Supplementary duty	-2.6	33.8	11.3	0.7	-0.7	-3.4
a.6 Other taxes	4.5	3.4	1.4	1.3	0.5	0.6
b. Non-NBR tax	**6.1**	**4.1**	**2.0**	**1.9**	**0.6**	**2.3**
b.1 Narcotics and liquor	0.1	0.0	0.0	0.0	0.1	0.2
b.2 Vehicles	6.5	2.6	0.7	0.5	-0.9	0.7
b.3 Land	1.7	0.8	-0.2	0.2	0.0	-0.3
b.4 Stamp	-2.1	0.6	1.5	1.3	1.5	1.7
c. Non-tax revenue	**88.0**	**13.7**	**4.7**	**31.8**	**14.5**	**22.4**
c.1 Dividend and profit	-14.9	-14.9	0.8	8.7	5.7	11.2
c.2 Post office and railway	6.3	-0.3	0.8	1.4	0.8	2.0
c.3 Interest/fees/tolls and other receipts	96.5	28.8	3.1	21.7	7.9	9.2
Total (a+b+c)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Authors' calculation from MoF Data.

Note: Negative numbers correspond to surplus in respective category.

2.2 Fiscal measures being discussed for FY2019 budget

Reduction of corporate tax rates ought to consider economy-wide impact

Reduction of corporate tax rates was at the centre of this year's pre-budget discussions on fiscal measures. Existing literature on economic impact of corporate tax rate is rather divided. A number of studies on the nexus between corporate tax and private investment, using both macro and micro level data, found that the reduction of corporate tax rate, in general, fosters private investment (e.g. Federici and Parisi, 2015; Bruhn, 2011; Senzu and Ndebugri, 2018; Babar, Awan and Nadeem, 2017). Higher effective corporate income tax was found to have a more adverse effect on investment in the manufacturing sector than in the services (Djankov *et al*. 2010).

However, reduction in corporate tax rates has its costs. As Clark, Cebreiro, and Böhmer (2007) have found, reduction of corporate tax rate entails negative implications for the economy which include discrimination against other businesses, forgone revenue, reduction of the present net value (PNV) of capital allowances and increase of the after-cost of debt finance. More importantly, reduction of corporate tax is effective in attracting private investment only when the overall investment climate is conducive for business. The report from Committee of Experts on International Cooperation in Tax Matters at the United Nation's survey of the econometric studies suggest that tax incentives that affect investment in general and FDI in particular, do not have nearly as much effect in developing countries as in the developed ones (United Nations, 2010). According to World Economic Forum's successive Global Competitiveness reports, the most important reasons why companies choose to invest in a country are quality of the country's infrastructure, availability of an educated, healthy workforce, and social stability.

Indeed, corporate tax contributions providing resources for public services are vital to ensuring the revenue needed for these investments. The balance of evidence from literature suggests that, for many developing countries, fiscal incentives often do not effectively counterbalance the unattractive investment climate conditions such as poor infrastructure, macroeconomic instability, and weak governance and markets (United Nations, 2010). Deloitte's survey of corporate tax rates (Deloitte, 2018) confirms that many countries around the world apply multiple corporate tax rates across sectors. Higher tax rates are common for mining sector and for sectors where competition is regulated. India also imposes higher corporate tax rate for foreign companies (40 per cent) compared to domestic companies (30 per cent). In addition, a 7 per cent surcharge applies to domestic companies which is 2 per cent for foreign companies if corporate income exceeds INR 10 million, and 12 percent surcharge applies to domestic companies (5 per cent for foreign companies) if income exceeds INR 100 million. Additionally, a 3 per cent cess is payable in all cases. Thus, the effective tax rate is much higher in India although the country's private investment level (along with FDI) was much higher than that of Bangladesh. Recently, India has taken an initiative to reduce corporate tax rate. 25 per cent corporate tax rate (plus surcharge and cess) is applicable for financial year 2017-18 to domestic companies with total turnover or gross receipts of up to INR 500 million in financial year 2015-16.

Corporate tax rate is an important source of revenue for Bangladesh which contributes about two-thirds of income tax collection. The fiscal measure in the area of corporate tax rate to be proposed in the budget for FY2019 should consider the evidence above. It is also to be noted that, in Bangladesh, corporate tax incentives are provided in a number of areas including tax holiday in general, various tax incentives (including reduced or zero tax rate) to the power sector, economic zones and exporters. Indeed, corporate tax rates should not be reduced in a hasty manner and on an ad-hoc basis. This is particularly critical considering that the next budget may not involve many new areas of revenue collection. Any revision of corporate tax rates should be done in a staggered way over the medium term in order to absorb the adverse revenue impact. This will also provide investors predictability as they make investment decisions. Indeed, a rigorous analysis in the Bangladesh context must be done before taking any medium-term decision in this respect. Conducting such ex-ante impact analysis should be an important part of the Medium-Term Revenue Strategy.

Erosion of disposable income justifies raising of tax-free income ceiling

Personal income tax (PIT) exemption threshold, at the general level, was increased to Tk. 2.50 lakhs in the FY2016 budget from the previous ceiling of Tk. 2.20 lakhs in FY2015 – indicating a 13.6 per cent increase. This threshold has been maintained since then. The inflation adjusted value of the PIT exemption threshold becomes Tk. 2.92 lakhs as of April 2018. In fact, general CPI has experienced a 17.0 per cent increase between July 2015 and April 2018. Furthermore, the recent upward trend in inflation was primarily driven by rising food inflation. Also, data from the Labour Force Survey 2016-17 points toward decreasing average monthly real wage of employed individuals since 2013. The aforesaid analysis depicts a picture of falling real disposable income of the individuals, particularly those belonging to the lower-middle and middle-income sections of the society. Given this backdrop, CPD reiterates its earlier recommendations (CPD, 2018a) of raising the tax-free income ceiling to Tk. 3 lakhs, and, reducing the first slab of PIT rate to 7.5 per cent from the prevailing rate of 10.0 per cent.

Effective operationalisation of transfer pricing cell is essential to curtail capital flight

Capital flight has a general tendency to increase during the election years. This situation arises as individuals respond to possible decline in political and macroeconomic stability, and the prospect of adverse future fiscal measures (Kwaramba, Mahonye, & Mandishara, 2016). Chang (2010) illustrated instances of soaring capital flight before a number of Latin American elections – mostly as a reaction to possible post-election change in government policies. Similar phenomena were also observed in the case of Ecuador (Campello, 2013) and Argentina (Gaggero, Gaggero, & Rua, 2015). Analysing data for thirty-six African countries, Frantz (2018) revealed that capital flight is relatively high during election years as opposed to other years. The author further asserted that this problem is particularly relevant for developing countries where the baseline rate of capital flight tends to be high already and channels of informal transfer also tend to be widespread. Given this backdrop, earlier apprehension of CPD (2018b) concerning trade misinvoicing and capital flight remains valid in the context of the upcoming national elections. Concerted and coordinated effort from several policy actors including the Bangladesh Bank and NBR is required to limit the scope and extent of the likely illicit financial flows. Effective functioning of NBR's Transfer Pricing Cell through greater access to real time data, capacity building in forensic investigation, and logistical and policy support is crucial to this end.

A well thought-out list of SDs needs to be crafted

In the budget proposal for FY2018, SD rates at import stage were changed for a total of 1,413 items, with SD rates rising for 1,243 products and declining for 170 products (CPD, 2017a). In deciding on the SDs, this year's budget proposal ought to consider the soaring import payments and deteriorating balance of payment situation, along with the need to provide the domestic industry strategic support. At the margin, this may also help the government compensate for the delayed reforms in revenue mobilisation.

Revenue mobilisation from niche areas should be spotlighted

In view of the recurrent shortfall in revenue mobilisation and inadequate resource generation from traditional means, the government should explore the possibilities of raising revenue from niche areas. Recovery of unpaid VAT accrued to the Large Taxpayers Unit (LTU) of the NBR, particularly those from state-owned enterprises, should be prioritised. To this end, swift realisation of disputed revenue claims through the Alternative Dispute Resolution (ADR) mechanism must be underscored. The bottlenecks in this connection must be removed.

The next budget should not lose sight of the medium-term reforms

While the next budget may not prioritise implementation of the planned reforms, debate and discussion should continue concerning this area in order to arrive at a consensus, hopefully gaining attention during the envisaged electoral debates as well. To this end, it is important to have an implementation plan for VAT and SD Act 2012 in an informed way, taking into cognisance the prevailing concerns. Implementation of online VAT registration and filing system, digitisation of VAT process, and bringing in more businesses under the system need to continue and be pursued energetically. Emphasis should be given to finalisation of the draft Direct Tax Act and the Customs Act on an urgent basis. The next budget may consider assessing the feasibility of introducing taxation of agricultural income, a comprehensive property tax and inheritance tax in line with international practices. CPD (2018a) has earlier come up with proposals in this connection. Attention should also be given to raising efficiency through broader deployment of technology including, for example, introduction of electronic tax deduction at source (e-TDS) with issuance of tax certificates by the NBR against e-TINs linked to all TDS collection.

2.3 Public expenditure

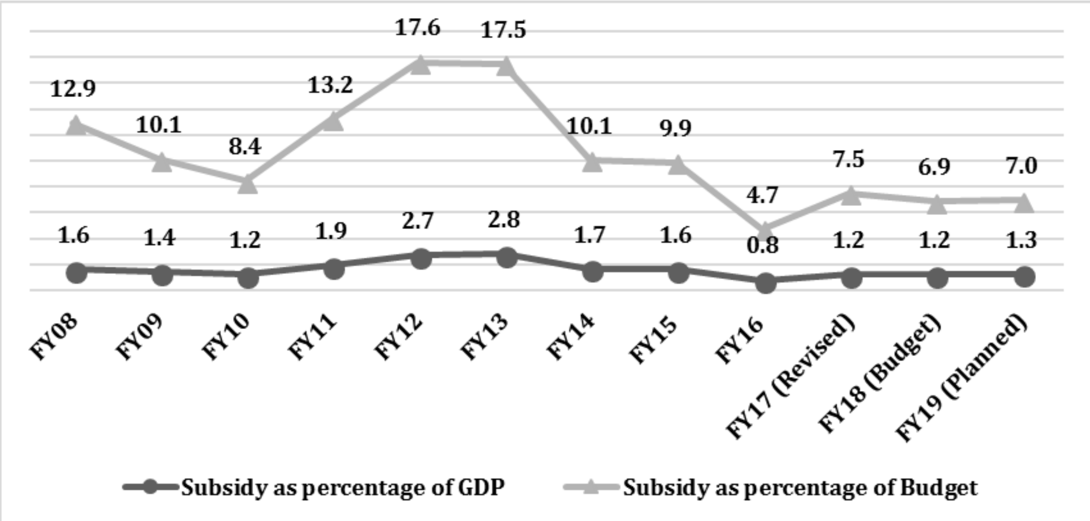
Public expenditure framework needs to be redesigned to make effective use of policy space

It has emerged as an imperative to redesign the public expenditure framework with a view to making effective use of the policy space in FY2019. As may be noted, growth of public expenditure in the first six months of FY2018 was well below the target. Expenditure on two major sources of non-development spending, i.e. 'Subsidies and Current Transfers' [with (-) 34.5 per cent growth] and 'Interest Payments' [with (-) 0.1 per cent growth] was well within the limit during July-December of FY2018. Overall, the non-development expenditure registered no growth against the target growth rate of 34 per cent during July-December of FY2018. Expenditure for Annual Development Programme (ADP) was also lower even when compared to the past trends of low rate of implementation.

Rejuvenated subsidy demand is likely to tighten fiscal space

Subsidies may need to be increased in the budget for FY2019 in view of the higher demand for power and gas leading to rise in power production and import of liquefied natural gas (LNG). Subsidy allocation began to fall since FY2014, both as a percentage of the GDP and that of the budget, and, reached the lowest levels in FY2016 over the last nine years before beginning to rise again from FY2017. BPC had moved on to the profit terrain in FY2015 and continued to earn profit till FY2017. It is highly likely that there will again be no allocation for BPC in the next budget. However, the government may need to keep a close watch over the movement of international petroleum prices. The allocation for subsidy in the planned budget for FY2019 may be increased to Tk. 32,000 crore, which is 1.3 per cent of GDP (1.2 per cent of GDP in the budget for FY2018) and 7.0 per cent of planned budget for FY2019 (6.9 per cent of budget for FY2018) (Figure 2.2). The first consignment of imported LNG has reached Bangladesh on April 2018 and in view of this a separate Tk. 2,500-3,000 crore may be allocated to LNG alone in FY2019 budget. Overall, the subsidy for power (BPDB) and gas (Pertobangla) is set to increase by around 22 per cent to Tk. 9,000-9,500 crore in FY2019. Meanwhile, due to upward trend in international energy and fertiliser prices, agriculture subsidy is likely to increase by 5.6 per cent to Tk. 9,500 crore while subsidy for export sector may register 12.5 per cent increase Tk. 4,500 crore in FY2019 budget.

Figure 2.2: Subsidy as percentage of GDP and budget



Source: Author's compilation from Ministry of Finance and various newspapers.

Any adjustment as regards energy and electricity prices should be calibrated by taking into cognisance prices of all the three related items (fuel, gas and electricity), overall impact of the price-change mix for major stakeholder groups and the burden of the government's subsidy related expenditure. The government has hinted on withdrawing the 15 per cent VAT at import level to keep the LNG prices stable. Currently, there is a gap of about 1,000 million cubic feet (mmcf) of natural gas per day between domestic demand (3,781 mmcfd) and domestic supply (2,746 mmcfd). According to the Petrobangla estimate, it will cost the government about Tk. 6,922 crore (USD 844.2 million) in a year to import 1000 mmcfd equivalent of LNG and its re-gasification. In the backdrop of the anticipated higher cost of importing LNG, the Finance Minister has hinted about increasing the prices of gas and electricity in the upcoming fiscal year. Gas suppliers are seeking a 75 per cent increase in the price of gases used for commercial purposes, from Tk. 7.39 to Tk. 12.95 per cubic metre. It should be noted that Bangladesh Energy Regulatory Commission (BERC) had last raised gas prices by a weighted average of 22.7 percent in 2017. If the subsidy and prices of energy both increase simultaneously, it will put pressure both on the expenditure side and at the consumer level.

ADP expenditure against allocation in FY2018 is the lowest in recent years

Expenditure on account of the ADP is yet to mark a significant breakthrough in FY2018. According to the first ten months' (July-April) data for the current fiscal year, actual spending under the ADP was 50.2 per cent of the originally planned allocation of Tk. 155,931 crore. This was lower compared to the spending (54.7 per cent) of previous fiscal year for the corresponding period. Particularly, taka component (48.7 per cent) of the expenditure was the lowest in recent past (since FY2008). Among the top ten ministries and divisions that accounted for 73.3 per cent of the total ADP allocation, only three divisions and one ministry, viz. Power Division (90.5 per cent), Local Govt. Division (66.4 per cent), Ministry of Science and Technology (55.4 per cent) and Road Transport and Highways Division (52.1 per cent), could utilise more than the overall average allocation during July-April of FY2018.

Due to the slow pace of implementation, when ADP was subsequently revised in March 2018, a number of major government agencies (e.g. Transport; Education and Religious Affairs; Science, Information and Communication Technology; and Oil, Gas and Natural Resources) were subjected to significant cuts in the revised ADP (RADP) for FY2018. ADP for FY2018 was slashed by Tk. 7,550 crore (or 4.8 per cent) to bring its size down to Tk. 148,381 crore.

Pervasive practice of including a large number of new projects and time extension in RADP

The number of unapproved ADP projects that get allocation in the RADP has been on the rise in successive fiscal years. In contrast, the reduction in total allocation has also been increasing in the RADP as compared to the ADP. This is contradictory.

- A total of 311 fresh projects were included in RADP of FY2018 which was the highest in the last 10 fiscal years (See Annex Table 2.1). At the same time, RADP of FY2018 was downsized by Tk. 7,550 crore which was also the highest since FY2009.
- The total allocation for these projects was Tk. 9,678 crore, of which the project aid component was only Tk. 394 crore (4.1 per cent). A few mega projects with high project cost such as Mirsarai 150 MW Duel Fuel Power Plant, Dhaka-Ashulia Elevated Expressway, Extension of Hazrat Shahjalal International Airport etc. were included in the RADP.
- Sectoral breakdown suggests that apart from Oil, Gas and Natural Resources, all 16 out of 17 ADP sectors had experienced inclusion of new projects. Highest number of new projects was included in the Transport sector (67), followed by Physical Planning, Water Supply & Housing (47) and Agriculture (30).
- 26 out of these 311 projects (8.4 per cent) are local government projects with a total allocation of Tk. 443 crore.
- In addition, 65 out of these 311 projects (20.9 per cent) received a symbolic allocation of Tk. 1 crore or less while 15 projects received allocation of only 10 lakhs or less. Majority of these symbolic projects are from Physical Planning, Water Supply & Housing (13) and Transport (11) sectors. These symbolic projects are perhaps included in the RADP due to political considerations; however, they remain unimplemented for reasons of inadequate resource allocation. No doubt, this undermines the overall quality of ADP planning. For example, CPD conducted an exercise and found that five projects under Industry, Power, Transportation, Education & Religious Affairs and Social Welfare, Women Affairs & Youth Development sectors that received less than Tk. 1 crore in the ADP for FY2017 continue to receive allocation less than Tk. 1 crore in the RADP for FY2018.[1] All of these five projects were scheduled to be completed within or before FY2017, but had been carried forward more than once with only symbolic allocation due to insignificant or no cumulative progress.

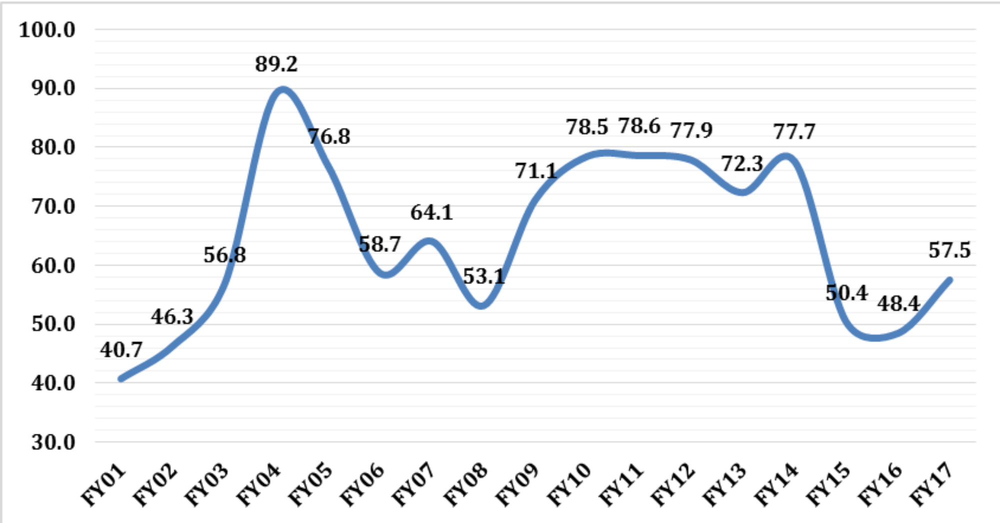
[1] These projects include BISIC Industrial City Kumarkhali, Kustia (1st Revised), Establishment of E-Payment Meter at Dhaka for Electricity under the Rural Electrification Programme (Phase-1), Establishment of Ashuganj Internal Sea Port, Pagoda Based Pre-Primary Education, and Construction of 5 Storied Tribal Welfare Association (Central office and community hall) at Balashpur in Mymensingh.

Meanwhile, a good number of projects in the top five sectors of the ADP in terms of their share in total allocation (65 per cent in FY2018), have seen time extension in RADP for FY2018. These include: Rural Development & Institutions; Power; Transport; Education & Religious Affairs; and Health, Nutrition, Population & Family Welfare. The health sector encountered the highest proportion (34.5 per cent) of extension of their projects followed by Education (31.3 per cent), Power (23.2 per cent), Rural Development (19.2 per cent), and Transport (17 per cent) (See Annex Table 2.2). In addition, five out of the top nine power sector projects, which have the potential to add about 4,000 MW to the national grid, have seen their respective project completion timelines delayed due to the slow pace of implementation.

Low physical progress has undermined quality of overall ADP implementation

It is observed that a major share of completed projects is declared as completed without those being 100 per cent completed physically. Data from IMED during FY2001-FY2017 period suggests that about 65 per cent (on an average) of completed projects were stated as complete while their physical progress was not actually to the extent of 100 per cent. Indeed, completion rate here stood at only 57.5 per cent in FY2017 (Figure 2.3). This raises questions about the quality of project implementation in Bangladesh. Inadequate monitoring of physical progress by implementing agencies and their line ministries (LMs), negligence in submitting project completion reports and lack of initiative to respond to the identified problems by the IMED are some of the factors behind such discrepancies.

Figure 2.3: Percentage of completed projects that are declared as complete without 100 per cent physical progress



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

The 'fast track' projects are not fast enough

The government has prioritised eight mega projects under the 'fast track' initiative. These projects include: Padma Multipurpose Bridge (PMB), Dhaka Mass Rapid Transit Development Project (DMRTDP) known as Metro Rail project, 2x1200 MW Ruppur Nuclear Power Plant (RNPP), Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project (MUSCCFPP), 2x660 MW Moitri Super Thermal Power Project (MSTPP), LNG gas terminal for importing liquid gas project, Deep Seaport at Sonadia in Cox's Bazar and Deep Seaport at Paira, Patuakhali, Padma Bridge Rail Link (PBRL) project and Construction of Single Line Dual Gauge Track from Dohazari-

Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border. Among these, the Sonadia deep sea port project has been shelved for now.

The present analysis seeks to explore the current situation as regards these priority projects based on available data as a follow up of the previous analysis. Eight out of these ten projects had initially received an allocation of Tk. 30,929 crore which is 19.8 per cent of total ADP allocation for FY2018. The majority of these projects are scheduled to be completed after 2020. The present status of these projects is:

a) The PMB project made 53.6 per cent progress in financial terms up to end April 2018. In addition, about 59 per cent of the main bridge construction was reported to be completed. This implies that only 5 per cent progress has been made in financial terms (of the total project plan) during the first ten months of FY2018.

b) DMRTDP project attained a cumulative financial progress of 14.9 per cent up to April 2018; of which only 5.4 per cent progress could be made during the first ten months of FY2018.

c) MUSCCFPP project is still in its early implementation phase and has attained 14 per cent cumulative progress till April 2018 which was only 2.8 per cent till June 2017. This implies that 11.2 per cent financial progress has been made during July-April of FY2018 which is a very positive sign.

d) MSTPP's (Rampal power plant) main plant fencing work has already been completed. The project received a symbolic allocation of Tk. 52 crore in the RADP for FY2018 for land development protection and building boundary wall for 2nd block. Till April 2018, 15.9 per cent of the full project cost could be utilised of which 14.1 per cent financial progress was made in the first ten months of FY2018.

e) The first phase of the RNPP project has achieved 95.8 per cent financial progress till April 2018, while the main project with a cost of Tk. 113,093 crore has attained 8.1 per cent cumulative progress up to April 2018. It should be noted that the main project was included into the ADP of this fiscal year and received one of the highest allocations. However, the rate of utilisation (58.2 per cent) of the allocated fund during the first ten months was only marginally better than the overall ADP implementation (50.2 per cent) during the corresponding period.

f) PBRL project, which had received the second highest allocation among the fast track projects after RNPP, attained 6.3 per cent cumulative progress up to April 2018; of this only 0.4 per cent could be made during the first ten months of FY2018. The project was awaiting to get nod from its key financer, the China Exim Bank, with which an MoU was signed on April 27, 2018. The Executive Committee of the National Economic Council (Ecnec) has recently approved the revised project with additional cost of around 4,000 crore.

g) Based on the project cost, the cumulative progress of Dohazari Ramu Cox's Bazar and Ramu to Gundam Rail Track project (dual gauge) till February 2018 was 16.4 per cent; the earlier version of the project (meter gauge) was already well behind deadline. However, it gained some momentum in this fiscal year.

h) ECNEC initially approved an amount Tk. 1,128 crore to develop primary infrastructure associated and facilities to make Paira port operational. The feasibility study of this project has been submitted. Some limited scale infrastructures such as pontoon, crane and security building have already been developed on a 16-acre piece of land; remaining preliminary infrastructure works were scheduled to be completed by June 2018. However, the project cost shot up by nearly 197 per cent, to Tk. 3,351 crore, from the original estimate of Tk. 1,128 crore. Its timeline has now been extended up to June 2020, according to the revised proposal. Until April 2018, the project made a cumulative progress of 16.4 per cent as per the revised project cost.

i) Construction of the LNG terminal in Moheshkhali is at an early stage. In December 2016, Excelerate Energy announced that it had completed the required geotechnical and geophysical studies for the Maheshkhali LNG terminal, with a target of delivering the first LNG in early 2018. The first consignment of LNG reached Chittagong through the Excelerate Energy's floating storage and re-gasification unit (FSRU) in April 2018. The project is expected to be completed by 2020.

Based on the assessment presented above, one may conclude that the overall progress of the 'fast track' projects has been below the respective targets and not up-to-the-expectation (See Annex Table 2.3). Although five of the nine projects have made visible progress, a number of projects are behind the schedule. As a result, the distinction between 'fast track' projects and other projects remains rather unclear from the perspective of project implementation. It is expected that keeping in mind the upcoming national election, a healthy share of the development budget will be allocated to these projects in the ADP for FY2019 to make their progress visible.

Intensive monitoring of priority projects, which are close to being completed, should remain a priority

In view of the low level of private investment and significant infrastructure deficit, better (in terms of quality) and timely implementation of the ADP, particularly that of growth enhancing infrastructure projects, should remain a policy priority. CPD selected a set of 20 projects under the FY2018 ADP which were expected to attract investment and thus stimulate growth and employment. Share of allocation for these projects in the ADP for FY2018 was 11.7 per cent. 13 of these 20 projects were supposed to be completed in FY2017 (or even earlier). Cost and completion deadlines of a number of these projects were revised; in case of a few, for more than once. All of these 13 projects were carried forward in the ADP for FY2018. Analysis of the progress of these 20 priority projects also suggests that majority of these will not be completed within FY2018 (See Annex Table 2.4).

Actual combined spending for the aforesaid 20 projects was somewhat higher (39.1 per cent during July-February of FY2018) than the average for all ADP projects (37.8 per cent during the same period). However, within this group, performance has tended to vary.[2] Only nine projects had more than 39.1 per cent implementation rate while one project (SASEC Road connecting Project-II: Improvement of Highway Four Lane Road of Elenga-Hatikamrul-Rangpur) had 0.1 per cent implementation during July-February of FY2018. Only three[3] projects are close to being completed while Bheramara Combined Cycle Plant (360 MW) Development project achieved 100 per cent financial progress by November 2018.[4] It is to be noted that, all four (could be completed) projects were already in the 'carryover' list.[5]

[2] The standard deviation of these 21 projects is 31 which suggests large variance in execution rate of these projects.

[3] These are: Dhaka-Chittagong Railway Development Project, Ashuganj 450MW CCPP (North), Shahjalal Fertilizer Project.

[4] Considering the cumulative completion rate being more than 75 per cent.

[5] These projects were scheduled to be completed within FY2015 and FY2017 as per project timelines.

In case of the 10 projects which were supposed to be completed in FY2018 as per the timeline provided in the ADP for FY2018, a total allocation of Tk. 9,548 crore was needed for timely completion. However, only Tk. 3,496 crore was earmarked for these projects in RADP for FY2018. Considering the revised allocation that was made for FY2018, there are at least three projects (Dhaka-Chittagong Railway Development Project, Construction of Ghorashal 365 MW Combined Cycle Power Plant, Shahjalal Fertilizer Project) which could perhaps be completed if a 'final big push' could be given for their completion. However, it appears that the majority, if not all, of these projects will not be completed according to their timelines and will be carried forward to the ADP for FY2019.

Meanwhile, with regard to setting up of a number of 'model' SEZs on a priority basis, progress of work till now leaves much to be desired. Only two SEZ projects (Jamalpur Economic Zone and Land Acquisition for Araihazari, Narayanganj, Mirsarai and Chattogram Economic Zones) are currently under the purview of the ADP. However, allocation made for these two projects are not adequate for their on-time completion. Even with full utilisation of the budget allocated in the RADP for FY2018 (Tk. 560 crore), only about 51.0 per cent of the total work may be completed by the end of the fiscal year.

Strengthen IMED with follow-up mechanisms to realise recent initiatives/policy decisions

One may recall that a number of proposals relating to expediting ADP implementation were announced last few years by the Planning Minister. These included: (i) assigning a dedicated official to each government agency for monitoring and evaluating respective projects and (ii) delisting the longstanding 'non-operational' projects from the ADP[6]. Furthermore, with a view to discouraging the misuse of scarce public resources, ensuring transparency and accountability in development project execution, IMED has recently proposed inclusion of a number of provisions in the current DPP format. These include incorporation of the project design life, a compulsory feasibility study report, annual maintenance chart, analysis of stakeholders, responsibilities of project directors and executing agencies, and indicators to measure the project impact in terms of achieving the SDGs. However, ensuring adequate follow up of these good initiatives remains a recurring concern. It is suggested that the upcoming budget should report on the progress made as regards the proposed actions.

As is known, the IMED provides, on a regular basis, a number of recommendations in the annual progress reports prepared on the challenges faced during the project cycle. But, these are often not adequately followed up with concrete measures. Regrettably, majority of these recommendations tend to be ignored by ministries and divisions since the IMED lacks legal authority to command compliance. For example, a total of 52 projects which were scheduled to be completed by June 2018, have requested for allocation once again in FY2019. Despite ensuring adequate allocation, and notification and guidance to the relevant ministries and divisions by the planning commission for timely completion, the concerned projects have been carried over and included again with symbolic allocation in the ADP of FY2019. These recommendations should be discussed and followed up in the quarterly progress meetings to monitor the progress. Energetic steps ought to be taken towards timely implementation of these proposals by the LMs and relevant entities.

[6] In this connection, it was planned that the concerned ministries and divisions would be served letters on 1 October every year to send the list of non-performing projects to the Planning Commission.

Put emphasis on higher allocation for social sectors and implement National Social Security Strategy (NSSS) targets in FY2019

With limited resources and higher investment demand for infrastructure development, the government faces formidable challenge in allocating adequate resource for the competing sectors. However, despite strong economic growth and the resultant higher allocative capacity of the government, the share of government exchequer in social sectors, particularly in health and education sectors, has not experienced any major improvement. Consequently, Bangladesh is lagging behind both in terms of quality of education and health, and their outcomes despite the quantitative rise in allocation for the aforesaid sectors. The government of Bangladesh (GoB) is confronted with the dual challenge of increasing public spending on health and education, and at the same time improving the standard of service and performance of these sectors. In view of government's commitment to attain the SDGs, particularly in areas such as education (SDG 4: Education for all by 2030) and health (SDG 3: Ensuring healthy lives and promote wellbeing for all by 2030), the urgency to address the attendant deficits has risen manifold in the current context. Ensuring adequate allocations for these two SDGs are also important since they have synergetic effect on other SDGs, such as SDG 1 on eradication of poverty, SDG 2 on attaining zero hunger and SDG 10 on reducing inequality.

Notwithstanding the marginal rise in budgetary allocations for the social sectors over the past years, Bangladesh is still one of the lowest ranked countries in the world in terms of its public expenditure for social sectors. This is not only lower compared to the globally recommended targets but also significantly low compared to the needs of the population. According to World Bank and IMF data, Bangladesh was ranked among the bottom group of countries with regard to education (85th out of 90 countries), health (197th out of 197 countries) and social protection expenditure (36th out of 47 countries) as percentage of GDP.

CPD (2018a) in its budget proposal noted that in view of the budgetary targets for social sectors set in the 7FYP, resource allocations for education, health and social security need to be enhanced to 2.84 per cent, 1.12 per cent and 1.60 per cent of GDP respectively in FY2019. The government also needs to take concrete steps to fully implement the NSSS. Further, the proposed universal pension scheme should receive adequate fund.

As may be observed from earlier trends, budgetary targets did not consider the proposals set out in the NSSS. For example, allowance for Old Age Scheme was Tk. 1,440 crore in FY2016 while the NSSS targets are Tk. 2,010 crore (See Annex Table 2.5). Recently, after a meeting with the Finance Minister, it was decided to raise the allocation and coverage of several programmes under social safety net schemes by about Tk. 11,000 crore, from the existing Tk. 54,206 crore, in the upcoming FY2019 budget. This proposal is likely to raise the monthly allocation of several major safety net programmes, but will still fall short of the NSSS targets.[7]

Comparing the NSSS target allocation to the budget allocation of FY2018, it is seen that there was a significant gap of at least Tk. 1,640 crore for the old age allowance, Tk. 6,776 crore for child school stipends, Tk. 1,401 crore for the allowance dedicated to widowed women and Tk. 1,327 crore for disabilities schemes. Even though GoB has planned to increase the monthly allocations for the schemes, the total allocation will still be lower than the target level as stated in the NSSS

[7] Old Age Scheme is proposed to be the same, monthly payment of Tk. 500, in FY2019. In comparison, the NSSS target is about Tk. 600 for the corresponding fiscal year. Other than this, monthly allowance for widows will also remain unchanged at Tk. 500, while their coverage will increase by 35,000 persons.

document. Similarly, comparing the NSSS financing target with the proposed budget allocation for FY2019, it appears that there will be a financing gap.[8] Indeed, financial gap exists also for the aforesaid four schemes, between medium term budgetary framework (MTBF) projection and NSSS target for FY2019.

Government efforts for social safety net programmes are not only inadequate in monetary terms but also from the perspective of coverage. For example, although the NSSS has proposed to raise the coverage of the beneficiaries under the Old Age Scheme to 55 lakhs by FY2018, according to MTBF for FY2018, it was expected to remain at 35 lakhs in FY2018 and 38.5 lakh in FY2019; number of beneficiaries for the Old Age Scheme is proposed to be 40 lakhs in the upcoming fiscal year (See Annex Table 2.6). The coverage for widow's allowances is proposed to rise to 14 lakhs, though still lower than the NSSS target (32 lakhs) for FY2018. The increases in both these cases are not significant, though the proposed rise exceeds the MTBF projections. Similarly, the eligible beneficiaries of the disability scheme is proposed to stand at 9.3 lakhs in FY2019 as against the target of 10 lakhs set out in the NSSS by FY2018.

One of the major reasons cited for GoB's inability to earmark adequate allocations for social safety net programmes, aimed at the relatively more vulnerable and marginalised groups of the population, is resource constraint. Curiously, over the last seven years, between FY2011 and FY2017, the budget has never reached the target level. For example, in FY2017, the budget deficit was Tk. 37,102 crore. This is also the same for FY2018. While the targets set forth in the NSSS may appear to be rather ambitious, the reality is that government spending and implementation are lagging far behind the required levels.

2.4 Budget deficit

Budget deficit financing needs an optimum mix

As has been the case for the last six years, budget deficit was well within the planned limit, when the first six months of FY2018 is considered. Although a significant revenue shortfall is envisaged, this will be offset by the lower public expenditure. The structure of financing was characterised by low net intake from foreign financing sources as against a heavy reliance on domestic financing sources. Within domestic financing structure, buoyant sale of high yielding national savings certificates (NSD) was once again the key contributor in FY2018. One of the major challenges for budget FY2019 will be to bring back an optimum mix in the financing of the budget deficit. Since a large share of the financing has already been secured from the sale of NSD certificates, the need for bank borrowing may rather be limited. Net sales of NSD certificates stood at Tk. 33,120 crore during July-February of FY2018 which is already 9.9 per cent higher than the annual target set for FY2018. However, improvement in the utilisation of foreign resources was a positive sign and needs to be consolidated further.

Composition of outstanding public debt of Bangladesh

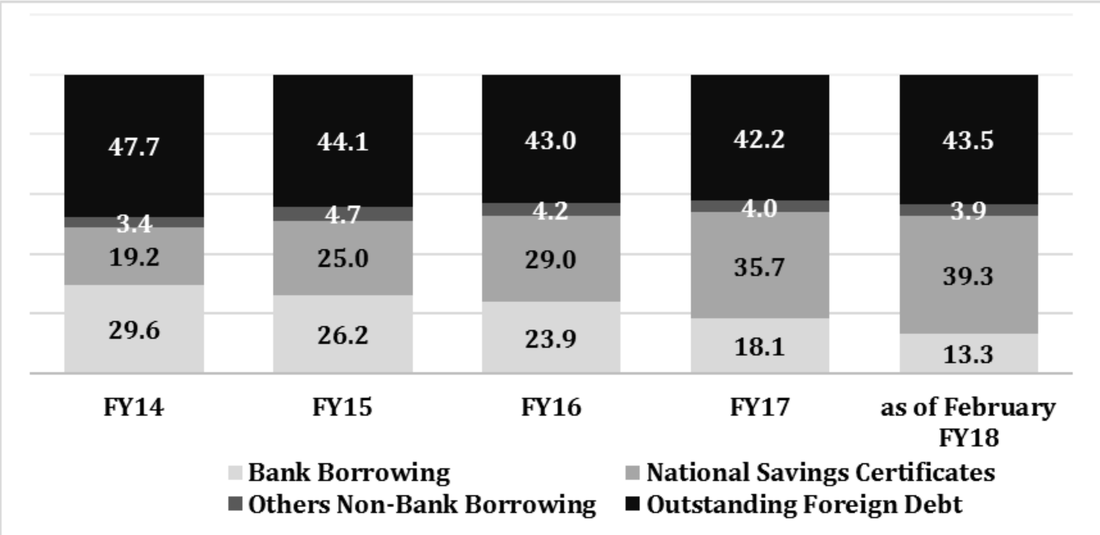
As regards public debt, Bangladesh's position has been, in general, comfortable. Total public debt as share of GDP is expected to increase from 31.5 per cent in FY2016 to 35.7 per cent in FY2020 (MoF, 2017). Currently, about 57 per cent of the public debt is attributable to domestic source and 43 per cent to foreign finance (Figure 2.4). Structure of debt and debt servicing will hinge on

[8] The expected gap in FY2019 is approximately Tk. 1,560 crore for old age allowance and Tk. 1,580 crore for allowances for widowed women and Tk. 1,489 crore for disabilities schemes.

the government's ability to use more of the low-cost foreign borrowings as against high cost domestic borrowing. This, however, is not observed in recent years.

Within the domestic sources, debt from non-bank sources is increasing, spearheaded by the net sales of NSD; in contrast, debt from bank sources is decreasing. This has led to a gradual shift in the overall composition of the public debt. Indeed, as of February 2018, debt against sale of NSD certificate accounted for 69.5 per cent of the total outstanding domestic debt liability of the government (Tk. 224,356 crore). The corresponding figure was about 36.8 per cent (Tk. 76,398 crore) in FY2014. In comparison, the proportion of outstanding foreign debt in the overall debt portfolio has been rather steady.

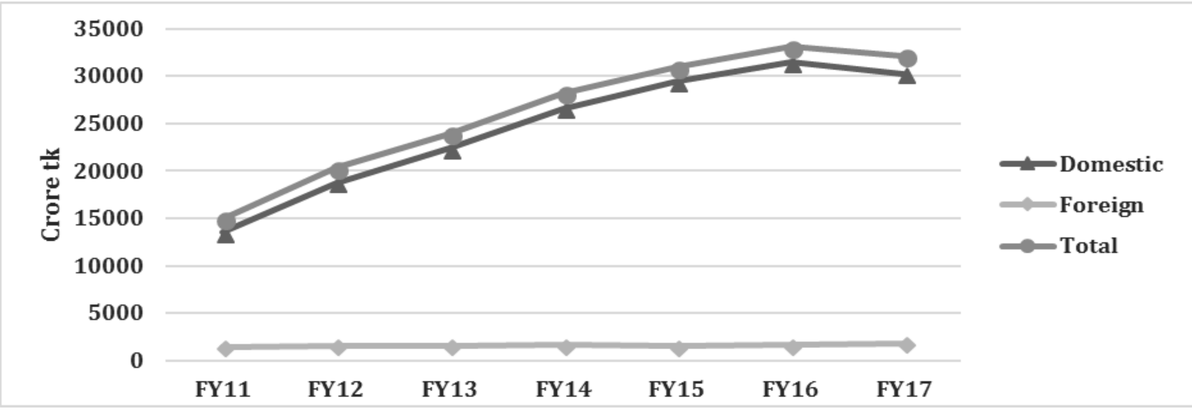
Figure 2.4: Composition of outstanding public debt



Source: Estimated from the Economic Relations Division (ERD) and Bangladesh Bank (BB) data.

As is known, the debt incurred from domestic sources comes with a relatively high interest rate. Interest rate on bank borrowings was 9.6 per cent while 11.7 per cent for non-bank financial institutions (NBFIs) as of end June 2017. Although, both these interest rates have reduced in recent times, still these remained higher than those on borrowings from the foreign sources. Due to high cost borrowing from the domestic sources, the overall interest payment burden of the government has been on the rise over the past years. Total interest payment increased by a staggering 114.9 per cent from Tk. 14,943 crore in FY2011 to Tk. 32,114 crore in FY2017 (Figure 2.5). This constituted 20.9 per cent of all non-development expenditure as of December 2017.

Figure 2.5: Interest payment expenditure



Source: Author's calculation based on Ministry of Finance (MoF) data.

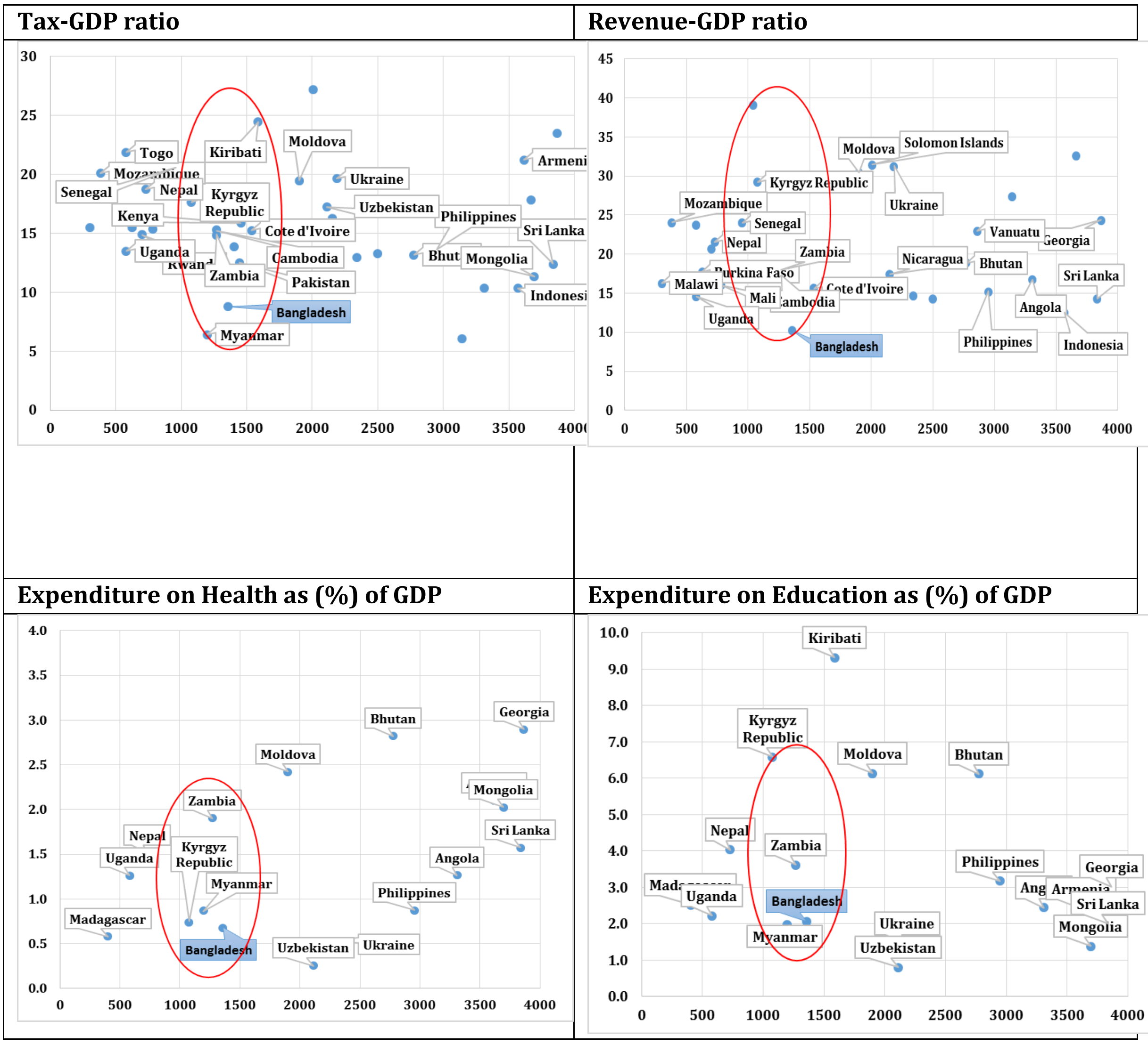
As NSD instruments entail payment of higher interest rates and, hence, higher debt servicing liability, CPD (2017b) recommended a downward revision of the NSD rates. Similar proposition was also made with respect to the maximum ceiling on purchase, particularly in view of the fall in the deposit interest rates of the commercial banks and also the medium to long term implications of accumulating debt servicing liabilities of the government. It is encouraging to find that the government has also acknowledged the need and hinted on revising the rate downward immediately after FY2019 budget. Another necessary step that the government should implement relates to creating an integrated electronic database for the NSD certificate purchase so that the purchase limit clause can be enforced without harassing the small investors.

2.5 Fiscal framework for FY2019

As stated earlier, Bangladesh has one of the lowest resource mobilisation and expenditure ratio in the world with regard to its economic size. An exercise was conducted by using the World Bank and the IMF data to scatter-plot middle income countries (MICs) with per capita GDP up to USD 4,095 and compare Bangladesh's position with low-middle income countries (LMICs) having similar per capita GDP according to different fiscal parameters (Figure 2.6). One observes the following:

- Tax-GDP ratio ranges from 6.5 per cent to 34.2 per cent (Median: 14.9 per cent) for countries with per capita GDP between USD 1,000 to 1,500 whereas the corresponding ratio is only 8.5 per cent for Bangladesh.
- When it comes to revenue-GDP ratio, the ratio varies from 10.3 per cent to 39.1 per cent (Median: 18.1 per cent) in contrast with Bangladesh's revenue-GDP ratio of 10.3 per cent, the lowest in the cohort.
- On the contrary, countries with the aforesaid per capita GDP, on an average, spends 0.9 per cent and 3.8 per cent of the GDP respectively on health, and education. Bangladesh spends only 0.7 per cent, and 2.1 per cent of GDP respectively on the corresponding fiscal parameters.

Figure 2.6: Fiscal parameters as (%) of GDP: Bangladesh among the MICs



Source: Authors' calculation from World Development Indicators (WDI), World Bank and International Monetary Fund (IMF) databases.

Planned size of the budget (Tk. 460,000 crore) is envisaged to grow by about 24 per cent compared to the revised budget for FY2018 (RBFY2018) (Table 2.4). Revenue earnings will need to rise faster than public expenditure. However, budget targets take revised budget figures for FY2018 as the reference point. In view of this, according to CPD projections, all major parameters of fiscal framework will need to register higher growth rates to attain the targets compared to those planned in the budget FY2019. CPD projected that the total expenditure will need to grow by 51.8 per cent from FY2018 while revenue earnings will need a growth of 43.0 per cent in FY2019 compared to FY2018.[9] However, in the backdrop of the actual outcome of expenditure and income in FY2018, once again the fiscal framework may find the targets to be vulnerable in the face of reality, undermining the fiscal framework.

The proposed budget also envisages that the development expenditure will grow slower (16.6 per cent) than the non-ADP expenditure (29.0 per cent). The proposed budget for Annual Development Programme (ADP) of Tk. 173,000 crore for FY2019 is 37.6 per cent of the total

[9] CPD (2018) projected a revenue shortfall of about Tk. 50,000 crore in FY2018.

public expenditure, which stood at 40 per cent in the RBFY2018. Overall, the budget deficit has been projected to be about 5.0 per cent of GDP in FY2019. In the budget for FY2019, it is expected that balance in financing the budget deficit will be restored through low foreign financing and increased non-bank borrowing. The proposed net foreign financing (including foreign grants) for FY2019 (Tk. 38,000 crore) is about (-) 17 per cent lower than the RBFY2018.[10] Government has also planned to further increase its financing from non-bank sources by about 43 per cent compared to that targeted for RBFY2018.

Table 2.4: Growth rates, budget vs. reality (%)

Component	Budget FY19 over Budget FY18	Budget FY19 over RBFY18	Budget FY19 over FY18 CPD Projection	FY17 over FY16 Actual
Revenue	**16.1**	**29.1**	**43.0**	**16.1**
Tax Revenue	17.4	29.6	45.3	17.1
Non-Tax	5.8	22.7	30.6	9.0
Total Expenditure	**15.0**	**24.0**	**51.9**	**9.3**
Annual Development Programme	12.8	16.6	91.1	-3.5
Non-ADP Expenditure	16.3	29.0	35.0	15.7
Overall Deficit (Excluding Grants)	**12.0**	**12.3**	**77.7**	**8.4**
Net Foreign Borrowing and Grant	-26.8	-17.0	333.4	-49.1
National Saving Schemes and others	105.3	42.9	-17.5	52.6

Source: Source: Calculated from MoF data

The aforementioned amount of Tk. 173,000 crore has been allocated for 1,452 projects in the ADP for FY2019. The amount is 16.6 per cent higher than the RADP for FY2018 and 10.9 per cent higher than the original ADP for FY2018. Of the amount, Tk. 32,555 crore (18.8 per cent of total) has been set aside for the nine mega projects, which is almost identical to the current fiscal year. This is somewhat contrary to the prevailing rhetoric of allocating more resources for these projects in view of the upcoming elections. Of these projects two including the Dhaka-Ashulia Elevated Expressway and a separate railway bridge along the Bangabandhu Bridge on the Jamuna River were introduced anew in the ADP of FY2018. Further, keeping in mind the national elections, all the 300 members of the parliaments (MPs) would receive allocations to the tune of Tk. 7,595 crore in total for the construction of five-storey buildings for six madrasas in each electoral area.

An assessment of the gap between sectoral ADP expenditure and 7FYP public investment targets suggests that, allocations and expenditures of 16 ADP sectors were aligned with 10 sectors of the 7FYP for which allocation targets were provided. It was also found that:

- Between FY2016 and FY2018, 6[11] out of 10 sectors received lower amount (ranging from 1.4 per cent FY2018 ADP allocation for Power and Energy to 59.6 per cent FY2017 ADP allocation for Local Government and Rural Development) than their respective targets set out in the 7FYP. They also spent lower amount than was allocated in the respective ADP and RADP (Table 2.5).

[10] Regrettably, end of FY2017 data reveals that the government materialised little more than one-fourth (Tk. 7,900 crore of targeted Tk. 28,771 crore) of its net foreign borrowing targets set for RBFY2017.

[11] These sectors include Agriculture, Local Government and Rural Development, Industrial and Economic Services, Power and Energy, Recreation, Culture and Religion, General Public Services.

- On a positive note, priority sectors such as infrastructure (Transport and Communication) and social sectors (Education, Health) received more allocation than the 7FYP targets.
- However, due to inability of the concerned entities to utilise the allocated funds, the gaps between 7FYP targets and respective RADP and actual expenditure figures have increased in every fiscal year for the aforementioned three sectors.

In FY2019, following the previous trend, infrastructure and social sectors once again received higher allocations compared to the 7FYP targets. However, according to above stated findings, these allocations are not being fully utilised, and consequently, the expected results are also not being realised.

Table 2.5: ADP expenditure gap as percentage of 7FYP targets (%)

Sl. No	Sector	FY16			FY17			FY18		FY19
		ADP	RADP	Actual	ADP	RADP	Actual	ADP	RADP	ADP
1	Agriculture	15.4	25.3	17.5	36.8	28.0	31.1	36.7	44.3	36.4
2	Local Government and Rural Development	52.3	50.2	50.9	59.6	52.2	52.6	51.0	37.7	46.9
3	Industrial and Economic Services	7.5	-1.6	25.9	17.5	55.1	65.2	34.0	51.4	48.4
4	Power and Energy	0.0	10.5	10.3	-105.3	28.5	13.7	1.4	-11.4	0.7
5	Transport and Communication	-0.9	11.9	22.4	-2.5	0.7	22.8	-22.9	-10.6	-18.6
6	Housing and Community Amenities	-490.9	-486.9	-456.3	-660.9	-717.7	-690.2	-615.3	-624.7	-630.2
7	Education and Technology	-5.3	1.7	1.7	3.0	0.5	9.9	-34.3	-15.6	-13.2
8	Recreation, Culture and Religion	47.4	54.3	55.1	48.8	54.2	58.0	23.3	56.6	26.3
9	Health	-14.1	-4.2	16.7	-2.8	16.7	35.5	-80.4	-69.9	-23.6
10	General Public Services	31.4	44.3	72.1	7.1	28.5	42.7	30.1	45.7	26.6
	TOTAL	**0.0**	**6.2**	**14.0**	**8.5**	**8.5**	**16.7**	**-8.2**	**-2.9**	**-2.4**

Source: Authors' calculation using Implementation Monitoring and Evaluation Division and Bangladesh Planning Commission (2015) data.

Based on the ADP analysis of the current fiscal year, five major conclusions can be drawn in view of the ADP for the next fiscal year.

- The quality of ADP implementation has not made any major breakthrough.
- The success of ADP implementation in FY2019 will largely hinge on the implementation of mega projects. Particularly, new projects or projects which are in the early stage of implementation will be required to kick-off well.

- Better utilisation of project aid in the current and upcoming fiscal years will, to a large extent, determine the overall pace of implementation. This is also important in view of lowering debt-servicing liability.
- The government could not avoid taking populist projects (e.g. allocation for MPs, symbolic projects for the local government); neither could it limit the number of projects. According to policy statement the number of new projects should be limited to ensure allocation of adequate funds, for completing projects on time and to increase their development impact.
- The current implementation pace of Fast Track projects may not be adequate for their timely implementation; as a result, the expected benefits will be delayed.

More transparency in fiscal and budgetary processes should be one of the key areas of economic reforms in Bangladesh. Similar to a number of other developing countries, Bangladesh practices a budgetary process which is both complex and complicated, and at times also lacks consistency. In this connection, more focus is needed on implementing 'second generation' reforms to ensure higher levels of transparency and independence of regulatory bodies in order to raise efficiency, enhance competitiveness and guarantee distributive justice. In successive IRBD reports, CPD has strongly suggested in favour of undertaking a number of needed reform measures with a view to improve macroeconomic and sectoral performance. It is worth repeating this here:

(i) Establish a Public Expenditure Review Commission (PERC)

(ii) Formulate appropriate follow up mechanism for monitoring government tax incentives

(iii) Disclose financial accounts of state-owned enterprises including BPC

SECTION III. MONETARY POLICY AND BANKING SECTOR

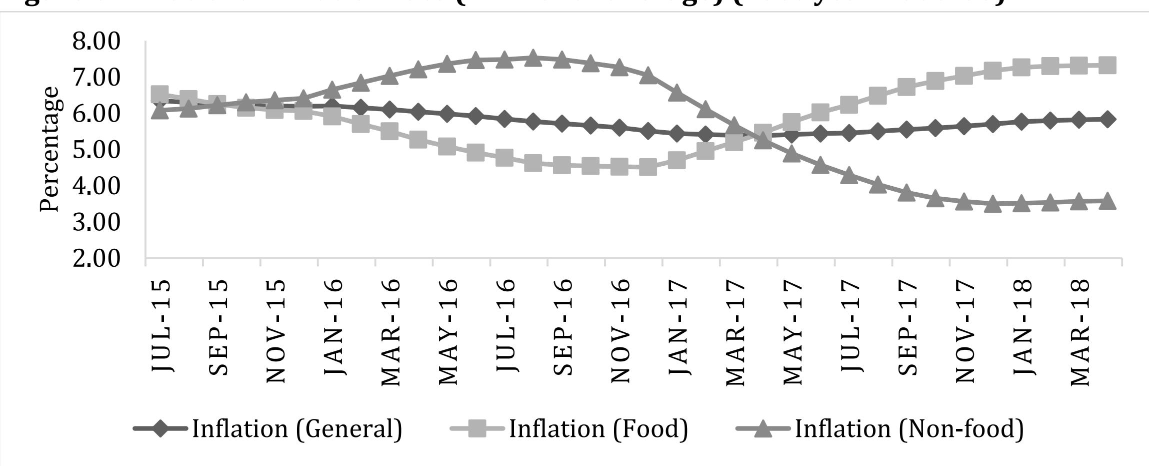
Following the downward trend in average inflation rate, since August 2013, the inflation trajectory has started to move upward beginning from May 2017. On the other hand, the banking sector has been facing liquidity shortage in recent period. In this backdrop, key objectives of the monetary policy ought to be to ensure appropriate and timely measures to arrest growth of inflation and ensure adequate liquidity in the banking sector. As may be recalled, Bangladesh Bank (BB) in its Monetary Policy Statement (MPS) for the second half (H2) of FY 2017-18 aimed for maintaining price and macro-financial stability. It also referred to inclusivity and environmental sustainability in pursuit of employment – focused inclusive growth. A lot will depend on whether the BB will be able to attain these objectives by pursuing an independent monetary policy.

In this section, a brief overview of some major variables of the monetary sector during FY2017-18 is presented. The section also deals with a number of challenges facing the banking sector which needs to be addressed on an urgent basis.

3.1 Inflation trends

Inflationary pace gained some strength in FY2017-18. Consecutive floods in Bangladesh during June-September 2017 left their footprints in terms of higher food prices. Indeed, food inflation started to rise from March 2017 onward and surpassed both general and non-food inflation from thereon. Food inflation overtook non-food inflation in April 2017; thereafter the divergence between the two has been on a steady rise (Figure 3.1). Thus, food inflation rose to 7.3 per cent in April 2018 from 5.5 per cent in April 2017 while non-food inflation declined to 3.6 per cent in April 2018, as opposed to 5.3 per cent in April 2017. As a result, general inflation increased to 5.8 per cent in April 2018, compared to 5.4 per cent in April 2017. Though lower than the target set out in the Monetary Policy Statement of Bangladesh Bank (BB) for the January-June 2018 period (6 per cent), there is a need for the BB to remain alert to the possibility of inflationary trend gaining momentum while crafting the monetary policy for the July-December, 2018 period. As it is, annual average inflation target of 6 per cent is too high. For example, in 2018 Bangladesh had the 14th highest inflation target among 67 countries of the world (Annex Table 3.1).

Figure 3.1: National inflation rate (12-month average) (Base year 2005-06)



Source: Bangladesh Bureau Statistics (BBS).

Flash floods in 2017 led to production disruption and crop losses, and consequently resulted in lower production of rice in 2016-17 (Table 3.1). Compared to 2015-16, the production of Aus rice fell by 6.8 per cent, whilst that of Boro rice fell by 4.5 per cent in 2016-17.

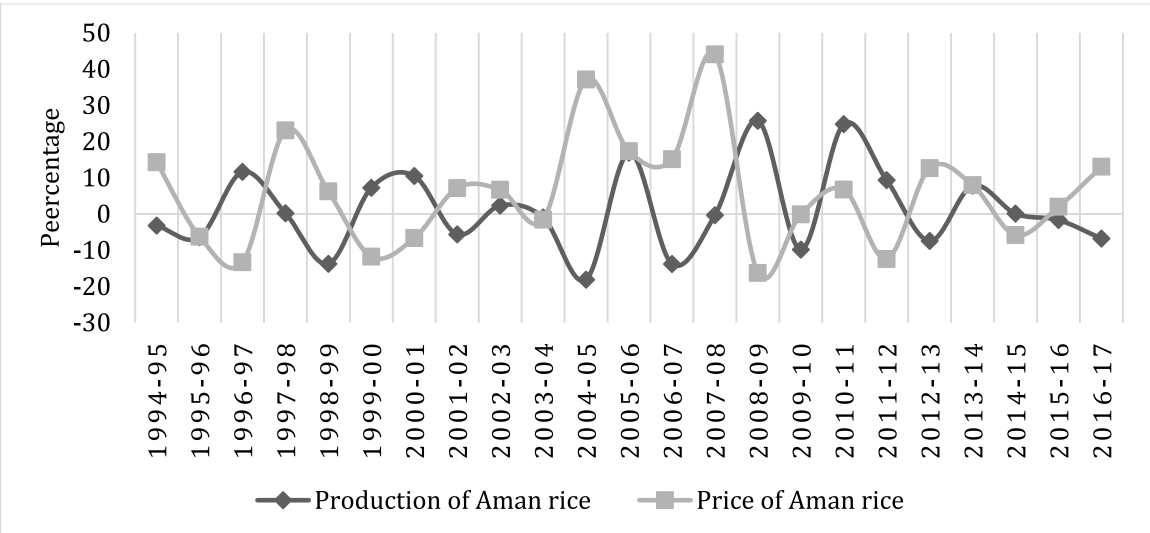
At the same time, the production of wheat also continued to decline in 2016-17 (Annex Figure 3.1). The cumulative impact drove food inflation high. The inverse relationship between food price and food production is quite evident in the Bangladesh case. For example, analysis of historical data reveals that the change in the price of Aman rice is inversely related to the change in the level of its production (Figure 3.2). No doubt, the key to controlling food inflation lies in stabilizing food supply.

Table 3.1: Total rice production (in thousand tonnes)

Fiscal Year	Aus Rice	Aman Rice	Boro Rice
2000-01	1916	11249	11921
2001-02	1808	10726	11766
2002-03	1850	11115	12222
2003-04	1832	11521	12837
2004-05	1500	9820	13837
2005-06	1754	10810	13975
2006-07	1512	10841	14965
2007-08	1507	9662	17762
2008-09	1895	11613	17809
2009-10	1709	12207	18059
2010-11	2133	12792	18617
2011-12	2332	12798	18759
2012-13	2158	12897	18778
2013-14	2326	13023	19007
2014-15	2328	13190	19192
2015-16	2289	13483	18938
2016-17	2134	13656	18014

Source: Bangladesh Bureau Statistics (BBS).

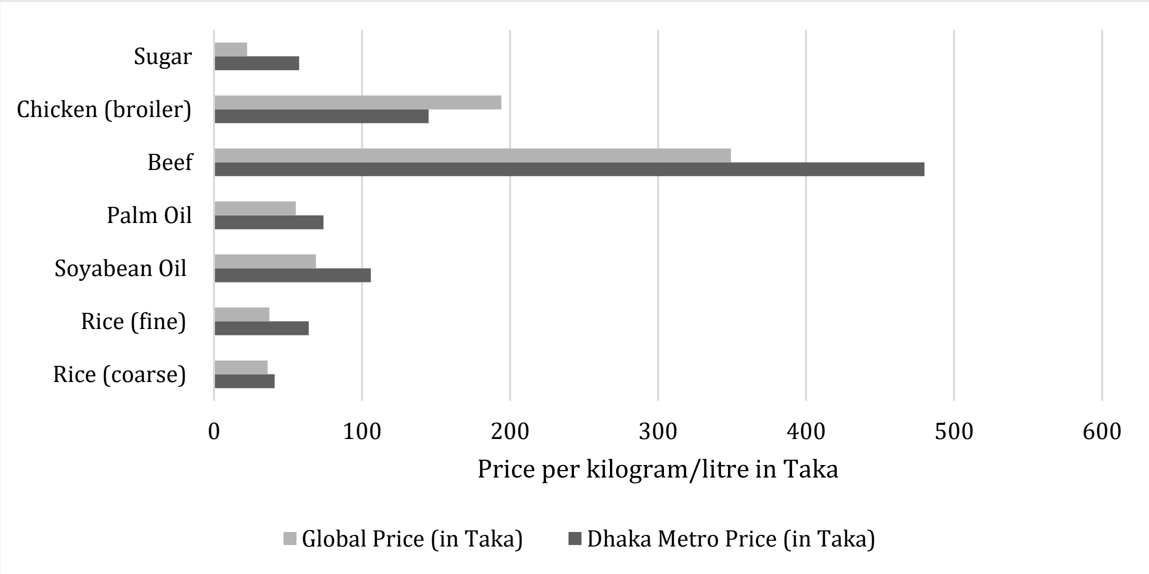
Figure 3.2: Aman rice production and price (percentage change)



Source: Bangladesh Bureau Statistics (BBS).

A comparison of Bangladesh's price levels with that of global markets indicates that the average prices of essentials in April 2018 was higher compared to international prices. For example, sugar was about 2.6 times more expensive in Dhaka metro markets in April 2018, compared to the world market. On the other hand, the price of soya bean oil was 54 per cent higher and the price of palm oil was 34 per cent higher in Dhaka in April 2018, in comparison to the world price (Figure 3.3). As is known, petrol and diesel are sold at administered prices on BB. As of 28 May 2018, Bangladesh had the 65th cheapest petrol and the 39th cheapest diesel among 168 countries of the world (Global Petrol Prices, 2018).

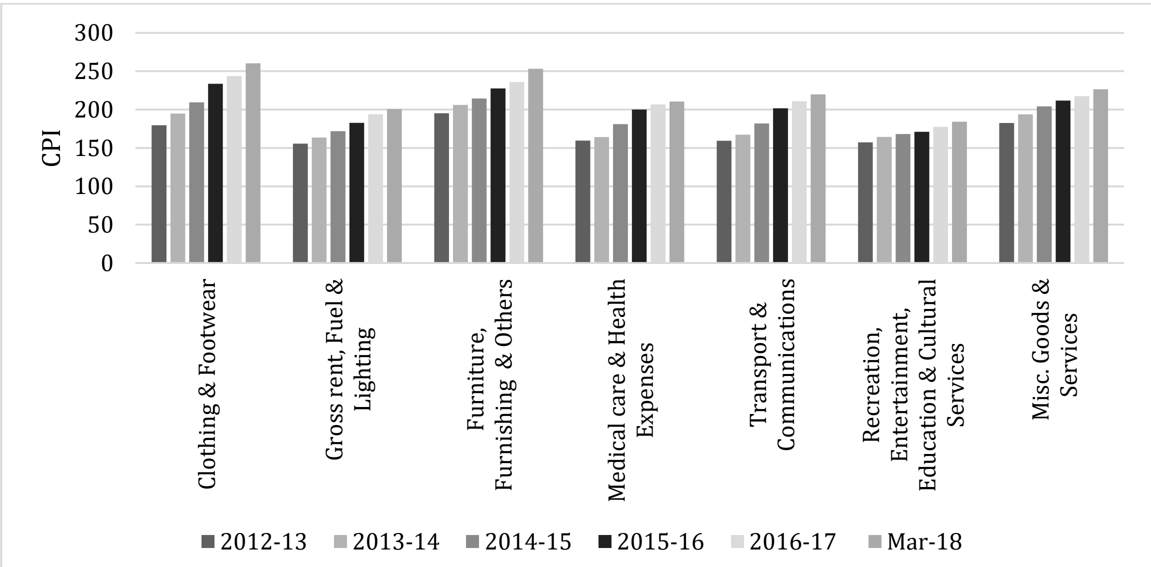
Figure 3.3: Average prices of essentials in April 2018



Source: Trading Corporation of Bangladesh & World Bank

The consumer price index (CPI) for all major non-food items, such as clothing, footwear, house rent, furniture, medical care, transport, and education increased in March 2018 compared to 2016-17 (Figure 3.4). This is particularly disquieting since it indicates an overall increase in the cost of living, a trend that has been going on for the past several years.

Figure 3.4: CPI of major non-food items: 2012-2018 (Base year 2005-06)



Source: Bangladesh Bureau Statistics (BBS); Note: CPI is calculated with 2005-06 as base year.

3.2 Conduct and misconduct of monetary policy

Monetary targets for the second half of FY 2017-18 were set to achieve a GDP growth of 7.4 per cent while maintaining the annual average inflation rate within 6 per cent (Bangladesh Bank, 2018). Overall growth of broad money supply (M2) up to April 2018 was 9.1 per cent compared to the MPS target of 13.3 per cent. This implies that further expansion of the money supply is expected in the coming months. The growth of the broad money, in recent years, has been influenced by net foreign assets and public-sector credit (CPD, 2018). The central bank has to be cautious as regards the growth of M2 since it has the potential to raise inflation.

Monetary policy is arguably the only remaining realm of the central bank's autonomy in Bangladesh. Yet in recent months, monetary policy has also succumbed to regulatory capture. There are growing concerns regarding the lack of transparency in the conduct of monetary policy. Whilst uncertainty about the conduct of monetary policy can make it easier for the central bank to deliver 'monetary surprises' and stimulate economic activity, such surprises can also lead to inflation (Cukierman & Meltzer, 1986). When key components of the money supply, such as reserve requirements, are altered, they tend to have significant effects on the general price level. Using annual data from the period 1973 to 2008, it has been shown that there exists a causal relationship between money supply growth and inflation in Bangladesh (Hossain, 2010). CPD's own analysis of annual data for the period 1996-2017 also reveal that there is a unidirectional causal relationship running from the supply of broad money to the price level (Table 3.2).

Consequently, the central bank should exercise greater caution in the conduct of monetary policy, lest high inflationary pressure undermine the stability of the economy. In this regard, the central bank should be allowed the freedom to function properly without surrendering to the demands of lobbyists or being overshadowed by the Ministry of Finance (MoF).

Table 3.2: Results of Granger causality test

Null hypothesis	F statistic (p value)	chi square statistic (p value)	Interpretation
M2 growth does not Granger-cause CPI growth	4.06 (0.0599)	4.78 (0.0288)	*Unidirectional causality running from M2 growth to CPI growth*
CPI growth does not Granger-cause M2 growth	0.47 (0.5006)	0.56 (0.4554)	
Log of M2 does not Granger-cause log of CPI	8.83 (0.0082)	10.30 (0.0013)	*Unidirectional causality running from log of M2 to log of CPI*
Log of CPI does not Granger-cause log of M2	2.71 (0.1171)	3.16 (0.0754)	

Notes: (i) One period lag chosen; (ii) M2 growth is defined as percentage change in supply of broad money; (iii) CPI growth is defined as percentage change in consumer price index, base year 2005-06; (iv) M2 data from Bangladesh Bank and CPI data from Bangladesh Bureau of Statistics; (v) Granger causality implies predictive causality and not true causality.

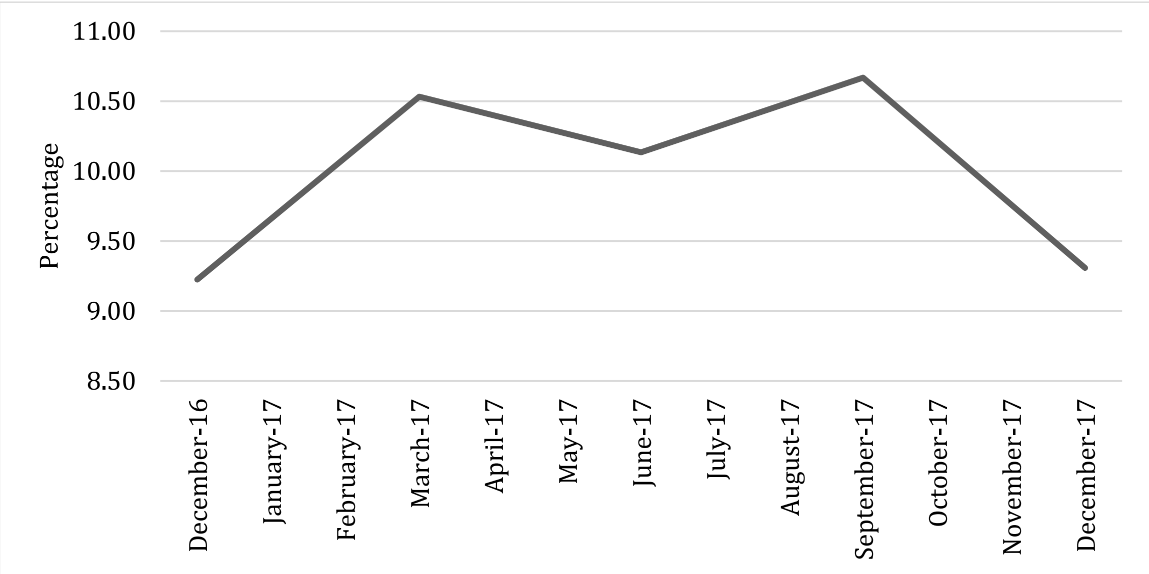
3.3 Banking sector

The performance of the banking sector remained off-track in FY2017-18. A number of key indicators could not meet their targets, while a number of scams and crises have remained unresolved. CPD has been closely following the banking sector and writing on its various aspects in successive IRBD reports. The section focuses on a few selected issues that are considered to be major concerns. These include non-performing loans, BASEL III compliance, and the number of banks in the financial market.

Non-performing loans: A South Asian phenomenon?

Non-performing loans (NPLs) continued to pile up relentlessly, as NPLs hovered around the 10 per cent mark in the calendar year 2017 (Figure 3.5). Interestingly, NPLs fell below 9.5 per cent in December 2016, and again in December 2017. This is largely due to the practice of commercial banks writing off their loans at the end of the year in order to clean their balance sheets. Such off-balance sheet activities are particularly risky and may have destabilizing effects on the overall banking sector. The general trend of NPL has been consistently high for the last few years. Financial frauds, lack of proper due diligence during loan sanctions, political influence on loan disbursement, and the failure to undertake strong measures against loan defaulters and wrong-doers have contributed to high NPLs in the banks. Additionally, the legal framework for dealing with non-performing loans, which consists of the Money Loan Court Act 2003 and Bankruptcy Act 1997, has become more or less dysfunctional. The number of judges dealing with non-performing loan cases is inadequate, and as a consequence, the backlog of cases is a long one.

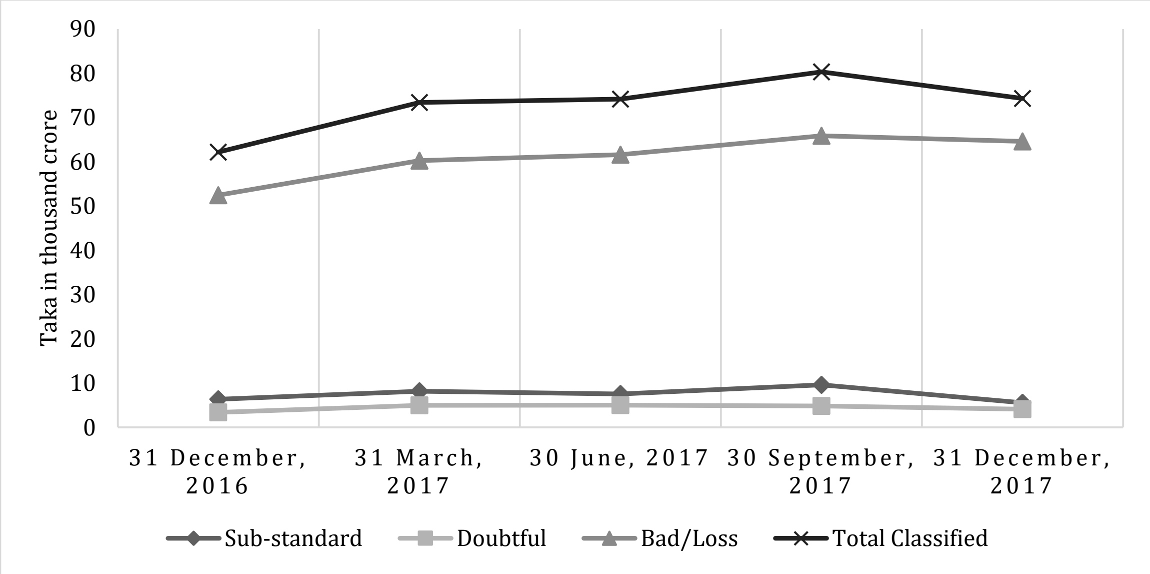
Figure 3.5: NPL as percentage of total loans



Source: Bangladesh Bank.

NPLs are classified into three categories: sub-standard loans, doubtful loans, and bad loans. Unfortunately, the amount of bad loans is much higher than the other types of NPL (Figure 3.6). Bad loans are such types of loans which are not recoverable and are considered as loss of the banks. As of December 2017, the amount of bad loans was Tk 64,618 crore which was 87 per cent of total classified loans and 8 per cent of total loans.

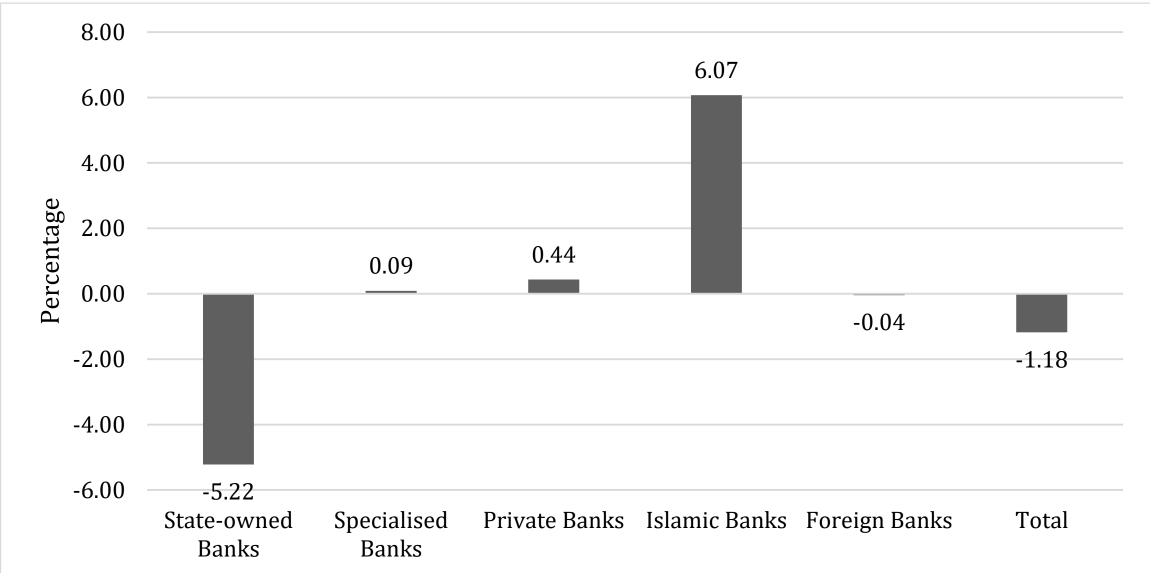
Figure 3.6: NPL and total loan by types of loan



Source: Bangladesh Bank.

Large amount of NPLs coupled with higher dependency on National Savings Directorate (NSD) have contributed to recent liquidity shortage in the banking system. The liquidity position of state-owned commercial banks worsened between January and March 2018, as they registered a 5.22 per cent fall in total liquid assets. This led to a 1.18 per cent fall in total liquid assets in the overall banking sector from January to March 2018, even though private commercial banks and Islamic commercial banks experienced improvements in the liquidity position during the same period (Figure 3.7).

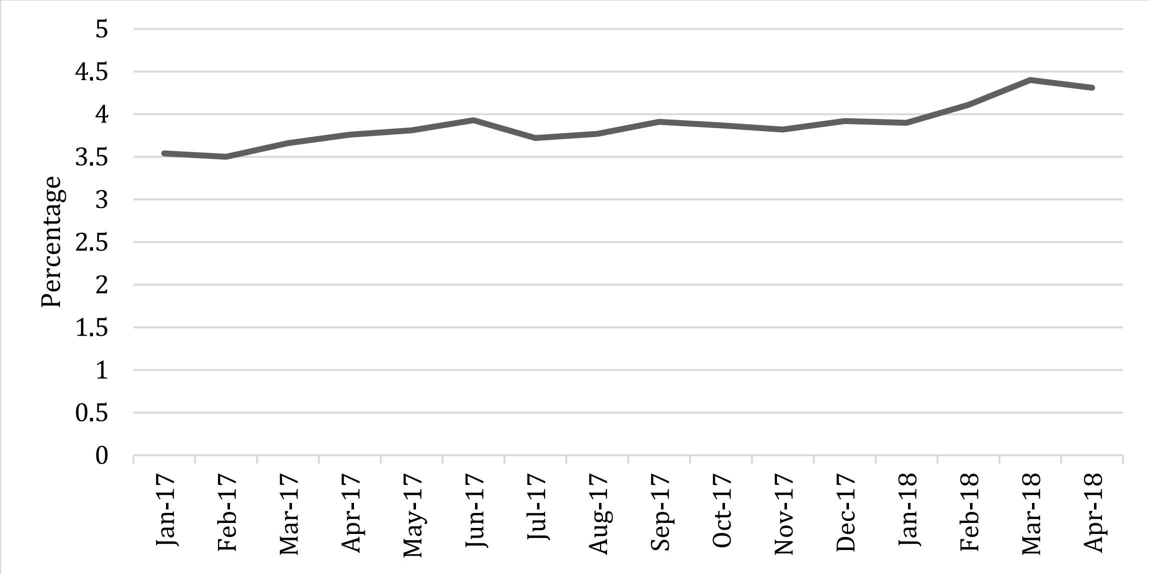
Figure 3.7: Change in liquid assets between January 2018 and March 2018



Source: Bangladesh Bank.

The impact of reduced cash reserve ratio (CRR) by BB in April 2018 is yet to be observed. The wave of liquidity shortage was reflected in the money market. Call money rate (overnight average lending rate) was high, 4.31 per cent in April 2018 compared to 3.76 per cent in April 2017 (Figure 3.8). Average interbank lending rate was 5 per cent in March 2018.

Figure 3.8: Call money market average lending rate

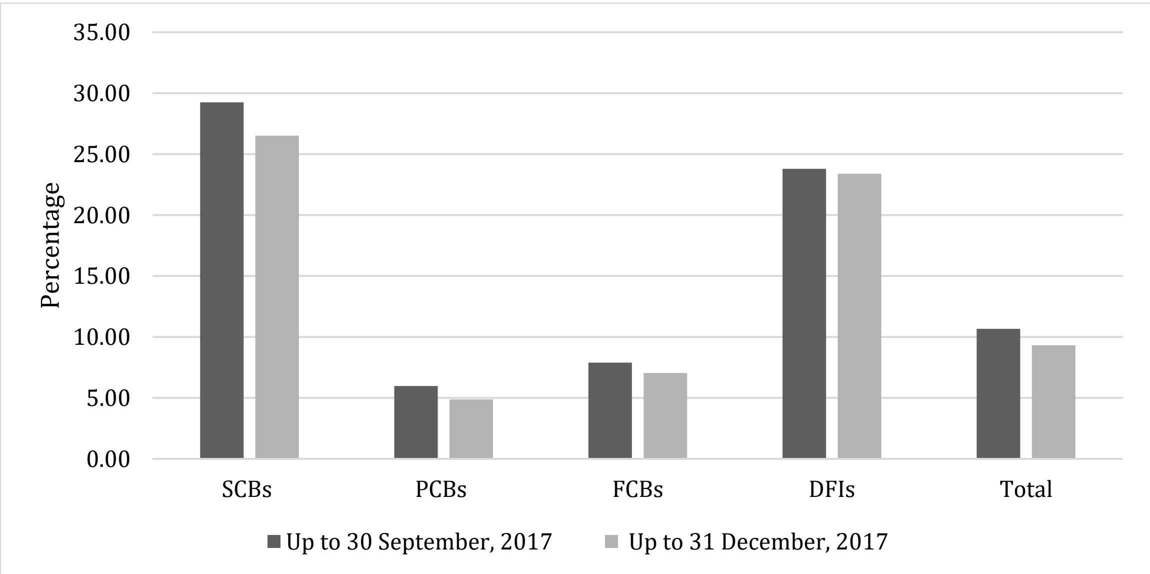


Source: Bangladesh Bank.

Moreover, credit to the private sector has increased at a higher rate (18 per cent) during July 2017 – March 2018 than the target rate (16.8 per cent) for FY 2017-18, though on a month-to-month basis, the growth of private sector credit came down to 13.6 per cent in April 2018, the previous months experienced higher growth. However, what is more important is productivity of the credit and its quality. Both these remain areas of concern.

At a disaggregated level, the share of NPL in both state-owned commercial banks (SCBs) and development finance institutions (DFIs) is very high. This reflects the inefficiency of SCBs and DFIs in loan management. Both SCBs and DFIs had more than 20 per cent NPLs in the second quarter of FY2017-18 (Figure 3.9).

Figure 3.9: NPLs as percentage of total loans by bank type

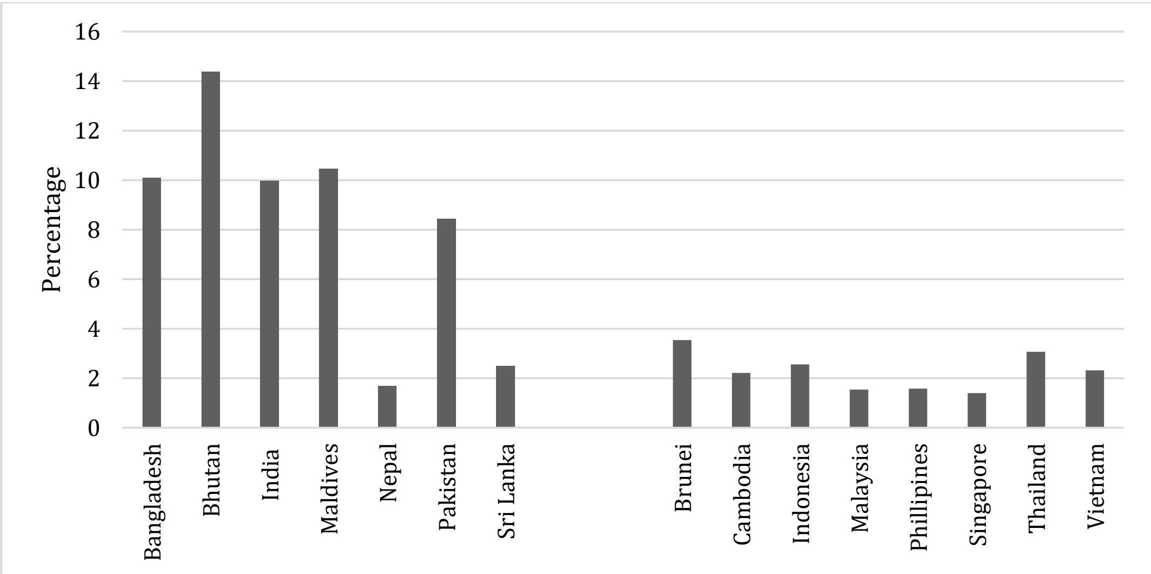


Source: Bangladesh Bank.

In order to understand the effects of rising NPLs across countries, it is essential, at first, to get accustomed to the specific definition of a NPL. A loan that is in already in default, or close to being in default can be classified as a NPL (Bangladesh Bank, 2017). Non-performing loans are also referred to as non-performing assets (NPAs) since loans are recorded as assets in a commercial bank's balance sheet. This is because loans create a stream of cash flows for a bank through the repayment of the principal and interest payments. According to the International Monetary Fund (IMF), loans should be classified as NPLs if: i) payments of principal and interest are past due by 90 days or more, ii) interest payments equal to 90 days interest or more have been capitalized, refinanced, or rolled over, and/or iii) sufficient evidence exists to classify a loan as non-performing even in the absence of a 90 day past due payment, such as when the debtor files for bankruptcy. The 90-day mark is recommended as an upper threshold, and the IMF does not discourage more strict definitions of NPLs (IMF, 2006). However, there is no universal definition of a NPL, and it is acknowledged that definitions that may be appropriate in one country may not be equally appropriate in another. It is for this reason that cross-country comparability of NPLs is difficult, and adjustment of the figures may be required. However, the 90 day time period is the most widely used by countries to determine whether a loan is non-performing (Cortavarria, *et al*, 2000).

A cross-country comparison of NPLs shows that five South Asian countries, Bangladesh, Bhutan, India, Maldives, and Pakistan, had NPLs exceeding 8 per cent of total loans in 2017. On the other hand, eight South-East Asian countries, Brunei, Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam, all had NPLs below 4 per cent of total loans in 2017 (Figure 3.10). Hence, high NPLs appear to be a South Asian phenomenon. Understandably, South Asian countries' banking sectors are caught in a myriad of problems which is reflected through high NPLs. But what is to be noted is that, in contrast to Bangladesh, a number of these countries have initiated concrete measures to tackle the situation.

Figure 3.10: NPL as percentage of total loans in South Asia & South-East Asia in 2017

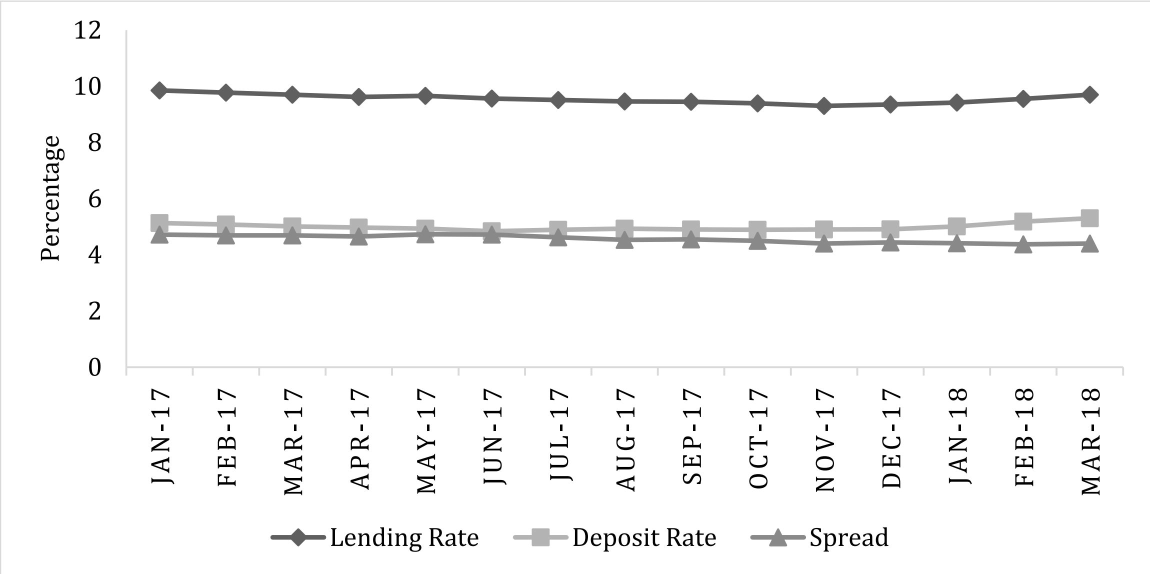


Source: Bangladesh Bank and International Monetary Fund.

Reduction of interest rate spread to boost investment

In order to rationalize interest rate for productive sectors, the central bank has recently published a circular directing banks to reduce interest rate spread from 5 per cent to 4 per cent (Bangladesh Bank, 2018). The weighted average interest rate spread of scheduled banks was 4.4 per cent in March 2018 (Figure 3.11). BB has also instructed commercial banks not to change lending rate if interest rate is stated as fixed in the credit agreement with the borrower (Bangladesh Bank, 2018). It is expected that this move of the BB will result in reduced lending rates, though in the past no such initiative has been able to bring down interest rate spread to a desired level. Indeed, due to the high cost of funds, inefficiencies in the financial system and high risks of lending in Bangladesh, commercial banks tend to keep lending rates high. The desired outcome of recent directive on interest rate spread will not be realised if commercial banks attempt to reduce interest rate on deposits to make up for their profit cut due to lower lending rate. However, in order to pull depositors towards the banking system, deposit rates have to be attractive. As it is, savers are now more inclined to invest in NSD for higher return, a phenomenon which is creating high interest burden for the government. Moreover, interest rate is only one of many tools in the arsenal of monetary policy to boost investment, others being reserve requirements such as CRR and statutory liquidity ratio (SLR). Monetary policy instruments have to be combined with supportive fiscal and institutional policies and the needed infrastructure support.

Figure 3.11: Weighted average rate of interest of scheduled banks



Source: Bangladesh Bank.

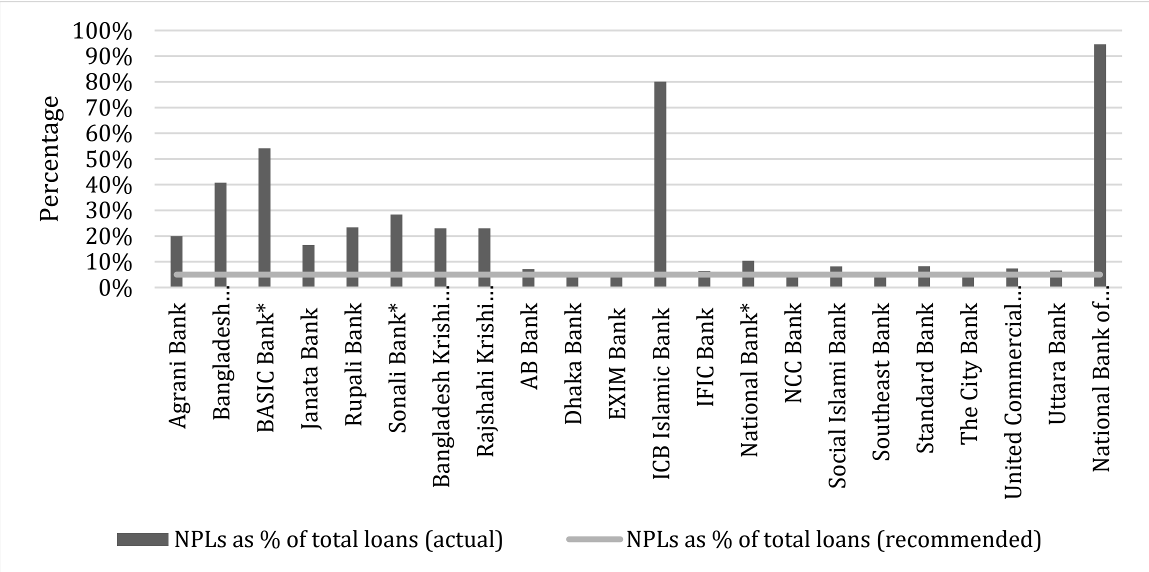
BASEL III preparation of banks

BASEL III requirements stipulate that banks should maintain Common Equity Tier 1 (CET1) to Risk Weighted Assets (RWAs) ratio greater than 4.5 per cent, Liquidity Coverage Ratio (LCR) greater than 100 per cent, Net Stable Funding Ratio (NSFR) greater than 100 per cent, and Leverage Ratio greater than 3 per cent (Basel Committee on Banking Supervision, 2011, 2013, 2014, 2017). Based on the mandatory BASEL III disclosures of December 2017, most banks in Bangladesh were compliant with these four key BASEL III requirements (Annex Tables 3.2-3.5). However, there were notable exceptions. A number of banks such as BASIC Bank, Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, ICB Islamic Bank, Standard Bank, The Premier Bank, and National Bank of Pakistan are performing poorly in terms of meeting these indicators. Additionally, Sonali Bank, Al-Arafah Islamic Bank, Bangladesh Commerce Bank, National Bank, Shimanto Bank, and The Farmers Bank did not disclose their BASEL III compliance status report in December 2017, as required by Bangladesh Bank regulations.

BASEL III disclosures also exposed that 22 banks had NPLs greater than 5 per cent of total loans (Figure 3.12), whilst 15 other banks did not disclose their NPL to total loan ratios. Noteworthy amongst these banks is ICB Islamic Bank. As of 31 December 2017, ICB Islamic Bank had NPL equal to 80 per cent of total loans. It may be recalled that ICB Islamic Bank was created through a central bank order, in the aftermath of the Oriental Bank crisis in 2007. Given the dismal state of the bank at present, doubts have surfaced regarding the effectiveness of the exit strategy employed by Bangladesh Bank in the case of Oriental Bank in 2007.

It is about time to reconsider policies towards problematic banks. In recent years, the government has often become the lender of the first resort and injected large amounts of capital into the troubled banks. However, the outcome has not been encouraging. These banks could not improve their performance despite huge re-capitalisation package offered by the government. Ironically enough, there is no moral pressure within the MoF to make sure that tax payers' money is not wasted in the name of recapitalisation of inefficient banks. Rather, MoF's sympathy has extended to the private sector banks. Directed by the MoF, the central bank reduced the minimum CRR from 6.5 per cent to 5.5 per cent bi-weekly and from 6 per cent to 5 per cent daily in April 2018. Moreover, the MoF announced that government agencies would increase their deposits of funds in private commercial banks from 25 per cent to 50 per cent. Both these decisions are apprehended to have negative implications. Reduced CRR may encourage banks to lend more aggressively while higher share of government funds into the private banks could result in the money going to the poor performing banks. In view of such practice of rescuing the troubled banks without any substantial outcome, taxpayers would like to have some assurance that their money is utilized in the most efficient manner.

Figure 3.12: Banks with NPL to total loans ratio greater than 5 per cent



Source: BASEL III disclosures on risk-based capital of individual banks.
Note: * indicates data for 2016.

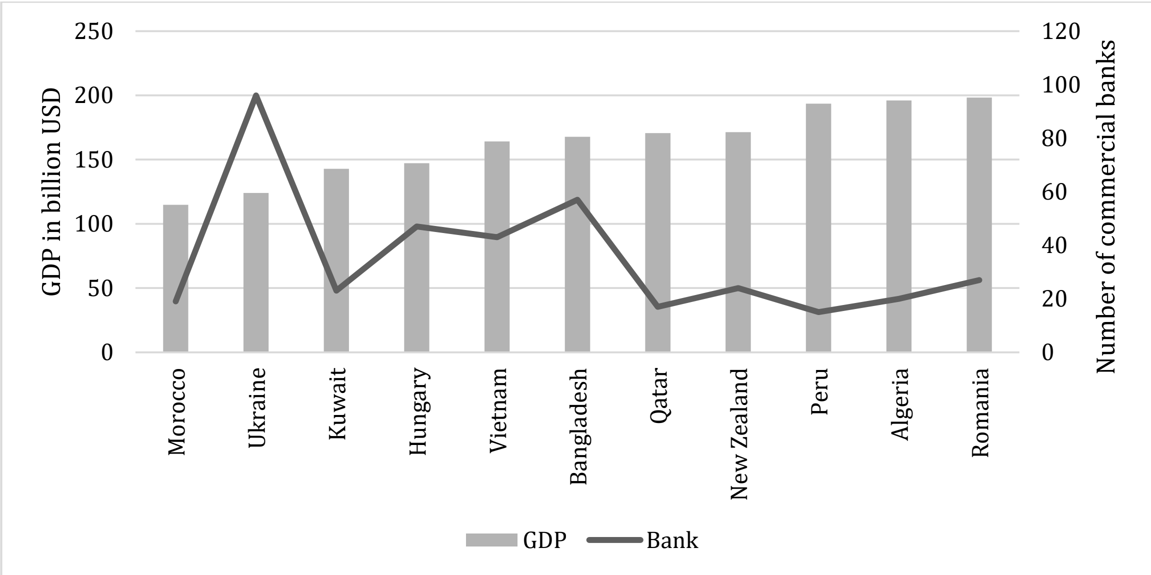
Excessive number of banks, yet attempts to permit more

According to the Bank Company (Amendment) Act 2013, the central bank will decide to grant licenses to new commercial banks after considering the need for such banks and the overall state of the economy. Ironically, this principle is not followed in Bangladesh is case of issuing bank license. Compared to the size of the economy, the number banks is already higher than required. More than economic justification, political pressure works for the issuance of bank licenses. And over time license for opening a new commercial bank has, in fact, become a tool for misappropriation of public money.

As of May 2018, Bangladesh had 57 commercial banks which constituted of 6 SCBs, 2 DFIs, 40 PCBs, and 9 FCBs. Cross-country comparison indicates that the total number of banks in Bangladesh is unusually high by global standards. For example, Mexico has only 47 commercial banks even though the GDP of Mexico in 2016 was about 7.4 times larger than that of Bangladesh in 2016 (IMF, 2018) (Annex Figure 3.2) and the total surface area of Mexico is about 13.2 times larger than that of Bangladesh (CIA, 2018). Vietnam, which had a GDP similar to that of Bangladesh in 2016, has only 43 commercial banks. In fact, amongst the cohort of countries which had a GDP between USD 114 billion to USD 198 billion in 2016, Bangladesh has the second highest number of commercial banks after Ukraine (IMF, 2018) (Figure 3.13).

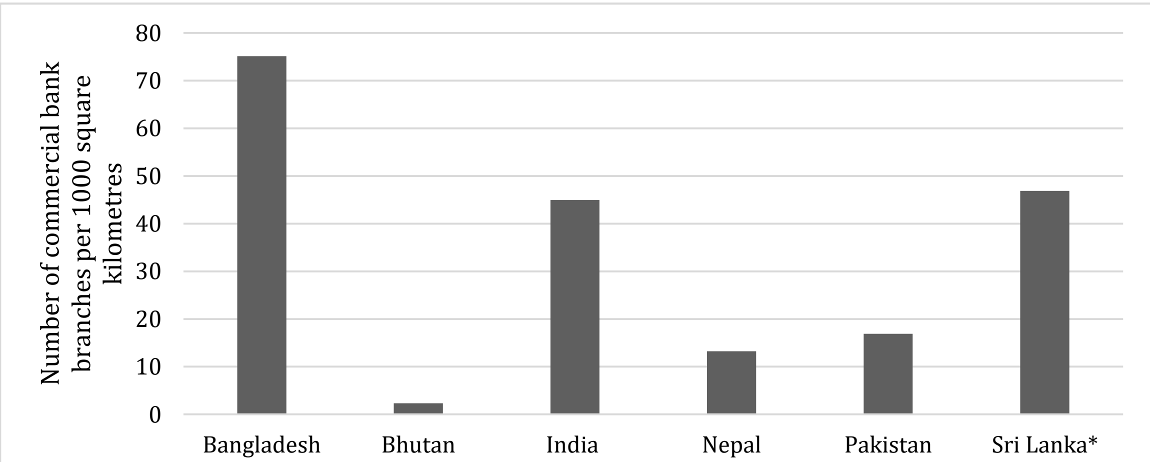
Bangladesh also has a high geographic density of commercial bank branches. For example, in 2016, Bangladesh had 75 branches of commercial banks per 1000 square kilometres of land, which was the highest in the South Asia region (Figure 3.14).

Figure 3.13: Number of commercial banks in countries with GDP (constant, 2010 USD) between USD 114 billion to USD 198 billion (2016)



Source: IMF Financial Access Survey Data.

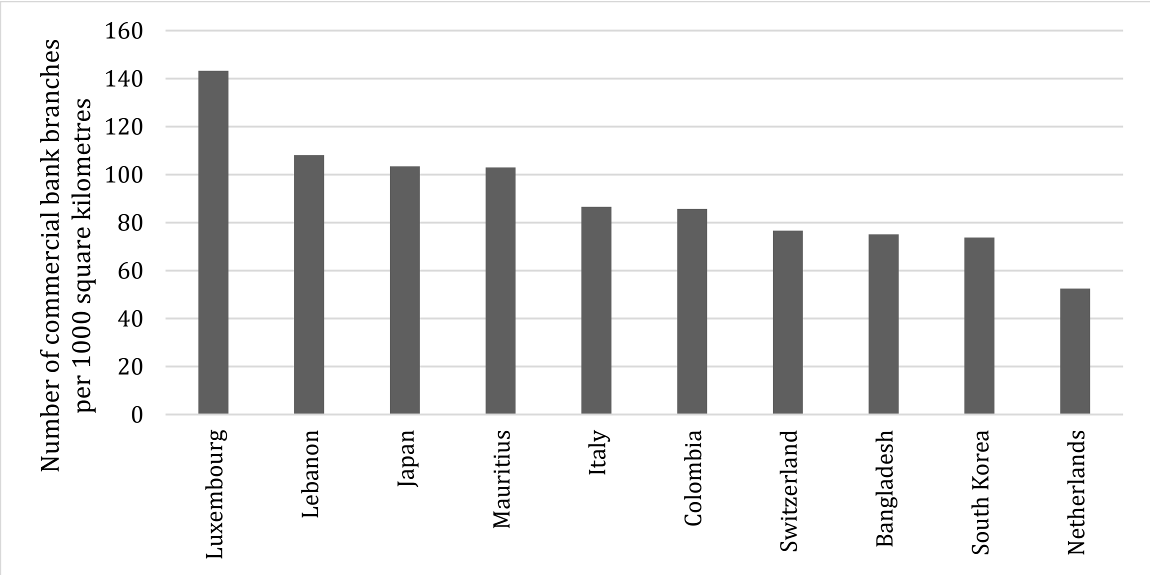
Figure 3.14: Branches of commercial banks per 1,000 square kilometres in South Asia (2016)



Source: IMF Financial Access Survey Data.
Note: * indicates data for 2015.

Globally, if microstates that have a land area less than 1000 square kilometres are disregarded, Bangladesh has the 8th highest geographic concentration of commercial bank branches (Figure 3.15). Thus, when it comes to the number of banks, Bangladesh falls in the same class of countries that include financial hubs such as Japan and tax havens such as Luxembourg.

Figure 3.15: Countries with highest concentration of commercial bank branches (2016)



Source: IMF Financial Access Survey Data.

Thus, the rationale of awarding new licenses to commercial banks on the premise of financial inclusion is not a justified one. The 'unbanked' population of Bangladesh comprises of two categories of people. The first category consists of poor people who live in urban slums or remote rural areas. In order to provide access to financial services to these people, mobile banking could be a superior option compared to conventional banking. In either case, these people are usually poor and uneducated, and are often not considered as potential customers by commercial banks. The second category of 'unbanked' people comprise of the population who voluntarily refrain from banking in order to conceal their financial position. Opening new commercial banks is no guarantee that this group of people will be brought within the formal financial system. Therefore, without assessment of the requirement, issuance of new licenses for more commercial banks is just another step to benefit a group of people.

3.4 Recommendations

Our findings reflect that inflationary pressures are building up in the economy, amidst lax control over monetary policy by the central bank. Moreover, the continued lack of discipline in the banking sector is becoming a cause for serious concern. In view of these developments, we make the following recommendations:

- The management of public food stocks requires to be revisited in order to adequately deal with agricultural supply shocks. A cost-benefit analysis may be conducted to evaluate the potential usefulness of buffer-stock schemes in stabilizing food grain prices.
- A permanent Agricultural Costs and Prices Commission should be set up on an urgent basis to ensure incentive price for the producers while maintaining market stability.
- Appropriate legal and judicial reforms need to be undertaken in order to address the concerns as regards non-performing loans. The number of judges dealing with Money Loan

Court Act 2003 and Bankruptcy Act 1997 should be increased to ensure speedy disposal of loan default cases and to reduce backlog. However, it seems that NPL in Bangladesh has become a political economy problem. So, first and foremost, political commitment from policymakers is required in order to resolve the crisis.

- Immediate action must be taken against banks that are performing poorly and are ill-prepared for BASEL III. A new exit policy for troubled banks needs to be formulated, particularly taking into cognisance the ineffectiveness of the Oriental Bank model.

New commercial banks should not be awarded licenses. Instead, mobile banking should be encouraged to promote financial inclusion.

SECTION IV. RECENT VOLATILITY IN THE CAPITAL MARKET: TO WHAT EXTENT INSTITUTIONAL INVESTORS CONTRIBUTE TO THIS?

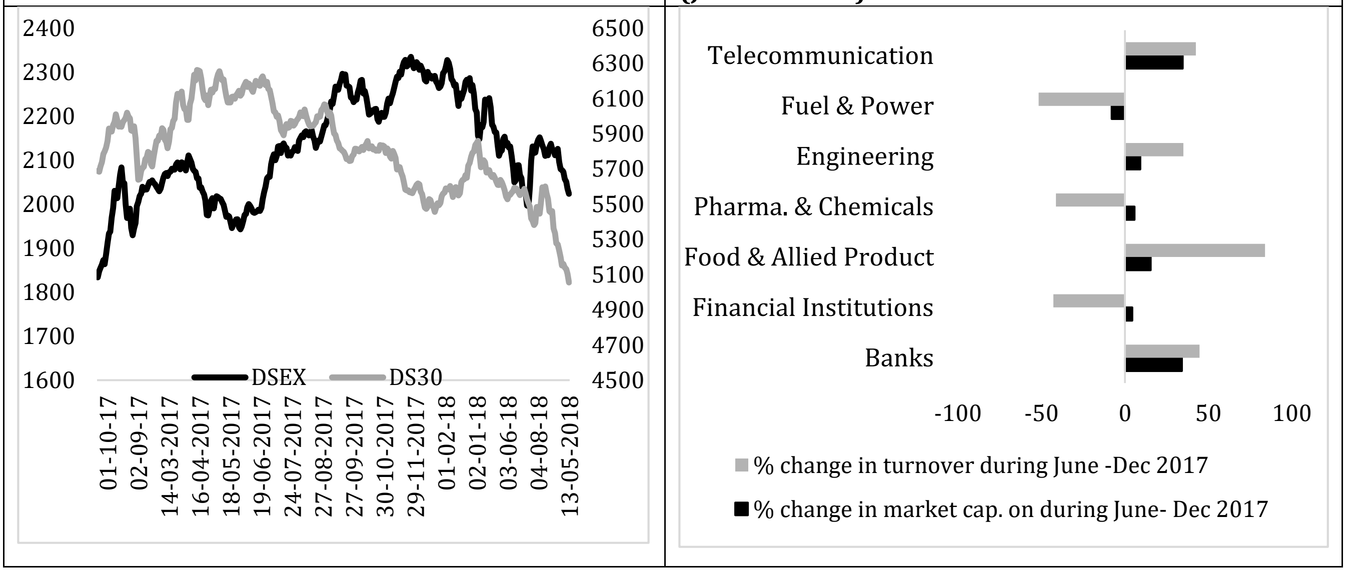
4.1 Introduction

The recent volatility in the capital market demands closer scrutiny. The fluctuations in the capital market did not reflect macroeconomic fundamentals. Despite some fluctuations, Bangladesh's capital market has evinced bullish trend (in terms of the key indicators) in the course of calendar year 2017 (Figure 4.1A). Key indices of the Dhaka Stock Exchange (DSE) (i.e. DSEX, DSE30 and DSES) have registered a rise of 9-14 per cent between January 2017 and mid-May 2018, although total turnover declined by 72 per cent during the same period. Major companies in the DSE such as those related to the banking and telecommunication sectors, accounting for over 38 per cent of total market share in the DSE, have experienced a significant rise both in terms of market capitalisation and turnover during the June-December 2017 period (Figure 4.1B). During 2017, a total of seven companies have offered IPOs with an oversubscription rate of 371 per cent which was lower in 2016 (oversubscription rate was 121 per cent). The bullish trend in the market had given way to a bearish outlook since December 2017 (Figure 4.1A).

It is reckoned that volatility in the capital market originates largely from the targeting and scale of investment undertaken by the institutional investors in the capital market. Institutional investors such as private commercial banks, Investment Corporation of Bangladesh (ICB), mutual funds and brokerage houses have been important market players in the Bangladesh stock market. Traditionally, such institutional investors are able to influence market trends and behaviour and help maintain stability in the capital market. Institutional investors often take investment-related decisions based on the profile and prospect of the companies listed in the market. According to Douma, George, and Kabir (2006), market performance of listed companies tend to be positively influenced by shareholding by the institutional investors. Institutional investors, particularly foreign investors, tend to be more prominent as shareholders in large companies paying low dividends and in firms having cash holdings (Dahlquist *et al*., 2003). However, such traditional influence gets distorted when behaviour of institutional investors in the market is irrational. Deviating from usual practice, institutional investors could also decide to invest in shares with high price volatility (Singh, Vashist, & Tripathi, 2016). Sias and Stark (1997) tested the hypothesis that trading by institutional investors contributes to serial correlation in daily returns. Their results show that institutional trading leads to more information disclosure and enhances the speed of price adjustment. This means when they purchase and sell in bulk, their internal decision affects the daily price of the stock. Price of shares thus influenced, leads to market volatility over the time. Bohl, Brzeszczyński, and Wilfling (2009) were of the opinion that institutions can establish an informational benefit by misusing economies of scale in information attainment and processing. Their marginal costs of gathering and processing is relatively higher than individual traders. Institutional investors may stabilise stock prices and counter irrational behaviour on the part of individual investors' sentiment. In this backdrop, it is important to investigate to what extent institutional investors contribute to volatility in the Bangladesh stock market and what measures could be taken to address these challenges.

Figure 4.1: Trends in DSEX and DSE30 indices

A. Market price (Jan 2017- May 2018)	B. Changes in market capitalisation and turnover (Jun-Dec 2017)



Source: DSE.
Note: DS30 is shown in the right vertical axis in Figure 4.1A.

4.2 Volatility in stock prices at the DSE during 2016-2018

'Volatility in the capital market is a statistical measurement of the dispersion of the returns for a given security or market index'[12]. It is measured by using standard deviation from the same security: standard deviation of the percentage change in daily closing price multiplied by square root of trading days"[13]. Generally speaking, higher volatility indicates riskier investment. The present study has made an attempt to estimate the volatility of different indices of Dhaka Stock Exchange for the period of 2016, 2017 and 2018. Figure 4.2 presents yearly and quarterly market volatilities of DSE indices. In the last three years, the stock market experienced the highest level of volatility in 2017 (volatility indices are: 0.091 for DSEX, 0.075 for DSES and 0.084 for DSE30). According to quarterly estimates, the highest level of volatility was seen in January-March, 2018; prior to this the volatility reached its peak in January-March, 2017. Level of volatility has fluctuated over time. Volatility for three indices did not maintain any visible pattern. However, securities under the DSEX are found to experience the highest level of volatility particularly during the periods when the market had experienced higher fluctuations during 2017 and 2018.

The volatility in the market is partly attributed to rise in investment in capital market since 2016 mainly by the institutional investors. Following the attainment of the permission granted in July 2016 to convert loans into paid up capital of bank subsidiaries, and thereby reducing the exposure of banks' investment in the capital market within permissible limit, a number of banks had the opportunity to make additional investment in the capital market. In the backdrop of the very high amount of excess liquidity in the banking sector in 2017 (which amounted to Tk.1.06 trillion crore

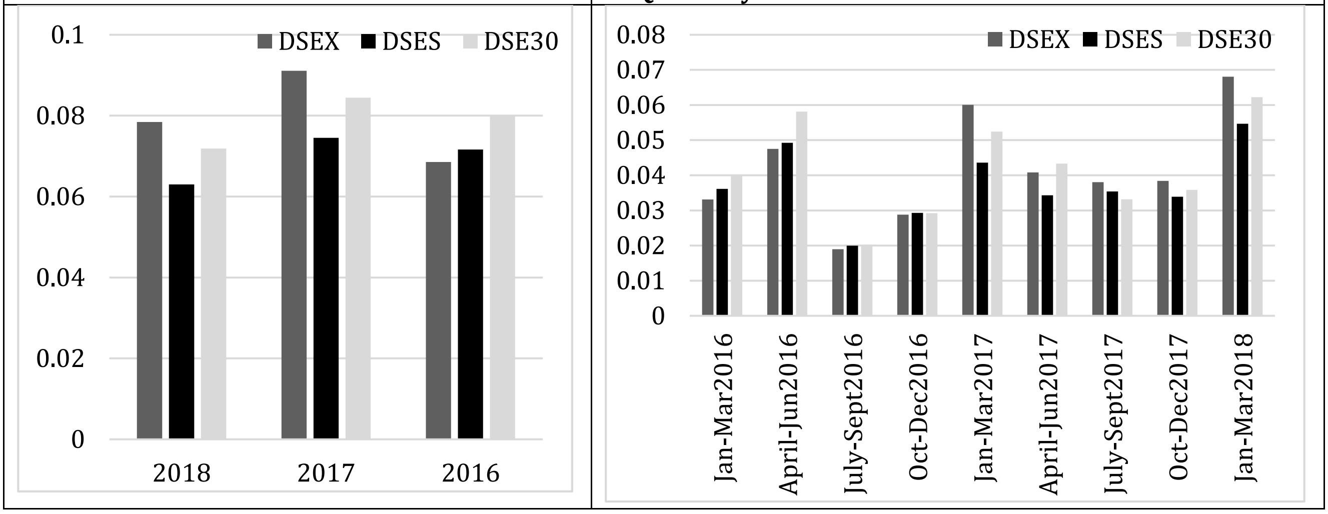
[12] https://www.investopedia.com/terms/v/volatility.asp
[13] For details, please see, https://adamhgrimes.com/how-do-you-calculate-volatility-in-excel/

at the end of June 2017), banks had made large investments in the stock market. Indeed, this had contributed, at least in part to the bullish trend in the market.

During the second half of FY2018, the monetary policy for H2 of FY2018 had set the target of lowering the rate of credit growth (from 18.1 per cent to 16.2 per cent) with a view to tighten the money supply further. The advance-deposit ratio (ADR) was also planned to be reduced to 83.1 per cent (which was over 85 per cent) by June 2018. This compelled the banks to sell a part of their shares in order to comply with new targets set for credit growth and the ADR.[14]

Figure 4.2: Volatility Index based on standard deviation of daily trade

A. Annual estimates **B. Quarterly estimates**

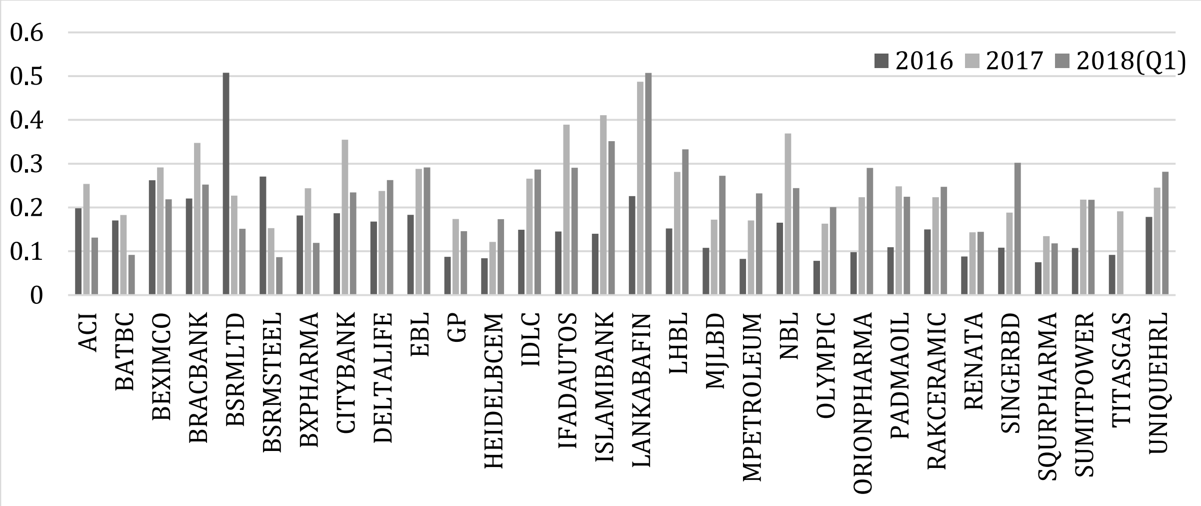


Source: DSE.

The overall volatility (quarterly and annual) is also reflected at the company-level. A company-wise analysis of top 30 highly traded (DSE 30) and low-traded 30 companies evince important insights as regards volatility. Figure 4.3 presents the volatility indices of each of the DSE 30 securities during 2016, 2017 and 2018 (up to March). Among the top 30 companies, level of volatility is varied across companies for different years. However, majority of the companies have experienced higher level of volatility in 2017 while few companies had similar trends in January-March, 2018. Relatively high volatility is observed for securities of stock entities such as LankaBangla Finance, Islami Bank, Ifad Autos and Lafarge Holcim Bangladesh Limited. It is important to investigate whether high volatility of some of the leading companies is related with pattern of investment undertaken by different shareholders and institutional investors.

[14] Exposure limit for banks to invest in the stock market: 25 per cent of its paid-up capital, share premium, statutory reserve and retained earnings. According to reports published in national dailies, as many as 21 banks were reported to have invested in the stock market beyond their exposure limit in this period. Indeed, this was exposed in an investigation carried out by the Central Bank.

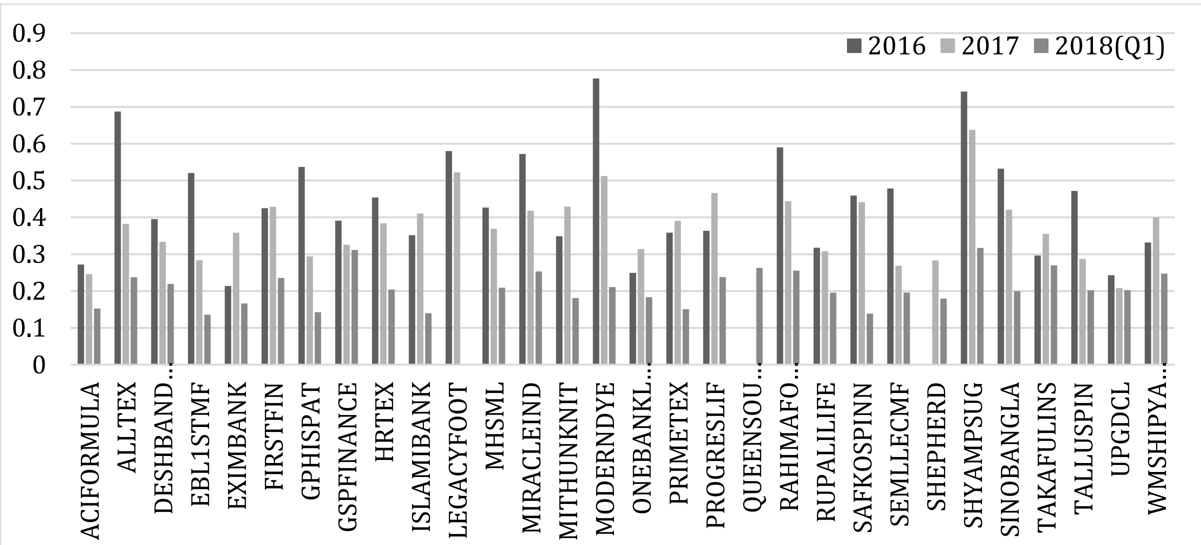
Figure 4.3: Volatility index of DSE 30 (Annual)



Source: DSE.

The level of volatility in low-traded 30 companies in DSE is higher than that of DSE 30 (Figure 4.4). Unlike the DSE 30, the level of volatility of these low-traded companies was higher in 2016 compared to that in 2017 or 2018. Highest level of volatility was observed in securities such as Modern Dyeing, Miracle Industries and Shyampur Sugar Mills Limited, Alltex Limited and Legacy Footwear. In the backdrop of general stability in the macroeconomic situation over the corresponding period, both in the domestic also the global economy, the aforementioned volatility in the capital market has raised concern about the role played by the market players, particularly the institutional investors in Bangladesh stock market.

Figure 4.4: Volatility index: Low traded 30 companies (based on the % change in share price)



Source: DSE.

4.3 Institutional investors: Role in Market Volatility

CPD has carried out an in-depth analysis of changes in shareholding by key shareholders represented by a sample set of listed companies during 2016 to April, 2018. The objective of this analysis is to understand how the different shareholders buy and sell their securities and to what extent this has contributed to market volatility during the 2017-2018 period. CPD has collected data of 99 listed companies for five points – January, 2017, June, 2017, December, 2017, March, 2018 and April, 2018. Table 4.1 presents the changes in shareholding of securities by different groups of shareholders such as sponsor directors, institutional investors and public shareholding.

Table 4.1: Changes in shareholding of securities by different shareholders (no. of companies)

	% changes between Jan 17 and Jun 17			% changes between Jun 17and Dec 17			% changes between Dec 17 and Mar 18			% changes between Mar 18 and Apr 18		
	Sponsor	**Inst.***	**Public**	**Sponsor**	**Inst.**	**Public**	**Sponsor**	**Inst.**	**Public**	**Sponsor**	**Inst.**	**Public**
No. of companies	99	99	99	99	99	99	99	99	99	99	99	99
No change	99	99	98	85	88	73	82	83	71	85	89	75
Shareholding Increased												
<1%	0	0	0	3	1	4	2	3	4	2	3	4
1-5%	0	0	0	2	1	3	2	1	5	2	1	3
5-10%	0	0	0	1	1	2	2		2	1	2	2
10-25%	0	0	0		2		1		1		1	
25-50%	0	0	0		1	2	1		1		1	2
50-100%	0	0	0									
>100%	0	0	0	1	1	1				1		
Sub-total	**0**	**0**	**0**	**7**	**7**	**12**	**8**	**4**	**13**	**6**	**8**	**11**
Shareholding Decreased												
<1%	0	0	0	2	2	5	3	1	6	3		5
1-5%	0	0	0	2	1	6	2	1	3	3	1	5
5-10%	0	0	1	2		2	3	3	2	1	1	
10-25%	0	0	0			1		1	3			2
25-50%	0	0	0	1	1	0		1		1		1
50-100%	0	0	0				1	1	1			
>100%	0	0	0					4				
Sub-total	**0**	**0**	**1**	**7**	**4**	**14**	**9**	**12**	**15**	**8**	**2**	**13**

Source: Authors' estimate.

Note: * Inst. stands for institutes.

During January-June, 2017 period, the shareholding by major shareholders did not experience significant changes (only one company's shareholding decreased by 6 per cent). In contrast, the shareholding situation had undergone significant changes during the second half of 2017 (July-December, 2017) this could have caused market volatility. This was the period, when share prices of DSE30, DSEX and DSES had experienced sharp ups and downs. The volume of shareholding has increased for shareholders in case of 26 companies; on the other hand, the shareholding had decreased in case of 25 companies. These companies include manufacturing, financial, power and energy and services. The changes in shareholding of these companies were as low as less than 1 per cent to as high as over 100 per cent. Majority of changes in shareholding was observed in case of public shareholding, both in cases of buying and selling of securities. However, both sponsor shareholders and institutional shareholders took part in selling and buying of shares during this period of volatility. Because of the sheer size of their shareholding, a limited level trading in the market was likely to cause volatility in the market. The same situation prevailed during the following quarter, i.e. January-March, 2018. Shareholders of 25 companies had increased their shareholding during this period (between less than 1 per cent to more than 25 per cent). At the same time, shareholders of 36 companies had gone for selling off their shares. As before, both sponsor directors and institutional investors played a key role in this period. The situation was eased in April 2018, when changes in shareholding within these companies had slightly declined to an insignificant extent; rise in shares in 25 companies and decline in shares in 23 companies. Overall, trading behaviour of sponsor shareholders and institutional investors during the period of uncertain situation of market volatility is partly responsible for the market behaviour. More importantly, it appears that institutional investors did not perform their expected role in stabilizing the market.

Correlation of shareholding between different shareholding groups: Table 4.2 presents correlation between shareholdings of different groups for different periods. Analysis found both positive and negative correlation between shareholding groups in terms of their trading of securities in the market. A positive correlation is observed in shareholdings by sponsor shareholders and institutions as well as in case of shareholdings of sponsor shareholders and public shareholding. In contrast, there is a negative correlation between institutional investors and public shareholding for most of the period. Interestingly, the level of negative correlation rose in tandem with rise in market index (June, 2017 and March, 2018). The inverse relationship indicates that buying and selling behaviour of shares by institutional and public shareholders during a period of market volatility evinces that the former despite having their role for market stability pushed the latter in an uncertain situation. The relationship between institutional shareholding and public shareholding was found to be positive when market was less volatile (in January, 2017). From this it transpires that institutional investors had contributed in to volatility in the market and the sheer size of their investment in the market played a role in it.

Table 4.2: Correlation between shareholding by different shareholders

Different Shareholding Groups	January 2017	June 2017	December 2017	March 2018	April 2018
Sponsors and Institutions	0.321	0.312	0.331	0.312	0.315
Sponsors and Public Shareholding	0.458	0.467	0.460	0.467	0.460
Institutions and Public Shareholding	0.213	-0.141	-0.101	-0.141	-0.103

Source: Authors' estimate.

4.4 Suggestions for better governance as regards Institutional Investors

The analysis shows that market players, particularly institutional investors, did not play the expected role during the period of uncertainty in 2017 onward. The trading behaviour of sponsor shareholders and institutional investors during the period of uncertain situation of the market is partly responsible for the volatility. More importantly, role of institutional investors to stabilize the market is somewhat absent during the period of volatility and uncertainty in the market. Moreover, their buying and selling behaviour at the time of volatility pushed the public shareholders in an uncertain situation.

Given the importance of institutional investment in the capital market, the concept of "responsible ownership" is gaining momentum worldwide. This concept is based on the belief that it is not enough for institutional investors to simply 'hold/sold' shares. They must also perform a proactive role to ensure good governance practices by the companies by adopting a more long-term strategy in sharing ownership. Active engagement of institutional investors is a critically important factor to strengthen overall market discipline. By bringing their voice on board and lending their reputation to gain the attention of management, they can spearhead in an ownership culture that ensures that the management gives precedence to the best interest of the company at all times.

It may be recalled in this connection that, with a view to streamline the activities of the companies listed in the capital market, the Securities and Exchange Commission of Bangladesh issued a revised version of Corporate Governance Guidelines in 2012. The revised guidelines include many new provisions in the areas of board independence, audit committee affairs, board's declaration pertaining to corporate governance issues, certification by the CEO and CFO of the company on the truthfulness and fair presentation of the company affairs, and compliance certificate from selected professionals. However, there is very limited statement about the role of institutional investors in these guidelines, particularly with regard to transparency and safety of investment, investment policy, risk evaluation and diversification of assets etc.

Bangladesh should take lessons from other countries in order to improve the investment practices of the institutional investors in the capital market. For example, OECD has developed guidelines for "Responsible Business Conduct for Institutional Investors" putting focus on investors' due diligence in line with the OECD Guidelines. As per these guidelines, investors will not be able to avoid their responsibilities with regard to financial and reputational risks, catering to expectations of their clients and beneficiaries as also concerning negative impact of their investment on society.

In South Africa, the guidelines for institutional investors state that managing institutions should provide information on institutional clients. Managing institutions are required to provide an updated list of all their institutional investors on a quarterly basis together with a list of: (1) all new institutional clients investing funds during the quarter; and (2) all institutional clients who terminated investment during the quarter. The lists must be provided as expected as part of managing institution's quarterly asset allocation report. Such requirements could discourage unpredictable trading practices and provide knowledge on good or bad investors and how to regulate them (South African Reserve Bank, 2018).

In Malaysia, The Institutional Investment Code (Minority Shareholder Watchdog Group, & Securities Commission Malaysia, 2014) provides guidance on effective exercise of stewardship of responsibilities towards delivery of sustainable long-term value to the institutional investors' ultimate beneficiaries or clients. The guidelines state that institutional investors should have robust policies to deal with inside information and to avoid market manipulation in their dealings. Broader ethical considerations such as policies on prevention of corruption, including anti-bribery and anti-money laundering and establishment of "Chinese wall"[15] were also to be incorporated.

Considering the global experience, SEC should consider formulating a separate guideline for institutional investors in the capital market of Bangladesh. Such a guideline will help investors to streamline their activities in the market as well as ensure more transparency and accountability to the shareholders. The ultimate objective is to make investment behaviour of such entities more disciplined in a way that would not result in market volatility. The guideline will promote the causes of transparency, good governance and ensure safety of investors' investment. The guidelines will help institutional investors to take appropriate measures about choice of shares for investment, allocation of investment, investment policy that is approved by the shareholders every year, regular information sharing about risks, and prohibition for investment etc. Following six measures could be adopted in this connection: a) disclosure of policies regarding

[15] The Chinese wall is a term describing an ethical barrier within an organisation which prevents communication that creates conflicts of interest. Source: (https://www.investopedia.com/terms/c/chinesewall.asp)

responsibilities; b) monitoring the performance of investee companies and periodic reporting; c) engagement with investee companies; d) implementation of policy on managing conflicts of interest; e) integrating corporate governance in investment decision-making. It is hoped that such a guideline will help instil responsible behaviour on the part of institutional investors, help reduce volatility and improve overall good governance in the capital market of Bangladesh.

SECTION V. EXTERNAL SECTOR BALANCES: REASONS FOR CONCERN

As FY2018 moved forward, the fault lines of Bangladesh's external balances exposed the vulnerabilities that has been accumulating in recent times, undermining the stability and robust performance experienced in the recent past. The emerging global economic scenario is also not reassuring. While in 2017 global economic growth (3.8 per cent) and global trade growth (4.9 per cent) were the highest since 2011, growth of key economies in 2018, and forecasts for 2019, are expected to be somewhat subdued than was originally thought. The rising fuel prices do not augur well for the world economy either.

Bangladesh's overall balance of payments, for the first time since FY2011, continued to remain in the negative terrain throughout the third quarter of FY2018 – result of a combination of factors, particularly in the backdrop of rising imports, and exports and remittance growth failing to catch up. Rice import has broken 32-years old record and imports related to large scale infrastructure projects have contributed to the recent surge in imports. Trade balance has come under considerable pressure with the deficit peaking at the new record high of USD 13.2 billion. This was almost twice the level of deficit in the corresponding period of FY2017. The rebounded export and remittances growth helped the trade deficit not to deteriorate further and the record high foreign aid disbursement provided some cushion to the overall balance. To ease the pressure on the BDT, Bangladesh Bank allowed some depreciation of the BDT against the major currencies and opted for selling more than USD 2.1 billion from the foreign exchange reserves.

5.1 Export earnings

Targets and current attainments. According to the data for the first ten months (July-April) of FY2018, export earnings have continued to show resilience with a 6.4 per cent growth; to contrast achieved annual growth rate for FY2017 was a mere 1.7 per cent. However, the growth in FY2018, till now, remained below the strategic annual target of 8.2 per cent (Table 5.1). Indeed, to meet the annual target, export will need to post a growth of 16.7 per cent per month for the remaining two months of FY2018 (as compared to May and June of FY2017). The achieved growth has been driven by the robust performance of the ready-made garment (RMG) exports which achieved a 9.4 per cent growth up to April of FY2018, higher than the annual target of 7.1 per cent set out for the sector.

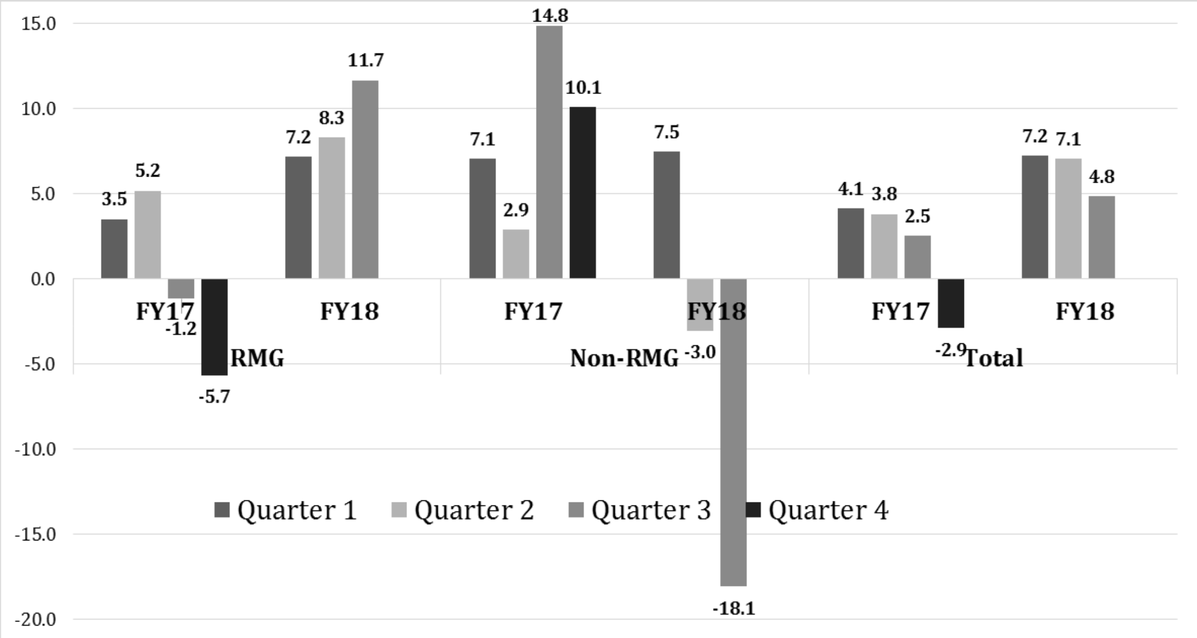
Table 5.1: Export target growth and actual performance (%)

Product	Growth Target FY18	Achieved Growth Jul-Apr FY17	Achieved Growth Jul-Apr FY18	Required growth for rest of the months
RMG	**7.1**	**2.2**	**9.4**	**-3.2**
Knit	9.8	4.8	11.4	2.3
Woven	4.6	-0.1	7.4	-8.6
Non RMG	**12.8**	**8.7**	**-6.2**	**109.6**
Raw Jute	4.3	25.2	-13.8	205.1
Leather	3.2	-6.3	-27.1	349.3
Home Textiles	10.1	6.6	13.1	-4.5
Frozen Food	1.6	-3.1	2.3	-1.3
Total	**8.2**	**3.4**	**6.4**	**16.7**

Source: EPB data.

As a matter of fact, it was the performance of non-RMG products which has dragged the total export growth down. Quarter-to-quarter scrutiny of export data reveals that RMG export increased gradually from first quarter to third quarter in FY2018, while total export growth registered a reverse trend (Figure 5.1). This is largely attributable to the negative growth of the non-RMG exportables during the second ((-) 3.0 per cent) and third quarters ((-) 18.1 per cent) of FY2018. Against the high benchmark growth in the last quarter of FY2017, it is unlikely that non-RMG growth will be able to recover from its performance in the last quarter of FY2018.

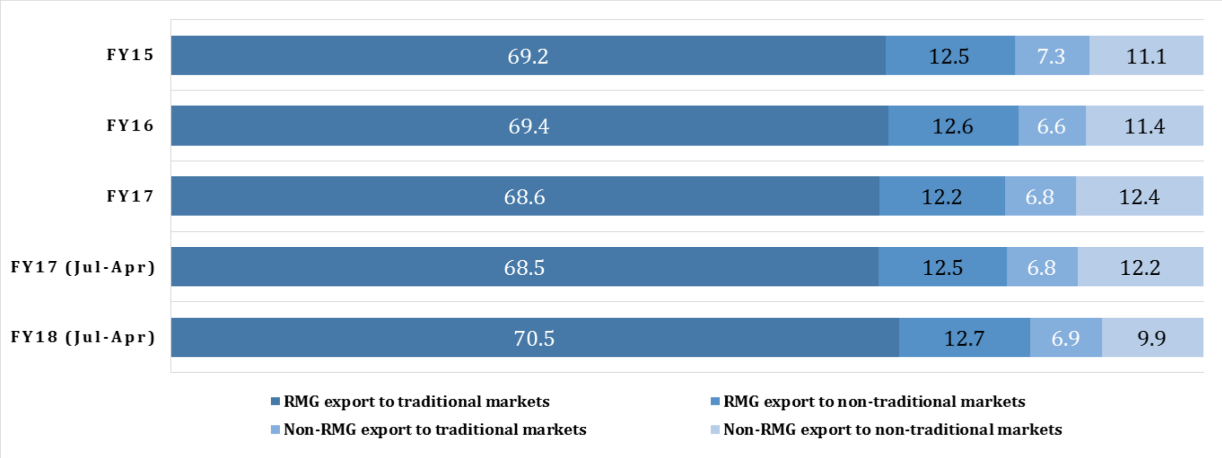
Figure 5.1: Quarter-to-quarter export growth (%)



Source: CPD Calculations from EPB data.

RMG-led growth with higher market concentration. In spite of the repeated initiatives towards export and market diversification, the fact of the rising concentration in recent times, on both counts, could not be arrested. Exports to the traditional markets (i.e. US, EU and Canada) have further concentrated. Consequently, growth in the traditional markets has out-performed that in the non-traditional market during the first ten months of FY2018. The share of the former has increased to 77.4 per cent (of the USD 30.4 billion of total export during July-April of FY2018), while the corresponding share was 76.5 per cent in FY2015 (Figure 5.2). Indeed, both RMG and non-RMG products portrayed better growth in the traditional markets when compared to non-traditional destinations. On the other hand, overall product concentration has been rising at a fast pace. RMGs comprised about 83.2 per cent of total export during July-April of FY2018, as against the share of 81.7 per cent in FY2015.

Figure 5.2: Market- and product-composition (%) of Bangladesh exports in recent years



Source: CPD Calculations from EPB data.
Note: Traditional market includes USA, EU and Canada.

A case in point concerns the leading non-RMG export item, the leather and leather products sector. Export of this promising sector is facing a major setback. The relocation of leather industries to Savar Tannery Estate has been a prolonged process, and the consequent disruption in production and export has contributed to the emergent situation. In line with the government's mid-term policy to stimulate export of value added products, it has imposed an export ban on crust leather. Similar policy was pursued in case of jute by discouraging export of raw jute. However, policies pursued over the years have not been effective enough to stimulate a robust growth of value added products in leather and jute sectors. Lack of predictability and failure to strategically deploy the incentive mechanisms are to blame. Both these sectors bear the burden of the significant deficits in terms of skills and technology. Lack of adequate enforcement of environment-friendly regulations at the production stage is an issue for the leather industry. In case of jute, its export potentials and branding as an environment friendly product have not been fully taken advantage of. Going forward, sector-specific targeted programmes and more emphasis on research and development (R&D) will be needed. The recently formulated Leather Sector Export Roadmap is geared to achieve an export target of USD 5 billion by 2021. The strategic road map for the sector, as also for other non-RMG thrust sectors, must be implemented in all earnest.

EU export market remained a zone of comfort. Export to the EU market maintained an 11.6 per cent growth during the first ten months of FY2018. Export of knit products (12.3 per cent growth) has higher growth than that of woven garments (10.7 per cent growth). Growth of non-RMG products (10.6 per cent) also matched this performance. As is expected, Bangladesh is set to graduate from the LDC status in 2024. According to current stipulation, Bangladesh will enjoy the EBA benefits till 2027. Thereafter, it will no longer be able to reap the formidable benefits accruing from the DF-QF market access and the relaxed rules of origin (RoO) in place for LDCs. Bangladesh will need to comply, and what is more important, enforce the 27 UN/ILO Conventions if it wants to apply for the GSP plus status. However, Bangladesh may have difficulty in attaining GSP plus status because of the current cap in terms of single country share in total GSP-eligible papers. Also, Brexit will call for negotiations with the UK.

Disquieting developments have been creeping up in the US market. According to EPB data for first ten months of FY2018, export growth of only 2.6 per cent was recorded for the US market. While knit garments posted a 7.8 per cent growth, the woven garments was able to record a growth of only 1.5 per cent (to recall, export of woven garments constituted the larger share in the US market). As it is, the non-RMG products experienced a negative growth over the corresponding period. Indeed, apparel imports in the US market has been experiencing a decelerating growth trend in recent years. Imposed duty on apparels and clothing accessories sector in the US tended to be the highest in 2017, which was as high as 14.2 per cent (PRC, 2018a). Research also suggests that, Bangladesh exports faced the highest tariff of 15.2 per cent (weighted average) in the US market amongst 232 exporting countries, territories or jurisdictions, while the global average tariff of all imports to the US was only 1.4 per cent (PRC, 2018b). Bangladesh's product concentration, favouring RMGs, was also the highest compared to other major exporting countries in the US market (Table 5.2). Within RMG, concentration of the top export items from Bangladesh is also very high (as a share of total knit/woven exports). Any slowdown in US economy makes Bangladesh's export highly susceptible in terms of growth prospects.

Table 5.2: Cross-country comparison of import growth (%) in the US market during July-March of FY2018

Origin of import	Market size (billion USD)	RMG	Non-RMG	Total	RMG as % share of total
Bangladesh	4.3	-2.0	4.4	-1.1	86.2
China	397.8	-1.6	11.9	11.1	5.4
Cambodia	2.6	9.2	50.7	19.6	68.3
India	38.1	3.4	10.1	9.5	7.2
Indonesia	15.2	-2.9	4.3	2.5	22.7
Mexico	240.8	3.7	7.9	7.8	1.1
Vietnam	35.5	8.1	9.8	9.4	25.5
Total	**1,803.0**	**1.8**	**8.4**	**8.1**	**3.5**

Source: Computed from the United States International Trade Commission data.

Slide in Bangladesh's apparels price posed a concern. CPD, in its earlier IRBD reports has shown that, growth of export value in her major markets was primarily volume-driven. It was also observed that prices of Bangladesh's main export, RMG products, have been declining over time; these were also lower than comparator countries (CPD, 2018b). In a buyer-driven market, Bangladesh's exporters are being subjected to continuing and relentless pressure from major buying companies and retail chains. Raising product diversification and productivity are the only way to remain competitive in the market. A country negotiating strategy to tackle the buyers' curtail needs to be crafted.

5.2 Import payments

Domestic demand prompted increased import payments. Phenomenal growth is observed in terms of import payments as data for the first three quarters of FY2018 indicates. Indeed, import payment has risen by 24.5 per cent over the corresponding period of FY2017. The surge in import of rice originated from loss of crop in two successive floods and the need to replenish stocks; import of capital goods escalated to support a number of important public-sector infrastructure projects.

Import payments for the first nine months of FY2018, about USD 43.6 billion, almost equalled the annual import payment of FY2017. A large part of the imports, particularly for infrastructure-related projects, was underwritten by foreign aid and suppliers' credit, which eased the pressure on the reserves. Foreign exchange reserves bore the burden of paying for some of the other import payments. Bangladesh Bank allowed the BDT to depreciate to a certain extent.

Depreciation of BDT reached its peak in January 2018 when it depreciated by about 5 per cent on a month-on-month basis. Indeed, US dollar gained against many of the other currencies over the corresponding period. If the BDT continues to slide against the USD, it will pose further pressure on import payments with the possibility of imported inflation.

Global commodity prices are showing upward trends. In view of US-Iran tensions, OPEC policy, demand-supply dynamics in the global market and a host of other reasons, petroleum prices have started to rise in recent times (Table 5.3). Increased global commodity prices will likely to put additional pressure on import payments in the coming months. This is particularly so because prices of many other commodities hinges on price of fuels in the international markets.

Table 5.3: Month-on-month growth of global commodity prices in April 2018

Commodities	Change (%)
Increase	
Crude oil (Brent)	35.2
Natural gas	31.3
Soybean oil	4.9
Rice (Thai, Vietnamese)	18.2 – 20.0
Cotton (index)	6.0
Fertilisers (DAP, TSP, Urea)	8.9 – 14.0
Aluminium	17.4
Gold	5.4
Decrease	
Palm oil	-2.8
Sugar	-26.9

Source: World Bank Commodity Price Data (The Pink Sheet).

As Bangladesh's leading export items are experiencing a price fall in major destination countries and global prices of raw materials and other commodities are on the rise, Bangladesh's terms of trade deteriorated further in March 2018 compared to March 2017 (Table 5.4).

Table 5.4: Changes in terms of trade (in view of RMG price in EU): March 2018 vs March 2017

Reference price	Price ratio: Knit (61)	Price ratio: Woven (62)
Crude oil	1.38	1.41
Rice	1.25	1.28
Fertiliser (index)	1.08	1.10
Cotton (index)	1.15	1.17

Source: World Bank Commodity Price Data (The Pink Sheet) and EuroStat.

Pressure on import payments may ease in coming months as rice imports decline. An additional amount of about USD 1.6 billion payments made against import of food grains during the first three quarters of FY2018 may not be required in FY2019, releasing some of the pressure. One may recall, due to two successive floods in 2017, public food stock went record low in August 2017. The government had reduced the import duty on rice which encouraged large purchases by private dealers/millers. As of 22 May 2018, about 38.7 lakh MT of rice has been imported; consequently, government rice stock has risen to 11.61 lakh MT. Since the *boro* rice production this year is expected to exceed its target production of 190 lakh MT, there may not be a reason to repeat the high import of foodgrains in FY2019. Indeed, the government should consider reimposing the import duty on rice with a view to safeguarding farmers' interests. Whether there is any capital flight by the unscrupulous traders taking advantage of zero-duty on rice imports, should warrant close scrutiny.

Energy demand will be high in FY2019. To meet the growing energy demands, the Government has opted to import significant amount of liquefied natural gas (LNG) – Bangladesh has emerged as the 41st LNG importing country in the world. Government has signed deals with Qatar's RasGas and Oman's Oman Trading International to import a total of 3.5 million MT of LNG per year. The first ship has already come to Moheshkhali with 133,000 cu m. of LNG. It is to be expected that high import of LNG will raise import payments in the upcoming years.

Spending on account of mega-projects will drive imports. Government has already announced a separate budget to the tune of Tk. 30 thousand crore to be allocated for implementation of the fast-track projects under the ADP. All these projects have project aid components. It is assumed that procurement for these projects would be pre-financed from foreign aid (e.g. Bangladesh Atomic Energy Commission (BAEC) opened import LC worth USD 11.4 billion to procure capital goods for Rooppur Nuclear Power Plant project, which will be financed from the Russian Credit). Bangladesh has already received about USD 3.4 billion worth of foreign aid to finance the aforesaid projects. However, these mega projects also necessitate import of associated items which will have to be underwritten through general import payments, putting additional pressure on foreign currency reserves.

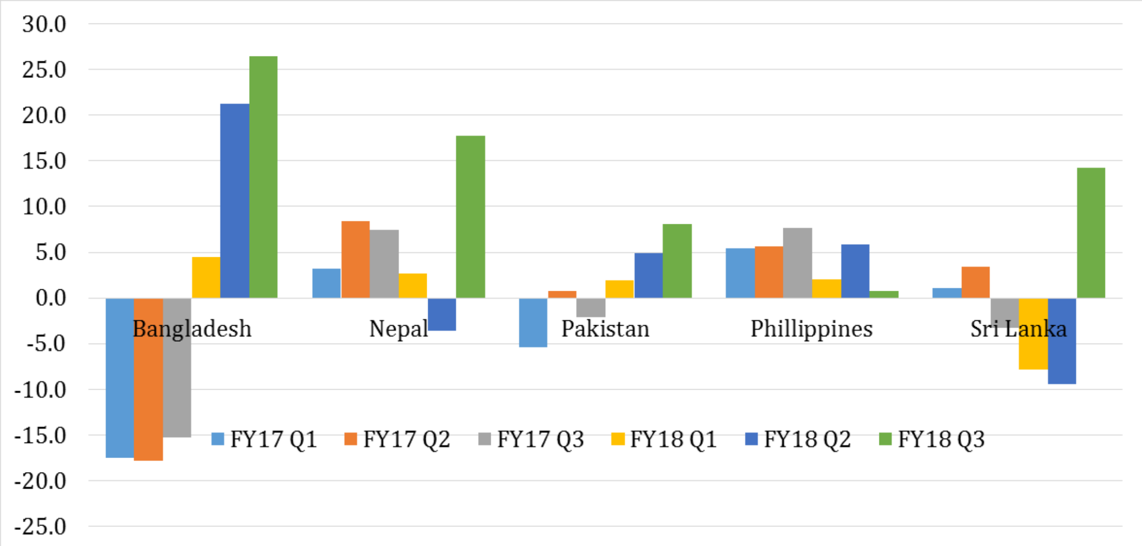
Repayment of foreign loans will put further pressure on reserves. As is known, Bangladesh Bank allowed private borrowers to take foreign loans from offshore commercial banks. Many of the loans will mature in this and coming years, putting pressure on foreign exchange demand.

L/C payments and openings also are indicative of the pressure on foreign exchanges. As of July-March of FY2018, import LC opening stood at USD 56 billion, which was USD 35.7 billion during the matched months of FY2017. Till now, USD 38.1 billion worth of LCs have been settled. It is expected that, another USD 15-20 billion of LCs will be settled over the coming months. However, about USD 13 billion worth LC remained open under 'Others' category, which do not include food, essential goods, capital goods, industrial raw materials or petroleum products. There is a need to closely examine and monitor which are these items. All this indicate a rising pressure on foreign exchange and reserves.

5.3 Migration and remittances

After two consecutive years of decline, remittance flows to low- and middle-income countries (LMICs) in 2017 has rebounded with the amount increasing by an estimated 8.5 per cent to reach USD 466 billion (World Bank, 2018). Bangladesh has also benefitted from this rising trend. Recovering from the negative growth of the last two consecutive years, remittance inflow to Bangladesh has recorded an impressive 17.7 per cent growth during July-April of FY2018. The Gulf Cooperation Council (GCC) countries accounted for 56.7 per cent of the USD 12.1 billion remittance inflows in July-April of FY2018. Saudi Arabia accounted for 17.3 per cent of the total inflows, followed by 15.9 per cent from the UAE and about 13.2 per cent from the USA. The recovery has been achieved thanks to a number of exogenous (such as healthy economic performance in developed countries, rise in oil prices) and endogenous factors (interventions by the Bangladesh Bank coming up with stringent regulations concerning mobile banking and allowing devaluation of local currency). Indeed, as Figure 5.3 shows, all key sending countries have posted positive growth in remittances in January-March quarter of FY2018.

Figure 5.3: Quarter-over-quarter cross-country comparison of remittances growth (%)



Source: Bangladesh Bank (www.bb.org.bd), Nepal Rastra Bank (www.nrb.org.np), State Bank of Pakistan (www.sbp.org.pk), The Bangko Sentral ng Pilipinas (www.bsp.gov.ph), Central Bank of Sri Lanka (www.cbsl.gov.lk). Accessed on 25 May 2018.

It is to be noted, that while robust remittance flows did help to narrow down the current account deficit, coming on the heels of depressed growth of the past year, the level of remittance flow in FY2018 will still likely to be below the peak level of USD 15.3 billion reached in FY2015.

In recent years, the number of migrants from Bangladesh has risen quite significantly. Between 2013 and 2017, about 23.2 lakh people have joined the migrant labour force. In the July-April 2017 period, 7.5 lakh people left Bangladesh for overseas job market; the corresponding figure for FY2018 was 7.6 lakh. Over the past three years 3.43 lakh female workers went, mostly to middle-east countries, as migrant workers.

The growth was significant on account of Saudi Arabia opening its market in 2015 for Bangladeshi migrants. This raised average monthly out-migration from about 35,520 in 2014 to about 84,000 in 2017. Recently, Saudi government stopped recruitment of foreign workers in 12 categories of jobs. Majority of the low-skilled Bangladeshi migrant workers fall into these categories. As a result, out-migration to Saudi Arabia has drastically fallen, by 50 per cent, during the first four months of 2018. Indeed, the number of outgoing migrants decreased in all GCC countries in first four months of 2018, while the total out-migration growth was recorded at about (-) 25.8 per cent. Malaysia is the only major country where migrant outflow remained consistent and high. The current deceleration in the flow of migrant workers will likely have a negative impact on remittance flows, with lagged impacts.

5.4 Balance of Payments (BoP)

In the face of high import payments, the negative trade balance stood at a new high of USD (-) 13.2 billion, according to the end of Q3 data for FY2018 (Table 5.5). The current account balance, supported by high remittance growth, was USD (-) 7.1 billion at the end of Q3, 2018. At the same time, BoP deficit stood at USD 1.4 billion, lowest since FY2011. This overall balance position was supported by financial and capital account surplus. Net medium and long-term (MLT) loans and net FDI respectively accounted for 61.5 per cent and 22.7 per cent of the financial account, with foreign portfolio investment remaining at very low levels.

Table 5.5: Trends in Bangladesh's balance of payments

Accounts	FY11	FY15	FY16	FY17	FY18
	July -March				
Trade balance	**-5,570**	**-4,673**	**-4,792**	**-7,039**	**-13,202**
Export f.o.b. (including EPZ)	16266	22,558	24,353	25,330	27,098
Import f.o.b (including EPZ)	21836	27,231	29,145	32,369	40,300
Current Account Balance	**689**	**2,434**	**3,355**	**-1,372**	**-7,083**
Capital account	**342**	**344**	**364**	**252**	**229**
Financial account	**-1,298**	**808**	**761**	**3,139**	**6,055**
Foreign direct investment (net)	574	1,342	1,097	1,417	1,376
Portfolio investment (net)	-43	360	67	312	320
Errors and omissions	**-262**	**-699**	**-947**	**579**	**-609**
Overall Balance	**-529**	**2,887**	**3,533**	**2,598**	**-1,408**

Source: Bangladesh Bank data.

Throughout the first three quarters of FY2018 foreign exchange reserves hovered around USD 33 billion, currently covering 5.2 months of imports. The days of the rapid growth in foreign reserves, rising from 7.5 billion in FY2009 to 33.4 billion in June FY2017. It is highly likely that the pressure on reserves will continue in the coming years.

Bangladesh's external sector performance has been quite robust in the recent past serving as a key pillar of its macroeconomic stability. However, as the preceding analysis indicates, it has now come under considerable pressure on several counts and the results in terms of the dynamics of the various balances bear this out. Export and remittance earnings are likely not be able to account for the expected rise in imports, with consequent impact on current account deficit. In the absence of rising flow of FDI and greater use of aid in the pipeline, the erstwhile comfortable scenario in terms of external balances are likely to be a scene of only the past. With some of the foreign currency loans incurred by the private sector, the pressure on foreign currency reserves is likely to rise further. The government is already resorting to selling dollars to keep BDT from sliding further. The likelihood of further depreciation of BDT with consequent implications in terms of imported inflation cannot be excluded. Indeed, the emerging near-term external sector scenario should be a matter of concern for the policymakers. There is a need for a serious analysis as regards how the scenario could develop and the likely implications. Energetic steps will then need to be taken to address the concern.

SECTION VI. CONCLUDING REMARKS

As the FY2018 draws to its finishing line, the economy of Bangladesh leaves several marks on its performance. First, the GDP growth as estimated by the BBS, continues to be strong, setting new heights compared to other least developed countries. Indeed, in recent years, high growth has contributed to higher per capita income and lower poverty rate (thought the pace of poverty reduction is slowing down). Second, growth rates of both export earnings and remittance inflow have accelerated in FY2018 (CPD, 2018a, b). If such growth rates continue, they may contribute to restrain the building pressure on BoP to some extent. Third, though increasing, average annual inflation rate remains slightly below the target set by the MPS for the second half of FY2018.

This positive performance, however, has been overshadowed by a number of concerns. First, accelerated GDP growth has not been translated into desired outcome (CPD, 2018a). Indeed, employment elasticity of growth has declined significantly. Moreover, employment has not led to adequate income for decent living. Thus, benefits of high growth have not reached all citizens of the country equally. Second, the fiscal framework continues to be weak with mismatch between target and actual accomplishments. Revenue mobilisation for FY2018 has lagged behind the target of 7FYP, primarily due to shortfall in income tax, VAT and SD collection. At the current trend of revenue mobilisation, achievement of 7FYP target for revenue mobilisation by FY2020 is highly unlikely. ADP implementation also could not make any breakthrough in FY2018. Delays, cost overrun and institutional weakness are causing low ADP implementation. Third, the external sector has come under pressure in the face of high import payments, which had resulted in a large current account deficit. Higher growth rates of export and remittance could not account for import growth, resulting in negative BoP. Fourth, inflationary pressure has been building gradually in recent months, mainly due to higher food inflation. Inflationary pressure may continue in the coming months. This may lead to income erosion of the poor. Fifth, the banking sector and capital market have not shown any prospect of positive changes in the near future. While the banking sector is plagued with a large amount of NPL and poor compliance, the capital market has been volatile with very few new investments.

In the above context, policymakers ought to focus on two broad areas in the coming years: (i) consolidation of macroeconomic stability, and (ii) reducing inequality (consumption, income and asset) and creating decent jobs. While the importance of higher economic growth cannot be undermined, the emphasis should be more on how to distribute the benefits of growth across regions and marginalised communities. In the first and second readings of the IRBD, released in January 2018 and April 2018 respectively, CPD had emphasised on the quality of the experienced higher economic growth. This has become imperative for policymakers in view of the government's commitment towards implementation of Sustainable Development Goals (SDGs). The country is also at a crossroad in accomplishing its journey from an LDC towards a developing country. Achievements of medium to long-term development goals will critically hinge on fulfilling the short-term targets. As the country is set for a national election during FY2019, economic policies will have to be carefully crafted to avoid the traditional ramifications of economic management in an election year. In this context, CPD reiterates on following a restrained macroeconomic management. More specifically, CPD puts forward a few policy recommendations which deserve immediate attention of the policymakers.

- A comprehensive, detailed and realistic revenue collection plan should be designed to fulfil high revenue generation target. Such a plan should include broadening tax base, curtailment of tax evasion and tax avoidance, and checking illicit financial flows from the country.
- A demonstrated mechanism for implementation of fast track project should be devised. Examination of the issue of over capitalisation of projects, particularly the large ones, is also necessary to save resources. Allocations for the social sectors should not be compromised while emphasising on physical infrastructure.
- Maintaining a balance between producers' and consumes' price is a tricky one. However, given the rising inequality in the rural areas and high food inflation, CPD reiterates the need for forming an Agriculture Costs and Prices Commission (ACPC) which will provide guidelines to ensure food security, recommend incentive structure for the produces and provide guidelines for price signals.
- Supporting labour-intensive, domestic market-oriented and local resource-based manufacturing and agro-based industry should be given priority by the policymakers for more decent job creation. Given the weakness in the external sector, this policy emphasis becomes more pertinent.
- Bangladesh Bank needs to remain vigilant as regards growing pressure on BoP which may result in further dents in foreign exchange reserve along with some depreciation of BDT. It will be critical for the central bank to maintain stability in the foreign exchange market to avoid any speculation and short-term volatility.
- Announcement of the much-awaited Banking Commission by the Finance Minister is a welcome move. This commission should conduct a transparency exercise of the state of the banking sector, the reasons behind weaknesses of the sector and make recommendations to overcome the crisis of the banking sector.
- SEC should formulate a separate guideline for institutional investors in the capital market of Bangladesh. A guideline will promote the causes of transparency and ensure safety of investors' investment by taking appropriate measures about choice of shares for investment, allocation of investment, investment policy that is approved by the shareholders every year, regular information sharing about risks, and prohibition for investment that will ensure good governance and regulation.
- Given that there will be less appetite for undertaking any reform measure during the election year, the government should not lose sight of the unfinished reform agenda for various sectors. Some of these include setting up of Public Expenditure Review Commission, Local Government (Finance) Commission, Agriculture Costs and Prices Commission, Independent Financial Sector Reform Commission and Independent Statistical Commission.

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ANNEX

Annex Table 2.1: Number of new projects vs. reduction in RADP allocation

Fiscal year	ADP	RADP	Number of new projects	Reduction
FY09	904	1,040	136	2,600
FY10	886	1,062	176	2,000
FY11	916	1,185	269	2,620
FY12	1,039	1,231	192	4,920
FY13	1,037	1,205	168	2,634
FY14	1,046	1,254	208	5,872
FY15	1,034	1,204	170	5,315
FY16	999	1,315	316	6,000
FY17	1,123	1,415	292	0
FY18	1,192	1,511	319	7,550

Source: Author's compilation from Planning Commission.

Annex Table 2.2: Number of projects with time extension: RADP compared to ADP FY2018

Sectors	Number of projects in ADP	Projects with time extension in RADP	Proportion (%) of projects with time extension
Rural Development & Institutions	125	24	19.2
Power	82	19	23.2
Transport	171	29	17.0
Education & Religious Affairs	112	35	31.3
Health, Nutrition, Population & Family Welfare	55	19	34.5

Source: Author's compilation from Planning Commission.

Annex Table 2.3: Implementation status of 'fast track' projects

Project Name	Project Cost in crore Tk. (Financial progress[1])	Allocation in FY18 ADP (crore Tk.)	Start and end dates	Source of Fund	Comments
Projects in Implementation Phase					
Padma Multipurpose Bridge (PMB)	28,793 (53.6%)	5,524	Jan 2009-Dec 2018	GoB	Cost of the project has been revised twice.
Dhaka Mass Rapid Transit Development Project (DMRTDP)	21,985 (14.9%)	3,426	Jul 2012-Jun 2024	GoB, JICA	JICA will provide 75 per cent of the total cost. Currently at the execution phase, following completion of all planning-related activities.
Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project (MUSCCFPP)	35,984 (14.0%)	2,220	Jul 2014-Jun 2023	GoB, JICA	JICA will provide 43 per cent of the total project cost. This is one of the costliest power projects of its size in the world that will come with its own deep sea port to facilitate import of coal.

Project Name	Project Cost in crore Tk. (Financial progress[1])	Allocation in FY18 ADP (crore Tk.)	Start and end dates	Source of Fund	Comments
Projects in Implementation Phase					
2×660 MW Moitree Super Thermal Power Project (MSTPP) in Rampal	16,000 (15.9%)	1	Jul 2009-Jun 2020.	GoB, India	On January 29, 2012, Bangladesh Power Development Board (BPDB) signed an agreement with National Thermal Power Corporation (NTPC) to build the 1,320-megawatt Rampal plant. The PDB and the NTPC will implement the USD 1.5 billion project on a 50:50 equity basis.
2x1200 MW Ruppur Nuclear Power Plant (RNPP) -	Phase-I 5,087 (95.8%)	122	Mar 2013-Jun 2018	GoB, Russia	Russia has provided Tk. 4,000 crore as project aid to complete the first phase.
	Main Project 113,093 (8.1)	10,187	Jul 2016-Dec 2025	GoB, Russia	Contract has been signed worth USD 11.38 billion with Russia in July 2016 to construct the mail power plant.
Padma Bridge Rail Link	34,989 (6.3%)	7,610	Jan 2016-Jun 2022	GoB, China	PMB project. About 29 per cent of the total project cost will come from the state exchequer while 71 per cent will come as project assistance from the Chinese government.
Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border	18,034 (16.4%)	1,561	Jul 2010-Jun 2022	GoB, ADB, China	Included as a 'fast track' project when it was upgraded from meter gauge to a dual gauge. Because this, project cost has jumped to Tk. 18,034.48 crore which was previously estimated to be Tk. 1,852.35 crore. Asian Development Bank (ADB) will underwrite 73 per cent of the total project cost.
Deep Sea Port at Paira	3,351 (20.9%)	400	Jul 2015-Jun 2020.	GoB	Initial activity commenced in 2013. The Paira Port Authority was constituted in August 2013. Both time and cost escalated for this project.
LNG terminal	Build-own-operate and transfer (BOOT)	-	Deal signed in Jan 2015. Expected to be completed by 2020.	GoB, IFC	In January 2015, Petrobangla signed a contract with Excelerate Energy-Astra Consortium to build the terminal. Excelerate was assigned to build the floating, storage and regasification unit (FSRU) under build-own-operate

Project Name	Project Cost in crore Tk. (Financial progress[1])	Allocation in FY18 ADP (crore Tk.)	Start and end dates	Source of Fund	Comments
Projects in Implementation Phase					
					and transfer (BOOT) basis. It was to charge USD 0.5 per Mcf (1,000 cubic feet) against its service. The project was initially set for completion in 2013. In December 2016, Excelerate Energy announced it has completed the required geotechnical and geophysical studies for the Maheshkhali LNG terminal, with a target of delivering the first LNG terminal in early 2018.
Deep Sea Port in Sonadia	55,000	-	NA	NA	Recently it has been announced following an ECNEC meeting that there will be no deep-sea port in Sonadia.

Source: ADP for FY2018, websites of the relevant government agencies.
Note: 1/ Progress was reported up to April 2018 for all the projects.
2/ '-' refers to no allocation while 'NA' refers to not applicable.

Annex Table 2.4: Implementation status of 20 priority projects under ADP for FY2018

Sl. No	Project Name	Project Cost	Implementation rate Jul-Feb FY18	Cumulative Progress up to February 2018	Maximum possible completion by FY18	End date
Transportation						
1	Padma multipurpose Bridge project	28,793	18.6	52.2	65.0	31/12/18
2	SASEC Road Connectivity: Improvement of Joydebpur-Chandra-Tangail-Elenga Road (N-4) to 4-Lane Highway	3,365	57.5	60.4	71.8	30/03/18
3	SASEC Road connecting Project-II: Improvement of Highway Four Lane Road of Alenga-Hatikamrul-Rangpur	11,899	0.1	0.0	5.0	31/08/21
4	Four Laning of Dhaka-Khulna Highway (N-5) from Jatrabari Intersection to Maoa (Including Ikuria-Babubazar Link Road) and Pachchar-Vanga Portion with separate lane for slow moving vehicles	6,852	50.0	67.1	89.6	30/06/20

Sl. No	Project Name	Project Cost	Implementation rate Jul-Feb FY18	Cumulative Progress up to February 2018	Maximum possible completion by FY18	End date
5	Greater Dhaka Sustainable Urban Transport Project (BRT Gazipur-Airport)	2,040	17.6	18.8	23.7	31/12/18
6	Support to Dhaka Elevated Expressway PPP Project	3,217	8.8	44.7	48.1	31/12/20
7	Construction of Multilane Road Tunnel under River karnaphuli	8,447	74.9	19.9	28.4	30/06/20
8	Dhaka-Chittagong Railway Development Project	3,190	41.6	90.0	91.6	30/06/17
9	Construction of Bangabandhu Railway Bridge	9,734	57.6	1.1	1.7	31/12/23
	Power					
10	Ashuganj 450MW CCPP (North)*	3,400	91.7	78.4	79.0	31/12/17
11	Construction of Bibiana-3, 400 MW Combined Cycle Power Plant	3,358	105.2	54.5	55.2	30/06/19
12	Construction of Ghorashal 365 MW* Combined Cycle Power Plant	2,512	9.3	67.7	93.1	30/06/18
13	Siddhirganj 335 MW PP	4,239	18.0	59.4	58.9	31/12/18
14	Shikalbaha Duel Fuel 225 MW Combined Cycle Power Plant	2,008	20.9	63.9	82.6	30/06/18
15	Veramara Combined Cycle Plant (360 MW) Development*	4,140	50.1	116.6	87.4	31/12/17
16	Providing Electricity Connection to 15 lakh clients through Rural Electricity extension	6,426	76.7	47.5	53.4	31/12/18
	Industry					
17	Shahjalal Fertilizer Project	4,874	34.7	96.7	98.3	30/06/18
18	Tannery Industrial Estate, Dhaka (Third Revised)	1,079	4.6	62.8	71.1	30/06/17
	Oil, Gas and Mineral Resources					
19	Establishment of Gas Compressor Station in Ashuganj and Elenga*	1,431	11.5	68.2	82.9	30/06/18
	Rural Development & Institutions					
20	Construction of 1490m long Pre-stressed Concrete Grider Bridge over Teesta River at Pachpir Bazar-Chilmari Upazila HQ Road of Sundargonj Upazila under Gaibandha District Project	76	6.4	2.3	4.2	30/06/19

Source: Author's calculation from the Implementation, Monitoring and Evaluation Division (IMED) data.
*Note: Progress up to November 2017.

Annex Table 2.5: Allocation of safety net programmes *in crore Tk.*

Programmes	Budget vs. NSSS target						Projection vs. Target		
	FY16	NSSS FY16	FY17	NSSS FY17	FY18	NSSS FY18	Proposed FY19	MTBF FY19	NSSS FY19
Old Age Allowance	1,440	2,010	1,890	3,530	2,100	3,740	2,400	2,604	3,960
Child School (Primary and Secondary) Stipend	1,159	3,870	1,640	6,830	464	7,240	N/A	2,002	8,140
Allowances for the Widowed, Deserted and Destitute Women	534	1,150	690	2,040	759	2,160	840	941	2,420
Programmes for people with disabilities	360	1,080	540	1,910	693	2,020	781	859	2,270

Source: Calculated from GED (2015) and MoF (2017).

Annex Table 2.6: Coverage of the beneficiaries *Persons in lakh/man*

Programmes	Budget				Proposal	Projection
	FY16	FY17	FY18	NSSS FY18	FY19	MTBF FY19
Old Age Allowance	30.0	31.5	35.0	55.0	40.0	38.5
Child School (Primary and Secondary) Stipend	88.0	140.0	37.4	179.0	N/A	149.5
Allowances for the Widowed, Deserted and Destitute Women	11.0	11.5	12.7	32.0	14.0	13.9
Programmes for people with disabilities	6.0	7.5	8.3	10.0	9.3	9.0

Source: Calculated from GED (2015) and MoF (2017).

Annex Table 3.1: Inflation targets of central banks in 2018

Country	Name of Central Bank	Target in 2018	2017
Albania	Bank of Albania	3.00% +/-1%	3.00% +/-1%
Argentina	Central Bank of Argentina	15.00% (8)	12%-17% (8)
Armenia	Central Bank of Armenia	4.00% +/-1.5%	4.00% +/-1.5%
Australia	Reserve Bank of Australia	2.00% - 3.00%	2.00% - 3.00%
Azerbaijan	Central Bank of the Republic of Azerbaijan	6.00%-8.00%	monetary base
Bangladesh	Bangladesh Bank	6.00% +/-1.0%	6.00% +/-1.0%
Belarus	National Bank of the Republic of Belarus	max. 6.00% (2)	9% (2)
Botswana	Bank of Botswana	3.00% - 6.00%	3.00% - 6.00%
Brazil	Central Bank of Brazil	4.50% +/-1.50%	4.50% +/-1.50%
Canada	Bank of Canada	2.00% +/-1.0%	2.00% +/-1.0%
Chile	Central Bank of Chile	3.00% +/-1.0%	3.00% +/-1.0%
China	People's Bank of China	around 3.00% (9)	around 3.00% (9)
Colombia	Central Bank of Colombia	3.00% +/-1.0%	3.00% +/-1.0%
Costa Rica	Central Bank of Costa Rica	3.00% +/-1.0%	3.00% +/-1.0%
Czech Republic	Czech National Bank	2.00% +/-1.0%	2.00% +/-1.0%
Dominican Republic	Central Bank of the Dominican Republic	4.00% +/-1%	4.00% +/-1%
Egypt	Central Bank of Egypt	13.0% +/-3% (13)	13.0% +/-3% (13)

Country	Name of Central Bank	Target in 2018	2017
Euro Area	European Central Bank	<2.00% (11)	<2.00% (11)
Gambia	Central Bank of the Gambia	5.00%	5.00%
Georgia	National Bank of Georgia	5.00% (6)	5.00% (6)
Ghana	Bank of Ghana	8.00% +/-2.0%	8.00% +/-2.0%
Guatemala	Bank of Guatemala	4.00% +/-1.0%	4.00% +/-1.0%
Hungary	Central Bank of Hungary	3.00% +/-1.0%	3.00% +/-1.0%
Honduras	Central Bank of Honduras	4.00%+/-1.0% (15)	4.00%+/-1.0% (15)
Iceland	Central Bank of Iceland	2.50%	2.50%
India	Reserve Bank of India	4.00% +/-2.0%	4.00% +/-2.0%
Indonesia	Bank Indonesia	4.00% +/-1.0%	4.00% +/-1.0%
Israel	Bank of Israel	1.00% - 3.00%	1.00% - 3.00%
Jamaica	Bank of Jamaica	4.0%-6.0%	4.0%-6.0%
Japan	Bank of Japan	2.00%	2.00%
Kazakhstan	National Bank of Kazakhstan	5.00%-7.00% (7)	6.00%-8.00% (7)
Kenya	Central Bank of Kenya	5.00% +/-2.50%	5.00% +/-2.50%
Kyrgyzstan	National Bank of the Kyrgyz Republic	7.00%	7.00%
Malawi	Reserve Bank of Malawi	14.2% (3)	14.2% (3)
Mexico	Bank of Mexico	3.00% +/-1.0%	3.00% +/-1.0%
Moldova	National Bank of Moldova	5.00% +/-1.5%	5.00% +/-1.5%
Mongolia	Bank of Mongolia	<8.00% +/-2% (12)	<8.00% +/-2% (12)
Mozambique	Bank of Mozambique	5.60%	5.60%
Nepal	Nepal Rastra Bank	7.00%	7.00%
New Zealand	Reserve Bank of New Zealand	2.00% +/-1.0%	2.00% +/-1.0%
Nigeria	Central Bank of Nigeria	6.00% - 9.00%	6.00% - 9.00%
Norway	Norges Bank	2.00% (16)	2.50%
Pakistan	State Bank of Pakistan	6.00% (4)	6.00% (4)
Paraguay	Central Bank of Paraguay	4.00% +/-2.0%	4.00% +/-2.0%
Peru	Central Reserve Bank of Peru	2.00% +/-1%	2.00% +/-1%
Philippines	Bangko Sentral ng Pilipinas	3.00% +/- 1.0	3.00% +/- 1.0
Poland	National Bank of Poland	2.50% +/-1.0%	2.50% +/-1.0%
Romania	National Bank of Romania	2.5% +/-1.0%	2.5% +/-1.0%
Russia	Bank of Russia	4.00%	4.00%
Samoa	Central Bank of Samoa	3.00%	3.00%
Serbia	National Bank of Serbia	3.00% +/-1.5%	3.00% +/-1.5%
South Africa	South African Reserve Bank	3.00% - 6.0%	3.00% - 6.0%
South Korea	Bank of Korea	2.00% (5)	2.00% (5)
Sri Lanka	Central Bank of Sri Lanka	3.00% - 5.0%	3.00% - 5.0%
Sweden	The Riksbank	2.00%	2.00%
Switzerland	Swiss National Bank	<2.00%	<2.00%
Tanzania	Bank of Tanzania	0.0%-5.0% (10)	0.0%-5.0% (10)
Thailand	Bank of Thailand	2.50% +/-1.5%	2.50% +/-1.5%
Turkey	Central Bank of Republic of Turkey	5.00% +/-2%	5.00% +/-2%
Uganda	Bank of Uganda	5.00% +/-2.0%	5.00% +/-2.0%
Ukraine	National Bank of Ukraine	5.00 +/- 1% (1)	5.00 +/- 1% (1)
United Kingdom	Bank of England	2.00%	2.00%
Uruguay	Central Bank of Uruguay	3.00% - 7.00%	3.00% - 7.00%
United States of America	Federal Reserve	2.00%	2.00%
Vietnam	State Bank of Vietnam	5.00%	5.00%
West African States	Central Bank of West African States	2.00% +/-1%	2.00% +/-1%
Zambia	Bank of Zambia	9.00%	9.00%

Source: CentralBankNews.info.

Notes: (1) Slowdown path: 8.0% (+/-2%) December 2017, 6.0% (+/-2%) December 2018, 5.0% (+/-1%) December 2019; (2) 5% by end-2020; (3) Target for June 2016 implies measures to reach avg. 21% for calendar year; (4) Target for fiscal 2017/18; (5) Target for 2016-2018; (6) 4.0% target 2017, 3.0% later years; (7) 5%-7% by end-2018, 4%-6% end-2019, below but close to 4% by end-2020; (8) 10.0% for 2019, 5.0% for 2020; (9) CCP National Congress; (10) Longer-term average; (11) below, but close to, 2% over medium term; (12) target for 2017-2019; (13) target for Q4 2018, single digits thereafter; (14) target for 2017/18; (15) target for 2017/18; (16) As of March 2, 2018.

Annex Table 3.2: BASEL III compliance status of state-owned commercial banks

ID	Name	CET1	LCR	NSFR	LR	NPL
1	Agrani Bank Limited	N/A	750.40%	109.89%	3.11%	20%
2	Bangladesh Development Bank Limited	N/A	571.47%	100.30%	19.52%	40.75%
3	BASIC Bank Limited*	-17.23%	236.03%	88.64%	-9.38%	54.13%
4	Janata Bank Limited	8.40%	279.66%	107.23%	4.61%	16.54%
5	Rupali Bank Limited	4.99%	504.73%	101.31%	2.60%	23.40%
6	Sonali Bank Limited*	7.45%	537.90%	114.03%	2.81%	28.38%

Source: BASEL III disclosures on risk-based capital of individual banks.
Note: * indicates data for 2016.

Annex Table 3.3: BASEL III compliance status of development finance institutions

ID	Name	CET1	LCR	NSFR	LR	NPL
1	Bangladesh Krishi Bank	N/A	50.76%	95.66%	-29.35%	23%
2	Rajshahi Krishi Unnayan Bank	-7.72%	300%	181%	-5.25%	23%

Source: BASEL III disclosures on risk-based capital of individual banks.
Note: * indicates data for 2016.

Annex Table 3.4: BASEL III compliance status of private commercial banks

ID	Name	CET1	LCR	NSFR	LR	NPL
1	AB Bank Limited	N/A	125.76%	104.66%	5.70%	7.15%
2	Al-Arafah Islami Bank Limited*	11.31%	106.17%	101.21%	6.75%	N/A
3	Bangladesh Commerce Bank Limited	N/A	N/A	N/A	N/A	N/A
4	Bank Asia Limited	8.53%	109.32%	105.92%	5.38%	4.38%
5	BRAC Bank Limited	11.24%	125.51%	114.38%	7.49%	N/A
6	Dhaka Bank Limited	7.95%	100.06%	101.52%	5.24%	5.98%
7	Dutch-Bangla Bank Limited	9.20%	125.10%	115.70%	5.20%	4.70%
8	Eastern Bank Limited	10.24%	113.35%	102.82%	5.59%	2.50%
9	Export Import (EXIM) Bank of Bangladesh Limited	8.65%	100.15%	104.70%	6.70%	5.32%
10	First Security Islami Bank Limited	6.77%	212.41%	103.55%	3.24%	3.07%
11	ICB Islamic Bank Limited	-117.15%	69.48%	83.27%	-98.68%	80.04%
12	International Finance Investment and Commerce (IFIC) Bank Limited	9.84%	102.95%	100.23%	7.33%	6.40%
13	Islami Bank Bangladesh Limited	8.71%	127.49%	108.47%	4.90%	N/A
14	Jamuna Bank Limited	7.27%	136.00%	115.72%	5.33%	4.03%
15	Meghna Bank Limited	N/A	303.02%	121.82%	12.10%	3.39%
16	Mercantile Bank Limited	7.91%	100.79%	106.16%	5.58%	3.79%
17	Midland Bank Limited	19.98%	249.28%	128.05%	13.02%	N/A

ID	Name	CET1	LCR	NSFR	LR	NPL
18	Modhumoti Bank Limited	15.67%	268.20%	121.39%	10.71%	0.29%
19	Mutual Trust Bank Limited	7.30%	127.92%	100.85%	4.24%	4.30%
20	National Bank Limited*	11.37%	178.81%	110.24%	10.03%	10.35%
21	National Credit and Commerce Bank Limited	10.40%	123.02%	101.49%	7.22%	5.79%
22	NRB Bank Limited	17.34%	103.85%	108.59%	11.85%	N/A
23	NRB Commercial Bank Limited	N/A	109.30%	112.95%	9.93%	N/A
24	NRB Global Bank Limited	N/A	300.72%	105.13%	6.14%	1.03%
25	One Bank Limited	7.60%	104.29%	121.66%	5.82%	N/A
26	Prime Bank Limited	10.01%	109.58%	120.08%	6.61%	N/A
27	Pubali Bank Limited	9.38%	204.02%	103.82%	6.05%	N/A
28	Shahjalal Islami Bank Limited	8.38%	100.57%	118.97%	5.51%	3.97%
29	Shimanto Bank Limited	N/A	N/A	N/A	N/A	N/A
30	Social Islami Bank Limited	7.02%	106.66%	113.58%	4.43%	8.20%
31	South Bangla Agriculture and Commerce Bank Limited	15.31%	149.07%	110.57%	10.11%	0.87%
32	Southeast Bank Limited	6.80%	102.81%	115.55%	5.16%	5.99%
33	Standard Bank Limited	9.26%	87.00%	104.09%	6.74%	8.29%
34	The City Bank Limited	10.15%	131.90%	110.55%	6.37%	5.43%
35	The Farmer's Bank Limited*	9.74	105.07%	122.82%	7.27%	N/A
36	The Premier Bank Limited	7.85%	90.18%	113.72%	5.06%	4.69%
37	Trust Bank Limited	7.59%	102.34%	102.34%	4.45%	3.35%
38	Union Bank Limited	10.05%	103.41%	121.64%	5.19%	N/A
39	United Commercial Bank Limited	7.71%	119.29%	113.35%	5.07%	7.38%
40	Uttara Bank Limited	11.38%	908.55%	108.65%	6.14%	6.60%

Source: BASEL III disclosures on risk-based capital of individual banks.

Note: * indicates data for 2016.

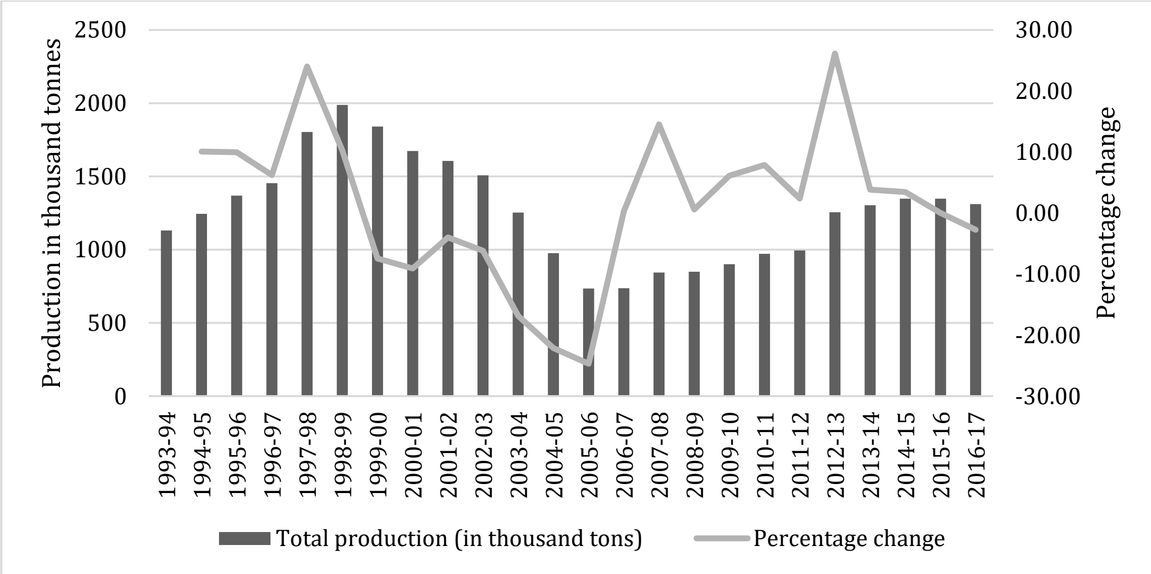
Annex Table 3.5: BASEL III compliance status of foreign commercial banks

ID	Name	CET1	LCR	NSFR	LR	NPL
1	Bank Al-Falah Limited	56.43%	225.69%	141.98%	24.10%	2.53%
2	Citibank N.A	37.76%	124.25%	123.20%	21.21%	1.35%
3	Commercial Bank of Ceylon PLC	34.49%	129.45%	115.59%	17.89%	1.39%
4	Habib Bank Limited	N/A	120.24%	102.95%	35.19%	8.51%
5	National Bank of Pakistan	N/A	8.17%	24.74%	17.59%	94.65%
6	Standard Chartered Bank	14.24%	123.11%	133.03%	10.06%	2.95%
7	State Bank of India	81.95%	119.52%	118.30%	22.99%	N/A
8	The Hongkong and Shanghai Banking Corporation (HSBC) Limited	27.91%	111.13%	111.96%	14.51%	N/A
9	Woori Bank	29.88%	320.24%	128.80%	53.52%	1.38%

Source: BASEL III disclosures on risk-based capital of individual banks.

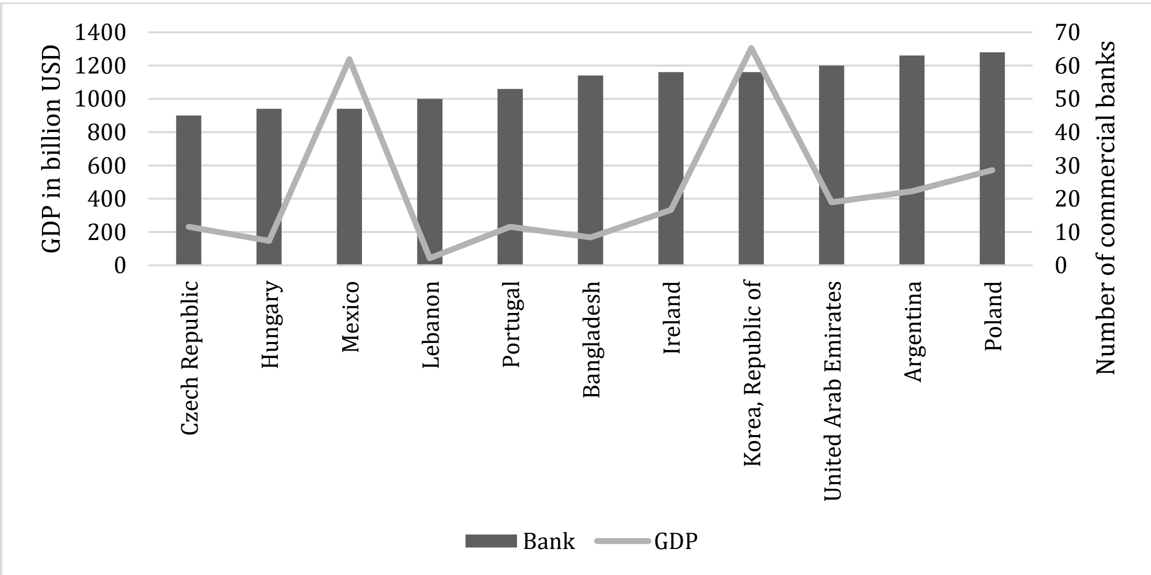
Note: * indicates data for 2016.

Annex Figure 3.1: Wheat production



Source: Bangladesh Bureau Statistics (BBS).

Annex Figure 3.2: GDP (constant, 2010 USD) of countries having 45 to 65 commercial banks (2016)



Source: IMF Financial Access Survey Data.