

# Recent Challenges Facing the Bangladesh Economy: A Brief Overview

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- ❑ In the recent months, Bangladesh was forced out of the comfort zone enjoyed earlier in terms of overall macroeconomic management
- ❑ The macroeconomic stability considerably deteriorated owing to challenges originating from both domestic and external fronts
  - Besides available data and information, the recent government policy measures bear testament to this notion
- ❑ It must be acknowledged that a significant number of other countries are going through similar challenges – both as a consequence of the COVID-19 pandemic and due to the aftershocks of the Russia-Ukraine conflict
- ❑ In this context, we focus on four critical areas of current policy discourse:
  - Inflation
  - Public finance management
  - External sector
  - Power and energy sector

- ❑ In June 2022, the inflation rate in Bangladesh has reached 7.56% which is highest in nine years

**Table: The price of some basic food items which increased this past year**

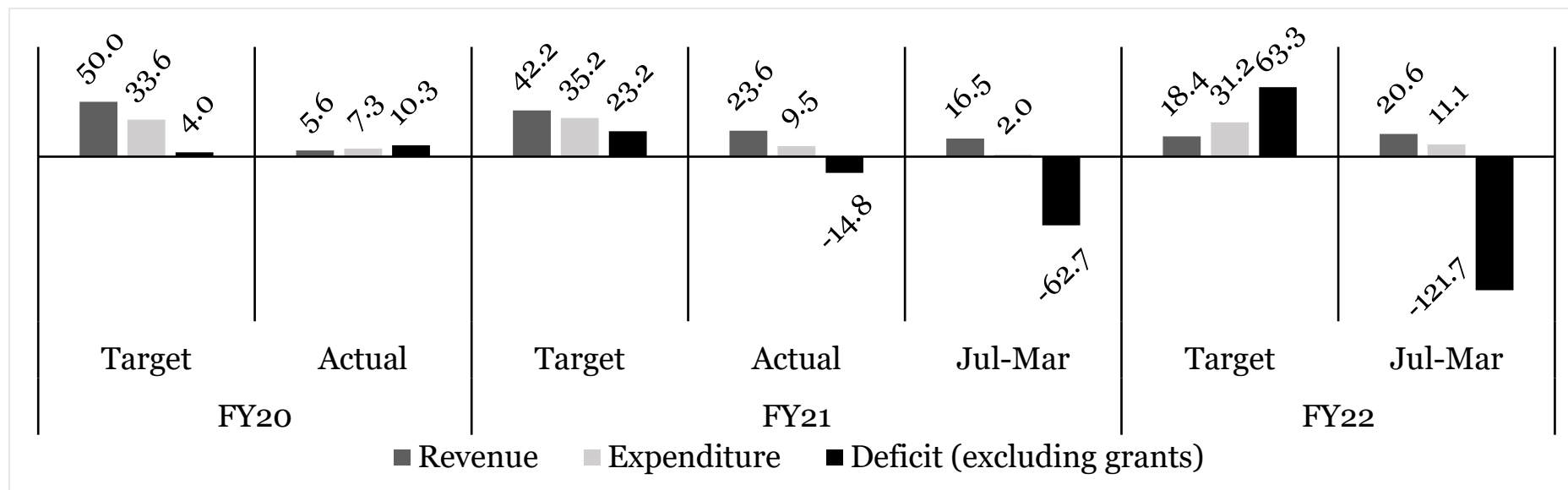
Item	Price in BDT as of 7/20/2021	Price in BDT as of 7/20/2022	Percentage increase in price
Aata	34	51	50.00
Maida	44	66	51.72
Soyabean oil (1 litre)	145	190	31.03
Moshur Daal (lentil)	75	105	40.00
Eggs (per hali)	32	39	23.81
Dried Chilli (imported)	260	375	44.23
Turmeric powder (imported)	160	215	34.38
Miniket (rice)	63	70	11.20
Mutton	850	950	11.76
Broiler chicken	128	145	13.73
Onion (imported)	43	48	11.76

- ❑ The price of almost every food item is increasing at a higher rate than the food inflation rate published
- ❑ The consumption basket used to calculate overall inflation was created in 2005, so it does not represent the current consumption patterns, and therefore needs to be updated
- ❑ Rising inflation has a more adverse impact on people with lower income, so they need to be protected

## Recommendations

- ❑ The money supply has to be controlled to contain high inflation through increasing lending rate
- ❑ Monetary policy should be made more effective through a market determined interest rate regime
- ❑ Poor households should be provided with support
- ❑ Micro and small businesses should be provided stimulus since most of them could not access the credit support provided during the COVID
- ❑ Austerity measures announced by the government should be continued

**Figure: Growth of selected fiscal indicators (in %)**



Source: Calculated from MoF data

- ❑ During the first nine months of FY22, the growth in revenue mobilisation surpassed the annual growth target. On the other hand, public expenditure growth was substantially below its annual growth target
- ❑ The government has a budget surplus during the first nine months of FY22 (excluding grants) – not desirable in the present context

## Recommendations

- ❑ The already introduced austerity measures such as stoppage in vehicle purchase by government entities, reduction in foreign travels by government employees, stoppage in providing honorarium for attending meetings, pause in the implementation of C-category ADP projects (i.e., low priority projects) and reduction in expenditure (by 20-25%) owing to fuel and electricity by government agencies should be continued
- ❑ Subsidy on fuel, power and agriculture should be continued for the next few months. It must be taken into cognisance that any hike in the administered prices will have adverse impact on inflation
- ❑ Tax evasion should be restrained by all means to generate resources for the priority sectors
  - To this end, the NBR should promote electronic-based measures, including e-TDS, e-filing and cross-checking transaction data from multiple sources
- ❑ Transfer Pricing Cell (TPC) should work closely with Bangladesh Financial Intelligence Unit (BFIU) and Customs Intelligence and Investigation Directorate (CIID) to curb trade-based money laundering

**Table: Trends of key external sector indicators**

Indicators	Unit	Jul-Jun FY21	Jul-Dec FY22	Jul-May FY22
Trade balance	Million USD	-23,778	-15,616	-30,816
Current account balance		-4,575	-8,183	-17,233
Capital account		221	138	173
Financial account		13,093	6,676	13,352
Overall balance		9,274	-1,791	-4,300
Forex reserve	Month	46,391	46,154	42,202
Forex reserve in months of imports		6.9	5.6	4.6

Source: Compiled from Bangladesh Bank data

- ❑ Despite a robust growth in export earnings, current account deficit reached to a whopping USD 17.2 billion at the end of May FY22 owing to higher import growth and negative growth of remittance inflow
- ❑ Rapid depletion of forex reserve has become a major concern
  - From USD 46.4 billion in June FY21, forex reserve plummeted to USD 42.2 billion in May FY22 which further decreased to USD 39.8 billion in early July FY23 - equivalent to about 4.3 months worth of import payments

- ❑ However, in this connection it needs to be recalled that the IMF has raised question as regards the accuracy of accounting practices associated with estimation of foreign exchange reserve
- ❑ Several media outlets, citing a draft IMF report, mentioned that the foreign exchange reserve at the end of FY21 was overstated to the tune of about USD 7.2 billion (15% of the total)
  - The major part - more than four-fifths of the overstated reserves - was on account of foreign currency loans to local banks; other parts being in irredeemable claims in non-convertible foreign currencies

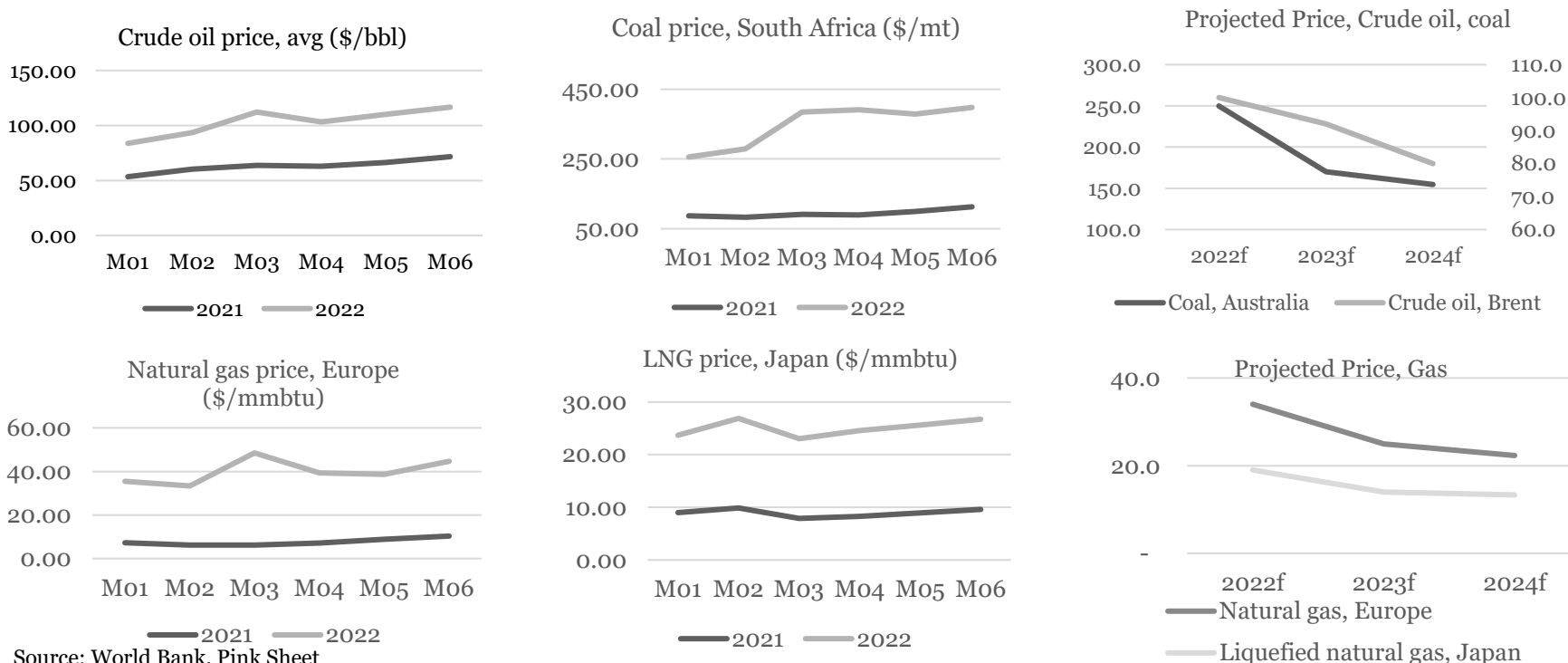


## Recommendations

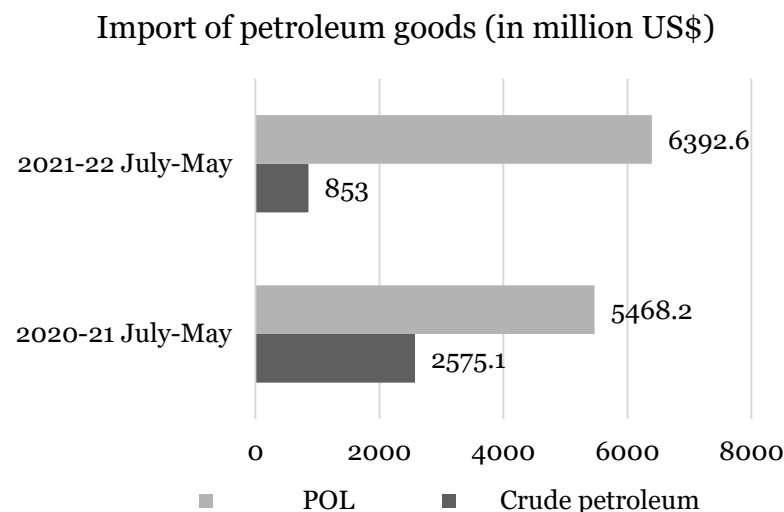
- ❑ Bangladesh Bank has taken four measures, such as halving the dollar holding limit (Net open position- NOP) of banks, monetising 50% of dollar holdings in Export Retention Quota (ERQ), halving the deposit limit as ERQ and transferring foreign exchange funds of offshore banking units to domestic banking units. While these are positive moves, but these will not dent much into the problem
- ❑ In the short term, tightening the imports should be the main strategy. Priority should be given to the import of essential commodities and inputs for production
- ❑ Given the current situation, trade misinvoicing should be restrained at any cost
- ❑ There is an urgent need to revisit the various incentives prevalent in the external sector

- ❑ Global energy market has experienced a rise in prices in 2022 mainly due to post-Covid economic recovery followed by sanctions over Russian oil in view of Ukraine war
- Given the uncertainty in future trends in war, the price of energy is likely to reduce at a slower pace in the coming months of 2022 which would continue in 2023
- A considerable time would be required for stabilisation in global energy price – a warning for Bangladesh!

## Price of Energy in Global Market: Current and Projected



- ❑ A significant amount of foreign exchange was spent in FY22 for importing energy
  - The spending would be much higher for FY23
    - A considerable rise is observed in LC opening and settlement in FY22 (in terms of USD)
  - This is observed for all imported energy - refined and crude petroleum and import of coal
    - For example, an additional USD 3.7 billion had to spent for settlement of LCs in FY22 for importing energy (except LNG)
    - Such a high spending is likely to continue for energy import in FY23



Source: Bangladesh Bank

## LC Opening and Settlement for Importing Energy (million USD)

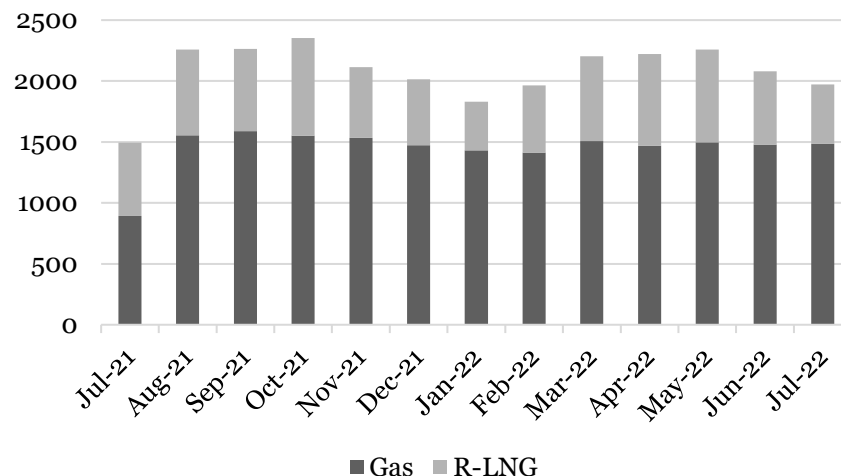
Refined Petroleum	July-April		
	Fresh opening of import LCs	Outstanding LCs at the end period	Settlement of import LCs
FY20	3782.09	275.03	3573.76
FY21	2839.59	72.49	2777.4
FY22	5636.18	492.9	5742.43
% changes			
FY20-FY21	-24.92		-22.28
FY21-FY22	98.49		106.76

Crude oil	July-April		
	Fresh opening of import LCs	Outstanding LCs at the end period	Settlement of import LCs
FY20	383.03	93.33	287.14
FY21	551.42	6.23	583.79
FY22	967.96	63.18	1004.57
% changes			
FY20-FY21	43.96		103.31
FY21-FY22	75.54		71.08

Coal	July-April		
	Fresh opening of import LCs	Outstanding LCs at the end period	Settlement of import LCs
FY 20	396.21	11.59	337.04
FY 21	316.05	9.37	281.26
FY 22	741.09	132.03	614.48
% changes			
FY20-FY21	-20.23		-19.15
FY21-FY22	141.8		118.48

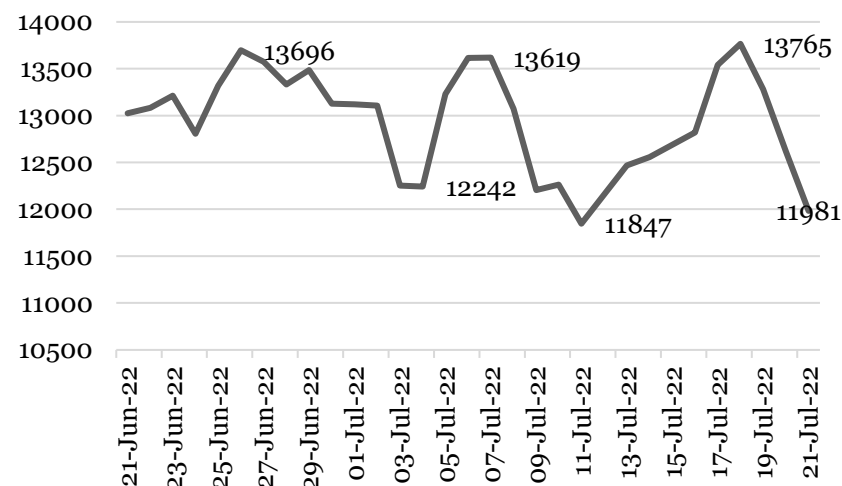
- ❑ Due to pressure on import with limited available forex reserve, domestic energy supply and power generation have been started to be curtailed
  - This is evident in case of less supply of LNG
  - Maximum load curve indicates a fluctuating trend in power generation in recent months (June-July, 22)
  - The amount of load shedding is likely to be higher than what is officially announced (1500-2000 MW) – it was 2556 MW in 18 July, 2022
  - The burden of capacity payment has emerged as an added tension as a significant part of it needs to be paid in USD - At present payment due is USD 1.5 billion

Gas production (MMCFD)



Source: Petro Bangla

Power Generation: Maximum Load (MW)



- ❑ Government has undertaken measures to address the energy crisis
  - Country wide load shedding in power supply
  - Planning to shut down petrol pump one day per week
  - Planning to control transport use
- ❑ Countries have undertaken various kinds of austerity measures
  - Pakistan has imposed restrictions on power usage through load shedding, energy consumption and by slashing usage of motor gasoline and gas oil in offices
  - Vietnam emphasised on reducing power use specially during the peak hour
  - Indonesia has increased the energy subsidy to maintain a balance between economic improvement and Indonesia's commitment to a green energy transition

## □ Recommendations

- The global energy crisis is likely to continue in the medium term
  - Higher energy price is likely to continue in the global market in the coming months though it may recede to some extent
- Bangladesh continues to spend a substantial amount for import of crude and refined oil and LNG
  - Necessary forex needs to be arranged for energy import. Government may borrow from Islamic development bank, IMF, World Bank and bilateral sources (KSA, Kuwait, Qatar)
- Depending on imported LNG alone would be too burdensome and would be too uncertain to ensure uninterrupted gas supply for domestic industry and power sector
  - Immediate measures in exploring gas in old gas exploration sites is required
- Government should realise that renewable energy can play a vital role in energy diversification in the current fossil-fuel based energy crisis

- A) The crisis is not of short term in nature
- B) The crisis may ease but at a slow pace
- C) Any short term measure would not be able to address the current concerns properly
- D) It is important to take into account both macro and micro concerns in short to medium term
- E) Government's current measures are mostly of short term nature
- F) At present macro stability in the medium term should get priority. Need to find out effective instruments on austerity measures which would be able to ensure macro stability
- G) This includes stable forex reserve, inflation management, enhanced revenue generation, ensuring electricity and gas supply for economic activities, extended social safety net programmes

**Bangladesh is in medium term crisis. Current measures are inadequate. So measures should be both short and medium term in nature**

# Thank You



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