



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

Slowdown in Global Economy and Challenges for Bangladesh *How to Tackle?*

Dhaka: 20 October 2022



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Lead contributions were provided by *Dr Fahmida Khatun*, Executive Director; *Dr Khondaker Golam Moazzem*, Research Director; *Mr Towfiqul Islam Khan*, Senior Research Fellow; *Mr Muntaseer Kamal* and *Mr Syed Yusuf Saadat*, Research Fellows, CPD.

Other team members include:

Research Associates

Ms Helen Mashiyat Preoty

Mr Foqoruddin Al Kabir

Mr Shiyan Sadik

Programme Associates

Ms Afrin Mahbub

Ms Maesha Rashedin Joita

Ms Lubaba Reza

Research Intern

Ms Moumita A. Mallick

Mr Muntaseer Kamal was the Coordinator of the CPD IRBD 2022 Team.

The CPD IRBD 2022 Team would like to register its profound gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report.

The CPD IRBD Team also expresses its sincere thanks to *Dr Debapriya Bhattacharya* and *Professor Mustafizur Rahman*, Distinguished Fellows, CPD for their support.

The Team gratefully acknowledges the valuable support provided by the Dialogue and Communication Division, CPD in preparing this report. Contribution of the CPD Administration and Finance Division is also highly appreciated.

The CPD IRBD 2022 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

- Introduction
- Inflation: The perils of high prices
- Power and energy sector
- Turbulence in external sector
- Way forward

Introduction

- ❑ Currently, the global economy is adversely impacted by a combination of challenges
 - Inflation across the globe (in both developed and developing countries) rose to historical highs
 - Financial conditions tightened in most countries
 - The Russia-Ukraine war intensified
 - Adverse impacts of the COVID-19 pandemic continued
- ❑ An increasing number of economies are facing growth slowdown or contraction
- ❑ The global growth projections by multilateral agencies such as the International Monetary Fund (IMF) or the World Bank are not promising – for the remainder of 2022 and upcoming 2023
- ❑ In view of the increasing integration of Bangladesh economy with the rest of the world, the country is also feeling the pinch

- ❑ As the emerging and continuing challenges on both domestic and external fronts are being aggravated, CPD has been presenting its analyses and offering policy suggestions beyond its regular macroeconomic reviews
 - ***“Record Fuel Price Hike in Bangladesh: Could It Be Avoided?” on 10 August 2022***
 - ***“Recent Challenges Facing the Bangladesh Economy: A Brief Overview” on 24 July 2022***
 - ***“Bangladesh economy in the context of changing global scenario”, on 20 March 2022***
- ❑ Since CPD’s last media briefing on the state of Bangladesh economy in August 2022
 - The inflationary situation has aggravated
 - The power and energy shortage has become more acute
 - The crisis in external sector has accentuated
- ❑ The current dynamics and outlook pertaining to these three sectors demand heightened attention

Inflation: The perils of high prices

- ❑ Since the spread of Covid-19 in early 2020, the poor and low-income group have faced increasing hardship as the cost of living has continued to climb unabatedly.
- ❑ Several necessities, whether they are produced locally or imported from a more developed country, are more costly in Bangladesh than in other developing or developed nations.
- ❑ As the burden of rising prices weighs more heavily on their meager incomes, these households continue to struggle.
- ❑ Since many individuals are still having trouble making ends meet, this is having a negative impact on the economic recovery.
- ❑ However, domestic factors, such as market distortion by a few dominating businesses, have also contributed to the ongoing price increase.

A food crisis in Bangladesh?

- ❑ According to FAO, seven million people, mostly residing in rural areas, in nine districts in Bangladesh's northeast, were badly impacted by two waves of disastrous flash floods in May and June 2022.
- ❑ More than 758,000 agricultural households, 371,573 livestock and poultry keeping households, and 75,000 fishermen were negatively affected by the climate-induced calamity.
- ❑ Nearly 93% of the impacted populations were compelled to adopt at least one negative coping technique (such as missing meals, succumbing to debt, and depleting productive assets) as a consequence of the abrupt loss of livelihoods and supplies of food.
- ❑ The Global Report on Food Crises 2022 has mentioned Bangladesh as one of the countries which are at risk of facing food crisis
- ❑ In the Cox's Bazar area of Bangladesh in October-November 2021, 1.26 million Rohingya refugees and host community people were either moderately or severely food insecure according to WFP.

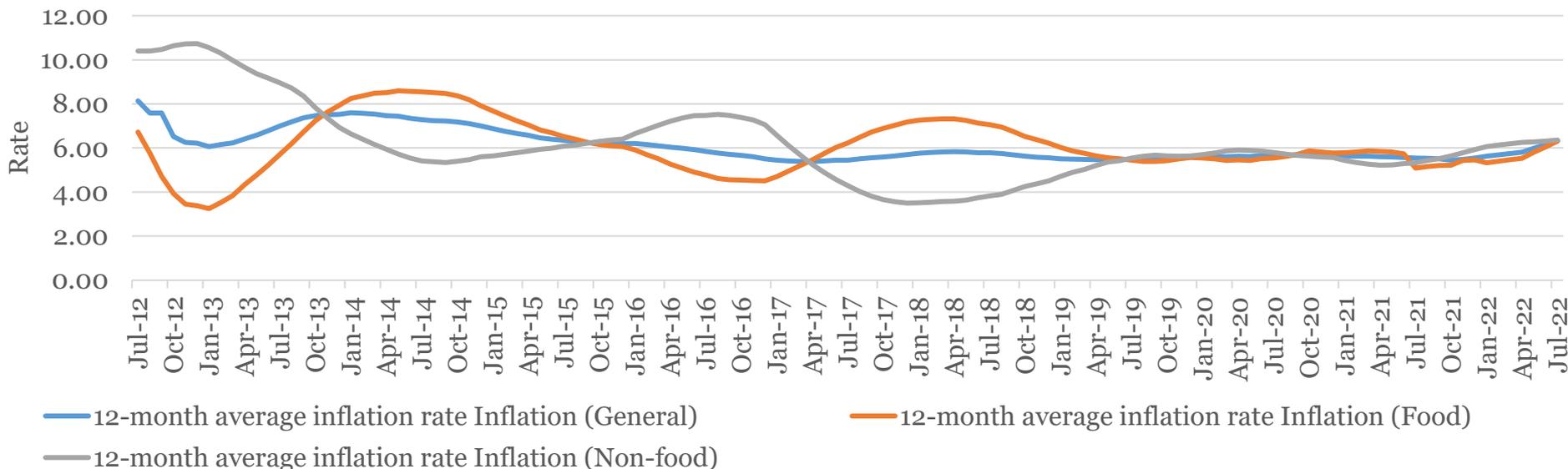
Sources of inflationary pressures

- ❑ Historically, inflation in Bangladesh has occurred mainly due to either rising commodity prices, including international commodity prices and specifically food items, or disruption in supply chains
- ❑ In the past, Bangladesh has seen extreme inflation owing to the supply chain disruption in 2008 and high food prices brought on by the global crisis in 2010
- ❑ Currently, Bangladesh is facing inflationary pressure from both aspects, that is, a rise in prices for food items as well as interferences in the supply chain owing to the Ukraine crisis
- ❑ Additionally, Bangladesh has lately seen dramatic fluctuations in energy prices, which has exacerbated this predicament
- ❑ Research has shown that fluctuations in energy costs in Bangladesh contribute to inflationary pressure, which in turn reduce real GDP

CPI inflation trends hide the rapidly rising prices

- ❑ The 12-month average food and non-food inflation rates have fluctuated in a cyclical pattern over the past ten years
 - Increases in food inflation were generally accompanied by decreases in non-food inflation, so the overall general inflation rate has remained largely stable in the short-term
 - In the long-term, the overall general inflation rate has experienced a slight decline

Figure: 12-month average inflation rate from July 2012-July 2022



CPI consumption basket: Does it reflect consumption pattern?

Table: Food expenditure as a share of income (in per cent)

	National	Rural	Urban
2000	42	48	32
2005	45	50	36
2010	53	57	45
2016	46	52	37

Table: Food expenditure as a share of consumption expenditure (in per cent)

	National	Rural	Urban
2000	55	59	45
2005	54	59	45
2010	55	59	48
2016	48	50	43

Table: Weights used for food in calculation of CPI (base year 2005)

	National	Rural	Urban
2000			
2005	56	61	47
2010	56	61	47
2016	56	61	47

❑ **Engel's law** states that *as income increases, people spend a smaller proportion of their total income on food*

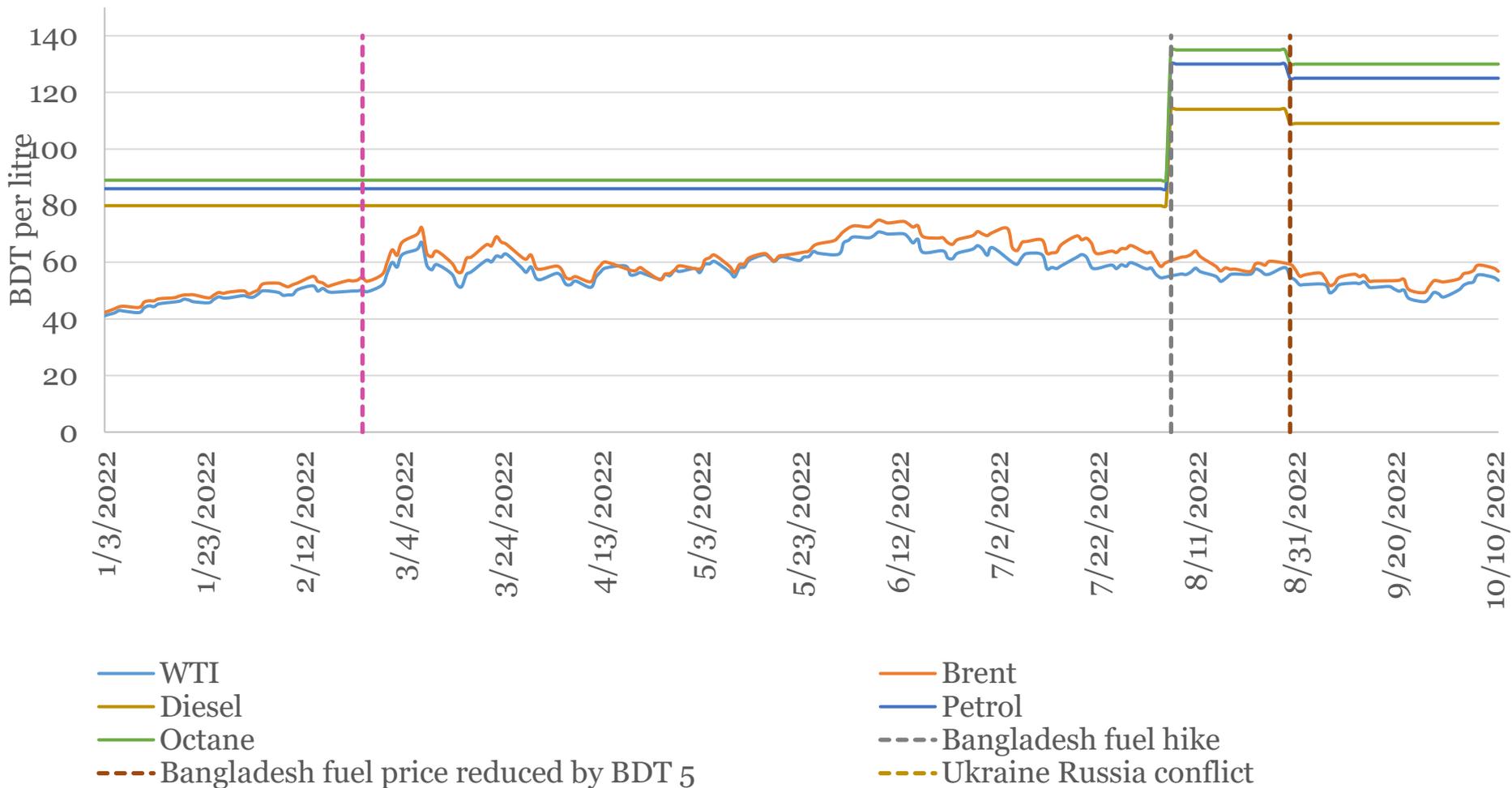
- In Bangladesh, *nominal* household income increased by 7.86% per year on average and *real* household income increased by 0.16% per year on average between 2010 and 2016
 - *food expenditure as a share of income* **decreased** from **53%** in **2010** to **46%** in **2016**
 - *food expenditure as a share of total consumption expenditure* **decreased** from **55%** in **2010** to **48%** in **2016**

❑ However, the *weights used for food in the calculation of CPI are significantly higher than share of food expenditure in either income or consumption expenditure*

❑ **Thus, the consumption basket used for calculating overall general inflation was created in 2005 and does not reflect the current consumption pattern of consumers or the actual prices in the market in 2022**

Record fuel price hike in Bangladesh during falling fuel prices in the world market

Figure: Daily price of oil in world and Bangladesh market, 3 January 2022 to 11 October 2022 (BDT per litre)



Source: https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

If not Ukraine, then from where?

- ❑ Only 0.13% of Bangladesh's total imports came from Ukraine, as of April 2020.
- ❑ However, finding alternatives to Ukraine may not be cheap or easy for Bangladesh

Figure: Estimated truck (land) freight cost of importing goods to Bangladesh in USD (as of 18 Oct 2022)

Top items imported by Bangladesh from Ukraine	Cost	Cost of alternative sources of import								
	Ukraine	Russian Federation	India	Romania	Germany	Poland	Denmark	Spain	Italy	Turkey
Wheat and meslin	14,309	13,496	7,618							
Rape or colza seeds, whether or not broken	14,309			15,033						
Milk and cream, concentrated or containing added sugar or other sweetening matter	14,309					15,956	17,253			
Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified	14,309							13,932	17,749	14,477
Dried leguminous vegetables, shelled, whether or not skinned or split	14,309	13,496	7,618							

Note: Truck volume 86m³

Source: <https://www.trademap.org/Index.aspx>

- CPD's analysis shows that **at least 29 imported essential food items currently face a high incidence of tax**
- High inflation has revealed the inherent weakness in the government's domestic resource mobilisation approach which is largely dependent on revenue collection from indirect taxes
 - The government had to withdraw VAT on soyabean oil recently in a bid to prevent the price of soyabean oil from increasing further
 - It is likely that if inflation continues at the present rate, the government may have to withdraw other indirect taxes on essential items as well
- Thus, fiscal policy which is highly dependent on indirect taxes propagates economic inequality in society and forces the government to trade-off revenue generation in the face of high inflation

High incidence of tax on some imported essential food items

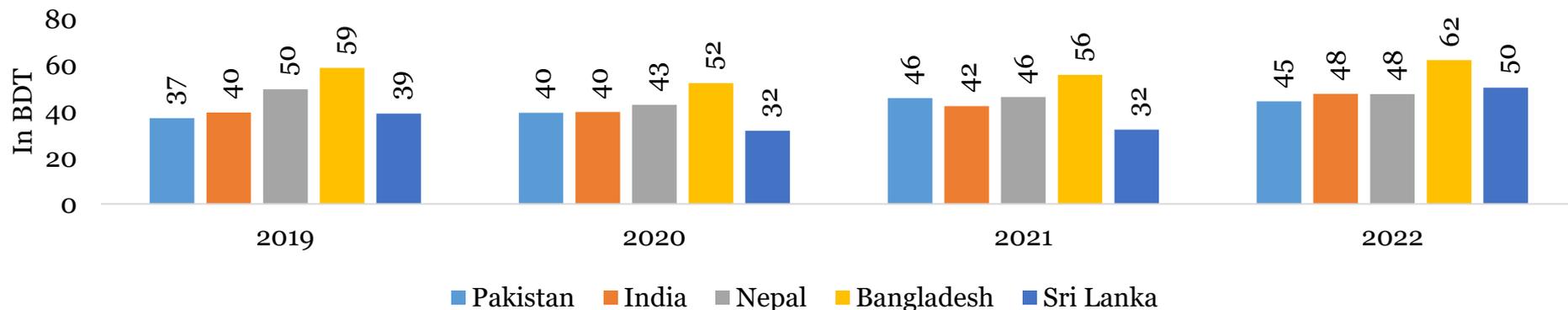
DESCRIPTION	CD	SD	VAT	AIT	AT	RD	EXD	TTI
Fresh or chilled, other cuts of bovine meat with bone	25	20	0	5	0	3	0	58.6
Fresh or chilled boneless bovine meat, wrapped/canned up to 2.5 kg	25	20	15	5	5	3	0	89.3
Fresh or chilled other cuts of meat of sheep, with bone	25	20	0	5	0	3	0	58.6
Frozen cuts and offal of chicken, wrapped/canned up to 2.5 kg	25	20	15	5	5	3	0	89.3
Fish (ruhi, katla, pangash, karp & alike), excluding wrapped/canned up to 2.5kg	25	20	0	5	0	3	0	58.6
Hilsha fish (excluding wrapped/canned up to 2.5 kg)	25	20	15	5	5	3	0	89.3
Milk & cream of greater than 1% but less than or equal to 6% fat, not concentrated or sweetened, wrapped/canned up to 2.5 kg	25	0	15	5	5	3	0	58.6
Milk & cream in powder forms less than or equal to 1.5% fat, concentrated or sweetened, in retail packing up to 2.5kg	25	20	15	5	5	3	0	89.3
Milk and cream in solid forms of less than or equal to 1.5% fat imported by VAT registration milk and milk product	10	0	15	5	5	0	0	37.0
Milk and cream in powder excluding powder, granules or other solid form and imported VAT registered companies	10	0	15	5	5	0	0	37.0
Milk and cream in powder excluding Powder, granules or other solid form and imported VAT registered companies	10	0	15	5	5	0	0	37.0
Tomatoes, fresh	25	20	0	5	0	3	0	58.6
Onions, fresh or chilled	5	0	0	0	0	5	0	10.0

High incidence of tax on some imported essential food items

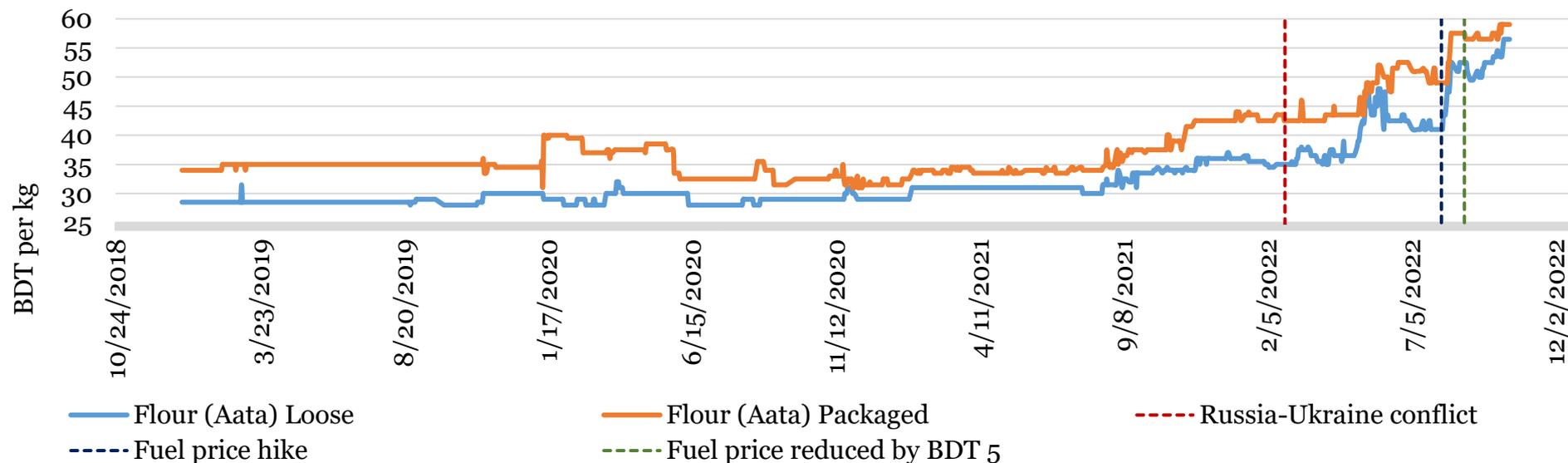
DESCRIPTION	CD	SD	VAT	AIT	AT	RD	EXD	TTI
Garlic, fresh or chilled	5	0	0	2	0	0	0	7.0
Dates, fresh	0	0	0	5	5	0	0	10.0
Pepper, neither crushed nor ground	25	20	0	5	0	3	0	58.6
Cardamoms: Neither crushed or ground, excluding wrapped/canned up to 2.5 Kg	25	20	0	5	0	3	0	58.6
Seeds of Cumin: Neither crushed or ground, excluding wrapped/canned up to 2.5 Kg	25	20	0	5	0	3	0	58.6
Ginger: Neither crushed or ground, excluding wrapped/canned up to 2.5 Kg	5	0	0	5	0	0	0	10.0
Turmeric (Curcuma)	5	0	0	5	0	0	0	10.0
Other maize, excluding wrapped/canned up to 2.5 kg	0	0	0	2	0	0	0	2.0
Husked (brown) rice	15	0	0	5	5	0	0	25.8
Semi-milled or wholly milled rice	15	0	0	5	5	0	0	25.8
Maize (corn) starch	15	0	15	5	5	20	0	67.0
Crude palm oil imported by VAT registered edible oil refinery industries	10	0	15	0	5	0	0	32.0
Palm oil (excluding crude) & its fractions, not else specified, including refined palm oil	0	0	15	0	5	0	0	20.0
Refined palm kernel/Babassu oil & fractions, not chemically modified	25	0	15	5	5	0	0	55.0
Salt (other than pure sodium chloride) solution, salt boulder for crushing & salt in bulk	25	20	15	5	5	3	0	89.3
Sugars, pure (excluding glucose, etc); sugar ethers and salts, etc.	10	0	15	5	5	0	0	37.0

Price of bread and flour

Price of bread (500g) among South Asian countries from 2019-2022 (in BDT)



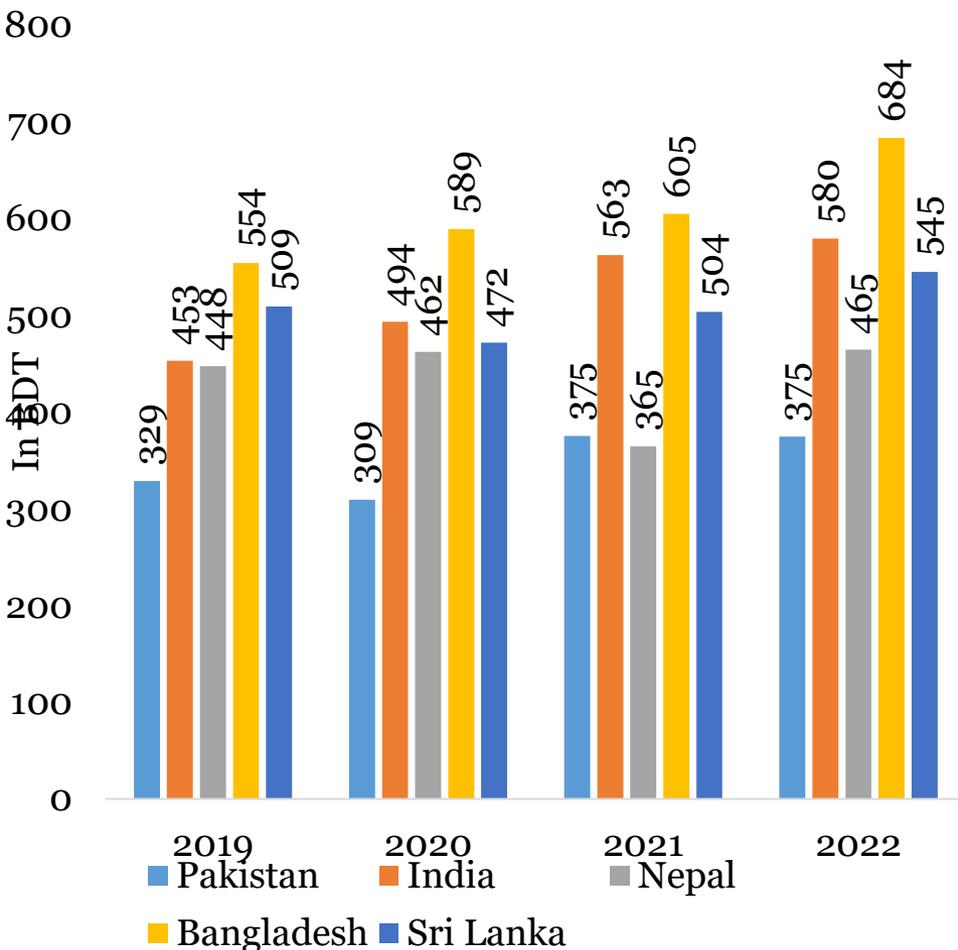
Daily price of unprocessed flour (aata) in Dhaka from 1 Jan 2019 to 16 Oct 2022 (BDT per kg)



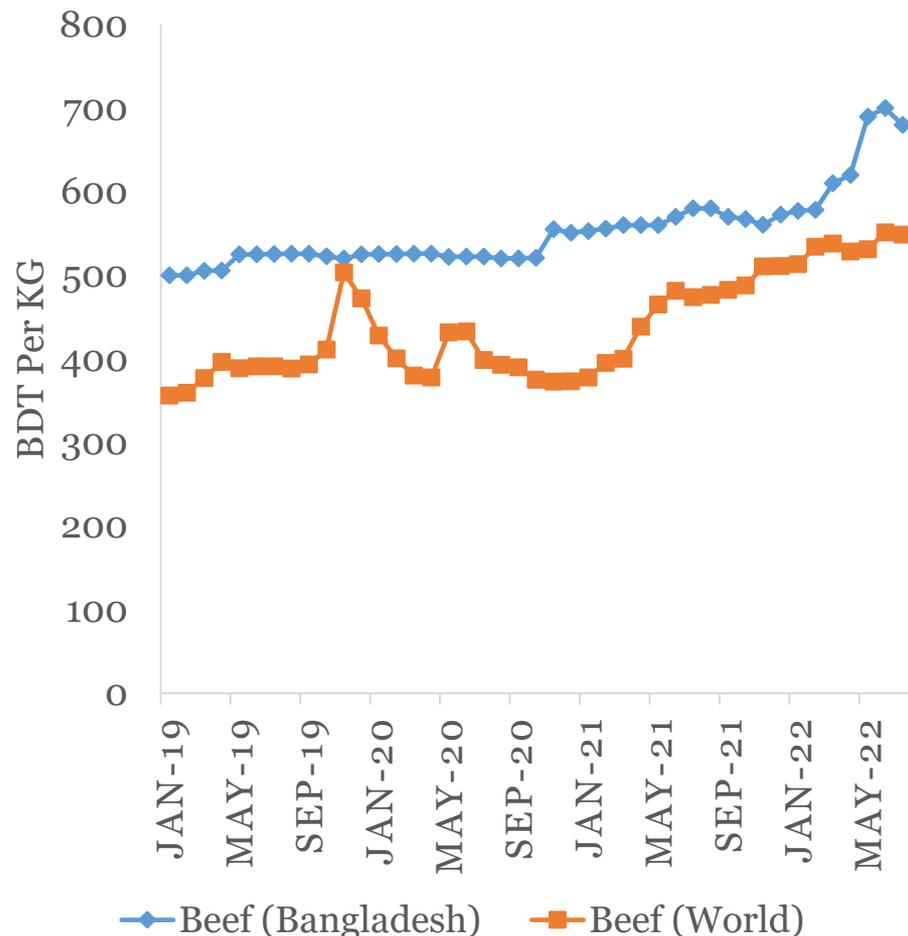
Source: <https://www.numbeo.com/cost-of-living/>

Price of beef exorbitantly high in Bangladesh

Price of 1 kg beef among South Asian countries from 2019-2022 (in BDT)



Price of 1 kg beef in Bangladesh and world market (in BDT)



Source: <https://www.numbeo.com/cost-of-living/>

Price of basic food items beyond the grasp of ordinary citizens

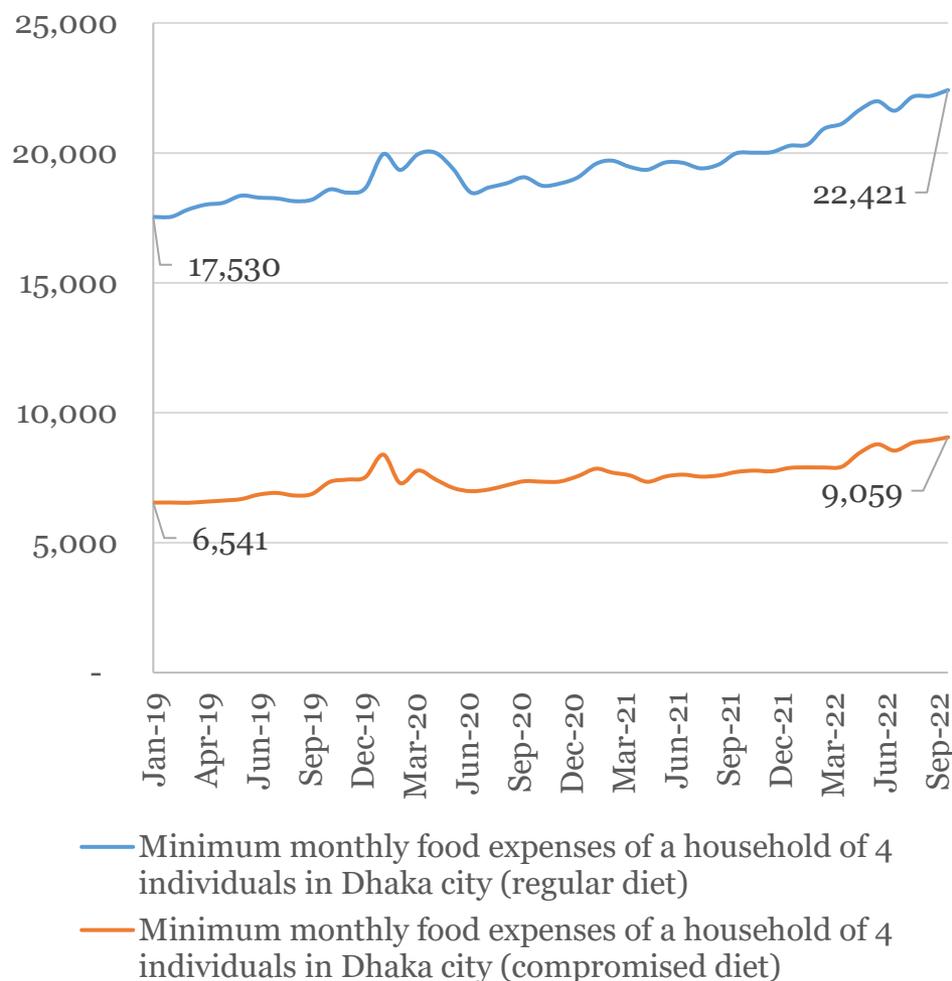
- Assuming that each person consumes the average amount of food, as indicated by the Bangladesh Urban Socioeconomic Assessment Survey 2019 conducted by the Bangladesh Bureau of Statistics (BBS), **the average daily cost of a basket of 19 common food items (“regular diet”) for a household of 4 persons in Dhaka city was BDT 22,421, as of 16 October 2022**
- Assuming that a household lives on a “*compromised diet*”, and never consumes fish, mutton, beef, or chicken, the average monthly cost of food for a household of 4 persons in Dhaka city was BDT 9,059, as of 16 October 2022

Increase in average monthly food expenditure in Dhaka City, in BDT

❑ **The average monthly cost of a basket of 19 common food items (“regular diet”) for a household of 4 persons in Dhaka city increased from BDT 17,530 on 1 January 2019 to BDT 22,421 on 16 October 2022**

❑ **The average monthly cost of a basket of 19 common food items (“compromised diet”) for a household of 4 persons in Dhaka city increased from BDT 6,541 on 1 January 2019 to BDT 9,059 on 16 October 2022**

Figure: Average monthly food expenses of a household of 4 individuals in Dhaka city, 1 Jan 2019 - 16 Oct 2022 (in BDT)

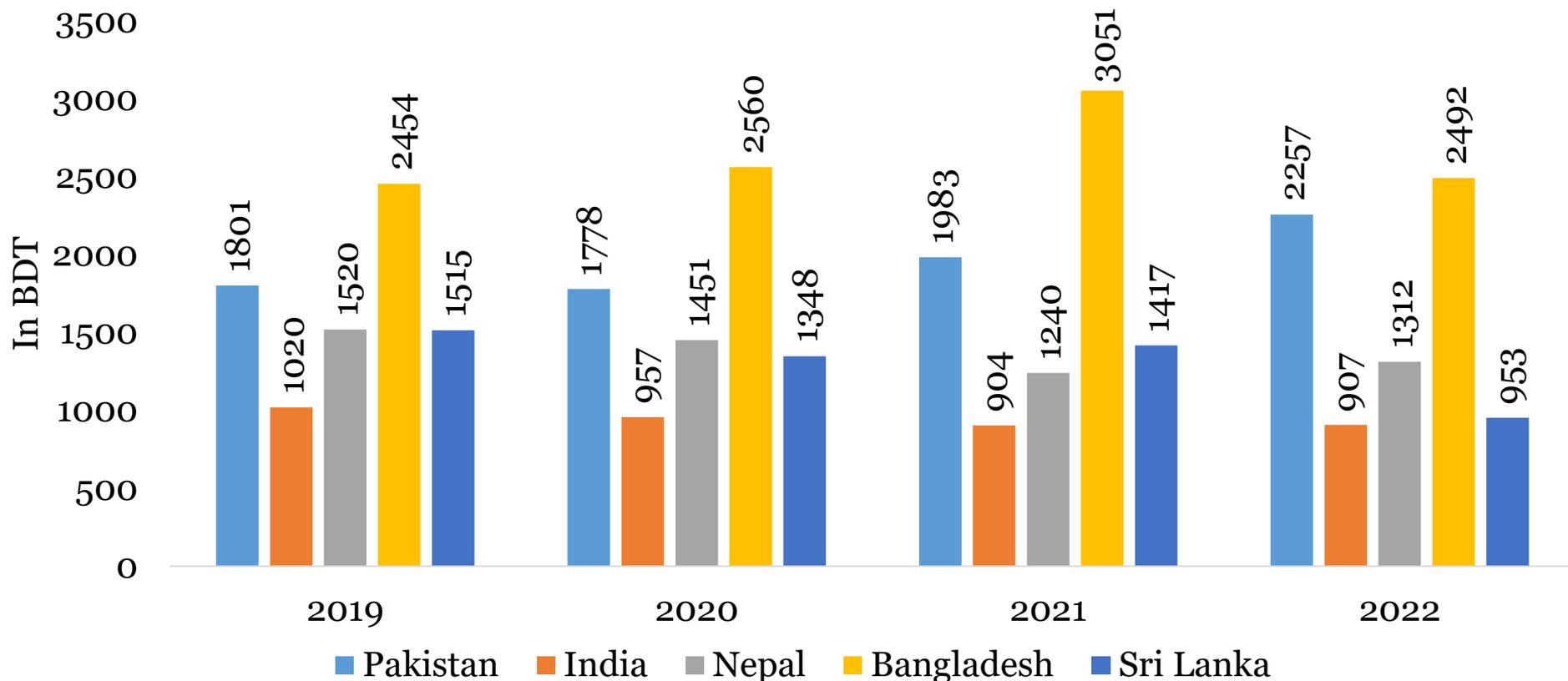


- ❑ Apart from the high price of basic food items, the high price of non-food items were putting a huge burden on households
- ❑ Crowd-sourced data shows that maintaining even a modest standard of living was becoming prohibitively expensive for households in Dhaka
- ❑ In the absence of support from the government, **out-of-pocket expenditure on health for a household of 4 persons was equivalent to BDT 2,625 per month** in 2019, at purchasing power parity
- ❑ It is apprehended that many households are at risk of falling below the poverty line due to out-of-pocket expenditure on health

High price of internet increasing the digital divide

❑ Price of broadband internet has been the highest in Bangladesh among South Asian countries since 2019.

Monthly price of broadband internet (60 Mbps) South Asian countries from 2019-2022 (in BDT)



Source: <https://www.numbeo.com/cost-of-living/>

Workers on minimum wage unable to afford basic food

- ❑ **Assuming a 5% annual increment of the basic salary since latest year of wage review, the minimum wage in 2022 for workers in all industries would not be sufficient for affording a “regular diet” for a household of 4 persons**
- ❑ Assuming a 5% annual increment of the basic salary since latest year of wage review, the minimum wage in 2022 for workers in the shrimp industry, fish and trawler industry, hotels and restaurants industry, soap and cosmetics industry, tailoring factories, cotton textile industries, bakery, biscuit and confectionery industry, automobile workshop industry, and leather and footwear industry would not be sufficient for affording a “compromised diet” for a household of 4 persons
- ❑ Thus, high inflation is directly threatening the food security of workers earning a minimum wage
- ❑ **Hence, it is urgent to revisit and revise the minimum wages of workers in all industries immediately**

Minimum wage in different industries and ability to afford average monthly cost of food

Name of Industry	Job Rank	Minimum wage in 2022, assuming a 5 per cent annual increment since latest year of wage review	Ability to afford average monthly cost of food for a household of 4 persons	
			Consuming a <i>compromised</i> diet without fish, beef, mutton, & chicken (BDT 9,059)	Consuming a <i>regular</i> diet (BDT 22,421)
Shrimp	Worker	5,616	×	×
Shrimp	Employee	6,389	×	×
Fishing & Trawler Boat Industry	Worker	6,584	×	×
Hotels & Restaurants	Worker	4,304	×	×
Hotels & Restaurants	Employee	4,304	×	×
Soap & Cosmetics	Worker	6,496	×	×
Soap & Cosmetics	Employee	6,496	×	×
Pharmaceuticals	Worker	9,293	✓	×
Pharmaceuticals	Employee	9,826	✓	×
Tea Packaging	Worker	8,240	✓	×
Tea Packaging	Employee	9,498	✓	×

Minimum wage in different industries and ability to afford average monthly cost of food

Name of Industry	Job Rank	Minimum wage in 2022, assuming a 5 per cent annual increment since latest year of wage review	Ability to afford average monthly cost of food for a household of 4 persons	
			Consuming a <i>compromised</i> diet without fish, beef, mutton, & chicken (BDT 9,059)	Consuming a <i>regular</i> diet (BDT 22,421)
Ship Breaking	Worker	17,724	✓	×
Ship Breaking	Employee	16,695	✓	×
Tannery	Worker	14,309	✓	×
Tannery	Employee	14,309	✓	×
Tailoring Factory	Worker	5,497	×	×
Cotton Textile Industries	Worker	6,486	×	×
Cotton Textile Industries	Employee	6,486	×	×
Bakery, Biscuit & Confectionery	Worker	6,716	×	×
Bakery, Biscuit & Confectionery	Employee	7,362	×	×
Automobile Workshop	Worker	6,673	×	×
Automobile Workshop	Employee	8,612	×	×

Minimum wage in different industries and ability to afford average monthly cost of food

Name of Industry	Job Rank	Minimum wage in 2022, assuming a 5 per cent annual increment since latest year of wage review	Ability to afford average monthly cost of food for a household of 4 persons	
			Consuming a <i>compromised</i> diet without fish, beef, mutton, & chicken (BDT 9,059)	Consuming a <i>regular</i> diet (BDT 22,421)
Aluminium & Enamel	Worker	9,778	✓	×
Aluminium & Enamel	Employee	9,778	✓	×
Garments	Worker	8,884	×	×
Garments	Employee	9,312	✓	×
Glass & Silicate	Worker	9,288	✓	×
Glass & Silicate	Employee	9,288	✓	×
Plastic	Worker	8,513	×	×
Plastic	Employee	8,513	×	×
Re-rolling Mills	Worker	11,255	✓	×
Re-rolling Mills	Employee	13,018	✓	×
Private Road Vehicles	Worker	10,766	✓	×
Private Road Vehicles	Employee	8,513	×	×
Rice Mills	Worker	8,287	×	×
Rice Mills	Employee	8,287	×	×
Leather & Footwear Factory	Worker	7,459	×	×
Leather & Footwear Factory	Employee	8,981	×	×
Construction & Timber	Worker	16,830	✓	×

Power and energy sector

Domestic Energy Crisis Scenario

- ❑ Power and energy sector is suffering from the catastrophe caused by the global energy predicament
 - Citizens are facing power outage and prolonged load shedding all over Bangladesh
 - GoB decided to reduce generation from diesel fuel-based power plants (however the decision was withdrawn after a month)
 - On 4 October 2022, eight (8) hours long power outage occurred due to the national grid failure
 - Long line in petrol pump and gas stations are observed
 - The pumps and gas stations are not being able to meet the demand
 - Factories are not getting enough gas and electricity to keep up with the production
 - Specially the industries heavily gas dependent textile, ceramics, glass, steel etc. are struggling to meet the output demand
 - Even the households are also facing low to no gas supply

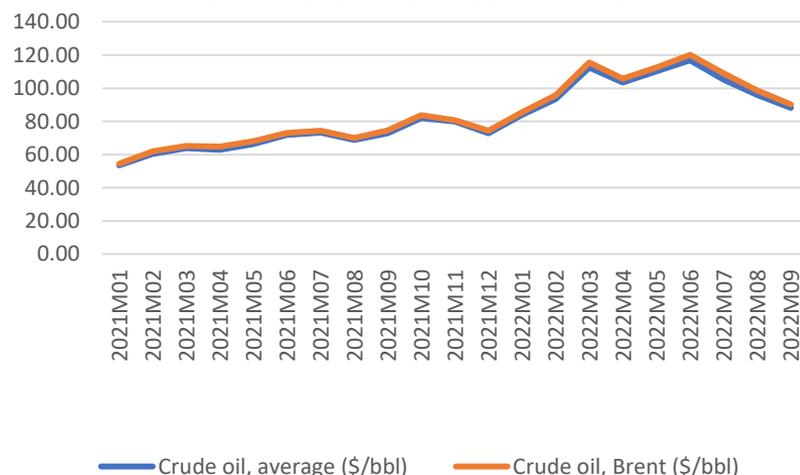
Global Energy Crisis Scenario

- ❑ Citizens of net energy importing developing countries are now keeping up with the prolong load shedding
 - In Nepal factories are facing up to 14 hours of power cuts
 - During this year April, India faced power shortage due to reduction in imported coal due to steep rise of coal price
 - Pakistan has been facing up to 8-hour loadshedding as their supply shortage reached to a new hike
- ❑ Energy crisis has created feud and chaos across the world but mostly energy importing countries are suffering
 - Protestors including students and labour groups led marches in the capital, Jakarta and other major cities against the fuel price hike in Indonesia
 - In Nepal around 100 protesters and the student wing of the main opposition clashed with police after they were stopped to participate in a rally against the fuel price hike in Kathmandu
 - Rising food prices and electricity, gas, gasoline, and diesel tariffs have pushed Italians to the streets blaming the Russia- Ukraine war

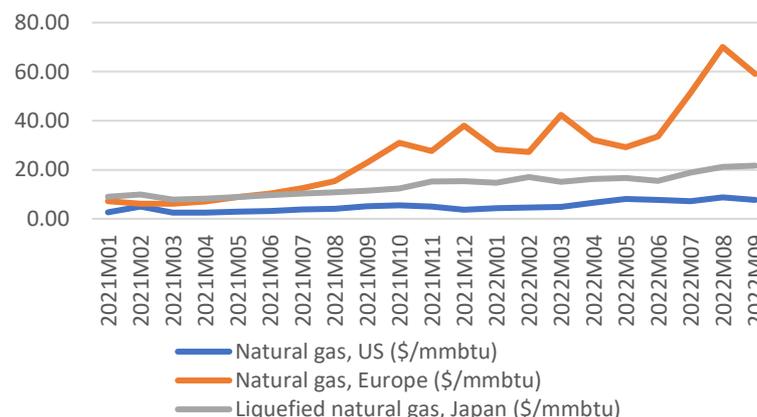
Review of Global Energy Market

- ❑ Energy price in global market started to increase from earlier 2022 but now showing a downward trend at a modest level

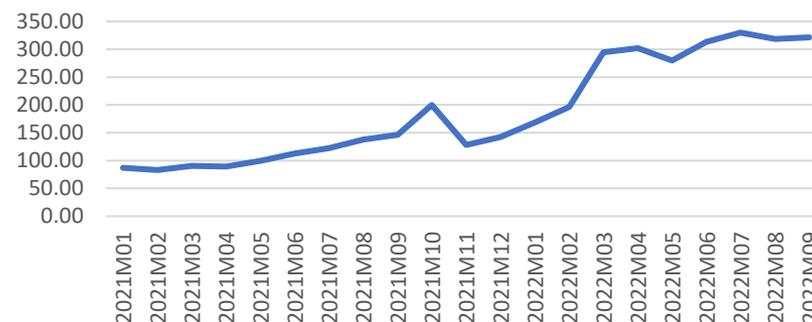
Crude Oil Global Price



Gas and LNG Global Price



Coal, South African (\$/mt) Price

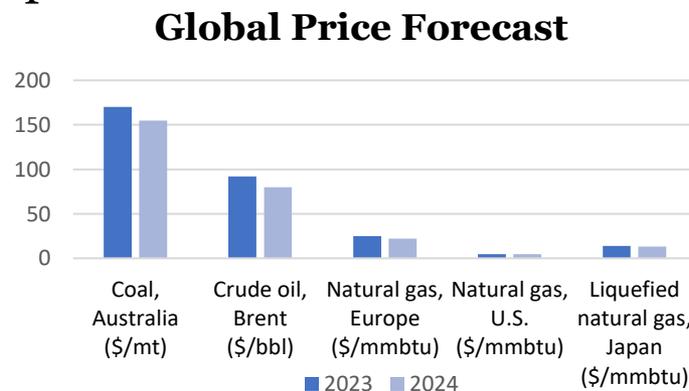


- The global energy demand is more likely to increase further in future
 - The supply shortage led by war can create a much bigger crisis in the coming days

Source: World Bank, Pink sheet

- ❑ OPEC+ has decided to cut the oil production by 2 million barrels per day to less than 42 million barrels per day from November 2022
 - Earlier in August they decided to raise the output by 1,00,000 barrels per day due to the demand hike
 - But later when the oil price started to fall below \$90/barrel, OPEC+ countries decided to push the price up by tightening the supply
 - Global oil price has predicted to cross \$100 per barrel
 - However, the new strategy taken by the Biden administration to weaken the price hike will have a marginally positive impact
 - Bangladesh is also going to suffer for this oil production cut as Saudi Arabia is one of the major oil exporting countries

- ❑ Although based on the April 2022 projection global energy price is forecasted to decrease further in the upcoming year (Figure)



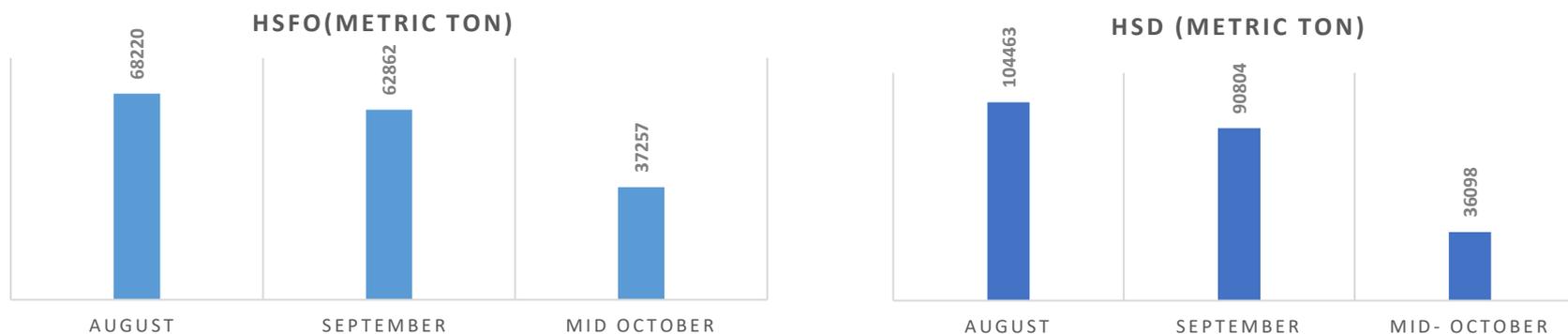
Source: World Bank, Pink sheet

Local Energy Market: Petroleum

- ❑ Bangladesh is heavily dependent on the imported petroleum
- On average, 90% of the demand of petroleum in Bangladesh is met by imported fuel
- 63% of total oil consumption is made by the transportation sector
- Agriculture and power sectors consume around 15.5% and 10.4%, respectively
- ❑ Bangladesh imported a total of 62 lakh tonnes fuel oil in 2020-21
- Bangladesh has already imported 35.81 lakh tones of fuel oil in 2022(Jan-June)
- ❑ According to CCEA, BPC has been granted the permission of importing 54 lakh tones of fuel oil which is comprised of 36.8 lakh tones of refined oil and 16 lakh tones of crude oil for the year 2023
- In other words, Bangladesh is likely to import 13% less petroleum in 2023 against its regular demand mainly due to shortages of income of BPC and less availability of USD

Local Energy Market: Petroleum

Supply of HSFO and HSD



Source: CPD's Accumulation from Different Sources

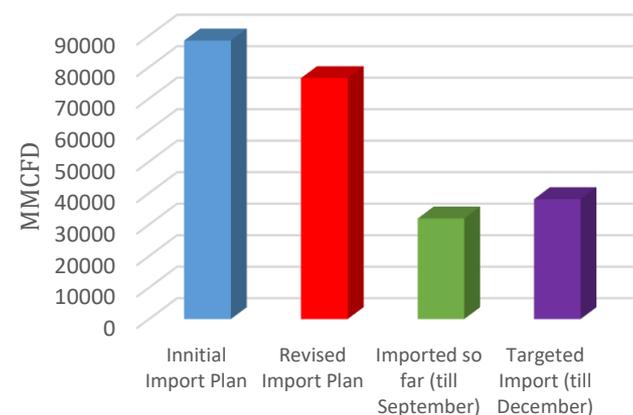
- ❑ Petroleum supply is less than the requirement of the economy in recent months.
 - According to BPC, the total supply of HSFO was 68,220 m. tonne in August, 2022 which dropped to around 5,358 m. tonne in September 2022 reaching to 62,862 m. ton
 - The present supply in October 2022 is 37,257 m. tonne (till 16 October 2022)
- ❑ According to BPC, the total supply of HSD was 104,463 m. tonne in August 2022 which dropped to around 13,659 m. tonne in September 2022 reaching to 90,804 m. tonne
 - The present supply in October 2022 is 36,098 m. tonne (till 16 October 2022)

Local Energy Market: LNG

- ❑ Domestic LNG supply has been halved as Bangladesh failed to buy LNG from spot market
 - Usually on average 700-800 mmcf/d were supplied each month but after the halt of spot market purchase in July 2022, the supply has decreased to 300-400 mmcf/d per month
 - Decision has been made not to spot purchase any more LNG cargos in 2022 **due to the shortage of fund**
 - **Petrobangla is struggling to make the payment of long-term contract with Oman and Qatar**
 - Regardless of the financial issue, Petrobangla plans to continue importing LNG on long term contract
 - ✓ 11 more cargos will be imported in the next 3 months of 2022 and 12 more cargos to be imported in the first 3 months of 2023
 - It indicates that less than 50% of the initial planned import was possible to be imported so far.

LNG Import Scenario in 2022

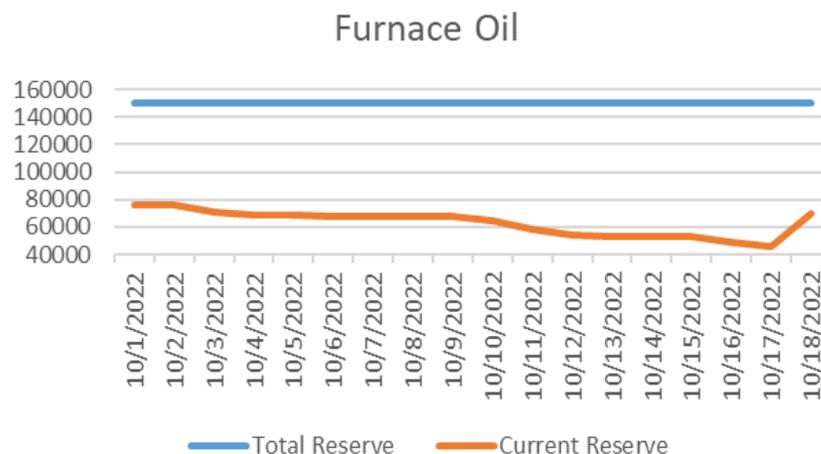
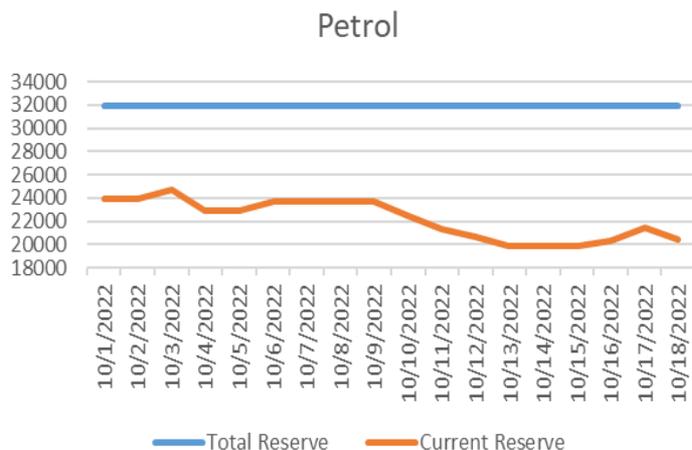
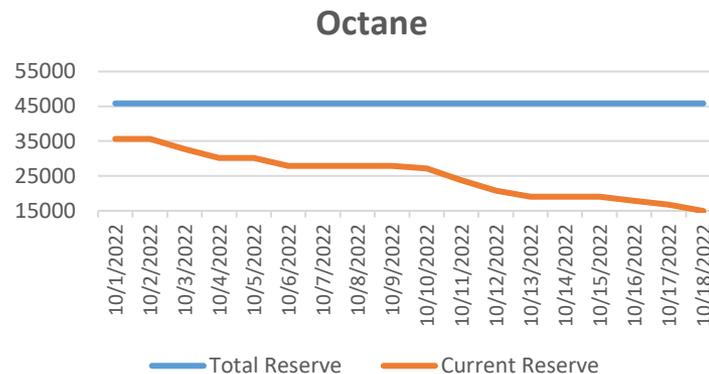
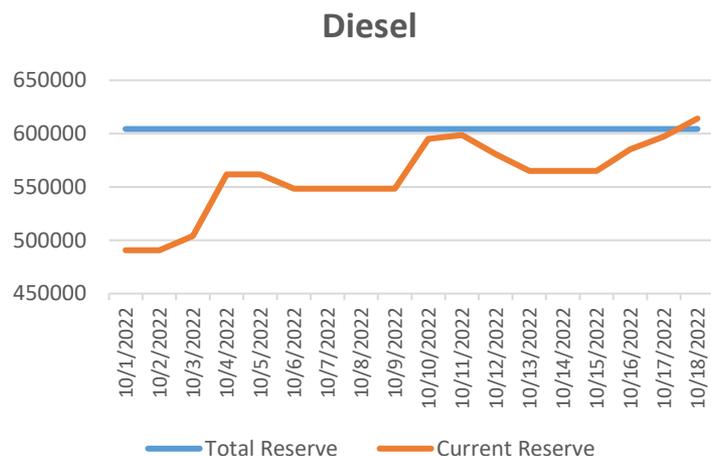
	No. of Cargos	Long term	Spot Market	Average Capacity (mmcf/d)	Estimated Total Capacity (mmcf/d)
Initial Import Plan	104	56	48	850	88400
Revised Import Plan	90	56	34	850	76500
Imported so far (till September)	57	45	12	560	31920
Targeted Import (till December)	68	56	12	560	38080



Source: CPD's Accumulation from Different Sources

Current Petroleum Reserve

- Declining trend of current Octane, Petrol and Furnace Oil reserve is observed while a surge in Diesel is observed (2022)



Source: CPD's Accumulation from Different Sources

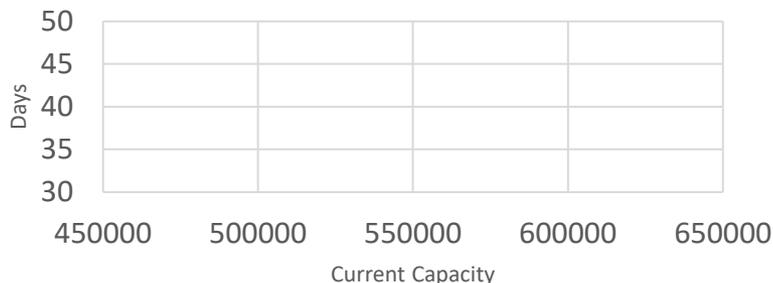
Current Petroleum Reserve

❑ Standard expected days of Operation for Petroleum with Current Reserve: 60 days

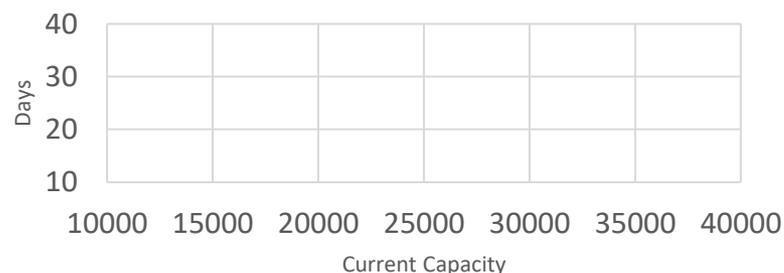
Diesel: the expected days of operation is 61 days with a surplus of around 1 days.

- The current reserve is 6,14,345 metric tonne in terms of a total reserve of 604495 metric tonne (Last updated on 18/10/22)

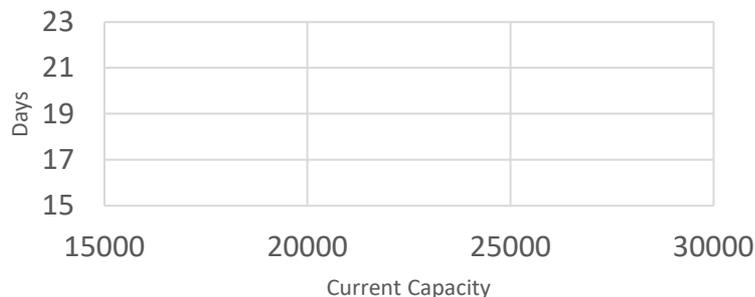
Expected Days of Operation from the Current Reserve
(Diesel)



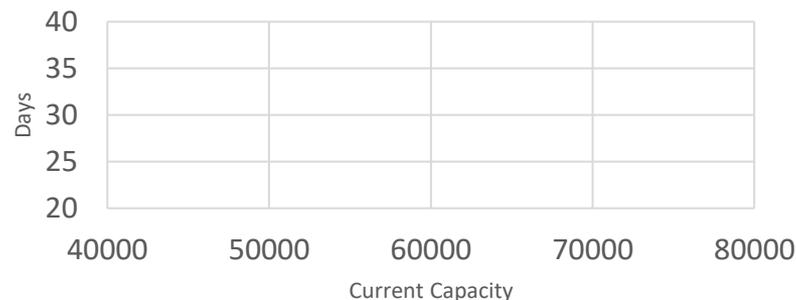
Expected Days of Operation from the Current Reserve
(Octane)



Expected Days of Operation from the Current Reserve
(Petrol)



Expected Days of Operation from The Current reserve
(Furnace Oil)



Source: CPD's Accumulation from Different Sources

Current Petroleum Reserve

- ❑ Octane: the expected days of operation is 19.6 days with a deficit of around 40 days
 - The current reserve is 14,973 metric tonne in terms of a total reserve of 45819 metric tonne (Last updated on 18/10/22)
- ❑ Petrol: the expected days of operation is 38.4 days with a deficit of around 22 days
 - The current reserve is 20425 metric tonne in terms of a total reserve of 31,885 metric tonne (Last updated on 18/10/22)
- ❑ Furnace Oil: the expected days of operation is 27.9 days with a deficit of around 32 days
 - The current reserve is 69981 metric ton in terms of a total reserve of 1,50,665 metric tonne (Last updated on 18/10/22)

Current Financial Situation of BPC in 2022 (Diesel)

Financial Situation of BPC in 2022 (Diesel)

Month, 2022	Buying Price (in BDT per Litre)	Selling Price (BDT Per Litre)	Profit/Loss BDT Per Litre	Monthly Gross Profit/Loss (Crore BDT)
July	81.5544	80.00	-1.55	-341.9
August	75.582	114.00	38.42	1315.5
September	77.238	109.00	31.76	1037.4
October	79.758	109.00	29.24	925.6

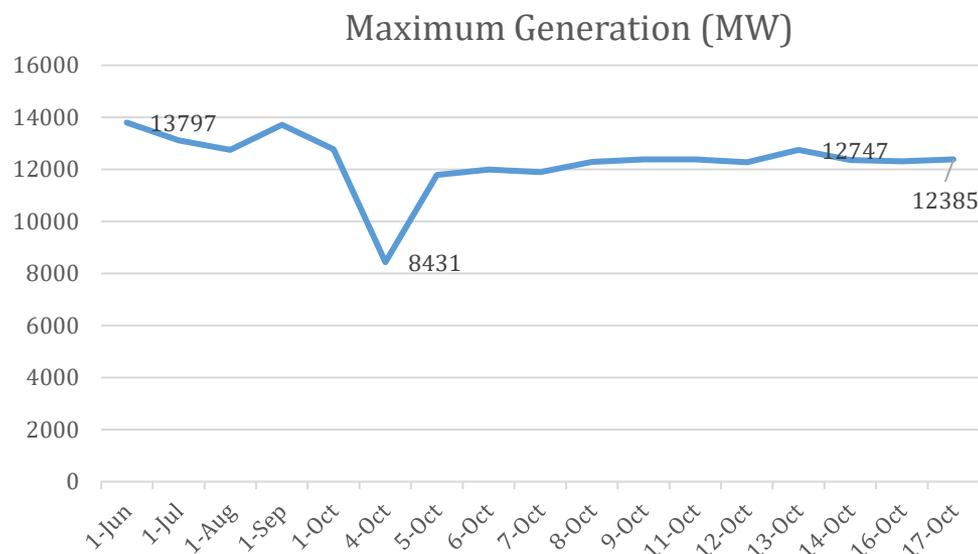
Note: A 30% surge is calculated for transforming the refining oil from the crude oil

Source: CPD's Calculation

- ❑ From an anecdotal source, **BPC has a reserve of approximately BDT 23,000 crore** including the project-based budget.
 - The sole reserve for import purpose is BDT17,000 with an average of 16 vessels transporting oil monthly for the year 2022.
- ❑ Based on the calculation, BPC is in a state of profit for the months - August, September, October.
 - **Therefore, BPC should reconsider the recent decision of fuel price hike so that the inflationary pressure is eased in the domestic market.**

Power Sector – Generation and Load Shed

- ❑ The maximum generation (MW) varied between 12,000 MW and 14,000 MW, with a dip on 4th October due to the national grid failure
- According to Bangladesh Power Development Board, there was a load shedding of 4,395 MW on 4th October 2022.



Load Shedding Scenario

	1- Jun	1- Jul	1- Aug	1- Sep	1- Oct	4- Oct	5- Oct	6- Oct	7- Oct	8- Oct	9- Oct	10- Oct	11- Oct	12- Oct	13- Oct	14- Oct	16- Oct	17- Oct
Load Shed (MW)	0	0	410	0	1407	4395	1375	1184	964	1459	985	942	567	399	100	215	800	1113

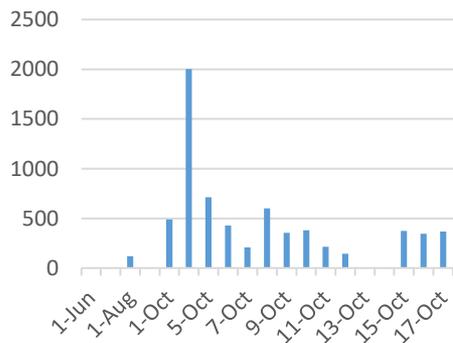
Source: BPDB Website

- ❑ The data does not reflect the reality as high levels of load shedding are experienced with a generation of 12,000~14,000 MW.

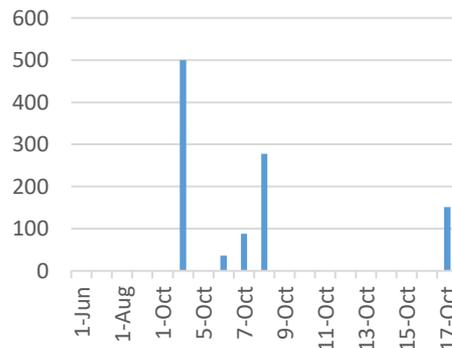
❑ **Dhaka, Comilla, Sylhet and Mymensingh** are experiencing the **highest amount of daily load shedding**, while Rajshahi, Khulna, and Rangpur are experiencing moderate levels of daily load shedding.

➤ However, the data provided on BPDB's website seems unreliable and inconsistent with the amount of load shedding.

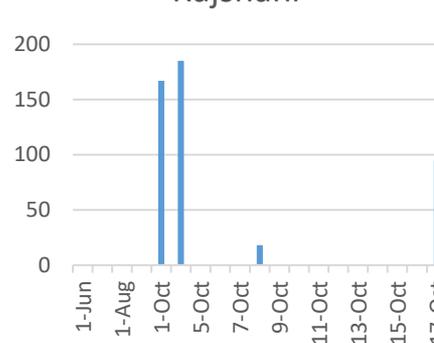
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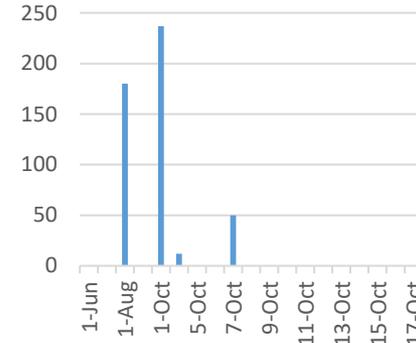
Chittagong



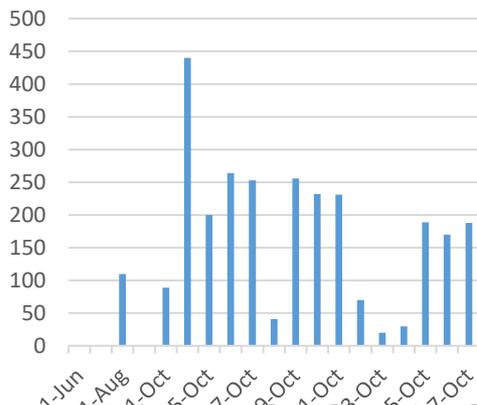
Rajshahi



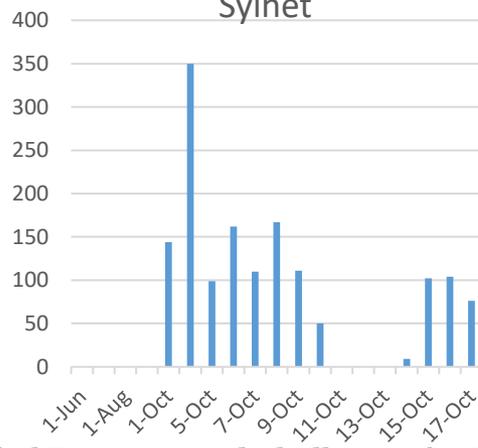
Khulna



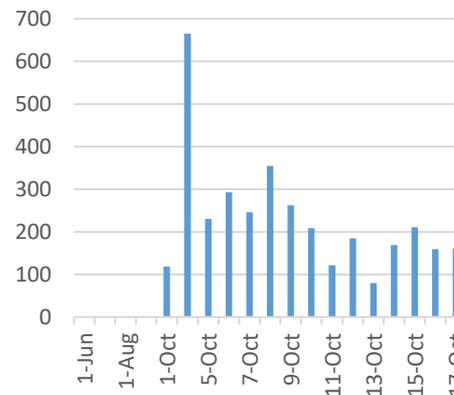
Comilla



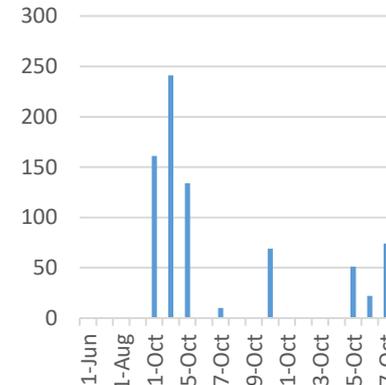
Sylhet



Mymensingh



Rangpur



Power Sector – Net Generation

Current Generation Capacity and Net Generation of September

- ❑ There is decline in gas-based power generation while rise in coal-based power generation.
 - ❑ Despite having the capacity, RE based power plants were not used for generation.
- ❑ Due to shortages of fuel, a number of fossil-fuel based power plants were out of generation
 - ❑ As of September 2022, 16 power plants generated zero electricity
 - ❑ Interestingly, this includes one solar and one wind-based power plants.

Fuel Type	Current Generation Capacity (MW)	Percentage (%)	Net Generation of September 2022 (KWH)	Percentage (%)
Gas	11162	54	3824614325	52
Furnace Oil	5925	29	2108979747	29
Diesel	1286	6	435678594	6
Coal	1688	8	882934827	12
Hydro	230	1	105929849	1
Solar	259	1	36045332	0
Total	20550		7394182674	

Number of Power Plants with Zero Generation in September

Fuel Type	Number of Power Plants
Gas	7
Coal	1
HFO	4
HSD	2
Wind	1
Solar	1
Total	16

Power Sector – Prospective Rise of Generation Capacity

- ❑ With the total capacity which was earlier planned to be included in the national grid by the end of 2022, the load shedding may be eased in future.
 - These plants are almost all fossil-fuel based
 - However, the existing power plants are not being fully utilised due to fuel shortage which means the utilisation of capacity from the upcoming powerplants are not guaranteed as well
 - The capacity charges will further increase which will put financial stress on the BPDB
 - The total grid-based installed capacity is 22512 MW; when 3384 MW will get added by the end of December 2022, the capacity would rise to 25896 MW.
 - There is still a probability of not being able to utilise the generated power as transmission lines are yet to be constructed

Prospective Capacity from Upcoming Projects for 2022

Fuel Type	Public	Joint	Private	Total
Gas	612	-	-	612
HFO	-		5	5
Coal	-	1234	1531	2765
Wind	2	-	-	2
	614	1234	1536	3384

Source: BPDB Progress Report September

- **Renewable based power generation is still out of consideration of public and private power producers.**
- **A major overhaul is required in future power generation plans.**

Power Sector – Policy Measures

- ❑ Bangladesh took mitigation and adaptation measures amid the energy crisis
 - Change in working hours to save energy and electricity
 - Banks have been ordered to reduce electricity and fuel costs
 - Educational institutions directed to reduce electricity use by 25%
 - Prime Minister ordered to cut off electricity lines for those with unpaid bills
- ❑ It is not fully clear how effective those measures are in reducing the energy use as well as reducing the use of foreign exchanges.
- ❑ Different countries took mitigation and adaptation measures amid the energy crisis
 - India - increasing imports and nudging power producers to generate maximum capacity; utilities were requested to revive their old and ageing coal power plants.
 - Pakistan - expressed openness to signing new long-term contracts, with one official claiming the country would go for an unusually long 30-year contract.
 - Sri Lanka - the government asked about one million public employees to work from home until further notice.

Turbulence in external sector

Growth of export earnings is above the strategic annual target with underlying disquieting trends

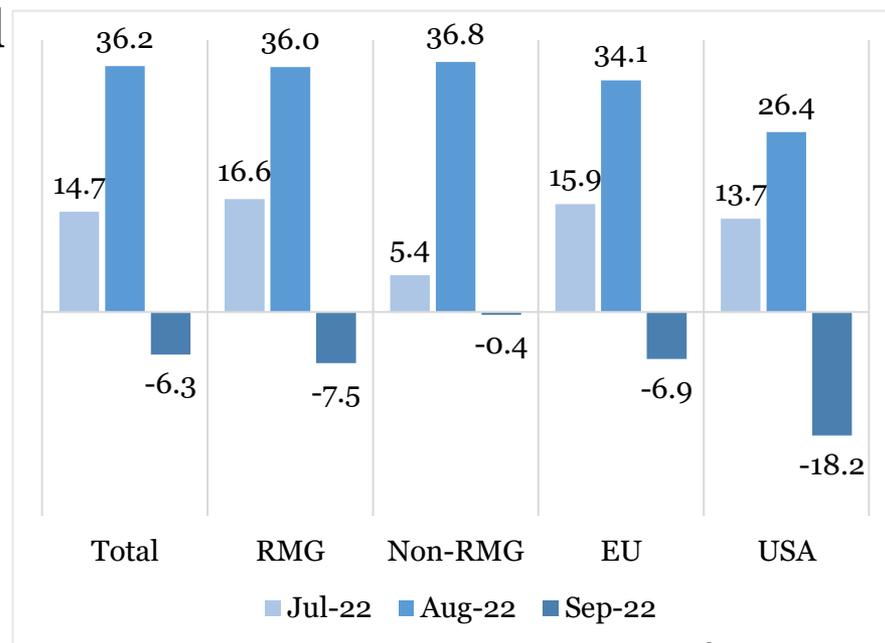
- ❑ During the first three months (Jul-Sep) of FY23, export earnings have registered a growth of **13.4%**
 - Given the downturn in global economy, **this performance is no doubt encouraging**
 - Growth of export earnings during Jul-Sep FY23 **surpassed the strategic annual target of 11.4% set out for FY23**
- ❑ Following the usual trend, this growth has been anchored in the growth of export earnings **from the RMG (13.4%)**
 - Non-RMG export earnings **also grew at a similar rate (13.3%)**

- ❑ Growth rate of knit-RMG (with its relatively higher domestic value addition) has been lower (9.4%) during the Jul-Sep FY23 period vis-à-vis that of the woven-RMG (18.7%)
 - This would imply lower growth of net export earnings from RMG as against the growth of gross RMG exports on account of higher domestic value retention

❑ If the export performance for the month of Sep 22 is considered, several disquieting trends can be observed

- Overall export earnings decreased by (-) 6.3% in Sep-22 when compared to that of Sep-21 (Figure)
- The decrease is more prominent in traditional markets such as the EU (-6.9%) and the USA (-18.2%)
- The decline is evident for both RMG and non-RMG products

Figure: M-o-M growth in export earnings

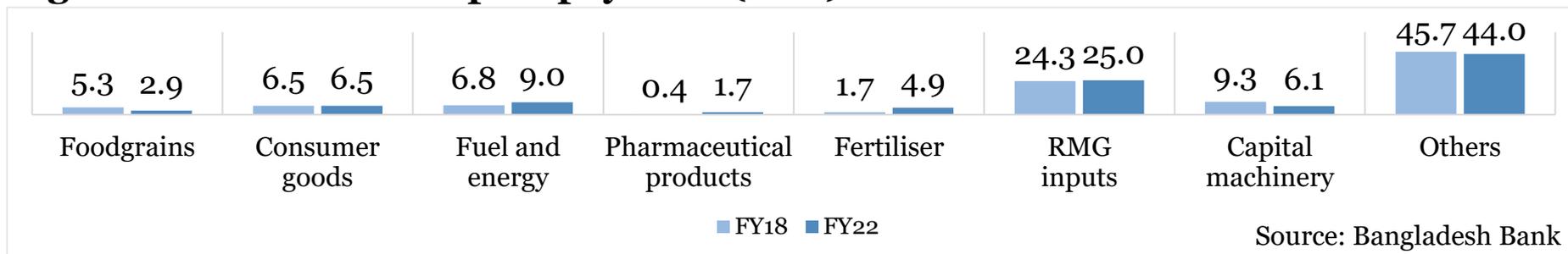


Source: EPB

Growth of import payments tempered down

- ❑ The growth of import payments has exhibited a growth of 17.0% during the Jul-Aug period of FY23 - the corresponding figure for FY22 was 45.9%
- Import payments growth was substantially high for consumer goods and intermediate goods, while it was negative in the cases of foodgrains and capital goods
- Intermediate goods accounted for more than 80% of the incremental import payments during Jul-Aug FY23
 - Within intermediate goods, fertiliser, oilseeds, iron, steel and other base metals, raw cotton, and textiles contributed to lion share of the incremental import payments
- Within consumer goods, edible oil accounted for the entire incremental import payments
- During the Jul-Aug FY23 period, import payments owing to capital goods exhibited a negative growth of (-) 5.2%

Figure: Share in total import payment (in %)



- ❑ Between FY18 and FY22, the composition of import payments has gone through substantial changes
 - Share of **fuel and energy increased by 2.1 percentage points** (requiring an **additional USD 4.0 billion**)
 - Share of fertiliser rose by 3.2 percentage points (requiring an additional USD 3.4 billion), thanks to drastic rise in natural gas prices, increased shipping cost, and higher demand for global crop production since 2021, which was followed by Russia-Ukraine war in 2022
 - Regrettably, import payments for capital machinery did not increase (in nominal USD terms) between FY18 and FY22- resulting in a significant fall in share
- ❑ This structure is likely to continue over the foreseeable months

While outward migration registered impressive growth, remittance inflow growth slowed down

- ❑ During the Jul-Sep period of FY23, a total of 259,221 Bangladeshi citizens joined overseas job markets
 - This number is the highest for the Jul-Sep period since FY11
 - Bangladesh recorded the highest ever outward migration in FY22 since FY11
- ❑ Regrettably, the boost in outward migration was not reflected in remittance inflow
 - In Jul-Sep FY23, remittance inflow increased by only 4.9%
 - Curiously, remittance inflow from the middle east, Bangladesh's primary source of remittance, declined by (-) 4.8% during this timeframe. Low remittances from Saudi Arabia constitutes the major part of this decline
- ❑ At the same time, the growing concerns regarding rampant use of hundi continued – did not receive adequate attention of policymakers
 - Bangladeshis invested the highest in Dubai real estate in recent times

Balance of payments slides into further uncomfortable position

- ❑ Despite the moderate export growth, trade deficit increased from USD (-) 4.3 billion to USD (-) 4.6 billion in the first two months of FY23, in the backdrop of high import payments
- ❑ In view of modest growth in remittance inflows, the current account balance also decreased further (from USD (-) 1.4 billion in Jul-Aug FY22 to USD (-) 1.5 billion in Jul-Aug FY23)
- ❑ The situation was exacerbated owing to a substantial decline in financial account – which entered the negative terrain in Jul-Aug FY23
 - This was thanks to a significant decline in trade credit
- ❑ For Jul-Aug FY23, the overall balance stood at a negative USD (-) 2.4 billion whereas the corresponding figure for FY22 was USD (+) 0.2 billion

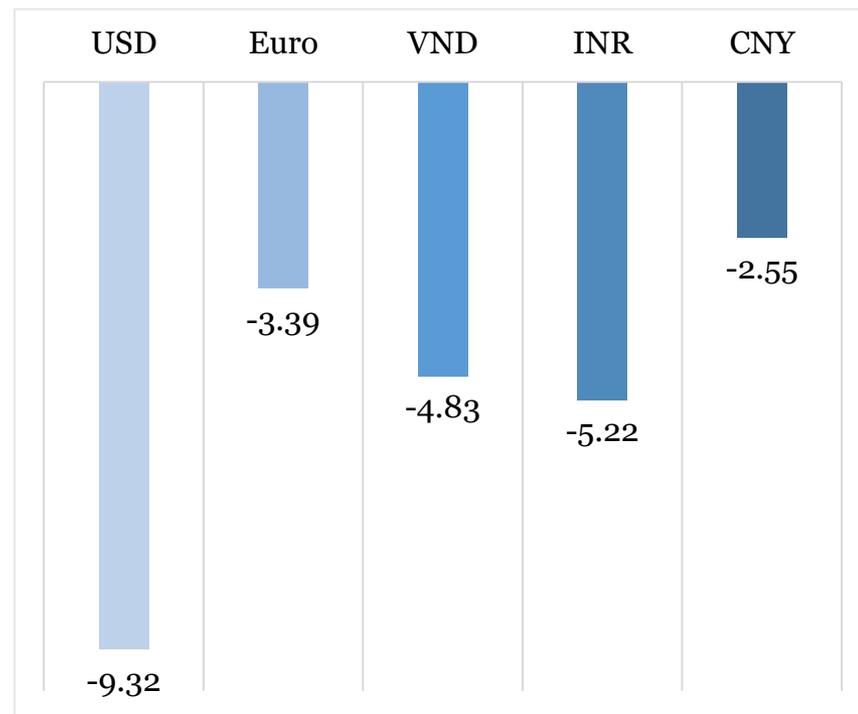
Forex reserve continues to be a grave concern

- ❑ The deficit in overall balance of payments dented the forex reserve
- ❑ At the end of FY22, Bangladesh had a reserve worth about USD 41.8 billion which came down to USD 36.3 billion as of 12 October 2022
 - The Monetary Policy Statement for FY23 anticipated the forex reserve to increase to USD 42.5 billion in FY23 – a new projection and policy stance would be required
 - It needs to be recalled that the IMF has raised question as regards the accuracy of accounting practices associated with estimation of forex reserve
- ❑ Bangladesh is negotiating to obtain USD 4.5 billion from the IMF and an additional USD 1 billion from the World Bank as budget support loans, with a view to support forex reserves
 - The associated conditionalities with these loan packages (which are not disclosed for public knowledge and discussion) will be critical for economic policies in the near future

Market based floating exchange rate remains the only policy option

- ❑ The interbank BDT-USD exchange rate reached BDT 105.4/USD as of 12 Oct 22 – indicating a depreciation of 23.1% in one year (as per BB data)
- ❑ As USD continued to be stronger against most currencies, it contributed to the depreciation of BDT
- ❑ Between 30 Jun 22 and 19 Oct 22, BDT depreciated against all selected currencies
 - Depreciations against USD and Euro are likely to benefit the exporters
 - Depreciations against VND, INR and CNY would also imply that Bangladeshi exporters may have gained some advantage against its major competitors
 - On the flipside, depreciations against INR and CNY make imports costlier

Figure: Depreciation of BDT against selected currencies between 30 Jun 2022 and 19 Oct 2022



Source: www.oanda.com

Way forward

Multiple crises faced by Bangladesh

At present, Bangladesh is faced with at least 7 crises



Recommendations to address inflation

- ❑ **A new consumption basket should be formulated for calculating CPI inflation**, based on rigorous research as regards consumer behaviour and expenditure patterns. All targets, projections, and plans in the monetary policy and the 8th Five Year Plan should be revised in accordance with this new consumption basket for CPI and new base year for inflation.
- ❑ **The National Board of Revenue (NBR) should immediately consider removing the advance income tax (AIT), advance tax (AT) and regulatory duty (RD) on all imported essential food items.**
- ❑ The role of the Bangladesh Competition Commission needs to be strengthened, particularly in the case of the essential consumer goods market.
 - The Commission should develop a database, regularly monitor the dominant market players' operations, examine the market control and manipulation (if any), and take proper measures.
- ❑ **The Bangladesh Competition Commission should adopt a strong stance against cartels and a zero tolerance policy towards collusive practices.**
- ❑ The Competition Act 2012 should be revised to directly address monopolies and include specific anti-trust clauses, along with concrete penalties for violators.

- ❑ **The Minimum Wage Board should consider increasing the minimum wages in all industries** so that workers earning minimum wages may at least afford basic food
- ❑ **Private sector corporations should consider a higher salary increment in 2022**, given that a 5% increment of salary in the face of double digit price hikes is compelling workers to seriously compromise their standard of living
- ❑ The volume of sale of essential commodities through the open market system (OMS) should be increased
- ❑ **Distribution of these commodities must be managed effectively and without any corruption**, so that the eligible people have access to these items at low prices
- ❑ The government should provide direct cash support to the poor, enhance social protection for low-income families, and extend stimulus to the small businesses for their survival during difficult times

Recommendations to address inflation

- ❑ The government should prepare for maintaining adequate food stock not only through better agricultural production, but also through importing food.
- ❑ Food storage facilities and buffer stocks should be developed to increase resilience to crisis
- ❑ During a crisis, food-exporting countries would not export food without meeting their domestic demands first. If they decided to export, the prices would be exorbitant. Therefore, planning the production and import of food should be done early on.
- ❑ There is a need for actual demand estimation of rice and other food items in the country.
- ❑ **Inflationary pressure will hamper a sustainable and inclusive pandemic recovery, since the real purchasing power of many people is declining, causing further inequality.**

- ❑ Energy and power sector confronts multiple challenges- both short and medium term in nature
 - Fortunately, there are chances to reduce the power crisis through some additional power from India.
 - Those plants which are under construction (3384 MW) is highly unlikely to come in generation **due to shortages of energy supply**
 - Hence the power generation and supply crisis is likely to continue unless sufficient fuel is supplied
- ❑ Even though the power crisis may be eased in the medium term, the long-term tension will continue as the added generation capacity is mainly import based, **putting a huge burden of capacity payment on the shoulder of BPDB**
- ❑ Renewable energy (RE) needs to be more emphasised and prioritised
 - Even during crisis, RE cannot be utilised as the installed solar based power remains unutilised
- ❑ **As the global oil prices are declining over time, BPC should consider downward revision of oil (diesel, octane, petroleum) prices**

- ❑ Measures taken by the government to ease energy crisis is more suitable for the short-term
 - Those are not sufficient to address the medium to long term concerns
 - Measures taken by the government need proper monitoring and reviewing. Also, in some cases the measures are not consistent
- ❑ Data on maximum power generation and load shedding seem to be unreliable and misleading as they do not reflect the reality
- ❑ If the global energy prices (oil & LNG) do not decrease, the government should be prepared to spend a significant portion of foreign reserve for energy import
 - The government should look for long term loan opportunity from IMF/WB/IDB
- ❑ The government should put more emphasis on exploration of gas in order to reduce the over-dependence on imported fossil-fuel.

Dealing with the turbulence in external sector

- ❑ The infrastructural (including power and energy) need and announced policy support for export-oriented industries must be ensured
- ❑ Import-related recent restrictive measures should be continued
- ❑ The government must take necessary actions against hundi operations – a fuller implementation of the action plan identified in the National Strategy for Prevention of Money Laundering and Combating Financing of Terrorism can be a starting point
- ❑ The utilisation of foreign-aided projects should be prioritised
- ❑ While the government has no other option but to opt for loans from IMF and World Bank, the associated conditionalities should be publicly available for review and discussion before the signing agreement – sequencing the implementation of the envisaged reforms will also be critical
- ❑ The central bank should refrain from further depletion of forex reserve, particularly in view of the recent debate regarding the estimation methodology and pursue a floating exchange rate policy

- ❑ In the recent past, the policymakers of Bangladesh emphasised GDP growth as the single most important measure of development and prosperity
- ❑ Indeed, the **distribution and composition of economic growth** should inform both recovery and economic policies
- ❑ In view of the current economic turmoil, both at the national and global levels, **macroeconomic stability should be the primary focus of economic policy** – starting from suppressing inflationary pressure for the disadvantaged population groups, meeting the power and energy demand and taming the exchange rate volatility
- ❑ The economic policies should target the disadvantaged population groups and productive sectors
- ❑ Fiscal space and the government's ability to control overpricing of public expenditure at the margin will determine the capacity of the government to tackle the crisis

- ❑ Regrettably, **data on fiscal correlates** is not available for the current fiscal year from the MoF, which could inform policy perspectives in such a troubled time
- ❑ The overall data system is lagging in terms of availability, timeliness and quality
- ❑ Indeed, **the frail data ecosystem is keeping the policymakers half-blind in terms of assessing the economic situation and crafting required policies**
- ❑ The apparent coordination failure among the key policymaking agencies of the government in recent months is worrisome

- ❑ In view of the growing economic crisis, the government should form a committee comprising the representatives of the Prime Minister's Office, Ministry of Finance, Ministry of Planning, Ministry of Commerce, Ministry of Power, Energy and Mineral Resources, Ministry of Food, Ministry of Agriculture, the Bangladesh Bank and National Board of Revenue.
- ❑ Other government agencies and non-state actors may be invited as required
- ❑ Such a committee is needed for consistent policy making
- ❑ This Committee will do the following:
 - monitor the key correlates and trends,
 - make required policy advise, and
 - take necessary actions

Thank You



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