Independent Review of Bangladesh's Development

State of the Bangladesh Economy in FY2016-17

Third Reading

(Draft)

Dhaka: 27 May 2017

CENTRE FOR POLICY DIALOGUE

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Contents

Expert Group Consultation

The CPD Team is grateful to all the participants at the consultation on 4 May 2017 for sharing their views, insights and comments on the study

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The CPD IRBD 2017 Team would like to register its sincere gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report

Section I: Introduction

- The present report is the third reading of the State of Bangladesh Economy in FY17
- Objective of the report:
  - ➢ Present an assessment of the performance of key sectors of the economy
  - ➢ Track trends in major macroeconomic variables during FY17
- Three major issues of the economy from the perspective of investment and employment generation have been picked up
  - ➢ growth and structural transformation
  - ➢ external sector with focus on remittances and exports
  - ➢ sources of finance by looking into banking sector and capital market
- The report considers latest available data and information from domestic and international sources, as well as insights gleaned from key informants
- In preparation of this report CPD confronted more than usual data constraint

Section II: Whither Macroeconomic Management

Strong economic growth projected by BBS

- According to BBS, GDP growth rate is expected to reach 7.24% in FY17 which was 7.11% in FY16
    - This will be the third time in Bangladesh's history that GDP growth had exceeded 7%
- Bangladesh's per capita gross national income (GNI) has been projected to be about USD 1,602 for FY17, which is USD 138 higher than the preceding year of FY16
- Per capita GDP is estimated to grow to USD 1,538 in FY17 from previous level of USD 1,385 in FY16
- Lower growth of GNI compared to GDP is attributed to the falling inflow of remittances (resulting in current account deficit) along with marginal depreciation of BDT against USD

Section II: Whither Macroeconomic Management

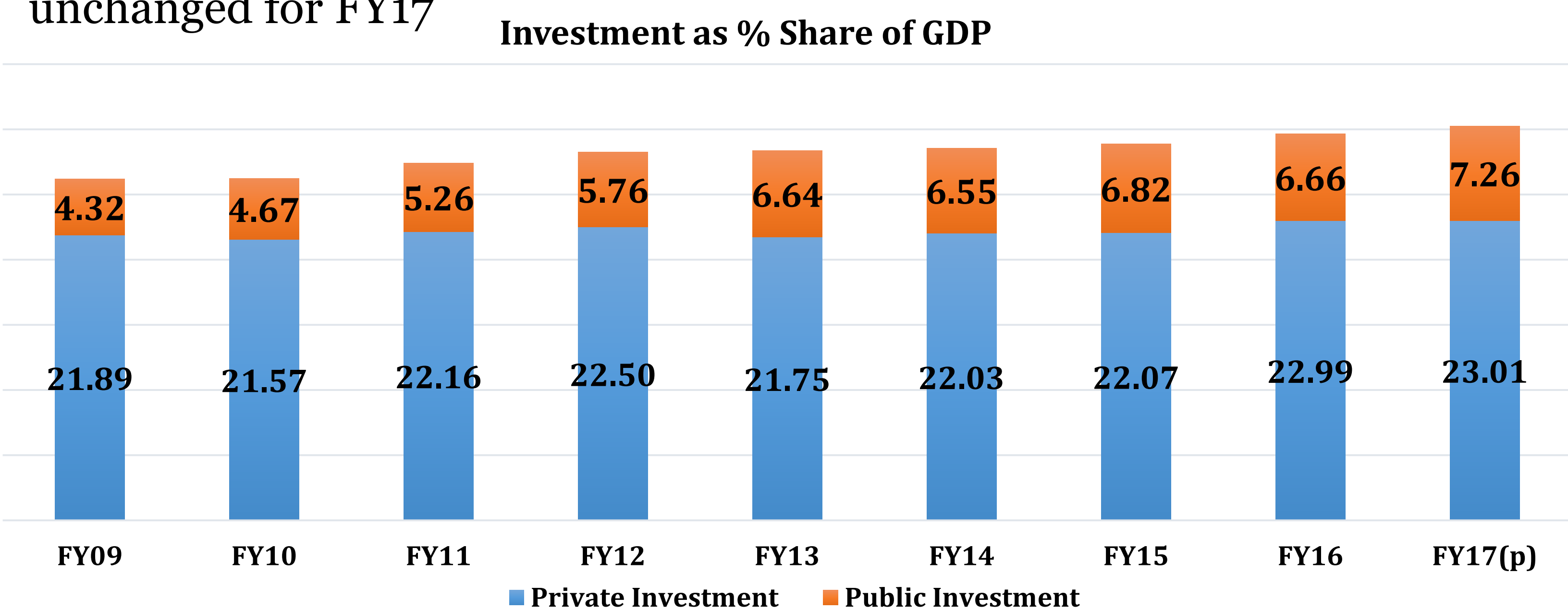
- Industry sector is boosted by the manufacturing sector despite lower growth of export earnings
- The selected sectors under services account for 50.2% of the estimated 3.3% growth

Sectorwise Real GDP Growth (%)

Industrial Origin Sector	FY11	FY12	FY13	FY14	FY15	FY16	FY17(p)
Agriculture Sector	0.78	0.52	0.41	0.70	0.53	0.43	0.50
Industries Sector	2.31	2.47	2.59	2.27	2.74	3.24	3.18
Manufacturing	*1.64*	*1.69*	*1.80*	*1.60*	*1.93*	*2.26*	*2.21*
Services Sector	3.25	3.43	2.88	2.92	3.00	3.21	3.31
Wholesale and Retail Trade	*0.89*	*0.90*	*0.83*	*0.90*	*0.86*	*0.88*	*0.92*
Public Administration and Defense	*0.27*	*0.24*	*0.21*	*0.22*	*0.32*	*0.38*	*0.34*
Education	*0.12*	*0.16*	*0.13*	*0.16*	*0.17*	*0.26*	*0.26*
Health and Social Works	*0.12*	*0.07*	*0.09*	*0.09*	*0.09*	*0.13*	*0.13*
Tax less Subsidy	0.12	0.10	0.13	0.16	0.28	0.24	0.25
GDP Growth	**6.46**	**6.52**	**6.01**	**6.06**	**6.55**	**7.11**	**7.24**

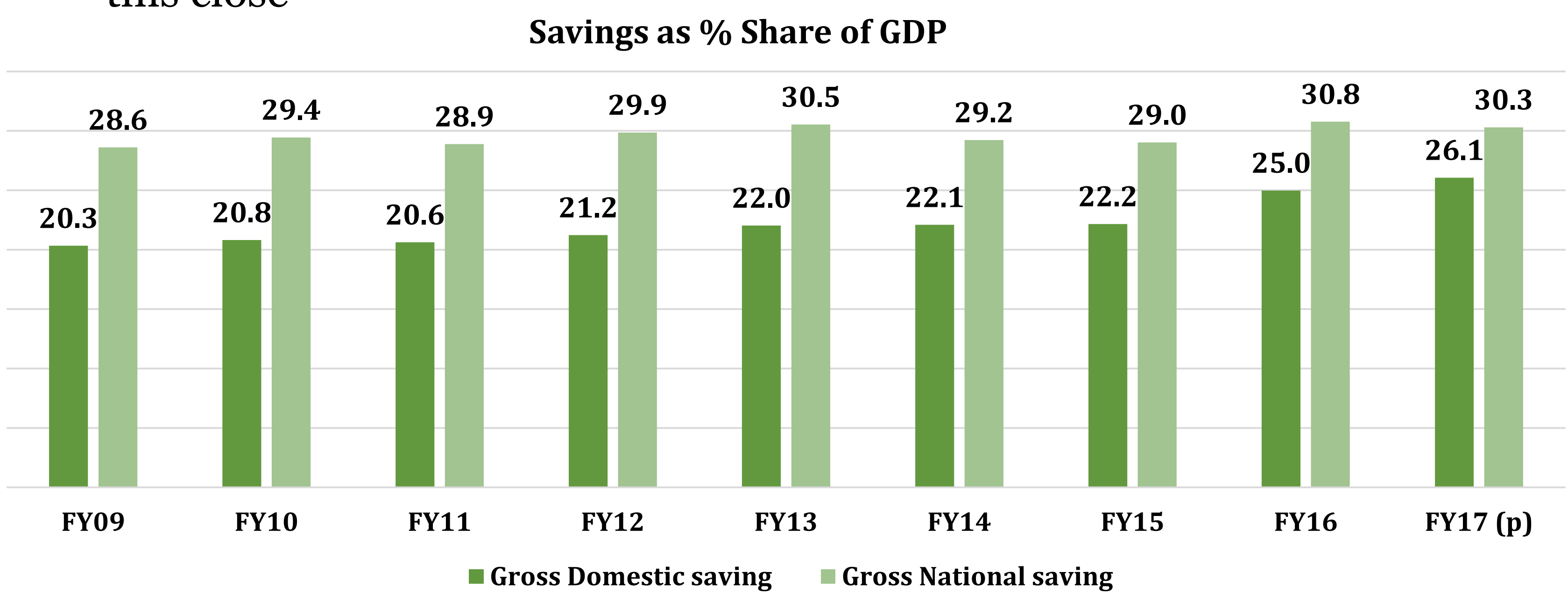
Section II: Whither Macroeconomic Management

- Investment as % share of GDP is expected to rise by 0.6% to 30.27% in FY17 due to a spurt in the public investment levels (0.63% lower than 7FYP projections)
  - For FY20, investment-GDP ratio is expected to be 34.4%
- Incremental capital-output ratio (ICOR) is also expected to be almost unchanged for FY17



Section II: Whither Macroeconomic Management

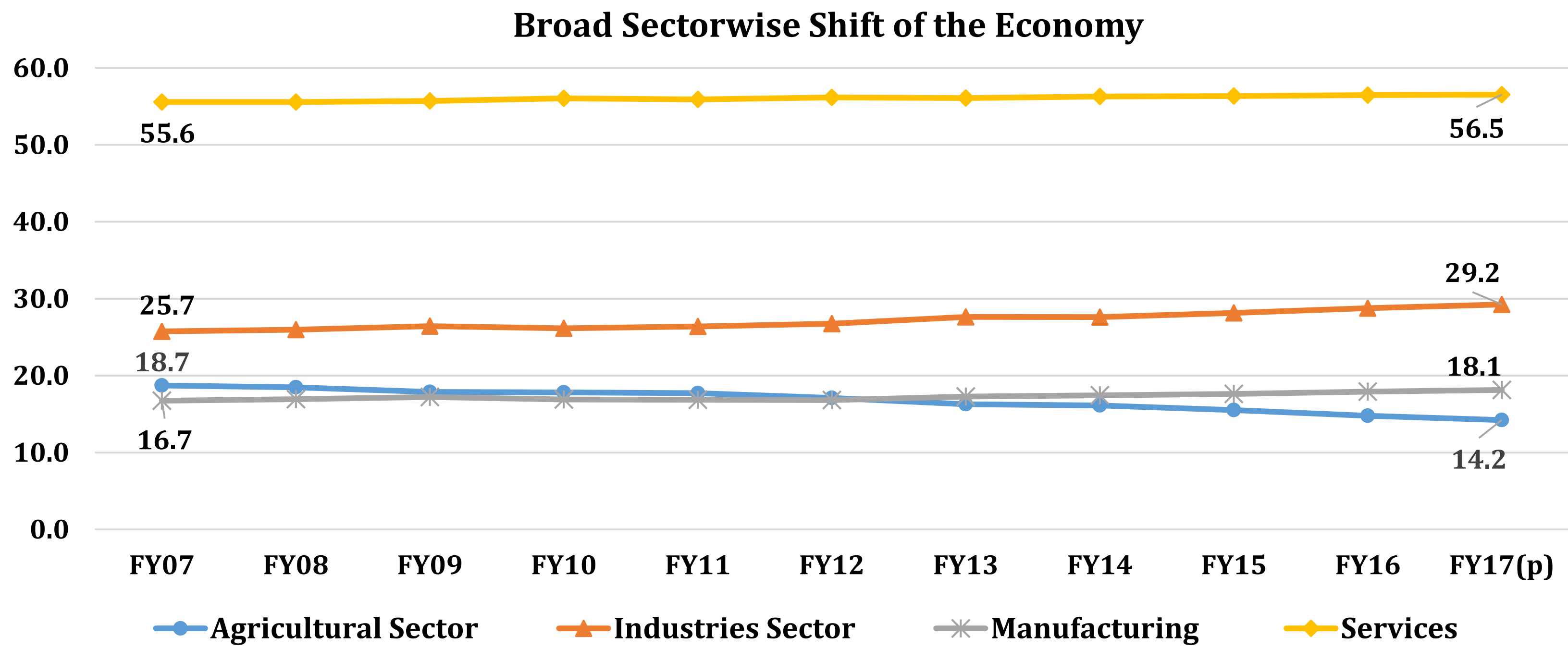
- Domestic savings-GDP ratio expected to rise by about 1.1% to 26.1% in FY17
- National savings-GDP ratio is projected to decline by 0.5% to 30.3% in FY17 amid large current account deficit
  - May be for the first time in the recent history of Bangladesh when national savings and total investment (as a share of GDP) have become this close



CPD (2017): State of the Bangladesh Economy in FY2017 (Third Reading)

Section II: Whither Macroeconomic Management

- In Bangladesh a substantial emphasis is given to GDP growth rate
- A gradual shift in the economy is evident – from agriculture to industry and services
- Between FY07 and FY17, share of agriculture sector in GDP declined by (-) 4.5% whilst industries and services sectors gained 3.5%
- Difficult to access employment generation impact as figures are not available



Revenue mobilisation by NBR is strong, but needs to keep momentum

- Revenue mobilisation target for FY17 was ambitious and CPD (2017) predicted a possible shortfall to the tune of Tk. 38,000 crore from the original target
- Despite a strong revenue collection performance from NBR, the revised budget may cut the revenue mobilisation target by about Tk. 32,000 crore
- Attained growth rate during Jul-Feb FY17 was 19.6 %; [which was 14.4 % in FY16]
- Income tax collection growth has almost doubled, to 18.1 %in FY17 [from 9.7 %in Jul-Feb FY16]
- Regrettably, revenue collection from non-NBR sources was rather disquieting according to the available data for only first four months

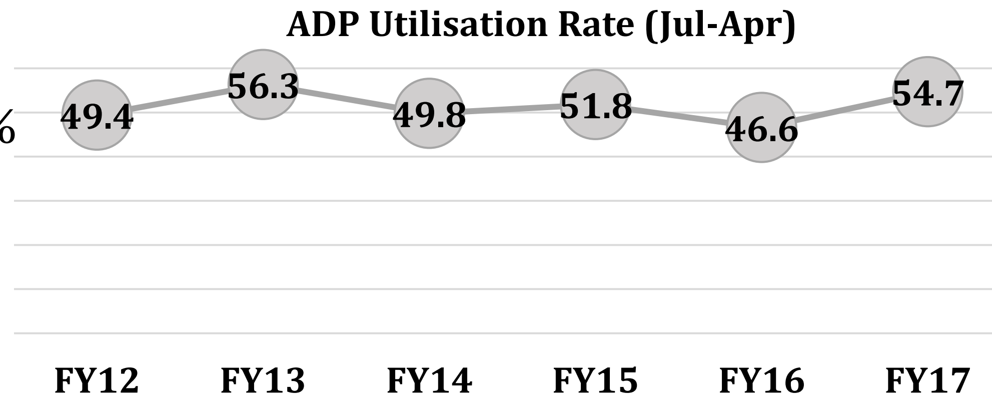
Section II: Whither Macroeconomic Management

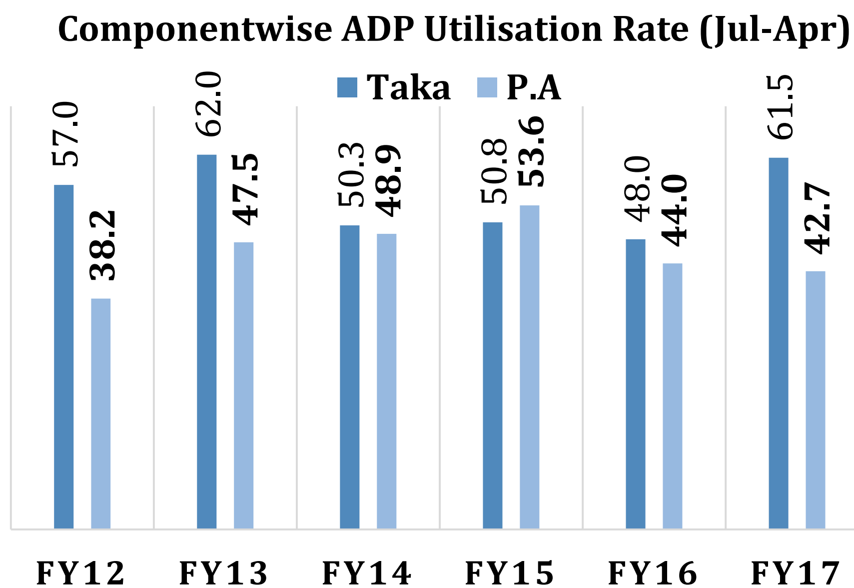
- Revenue collection growth target for FY18 may be fixed at around 34.0% over revised target for FY17
- Annual growth target for FY18 may rise further as actual revenue mobilisation may fall short of the revised target for FY17

- Therefore, further efforts toward domestic resource mobilisation along with exploration of new avenues ought to be the key priorities
- Proper implementation of the much discussed VAT and SD Act 2012 will be the yardstick
- CPD 2016 has proposed several reform measures:
  - ➢Changes to the current advance income tax (AIT) collection system through introducing tax deducted at source (TDS) online
  - ➢Introduction of the Benami Property Bill
  - ➢Strengthening the Transfer Pricing Cell to curb the illicit financial flows
- GoB should expedite preparation of a new Direct Tax Act and an amended Customs Act to facilitate higher revenue mobilisation

ADP implementation pace recovered as local resource utilisation improved

- During Jul-Apr FY17, about 54.7% of total ADP allocation was spent
- Second highest implementation rate, since FY13
- ADP implementation recovered from its earlier slump that was recorded in Jul-Apr FY16
- Foreign funding utilisation (42.7%) is the lowest in last 5 years
- Implementation of fast track projects remained unsatisfactory
- Despite, slow progress, revised ADP remained unchanged in FY17





Section II: Whither Macroeconomic Management

ADP implementation

- The top 10 ministries/divisions accounts for 72.9% of the total FY17 ADP allocation
- 90 new projects have been added
- Completion of the remaining existing projects must be kept into account

Performance of Top 10 Ministries during Jul-Apr Period

Ministries/Divisions	FY14	FY15	FY16	FY17
Local Govt. Division (Including Block Allocation)	66.3	66.6	61.3	71.7
Power Division	47.3	51.6	57.7	83.9
Bridges Division	7.5	39.7	28.3	26.8
Road Transport and Highways Division	55.0	56.6	58.3	71.6
M/o Railway	56.5	49.6	36.6	39.0
M/o Health & Family Welfare	53.9	42.8	37.7	36.8
M/o Primary & Mass Education	61.5	51.0	56.7	44.7
M/o Education	50.3	52.4	49.5	46.5
M/o Water Resources	51.9	31.5	41.4	40.9
Energy and Mineral Resources Division	20.4	39.9	36.1	46.1
Top Ten Ministry	**48.2**	**51.5**	**50.1**	**56.0**
Grand Total	**49.8**	**51.8**	**46.6**	**54.7**

Utilisation of Indian LoCs: Lessons from the past experience

- India first extended a line of credit (LoC) worth USD 1 billion to Bangladesh with a view to strengthening economic cooperation in 2010
  - ✓ First LoC, 75% loan amount were tied in nature
  - ✓ Only 8 projects (total 15) were completed (all procurement projects only) and 7 projects are still ongoing
  - ✓ First LoC was mostly used to improve the domestic connectivity and standard of Bangladesh Railways
- 2 more LoCs to the tune of USD 2 billion and USD 4.5 billion were signed in 2016 and 2017
  - ✓ Unlike First LoC, only 3 projects are directly related to procurement in the Second LoC
  - ✓ Six projects are directly related to construction of roads, railway lines and buildings
- Projects under 2nd and 3rd LoCs will be even more challenging as they include a substantially higher number of construction projects
- Possibility of developing multi-modal regional connectivity

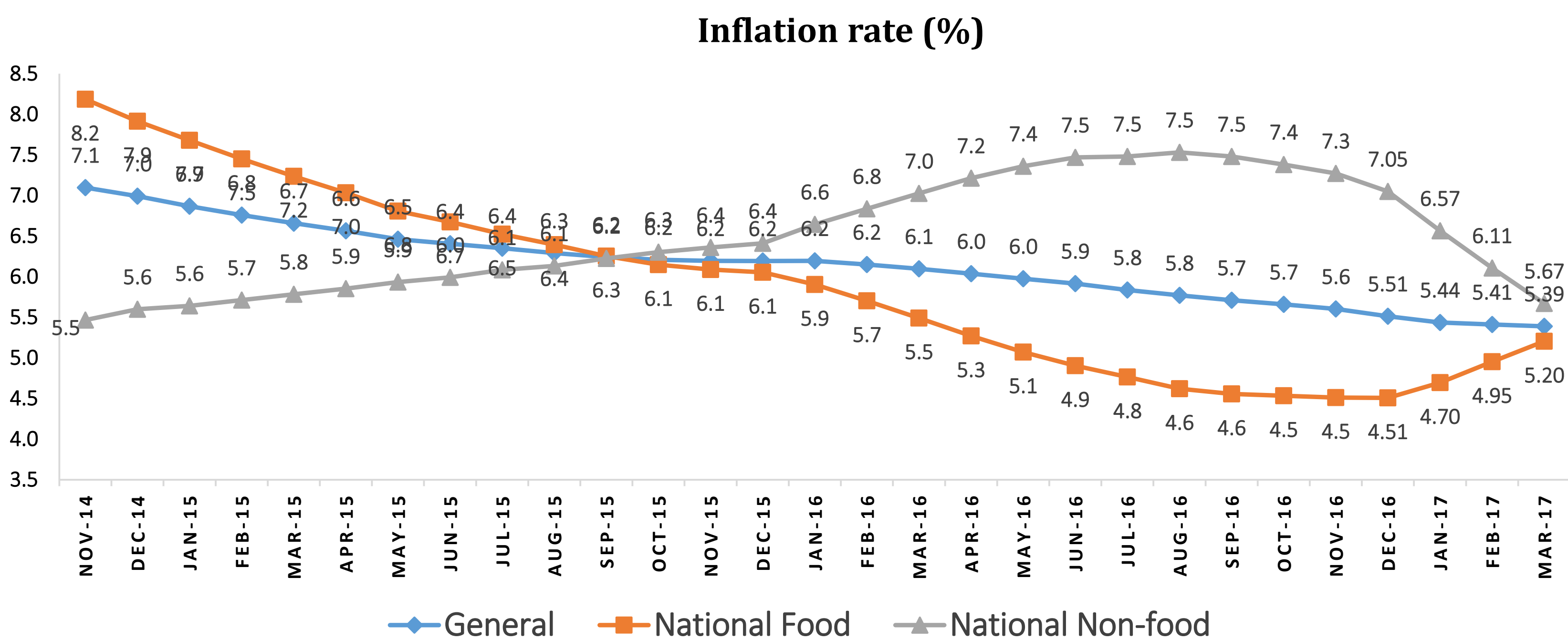
Need for adjusting interest rate of NSD certificates acknowledged

- Overreliance on NSD sale for deficit financing continued in FY17
- Sales during the first 8 months already an astounding 69.7% higher than the target of Tk. 19,610 crore
    - Net sales of NSD certificates were 67.3% higher than previous Jul-Feb FY16
- CPD (2017) recommended, a downward revision of NSD rates and also maximum ceiling on purchase
    - ➢ In view of the medium- to long-term implications of accumulating debt servicing liabilities
- GoB recently announced to reduce the NSD savings rates which is encouraging

Section II: Whither Macroeconomic Management

Rising rice price fuelling inflation

- CPI inflation in Bangladesh has witnessed a declining trend in FY17
- General (annual average) inflation rate was 5.39% in Mar'17
    - ➢ Bangladesh Bank's Monetary Policy Statement (MPS) targets 5.3-5.6%
- Decreasing rate due to the contribution of a declining non-food inflation



Section II: Whither Macroeconomic Management

- Rising price of rice is driving the food inflation at present (high weight in the commodity basket used to measure CPI)
  - ➢ declining public stock
- Currently coarse rice is being traded at Tk 45-46 per kg (May 2017)
  - ➢ 42.2% higher than the price a year ago
  - ➢ Prices of other variety of rice are also about 15-18% higher
- Target of Boro rice production was about 19 mln metric tonnes (MT)
  - ➢ Unlikely due to natural calamities effecting several districts
- Success of the procurement process remains uncertain due to the higher prices existing in the domestic scenario
- Removal of the existing 25% tariff on rice imports also needs to be considered
- Rice distribution programmes for the urban poor and flood-affected people needs to be initiated without delay

Section III: Emerging Global Scenario and Challenges for External Sector Management

- Bangladesh economy is under pressure in terms of the external sector dynamics and performance
- Mixed signals by the external sector elements for Jul-Apr FY17

▪ Export growth has underperformed ▪ Current Account Balance is negative ▪ Sharp fall in remittances ▪ Exchange rate volatility observed in the secondary market	▪ Growth in imports has risen ▪ FDI has increased ▪ Outward investment has increased ▪ Overall Balance of Payments is positive

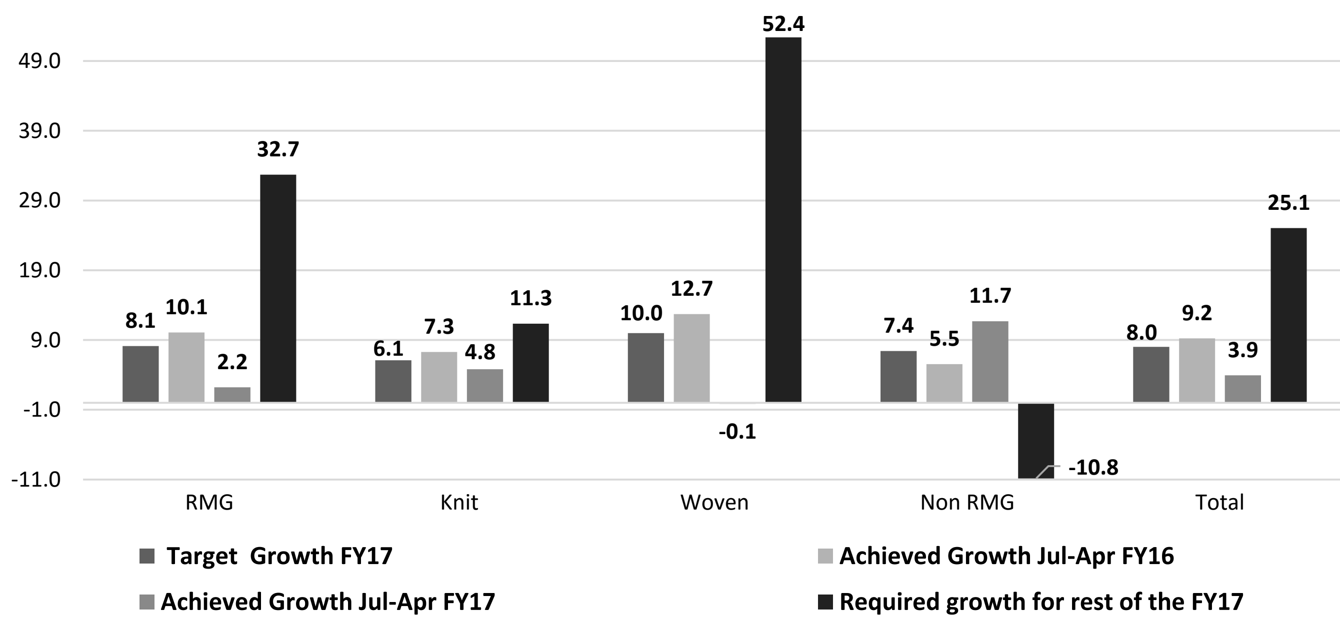
- Good signs in the global economic outlook

  - Momentum in the growth in advanced economies which are Bangladesh's major markets
  - Petroleum prices will continue to remain low (with some growth)
  - Price of Bangladesh's exportable will fall (from 4.2 to 3.8%)
  - Projections by major retailers are not encouraging

Export Sector Performance

- Export earnings growth (3.9%) is half of what was targeted (8%)
- Non-RMG export growth (11.7%) is better than that of RMG (2.2%)
- Export earning from both Knit (4.8%) and Woven ((-) 0.1%) has fallen short of target

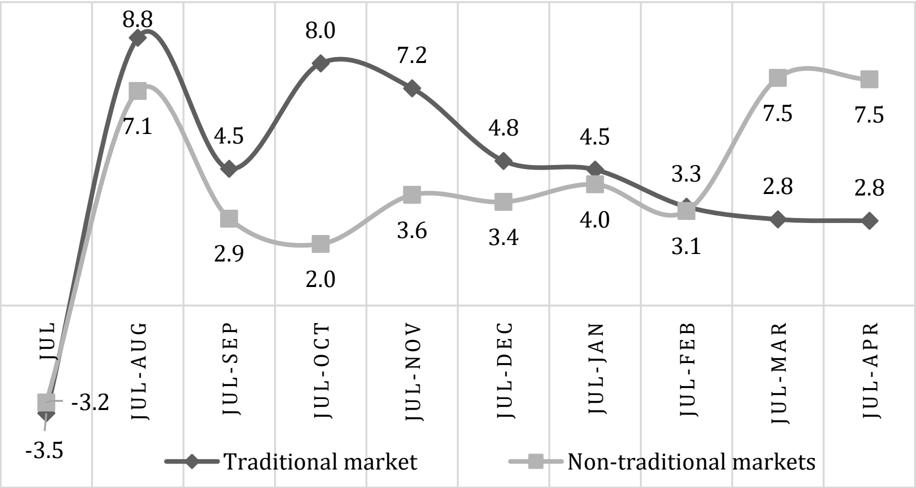
Export Performance (Achieved and Required Growth (%))



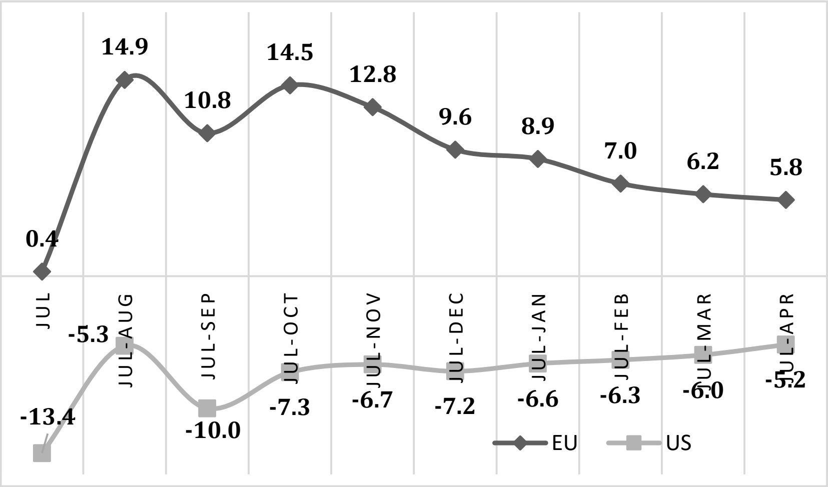
Section III: Emerging Global Scenario and Challenges for External Sector Management

- Export growth performance in non-traditional markets (7.5%) has been **better** than in traditional markets (2.8%)
- Exports to the US market has remained in the negative terrain and recorded a growth of (-) 5.2% – RMG ((-) 6.8 %) & Non-RMG (9.9%)
- In the EU market, growth was 5.8 % – RMG (6.9 %) & Non-RMG (4.6 %)

Traditional vs Non-traditional Market



EU vs US Market



- Vietnam is the major competitor in US market and Cambodia in the EU market and are in better positions than Bangladesh

CPD (2017): State of the Bangladesh Economy in FY2017 (Third Reading)

Section III: Emerging Global Scenario and Challenges for External Sector Management

- Export earnings is completely volume-driven
- Fall in exports in the US and EU market is entirely price-driven
- In US average price of Woven apparels experienced secular decline post 2014
- Same trend observed for the dominant knitwear item in the EU

Average Prices of RMG Products

US Market						
Product	Year	Bangladesh	Cambodia	China	India	Vietnam
Knit (*HS code* 61)	2010	10.4	14.9	15.8	15.5	16.8
	2012	13.4	17.0	17.8	19.8	19.1
	2014	14.0	17.5	17.0	19.7	19.3
	2016	13.4	16.6	15.1	18.2	18.1
Woven (*HS code* 62)	2010	12.9	14.4	16.1	25.5	17.0
	2012	17.0	17.0	19.0	30.9	21.2
	2014	17.4	18.6	18.9	31.4	22.2
	2016	16.6	18.0	17.1	29.7	22.5
EU Market						
Product	Year	Bangladesh	Cambodia	China	India	Vietnam
Knit (*HS code* 61)	2010	10.8	14.1	12.1	14.2	12.5
	2012	22.8	26.5	24.3	28.5	24.8
	2014	23.1	26.9	23.0	27.7	28.5
	2016	19.4	21.9	17.3	19.8	26.3
Woven (*HS code* 62)	2010	9.4	13.0	13.7	22.1	17.2
	2012	19.1	26.1	26.4	42.7	32.9
	2014	19.6	26.8	26.8	40.2	34.4
	2016	15.2	20.8	21.1	31.0	28.7

Import Performance

- During Jul-Mar FY17 import payment growth was 11.1 %
  - Nine products show growth rate higher than 11.1%
  - Six products show negative growth
  - Wheat (31.9%) and consumer goods (24.1%) showed high growths, which were mostly quantity driven
- Investment-inducing elements' imports had high contribution in the total import payments:
  - Intermediate goods attributed 54.1% and Capital goods attributed 23.8%
- Analysis of the structure of import over the last five years do not evidence of major shift
  - Share of Capital goods has been on the rise (from 20% in FY13 to 23.8% in Jul-Mar FY17)
  - Shares of Crude Petroleum (8.3%) and POL items (7.3%) have fallen for fall in oil prices
  - Share of Consumer goods has fallen from 12.3% to 7.7%
- Intermediate raw materials and capital Machinery import payments contributed 26.2% and 17.2% to the incremental growth.

L/C Opening

- Total L/C opening grew by 13% and L/C settlement grew by 11.3%
  - High growth shown by petroleum products (19.2%)
  - Fairly low growth by industrial raw materials (4.4%) and back to back L/C opening for RMG raw materials (3.6%) – ***no sign of any significant acceleration in the near-term future***
  - L/C opening for capital machineries showed a growth of 17.3 % and L/C settlement for capital machineries in terms of depicted a growth of 52.8% for the period Jul-Mar FY17
  - Noteworthy growths:
    - L/C opening for energy/power industry grew by 32.1% (which stood at USD 0.66 bln)
    - L/C opening of machineries for telecom industry (14%), garment industry (12.6%) and textile (5.2%)
- Shares are: Consumer goods (12.5%), intermediate goods (8.5%), industrial raw materials (37.3%), petroleum products (5.4%) and capital machineries (11%)
- Robust growth of these important items will likely have positive impact on investment, albeit with some time lags

Terms of Trade

- Bangladesh's terms of trade has been showing a secularly declining trend since the new base was established (FY06)
- Overall average export-weighted prices of Bangladesh could not keep up with average import-weighted price of Bangladesh (inspite of fall in fuel price import), leading to decline in ToT Considering the US market for instance, the prices of knit and woven products decreased by x and y per cent respectively in the year 2016

Terms of Trade of Bangladesh

Fiscal Year	Export price index	Import price index	Commodity terms of trade (base: FY06 =100)	Calendar Year	Change in Oil price	
					Yearly	Compar-ed to peak (2012)
FY 10-11	146.4	166.5	87.9	2011	18.6	-1.7
FY 11-12	151.7	176.4	86.0	2012	1.7	0.0
FY 12-13	163.0	189.6	86.0	2013	-0.5	-0.5
FY 13-14	172.1	200.4	85.9	2014	-6.1	-6.5
FY 14-15	182.3	212.4	85.9	2015	-41.6	-45.4
FY 15-16	196.0	228.2	85.9	2016	-12.2	-52.1

Exchange Rate Dynamics

- Nominal Exchange Rate (NER) was allowed to slide a bit
- BDT depreciated by 1.2% in the Q3 of FY17
- Real Effective Exchange Rate (REER) experienced some appreciation (150.1 in Dec 2016)
- Foreign exchange reserves of USD 32.4 bln at the end of the Jul-Mar FY17
- Exchange rate for import payments experienced some volatility – in between 23 to 27 April 2017. BB intervention calmed the market and consequently the rates came down to level off with the headline exchange rate by 2 May 2017
- The average BC selling rate varied from BDT 80.3 to BDT 84.8 on 25 April17, and from BDT 80.3 to 85.0 on 26 April 2015 for different banks

Number of Banks as per the Deviation of Headline Exchange Rate and Average BC Selling Rate

Number of Banks having deviation over headline exchange rate	Banks		Foreign		Local Private		State-owned	
	25 Apr	*26 Apr*	*25 Apr*	*26 Apr*	*25 Apr*	*26 Apr*	*25 Apr*	*26 Apr*
Deviation ≥ 4.0	5	9	3	2	2	7	0	0
3.5 ≥ Deviation< 4.0	14	10	2	2	12	8	0	0
3.0 ≥ Deviation < 3.5	8	8	0	1	8	7	0	0
2.5 ≥ Deviation < 3.0	8	4	0	0	6	2	2	2
2.0 ≥ Deviation < 2.5	3	5	0	0	1	3	2	2

Remittance and Migration: Contrasting Picture

- At the end of Jul-Apr FY17, remittance was 16% lower than that of Jul-Apr FY16
- Majority of the remittance earning (58.1%) came from the Gulf countries (with 17.5% coming from United Arab Emirates (UAE) and 16.8% from Saudi Arabia)
- Among the non-Gulf countries, the US (12.8%), the United Kingdom (9.6%) and Malaysia (7.3%) were the largest sources of remittances
- A cross-country comparison of quarter-over-quarter growth rates reveals that the fall in remittance has been pervasive for Bangladesh, Sri lanka and Pakistan except for Nepal
- However, the depth and consistency in the fall in remittance have been particularly telling for Bangladesh when compared to countries such as Pakistan and Sri Lanka
- Nevertheless, at the same period, period-on-period migration outflow growth was 34.2%
- Migration outflow in FY17 was mostly contributed by Gulf countries having the major compositional share of 83%, attributed by that of KSA (40%), Oman (16%) and Qatar (12%)

Section III: Emerging Global Scenario and Challenges for External Sector Management

Reasons for Lower Remittance Inflows

- Many migrant workers with or without awareness are sending money through intermediaries who are taking advantage of mobile platforms and various software applications (apps) to transfer remittances through informal channels
- Key factors influencing wage earners to send their remittances through the informal channels are higher exchange rate margin, shorter transaction processing times, quick delivery of money to the beneficiaries, easy access, and lower service fees compared to the banks in host countries
- To address the issue of remittance inflows through informal channel –
  - At the domestic front, it is must to discourage the use of illegal platform and by taking measures to accelerate transfer of remittance through formal channels
  - At global forum, energetic steps should also be taken through global negotiations to bring down banking fees that are charged on small amounts of remittances set through key corridors

Balance of Payments

- Current account balance was negative for Jul-Mar period of FY17
- The balance amount came down to USD 1.4 bln for Jul-Mar FY17 compared to the corresponding figure of USD 3.4 bln for FY16
  - This downward pull was mainly driven by the negative trade balance of USD 7.0 bln and the fall in remittance flow that was equivalent to USD 1.8 bln
  - Besides, a 20.3% period-on-period growth of FDI and 7.7% growth of medium and long-term (MLT) foreign loans contributed to this
- Debt service payment has also been on the rise with repayment obligations maturing.
  - Major share of the loans, of value of USD 0.95 bln, has maturity period of between 5 to 7 years; USD 1.6 bln worth of loans has interest rates between 4% to 6%
- Outstanding outward investment was on the rise in the Q2 of FY17 (Oct-Dec: USD 212.9 mln) when compared with Q1. Given the current BOP situation proper vigilance must be maintained

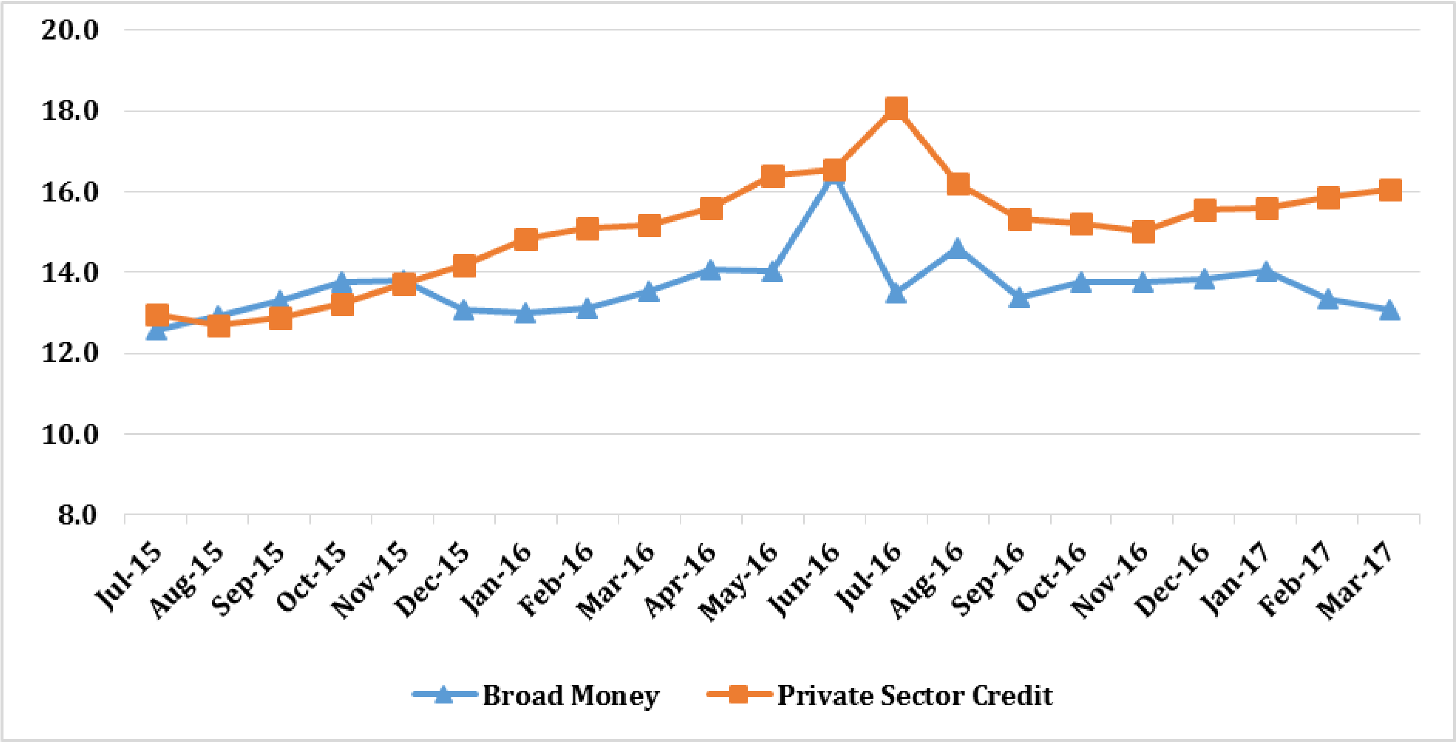
Section IV: Banking Sector: A Growing Malignancy in the Economy

- The banking sector has burgeoned over the years in terms of the number of banks, amount of asset and contribution to the economy
- Despite significant growth, the sector is currently faced with a number of serious challenges
- Overall performance of banks, particularly of state-owned commercial banks is far from satisfactory
- The sector is struggling to recover from the setbacks of large financial scams in a number of state-owned and private commercial banks unearthed in recent years
- Most indicators reveal a poor health and lack of discipline in several banks

Section IV: Banking Sector: A Growing Malignancy in the Economy

- Growth of domestic credit increased slightly to 12.2% in March 2017 compared to 11.4% in March 2016
- Though growth of credit to the private sector was 16.1% in March 2017, close to Bangladesh Bank's target of 16.5%, credit to the public sector has been negative ((-)9.5%)

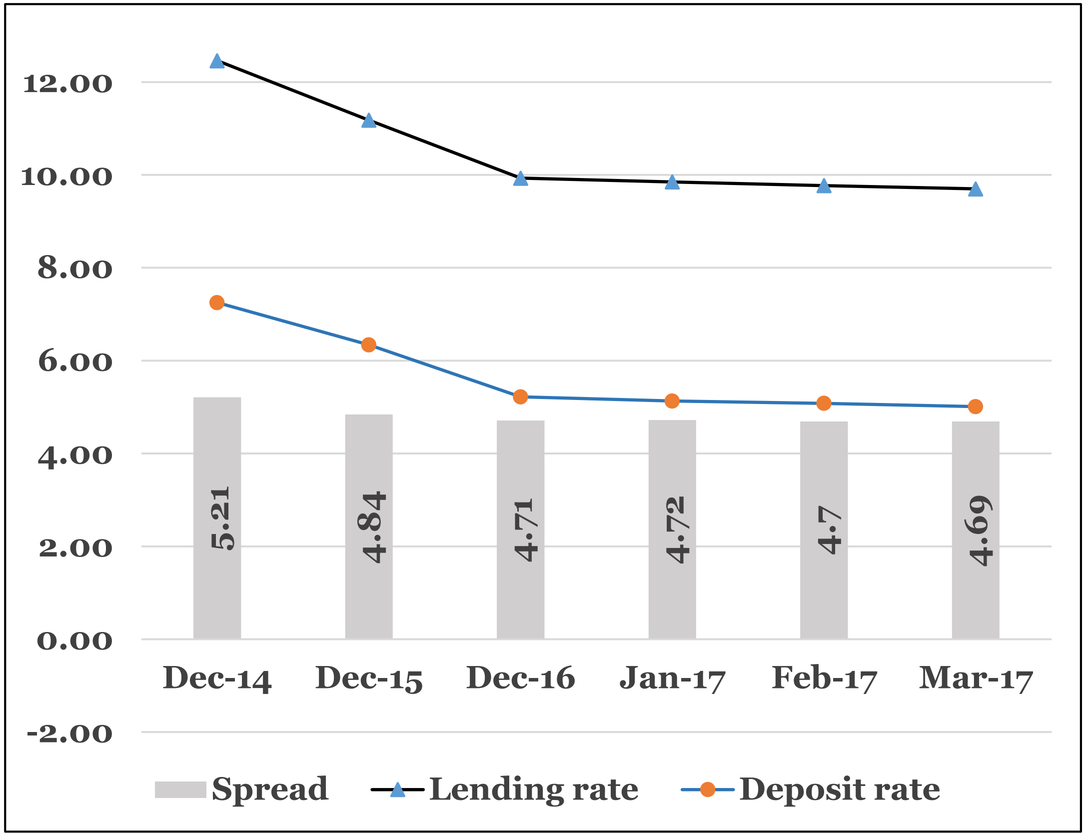
Money Supply Growth (%)



Section IV: Banking Sector: A Growing Malignancy in the Economy

- In an effort to attract investment, emphasis has all along been put on lowering bank rates. In Nov FY16 the lending rate has been downsized to single digit
- In recent period, there is a downward trend of both lending and deposit rates. The interest spread for the month of March FY17 is 4.69, which has decreased from the previous year

Interest Rate Spread (%)

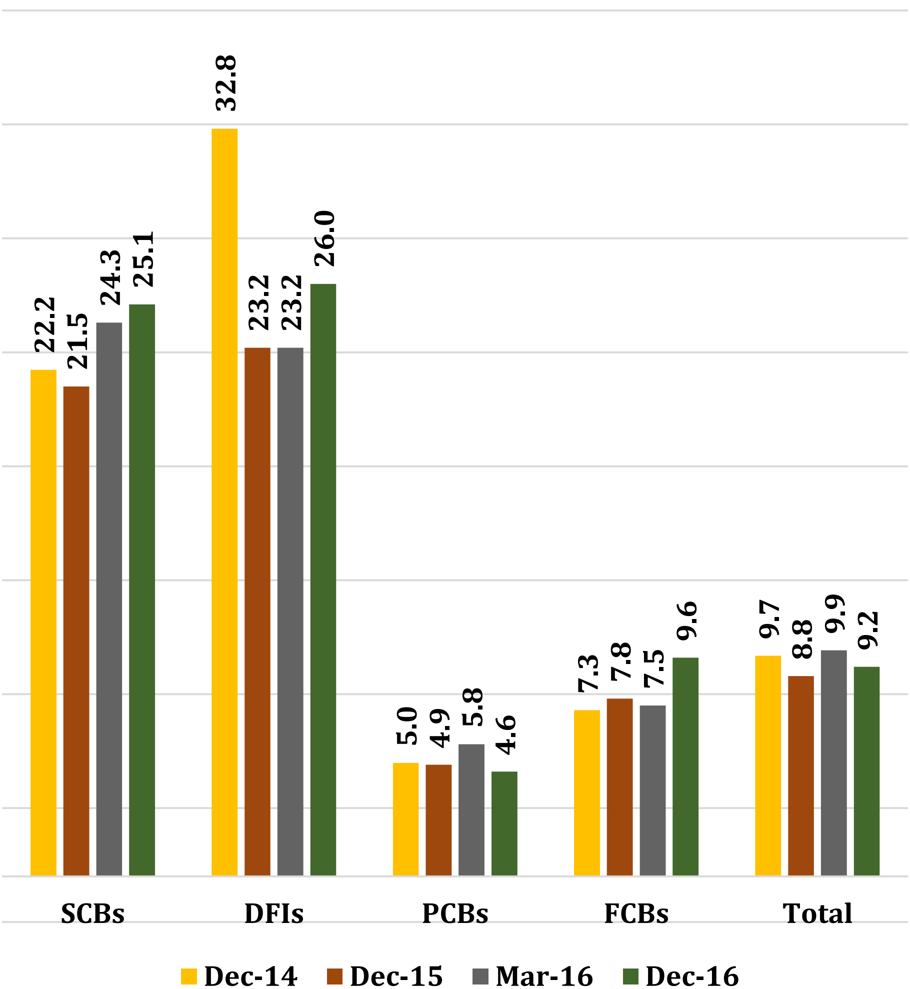


Section IV: Banking Sector: A Growing Malignancy in the Economy

NPL has piled up

- In December 2016 the NPL was 9.2% and within three months it rose to 10.5% in March 2017
- High NPL and low profitability have resulted into low capital adequacy in the banking sector
- In order to protect some of the worst performing banks the government has been injecting money into the banks

NPL as % share of Total Loan



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Cost of recapitalisation fund is high

- Recapitalisation as % of incremental revenue is 10.8 if FY10 to FY16 situation is observed
- In a resource constraint country the opportunity cost of such a large amount is high. This fund could be used for social sector where budget allocation falls short of the requirement

Cost of recapitalisation

	Total Revenue Tk. crore	Incremental Revenue Tk. Crore	Amount of Recapitalisation (Actual) Tk. crore	Recapitalisation as % of Incremental Revenue
FY09	64,285			
FY10	75,559	11,274	1,000	8.9
FY11	92,993	17,434	1,050	6.0
FY12	113,786	20,793	341	1.6
FY13	128,823	15,037	420	2.8
FY14	140,369	11,546	4,477	38.8
FY15	144,009	3,640	2,617	71.9
FY16	172,910	28,901	1,800	6.2
Total (2010-2016)	868,449	108,625	11,705	10.8

Section IV: Banking Sector: A Growing Malignancy in the Economy

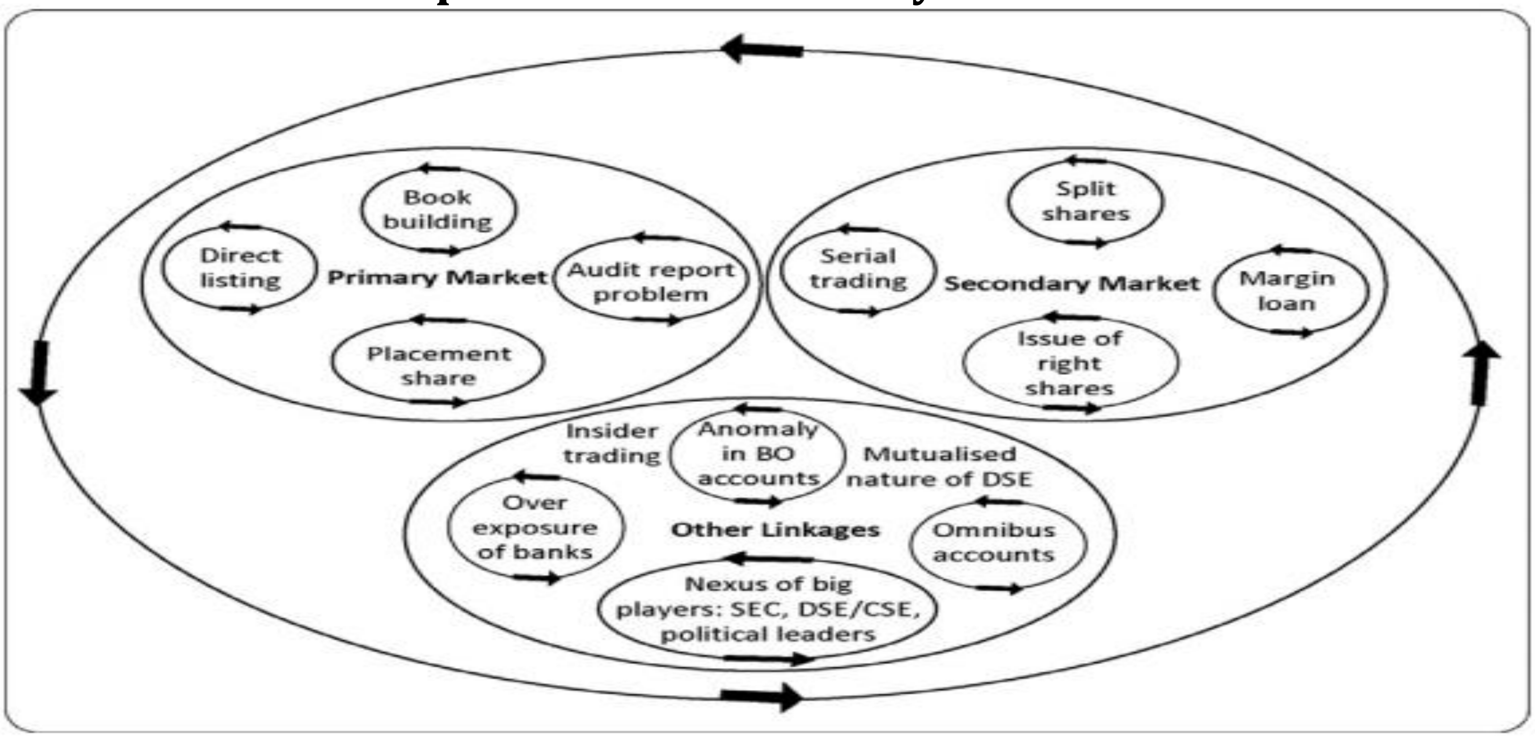
Years	Education Budget (Expenditure) Tk. Crore	Health Budget (Expenditure) Tk. Crore	GDP at current Price Tk. Crore	Amount of recapitalization(Actual) Tk. Crore	Education as % of GDP(Expenditure)	Share of education budget in GDP if recapitalization amount is included	Health as % of GDP(Actual)	Share of health budget in GDP if recapitalization amount is included
FY10	15,550	6,183	7,97,539	1,000	1.95	2.1	0.78	0.90
FY11	18,383	7,286	9,15,829	1,050	2.01	2.1	0.80	0.91
FY12	18,737	7,476	10,55,204	341	1.78	1.8	0.71	0.74
FY13	20,748	8,545	11,98,923	420	1.73	1.8	0.71	0.75
FY14	25,089	9,384	13,43,674	4,477	1.87	2.2	0.70	1.03
FY15	28,001	10,394	15,15,802	2,617	1.85	2.0	0.69	0.86
FY16	37,811	12,600	17,16,700	1,800	2.20	2.3	0.73	0.84

Looking ahead

- If the current trend of mammoth NPL, inefficient management and lack of governance continues, the banking sector can cripple a flourishing economy instead of contributing
- CPD, in its previous reports has consistently been emphasising on the need for improved governance through strong monitoring and supervision, use of technology and ensuring independence of the regulatory authorities
- The need for a Financial Sector Commission has also been reiterated time and again which will look into the challenges of the sector and make recommendations for an accountable and strong banking system

Section V: Capital Market at Bay

- Following the share market debacle of December 2010, a number of official investigations and academic studies have tried to identify the causes of the scam
  - CPD has also conducted several studies and identified 17 different types of problems
  - **Market Collapse in 2010: Vicious Cycle of Toxic Elements**



Section V: Capital Market at Bay

Examining Market Level Efficiency

- Majority of the capital market indicators has experienced significant levels of correction
- DSEX and CSEX have stabilised at around 5,000 and 12,000 marks respectively
- Market capitalisation has undergone significant reduction
- CPD exercise reveals, returns from DS30 and DSEX did not follow the random walk theory, indicating that the consequent price changes did not move in an independent manner
- The share price of the newly listed companies (data available for 54 companies) did not maintain a consistent trend
    - Changes in average price is mostly negative
    - Share prices of newly listed companies have suffered losses immediately after their trading had initiated in the market
- Changes in share prices are not always consistent with other company level indicators such as *earning per share (EPS)*, *price-earnings ratio (P/E ratio)*, *net asset* and *net profit after tax*

Section V: Capital Market at Bay

- Trend in company performance is difficult to explain when this is compared with sectoral performance
  - Majority of sectors related to the listed companies has performed relatively well

QIP Growth of Major Manufacturing Industries (%)

Major Manufacturing Industry Group	FY12	FY13	FY14	FY15
Food products	16.4	35.8	10.2	37.9
Textiles	-0.1	2.1	-1.9	-12.1
Leather and related products	2.6	5.6	5.8	-5.0
Paper and paper products	1.0	-6.4	-5.3	15.0
Chemical and chemicals products	14.1	4.8	-5.0	-3.6
Pharmaceuticals medicinal chemicals	2.9	5.3	29.0	26.2
Other non-metallic mineral products	2.7	0.9	3.4	26.8
Basic metals	2.5	19.4	10.1	24.6
Fabricated metals products	0.8	7.4	10.3	10.9
Electrical equipment	2.3	2.6	2.8	24.6
Machinery and equipment	3.1	-12.6	10.8	18.7

Section V: Capital Market at Bay

Suggestions for Strengthening the Capacity of Capital Market

- *Transparency in BO accounts*
  - Transactions under the different types of BO accounts, particularly of individuals and joint accounts, need to be made transparent
  - SEC should take an initiative to undertake the needed changes such as aligning NID, BIN and bank account number
- *Improvement in quality of auditing*
  - SEC should ask for 're-auditing' of firms on a random basis
  - Establishment of the Financial Reporting Council (FRC) under 'Financial Reporting Act' is urgently called for
- *Proper review of IPOs*
  - Need to strengthen assessment of companies with physical inspection before allowing them to go for trading
- *Proper monitoring of merchant banks and brokerage houses*
- *Completion of demutualisation process*
  - Identification of strategic investors, and selling of 25% of total paid up capital to strategic partners are needed to be done in stipulated timeline of June 2017
  - DSE will need to be self-listed

Section V: Capital Market at Bay

- **Suggestions for Strengthening the Capacity of Capital Market**
- *Rules related to special tribunal need to be amended*
  - SEC or any other authorities should be empowered to lodge petitions directly to the special tribunal amending the SEC Act
- *Improving trading behaviour of institutional investors*
- *Strengthening the boards of DSE/CSE*
- *Strengthening of the SEC*
  - SEC should change itself from 'complaint-based' mode to 'proactive review and assessment' mode
- *Initiatives for increasing the depth of the capital market*
  - Provide potential opportunities of bond financing for infrastructure projects
  - Create greater opportunities for SMEs to raise fund from the market
  - SoEs should offload a part of their shares

Independent Review of iRBD Bangladesh's Development

Section VI: Concluding Remarks

- Consolidate the strengths and devise appropriate policies to address the emerging challenges
- Current macroeconomic trends indicate a number of disquieting signals:
  - ➢ increasing public debt burden
  - ➢ persisting weakness in the banking sector performance
  - ➢ sluggish capital market
  - ➢ lower growth in export earnings
  - ➢ decline in remittance inflow
  - ➢ rising cost of production (from implementation of new VAT and SD Act, possible depreciation of exchange rate, rise of rice price and yet another round of upward adjustment of the tariffs for electricity and gas)
- a proactively responsive macroeconomic management is called for as a major policy stance in the upcoming national budget

Section VI: Concluding Remarks

Improve the quality of the budgetary framework

- Improve quality of budgetary framework and turn the so called 'big budget' myth into reality
- Declared size of the budget (as a share of GDP) – from both revenue mobilisation and public expenditure point of view – has increased over the years, but in reality (after implementation) it did not improve by any discernible way (if not declined)
- Budget implementation capacity of the government agencies needs to be enhanced by a significant margin in order to have improved impact of public resource flow in the economy

Independent Review of IRBD Bangladesh's Development

Section VI: Concluding Remarks

Strengthen quality of public investment

- Implement a number of reforms with a view to raising the ADP implementation rate
  - ➢ Project Preparatory Fund (PPF)
  - ➢ appointing project directors through direct interviews
  - ➢ assigning a dedicated official in each government agency for monitoring and evaluating respective projects
  - ➢ delisting the longstanding 'non-operational' projects from the ADP
- Project costs in Bangladesh are substantially higher
  - ➢ Construction cost of one kilometre road in India costs about Tk. 12.5-15.0 crore
  - ➢ In Bangladesh such cost is about three to four times
- Effective rate of return from such public investments have become very obscure.
- Set up a Public Expenditure Review Commission (PERC) to ensure quality of public investments underwritten by scarce domestic revenue

Section VI: Concluding Remarks

Augmenting resource mobilisation

- Proposals for smooth implementation of the new provisions of VAT
  - ➢ VAT rate may be reduced to 12%
  - ➢ Fix the maximum retail price (MRP) of electricity inclusive of VAT without raising tariff by providing adequate subsidy– which may be gradually adjusted
  - ➢ keep provision for SD to protect the interest of the domestic-market-oriented industries
  - ➢ Do not raise SD for petroleum products, cement and telecom services
- Reduce income tax rate from the current 10% to 7.5% for the first slab

Enhance allocation to social sectors

- Enhance budgetary allocations for education and health sectors
- Make adequate provisioning for implementing the National Social Security Strategy

Section VI: Concluding Remarks

Financing budget deficit

- Rationalise interest rates on NSD certificates along with the purchasing ceilings
- Take effective steps for utilisation of the foreign aid in the pipeline

Incurring efficiency of the public food distribution system

- Be vigilant in view of the recent rise in rice price
- Import rice as the Boro procurement may not reach its target
- Reduce import duty on rice if private import is also required
- Set up an Agriculture Price Commission to ensure incentivised price for the producers while maintaining market stability and protecting consumer interests
- Review the subsidy package for agriculture – support Aus and provide adequate incentive to diversify crop sector and also promote poultry, livestock and fishery sectors
- Consider setting up a "Haor, Char and River Erosion Area Board" to devise strategy and closely monitor development needs of citizens living in these areas

Section VI: Concluding Remarks

Managing the exchange rate and addressing the weaknesses in the external sector

- Continue with further downward adjustment of the exchange rate
- Take legal actions against illegal platforms as well as parallel initiatives to facilitate speedy and cost effective remittance transfer - will require initiatives both at domestic and global levels
- Pursue a rather careful and conservative approach towards Bangladeshi investors' plea to invest abroad

Addressing the banking sector

- Set up an Independent Financial Sector Reform Commission
- Be prudent in allocating taxpayers' money to SCBs for recapitalisation pending a proper assessment of their performance as well as reform of their operation
- Do not to engage in external interference in governance of the private banks
- Recently announced amendments of the Banking Company Act, favouring the sponsor directors, have been very ill-advised

Section VI: Concluding Remarks

Boosting the capital market

- Completion of demutualisation process within the announced timeframe needs to be done along with
  - appropriate review of IPOs
  - alignment of BO accounts with NID and other national databases
  - proper financial auditing of the firms
  - transparency of merchant banks and brokerage house operations
- Strengthening of SEC and other regulatory bodies including DSE and CSE

Section VI: Concluding Remarks

Improving quality of statistics

- Major weaknesses have emerged in the areas of statistics on the economy
- Growing inconsistency of data
- Estimation of national accounts variables being repeatedly critically assessed
- Delivery of open statistics has also weakened
- Publication of quarterly LFS data was discontinued
- Available fiscal data is not accessible beyond the first four months of the ongoing fiscal year
- Quarterly reporting on the state of economy by the Finance Minister to the national parliament has also become irregular
- Increasing trend of not sharing of data by various public institutions
- It has become exceedingly important to ensure independence and professionalism in the national statistical organisation of Bangladesh
- Setting up an Independent Statistical Commission to initiate necessary reforms in this area including validation of the macroeconomic correlates

Independent Review of Bangladesh's Development

Thank You