Bangladesh Economy in FY2021–22

Interim Review of Macroeconomic Performance

Prepared under CPD's programme on

Independent Review of Bangladesh's Development (IRBD)

CENTRE FOR POLICY DIALOGUE

June 2022

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

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Acronyms

8FYP	8th Five Year Plan
ACC	Anti-Corruption Commission
ADP	Annual Development Programme
ADR	Advance-Deposit Ratio
AIT	Advance Income Tax
AT	Additional Tax
BAU	Business as Usual
BBS	Bangladesh Bureau of Statistics
BCIC	Bangladesh Chemical Industries Corporation
BDT	Bangladeshi Taka
BEFTN	Bangladesh Electronic Funds Transfer Network
BFIU	Bangladesh Financial Intelligence Unit
BIDS	Bangladesh Institute of Development Studies
BIFFL	Bangladesh Infrastructure Finance Fund
BJMC	Bangladesh Jute Mills Corporation
BO	Beneficiary Owner
BOP	Balance of Payment
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
BPGMEA	Bangladesh Plastic Goods Manufacturers & Exporters Association
BSEC	Bangladesh Securities and Exchange Commission
BSFIC	Bangladesh Sugar and Food Industries Corporation
BTMC	Bangladesh Textile Mills Corporation
BTRC	Bangladesh Telecommunication Regulatory Commission
CAB	Consumers Association of Bangladesh
CD	Customs Duty
CDBL	Central Depository Bangladesh Limited
CET1	Common Equity Tier 1

CGS	Credit Guarantee Scheme
CIID	Customs Intelligence and Investigation Directorate
CIT	Corporate Income Tax
CMSME	Cottage, Micro, Small and Medium Enterprise
CNY	Chinese Yuan
CO2	Carbon Dioxide
CPD	Centre for Policy Dialogue
CPI	Consumer Price Index
DAM	Department of Agricultural Marketing
DFI	Development Finance Institution
DoE	Department of Environment
DPP	Development Project Proforma
DSE	Dhaka Stock Exchange
EDF	Export Development Fund
EPR	Extended Producer Responsibility
EPS	Environment Protection Surcharge
EPZ	Export Processing Zone
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FCB	Foreign Commercial Bank
FPMU	Food Planning and Monitoring Unit
FRED	Federal Reserve Economic Data
GBP	Pound Sterling
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoB	Government of Bangladesh
GTF	Green Transformation Fund
HS Code	Harmonised Commodity Description and Coding System
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IFF	Illicit Financial Flow
ILO	International Labour Organization
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
INR	Indian Rupee
IPO	Initial Public Offering
IRBD	Independent Review of Bangladesh’s Development
ISP	Internet Service Provider
KII	Key Informant Interview

KHR	Cambodian Riel
LC	Letter of Credit
LCR	Liquidity Coverage Ratio
LDC	Least Developed Country
LFS	Labour Force Survey
LKR	Sri Lankan Rupee
LNG	Liquefied Natural Gas
MCBP	Mother and Child Benefit Programme
MLT	Medium and Long-Term
MNC	Multinational Company
MoF	Ministry of Finance
MoPEMR	Ministry of Power Energy and Mineral Resources
MPS	Monetary Policy Statement
NBR	National Board of Revenue
NDC	Nationally Determined Contribution
NEER	Nominal Effective Exchange Rate
NGO	Non-Government Organisation
NPL	Non-Performing Loan
NSD	National Savings Directorate
NSFR	Net Stable Funding Ratio
NSSS	National Social Security Strategy
OMS	Open Market Sale
OPEC	Organization of the Petroleum Exporting Countries
PCB	Private Commercial Bank
PFDS	Public Foodgrain Distribution System
PIT	Personal Income Tax
PKSF	Palli Karma-Sahayak Foundation
PM	Particulate Matter
PPE	Personal Protective Equipment
PPP	Purchasing Power Parity
RD	Regulatory Duty
REER	Real Effective Exchange Rate
RMG	Readymade Garment
ROA	Return on Asset
ROE	Return on Equity
RRP	Recommended Retail Price
RWA	Risk Weighted Asset
SB	Specialised Bank
SCB	State-owned Commercial Bank

SD	Supplementary Duty
SDG	Sustainable Development Goal
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SoE	State-Owned Enterprise
SPFMSP	Strengthening Public Financial Management for Social Protection Project
SPV	Special Purpose Vehicle
SSC	Secondary School Certificate
SSNP	Social Safety Net Programme
STW	Shallow Tubewell
TBML	Trade-Based Money Laundering
TCB	Trading Corporation of Bangladesh
TDS	Tax Deducted at Source
TIN	Tax Identification Number
TPC	Transfer Pricing Cell
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TTI	Total Tax Incidence
UNESCO	United Nations Educational, Scientific and Cultural Organization
UPS	Universal Pension Scheme
USA	United States of America
USD	United States Dollar
USITC	United States International Trade Commission
VAT	Value Added Tax
VGF	Vulnerable Group Feeding
WHO	World Health Organization

Chapter 1

State of the Bangladesh Economy in FY2021–22 *(Third Reading)*

1.1 INTRODUCTION

Bangladesh economy is facing several challenges against the backdrop of the geo-political and economic crises happening around the world. The growth momentum of Bangladesh is facing headwinds as a number of factors—including inflation, trade deficit, exchange rate volatility, pressure mounting on foreign exchange reserve—have exacerbated the pre-exiting challenges facing the country in recent times. The struggle of the poor and low-income group that began with the outbreak of COVID-19 in early 2020 is now worsened by the unabated rise in the prices of essentials. Therefore, the macroeconomic stability is under duress. Moreover, it is apprehended that the current crisis would continue in the coming months.

In the above-mentioned context, the Centre for Policy Dialogue (CPD) emphasises both immediate and medium-term measures to address the challenges. In order to confront such a critical situation, prudent fiscal and monetary policies are required which will help to meet the demand for higher subsidies and incentives in a few critical areas, and enhance domestic resource mobilisation. Also, rationalising public expenditure is crucial to avoid unnecessary expenses without dampening domestic demand. Encouraging private investment and ensuring social protection to the poor are essential as well.

In light of the ongoing challenges, the third reading of CPD's Independent Review of Bangladesh's Development (IRBD) FY2021–22 focuses on five key areas: (i) economic growth (Section 2 of this chapter); (ii) public finance (Section 3) which looks into revenue mobilisation and public expenditure; (iii) inflation (Section 4); (iv) monetary and banking sector (Section 5); and (v) external sector (Section 6) which is currently facing insurmountable pressure amidst the global economic crisis. This chapter concludes with a set of important recommendations (Section 7).

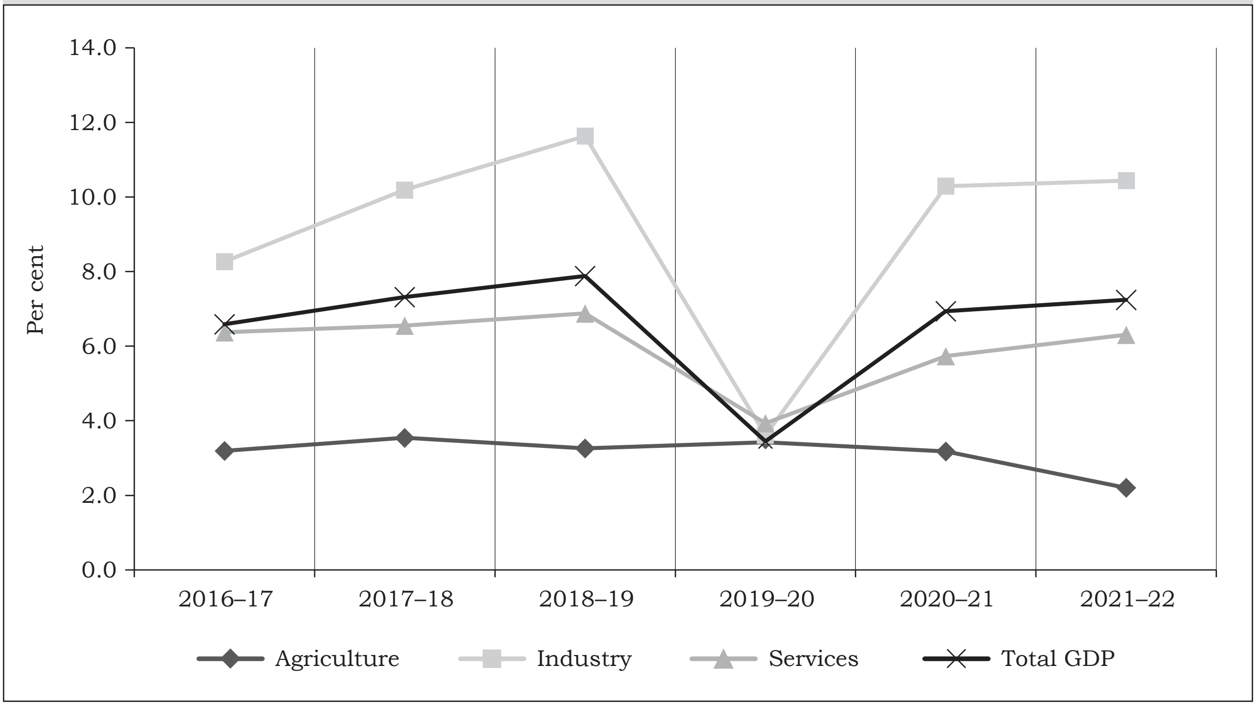
1.2 ECONOMIC GROWTH

For FY2021–22, Bangladesh Bureau of Statistics (BBS) has predicted a strong recovery. According to the provisional estimates by the BBS, in FY2021–22, the gross domestic product (GDP) is projected to grow at 7.25 per cent—exactly the same as the predicted estimate presented during the national budget for the fiscal year. The projected GDP growth for FY2021–22 is to be largely carried out by the strong envisaged growth in the industry sector (10.44 per cent), backed by a likely remarkable recovery of the manufacturing sector with a growth rate of 12.31 per cent. The agriculture sector is to record a growth rate of 2.2 per cent, which is even lower than that of the pandemic year of FY2019–20 (Figure 1.1). Indeed, it is the lowest since FY2016–17. The growth of the services sector (6.31 per cent) is also envisaged to reach the pre-pandemic level.

Of the estimated growth rate of 7.25 per cent for FY2021–22, the agriculture sector's contribution is estimated to be to the tune of 0.26 percentage points (0.38 percentage points in FY2020–21), the industries sector's contribution to be about 3.62 percentage points (3.45 percentage points in FY2020–21), and that of the services sector to be 3.15 percentage points (2.89 percentage points in FY2020–21) (Table 1.1). As has been stated above, the robust estimated GDP growth figure has been primarily driven by the industry sector, more precisely, by manufacturing sector, followed by the services sector. Both these sectors have posted record-breaking growth figures. Within the manufacturing sector, the large industry sub-sector is expected to lead with its largest contribution in the last six years. On a comparative scale, the contribution of small, medium and micro industries is expected to be weakened. Indeed, if the growth rates of FY2020–21 (6.94 per cent) and FY2021–22 (7.25 per cent) are compared, of the additional growth of 0.31 percentage points, 0.27 percentage points are projected to be contributed by the manufacturing sector.

Figure 1.1

GDP (Constant) Growth of Bangladesh by Broad Economic Sectors since FY2016–17



Source: Authors' illustration based on the BBS data.

Table 1.1

Contribution to GDP Growth since FY2016–17 (in Percentage Points)

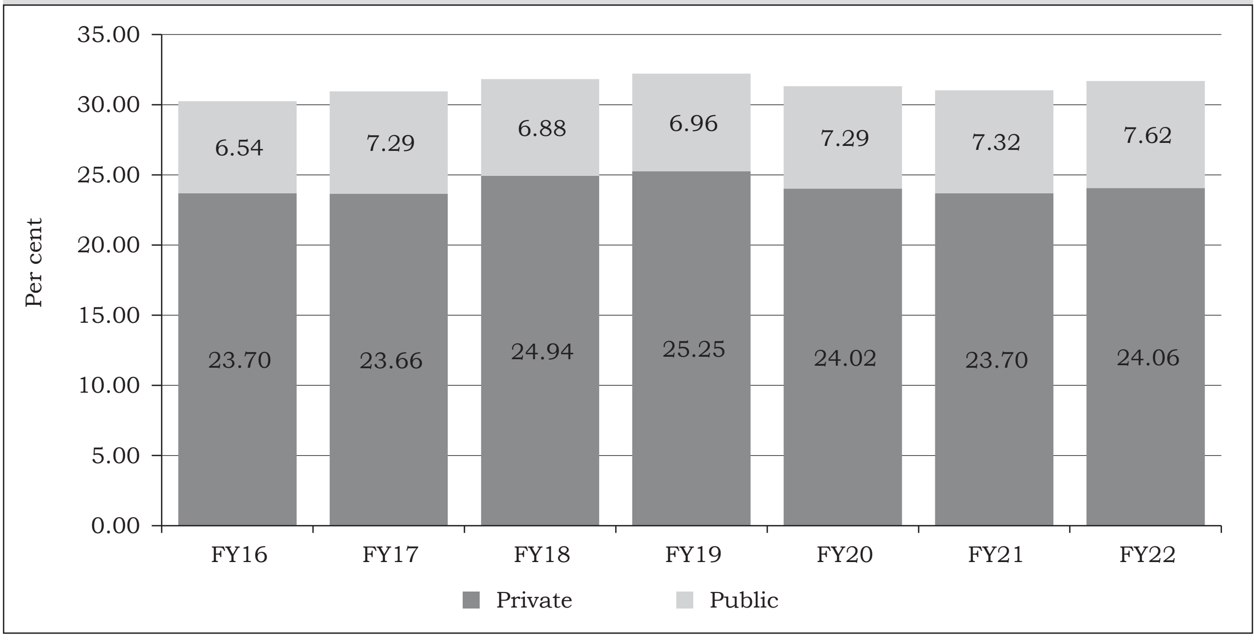
Sector	FY17	FY18	FY19	FY20	FY21	FY22
Agriculture	0.43	0.46	0.41	0.41	0.38	0.26
Industry	2.57	3.22	3.77	1.21	3.45	3.62
Manufacturing	1.44	2.14	2.60	0.37	2.49	2.76
a) Large Industry	0.49	1.16	1.38	0.05	1.17	1.46
b) Small, Medium and Micro Industry	0.63	0.71	0.71	0.18	0.94	0.84
c) Cottage Industry	0.32	0.27	0.51	0.14	0.39	0.46
Services	3.26	3.35	3.49	1.98	2.89	3.15
Total GDP Growth	**6.59**	**7.32**	**7.88**	**3.45**	**6.94**	**7.25**

Source: Calculated from the BBS data.

The higher GDP growth is expected to be attained with a higher investment-GDP ratio. Investment as a share of GDP is projected to rise from 31.02 per cent in FY2020–21 to 31.68 per cent in FY2021–22, owing to the increase (by 0.4 percentage points) in private investment (24.06 per cent in FY2021–22 from 23.70 per cent in FY2020–21) (Figure 1.2). On the other hand, public investment as a share of GDP is expected to attain a marginal rise (by about 0.3 percentage points) compared to the private investment increase and reach 7.62 per cent. On the other hand, the private consumption-GDP ratio is expected to rise faster (by 1.8 percentage points), from 67.0 per cent in FY2020–21 to 68.8 per cent in FY2021–22.

Figure 1.2

Investment Scenario (from FY2015–16 to FY2021–22)

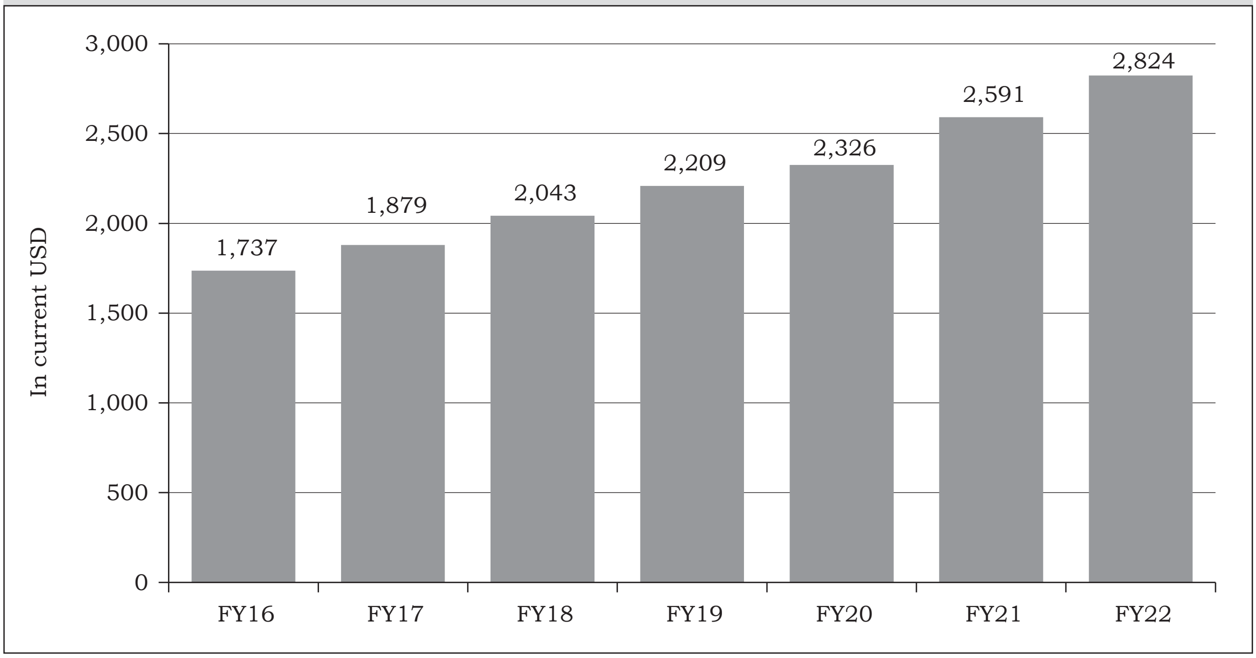


Source: Authors' illustration based on the BBS data.

Per capita income, in terms of current USD, is expected to continue to rally and reach USD 2,824 by the end of FY2021–22. However, this would mean the growth of per capita income (in current USD) would decline to about 9 per cent in FY2021–22 compared to 11.39 per cent in FY2020–21 (Figure 1.3). The estimates of GDP have been under scrutiny for the past several years due to its apparent

Figure 1.3

Per Capita Income since FY2015–16



Source: Authors' illustration based on the BBS data.

disjuncture with several other key macroeconomic and development correlates. Indeed, more than half of the provisional GDP estimates are not based on credible real-time data. At a turbulent time for the economy, especially in view of the unprecedented impact of the COVID-19 pandemic, the lack of real-time data weakens realistic estimates of GDP in a country. The provisional estimates of GDP in FY2021–22 are likely to be carried out with mostly data for the first six months and may not have captured the faltering macroeconomic developments in the second half of FY2021–22. For example, the exchange rate assumed for estimating per capita income (current USD) for FY2021–22 is Tk 85.52 per USD. It is highly likely to depreciate when the final estimates are to be prepared.

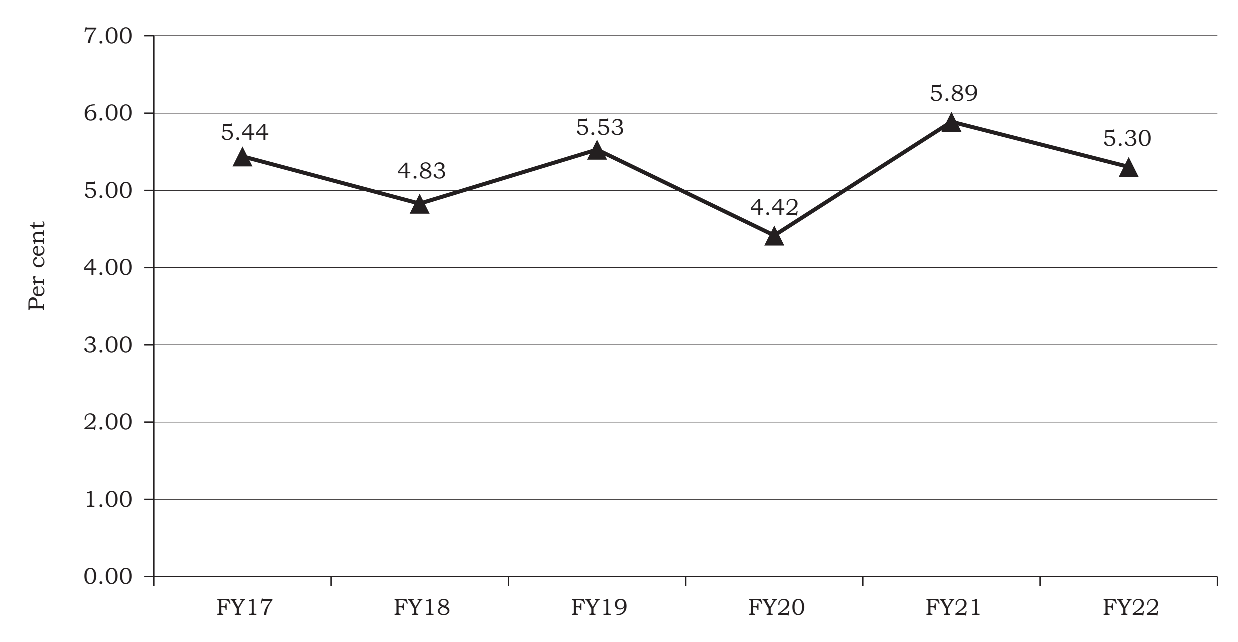
The deflators used for estimating GDP figures also appear to be problematic. According to BBS, in FY2021–22, the growth of the personal consumption expenditure price index (which may be considered as a proxy for the consumer price index or CPI) increased by only 5.30 per cent, which is lower than 5.89 per cent in FY2020–21 (Figure 1.4). With the prevailing high level of increases in prices of essential commodities, such background numbers used for estimating GDP create doubt regarding the credibility of the GDP figures.

Curiously, the growth rate of nominal GDP of 12.64 per cent was somewhat higher compared to the previous three fiscal years. Also, the relatively low GDP deflator growth (about 5 per cent) has led to a similar trend in the case of real GDP growth rate. This rate was significantly lower than the inflation rate (5.80 per cent) as of April 2022. This should indicate some downward revision.

Over the years, the GDP growth rate has emerged as the centre of attention in economic policy discourse in Bangladesh and often appears to be a sacrosanct issue. Regrettably, GDP estimates have apparently become the sole measure of the development of the country for many key policymakers. CPD has always emphasised that the qualitative and distributive aspects of GDP growth are no less important than mere growth figures. The disadvantaged groups of the country are already facing crisis

Figure 1.4

Changes in Personal Consumption Expenditure Price Index since FY2016–17



Source: Authors' illustration based on the BBS data.

in the aftermath of the pandemic. Soaring prices of essential commodities as well as concerns over the country's macroeconomic stability have added to their sufferings. Hence, it is high time to shift the policy focus in order to protect the purchasing power of the low- and limited-income groups, maintain macroeconomic stability and prioritise sustainable development targets beyond GDP growth.

1.3 PUBLIC FINANCE

1.3.1 Revenue Mobilisation

Following the trend of the first six months of FY2021–22 (i.e., the July–December period of FY2021–22), it is now obvious that the programmed annual targets of revenue mobilisation will not be attained. According to the Ministry of Finance (MoF) data, total revenue mobilisation growth improved by a small margin—from 12.5 per cent during the July–December period of FY2020–21 to 15.3 per cent during the corresponding period of FY2021–22. This implies that, in order to achieve the total targeted revenue mobilisation growth of 18.4 per cent, a 20.6 per cent growth will be required during the remainder of FY2021–22 (Table 1.2).

Table 1.2

Growth Scenario of Components of Revenue Mobilisation *(in per cent)*

Component	BFY21	AFY21	BFY22	AFY21 (Jul–Dec)	AFY22 (Jul–Dec)	Required Jan–Jun FY22
a. Tax revenue	55.4	21.5	28.2	5.7	26.7	29.4
a.1 NBR tax	52.8	22.1	25.1	6.6	27.5	23.3
a.2 Non-NBR tax	152.3	-0.5	170.5	-17.5	-3.2	350.9
b. Non-tax revenue	-24.9	33.9	-26.9	58.5	-36.4	-19.9
Total revenue (a+b)	42.2	23.6	18.4	12.5	15.3	20.6

Source: Calculated from the MoF data.

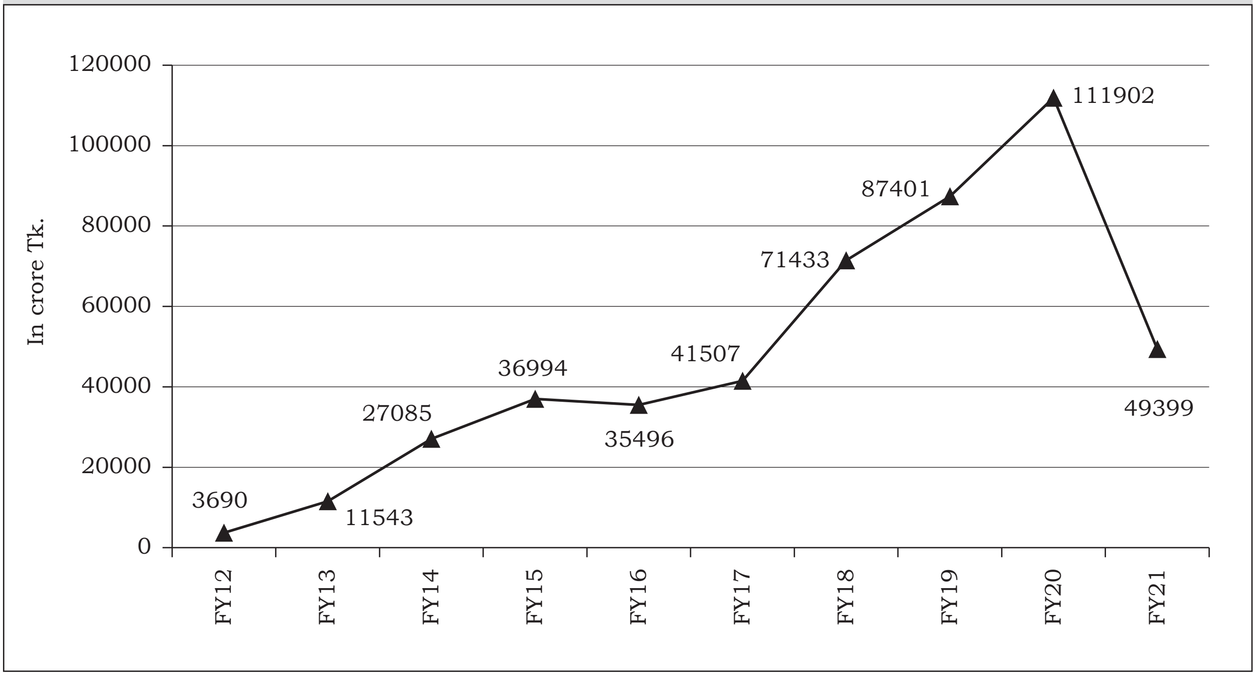
Tax revenue collection has missed the growth target during the first half of FY2021–22—exhibiting a 26.7 per cent growth during July–December of FY2021–22 as opposed to the annual target of 28.2 per cent (Table 1.2). However, data discrepancy makes the actual scenario difficult to gauge. For instance, while MoF data exhibit a 27.5 per cent growth in tax mobilised by the National Board of Revenue (NBR) during the July–December period, data by NBR itself show a 16.8 per cent growth during the same period. In this connection, it needs to be mentioned that the latest available data from NBR (for the July–April period in FY2021–22) exhibit a 15.3 per cent growth in tax collected by the NBR—which is well below the relevant annual growth target of 25.1 per cent.

As in the table 1.2, as per MoF data, revenue mobilisation from non-tax sources exhibits a negative required growth during the second half of FY2021–22, despite attaining a negative growth during the first half of the fiscal year. This phenomenon occurred due to two factors. First, targeted revenue collection from non-tax sources in FY2021–22 was less than the actual collection in FY2020–21. Second, a massive amount of non-tax revenue was mobilised during the second half of FY2020–21 due to the withdrawal of 'idle' funds from state-owned enterprises (SoEs). While assessing the performance in FY2021–22, it needs to be taken into cognisance that the impressive performance in terms of non-tax revenue mobilisation is unlikely to be repeated in FY2021–22.

1.3.2 Revenue Shortfall

Revenue shortfall, which is essentially the difference between revenue mobilisation target and actual attainment, has been a recurring phenomenon in Bangladesh (Figure 1.5). Over the recent years, failure to collect income tax at the targeted level has been the major source of revenue shortfall. Low value added tax (VAT) collection at the domestic level has also become a rising concern. As can be observed from figure 1.5, revenue shortfall was on an upward trajectory between FY2011–12 and FY2019–20 before suddenly dropping in FY2020–21. This decline in FY2020–21 can be attributed to two factors which are: (i) conservative target setting in view of COVID-19, and (ii) the unprecedented amount of revenue mobilised from non-tax sources, mostly owing to mobilisation of 'idle' funds from state-owned entities. Taking the above-mentioned discussion so far into cognisance, CPD estimates that the revenue shortfall in FY2021–22 is expected to reach approximately Tk 30,000 crore if the ongoing trend in revenue mobilisation is maintained.

Figure 1.5
Actual Revenue Shortfall



Source: Authors' illustration based on the MoF data.

1.3.3 Public Expenditure

Regrettably, the repeated incidence of inability to utilise planned budgetary allocation continues in FY2021–22. During the July–December period of FY2021–22, total expenditure posted a meagre growth of 1.4 per cent compared to the corresponding period of FY2020–21. This growth was largely driven by Annual Development Programme (ADP) expenditure which exhibited a 6.7 per cent growth during the aforementioned period (Table 1.3). It can also be observed that the growth in total public expenditure was substantially lower than the revenue mobilisation growth of 15.3 per cent. ADP, as well as operational expenditure, will need to grow by 51.1 per cent and 43.8 per cent respectively, over the remaining six months of FY2021–22 to reach the public expenditure targets. The lower expenditure growth, coupled with higher revenue generation growth, resulted in a budget surplus of Tk 1,130 crore during the first half of FY2021–22—an undesirable situation in the present context.

Table 1.3
Growth of Public Expenditure Components *(in per cent)*

Component	Target FY21	Actual FY21	Target FY22	Jul–Dec FY22	Required Growth Jan–Jun FY22
Total expenditure	35.2	9.3	31.4	1.4	46.8
ADP expenditure	32.0	2.8	41.1	6.7	51.1
Non-ADP expenditure	37.0	13.2	26.3	-0.2	43.8

Source: Calculated from the MoF data.

1.3.4 ADP Expenditure

ADP expenditure, as share of allocation, is higher in FY2021–22 compared to FY2020–21 according to the Implementation Monitoring and Evaluation Division (IMED) data. Of the original ADP allocation, 50.5 per cent was spent during the July–April period of FY2021–22. The corresponding figure for FY2020–21 was 48.7 per cent. During the first 10 months of FY2021–22, ADP expenditure was primarily driven by the Government of Bangladesh (GoB) fund utilisation. GoB fund utilisation during the July–April period of FY2021–22 (52.8 per cent) was the second highest in the last five years. Regrettably, a worrisome development can be observed in the case of project aid utilisation (47.0 per cent) which was the lowest in the last five years (Table 1.4).

Table 1.4
ADP Expenditure over Original ADP *(in per cent)*

Component	Jul–Apr FY18	Jul–Apr FY19	Jul–Apr FY20	Jul–Apr FY21	Jul–Apr FY22
GoB	48.7	53.3	n/a	49.4	52.8
Project aid	52.6	53.1	n/a	47.5	47.0
Total	**50.2**	**53.3**	**48.8**	**48.7**	**50.5**

Source: Calculated from the IMED data.
Note: IMED reported a consolidated figure for the July–April FY2019–20 period and, hence, it cannot be divided into GoB and project aid components.

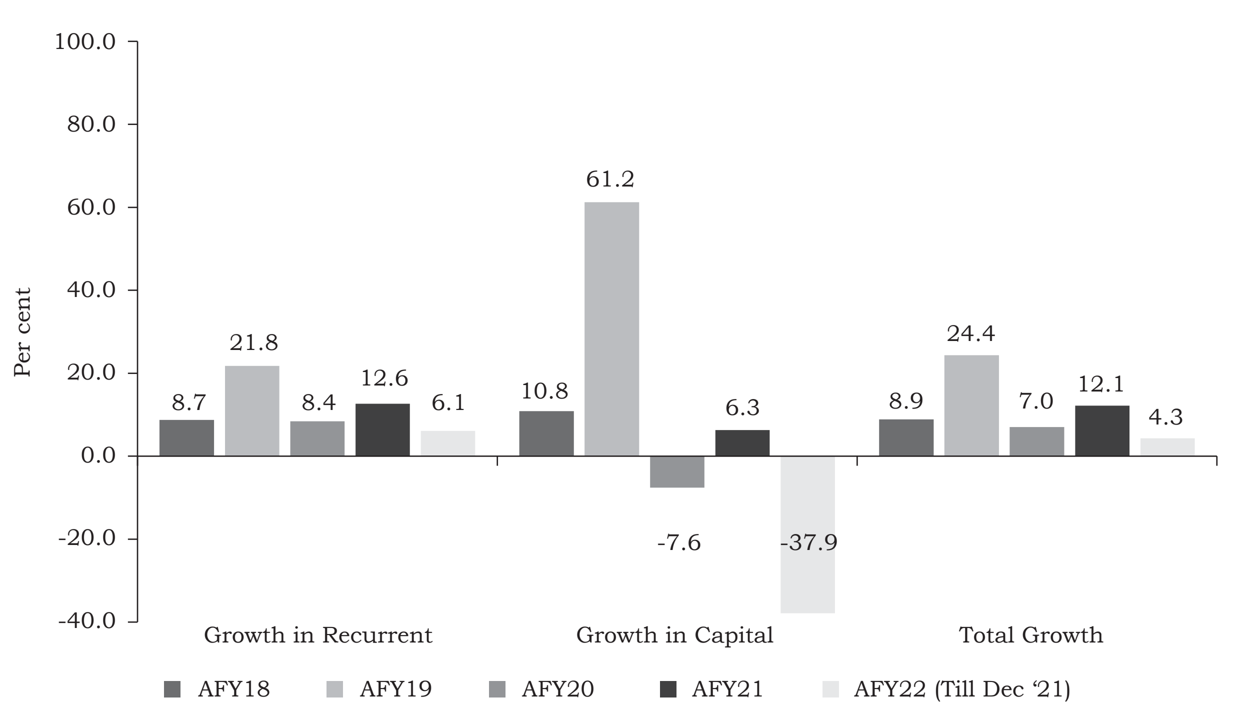
Among the top 10 government agencies (ministry/division) with a cumulative share of nearly 76 per cent in the FY2021–22 ADP, four key agencies performed below the average during the July–April period of FY2021–22. These include the Ministry of Science and Technology (47.0 per cent), Health Services Division (30.5 per cent), Secondary and Higher Education Division (36.9 per cent), and Bridges Division (29.3 per cent). Indeed, the performance of Health Services Division is particularly worrisome given the ongoing pandemic scenario.

1.3.5 Operating expenditure

Operating expenditure comprises operating recurrent expenditure and capital expenditure which did not experience any major compositional change over the last several years. Over 90 per cent of this expenditure goes to recurrent expenditure, including allocations for wages and salaries and administrative expenses, repairs and maintenance, interest on foreign and domestic loans, current grants, social assistance benefits in cash and in kind, and employment-related social benefits in cash and incentives. On the other hand, capital expenditure includes the acquisition of assets and lands, such as the allocations for buildings and structures, machinery and equipment, weapons systems,

Figure 1.6

Growth in Operating Recurrent and Capital Expenditure



Source: Authors' illustration based on the data from MoF.

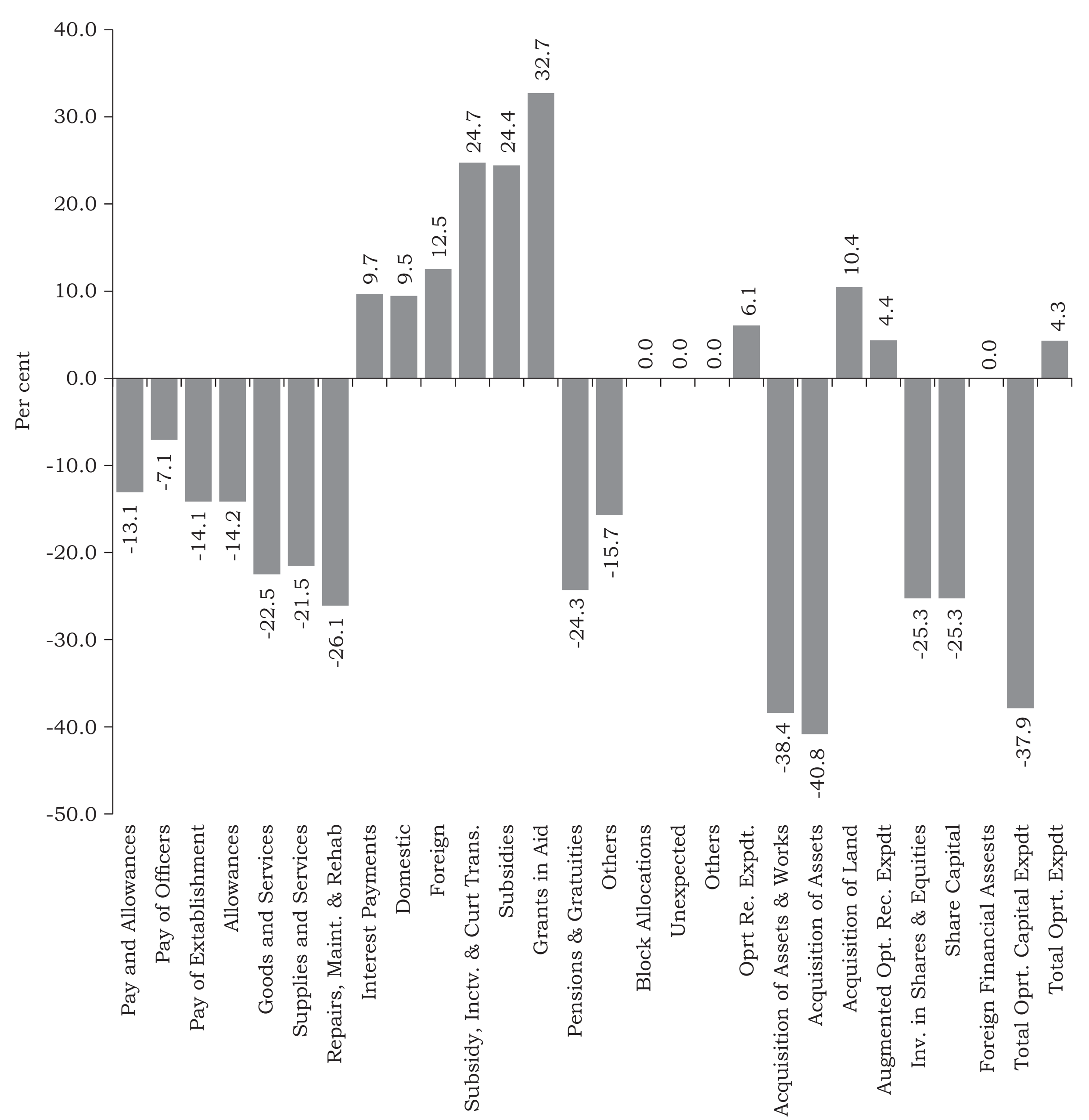
goods for resale, and land. Including the mentioned components, the share of capital expenditure is less than 10 per cent, where it has observed more fluctuations in the recent past. Likewise, during FY2021–22 (up to December), capital expenditure was 37.9 per cent lower than the corresponding period of the previous year (Figure 1.6) due to the lower disbursement of funds owing to fiscal pressure.

During FY2021–22 (up to December), the moderate growth of total operating expenditure (4.3 per cent) is largely driven by high growth in expenses for a few components under recurrent expenditures. More specifically, these include high growth in expenses pertaining to grants in aid (32.7 per cent), subsidies (24.4 per cent), and interest payments (9.7 per cent) (Figure 1.7). However, a part of this rise in expenditure is related to meeting some time-specific demands. The high prices of commodities and petroleum contributed to the higher disbursement of subsidies against the budget allocation and easing the conditionalities in using grants for the COVID-19 pandemic caused higher growth in grants in aid.

The rise in some components of operating expenditure indicates a structural change within this expenditure owing to increasing repayment of domestic and foreign debts and related interest payments. Such expenditures are likely to rise in the future as well. It is interesting to examine whether a reduction in some of the important recurrent and capital expenditures happened because of deferment of payment due to fiscal pressure. Such recurrent expenditures include the payment of allowances, officers, establishments, supplies of goods, and supplies. The capital expenditures include the acquisition of assets, investment in shares, and share in the capital. CPD earlier suggested avoiding some of these capital expenditures, which are de facto 'liabilities'.

Figure 1.7

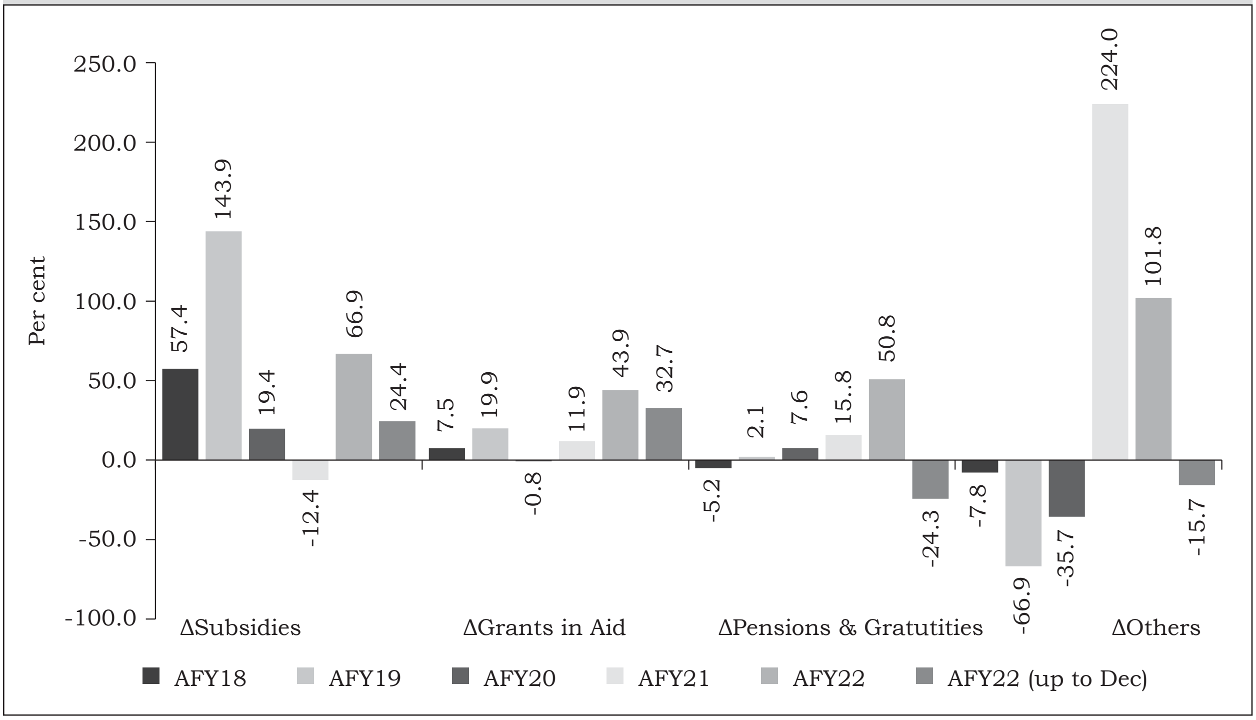
Growth in Recurrent Expenditure by Economic Classification during July–December FY2021–22



Source: Authors' analysis based on the data from MoF.

Subsidies, incentives, and current transfers-related expenditure have increased by 24.4 per cent in AFY2021–22 (up to December) compared to AFY2020–21 (up to December) (Figure 1.8). However, this growth is largely driven by higher growth in subsidies (24.4 per cent), and grants in aid (32.7 per cent). Pensions and gratuities reduced by 24.3 per cent. A higher subsidy requirement (against the projected allocation in the FY2021–22 budget) for supplying energy and power as well as fertiliser at the administered price, is the main reason for the rise in subsidy. Subsidy management will be a major challenge in FY2022–23 in order to stabilise the operating expenditure.

Figure 1.8
Growth in Expenditures of Subsidies, Incentives and Current Transfers



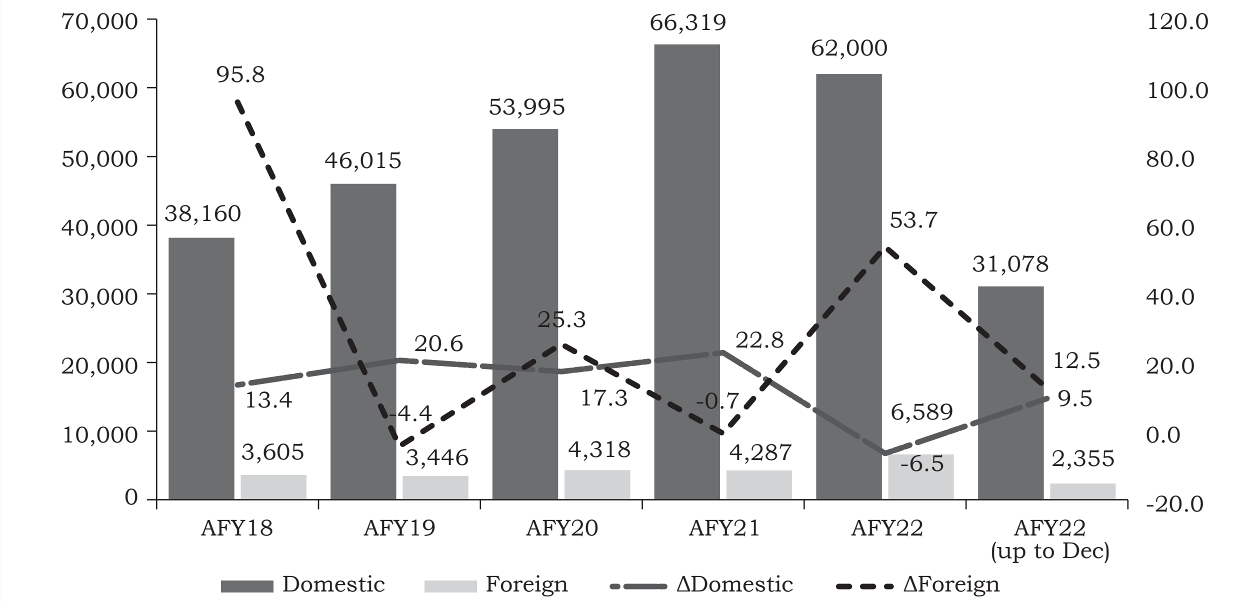
Source: Authors' analysis based on the data from MoF.

Interest payment comprises a major share of recurrent operating expenditure (about one-fifth in the FY2021–22 budget). During July–December FY2021–22, its share reached 29 per cent. Month on Month (M-o-M) growth in expenditure shows that in FY2021–22 (up to December), the interest payments have increased by 9.7 per cent. The growth of interest payment of foreign loans, though not consistent in nature (Figure 1.9), is likely to rise further in the coming years because of the increasing use of non-concessional loans.

In terms of sectoral distribution, expenditure for general public services and interest payment comprise over 50 per cent of total operating expenditure, and the share has been increasing over the years. In FY2016–17, the total share of these two elements was almost 35 per cent which has increased up to 46 per cent in the budget of FY2021–22. In this context, revisiting expenditure pertaining to general public services is highly required.

Figure 1.9

Interest Payments Amount (in crore Tk) and Growth (in per cent)



Source: Authors' analysis based on the data from MoF.

1.3.6 Budget Deficit and Financing

Surprisingly, as of December in FY2021–22, the overall budget balance, excluding grants, entered a surplus of Tk 1,130 crore. The deficit that prevailed in the corresponding period of FY2020–21 was Tk 17,897 crore (Table 1.5). It is important to find out the reasons behind the budget surplus during the interim period.

Table 1.5

Budget Deficit

Particulars	**AFY21**	**BFY22**	**AFY21 (up to Dec)**	**AFY22 (up to Dec)**
Overall deficit (including grants)	-128,424	-211,191	-17,872	1,142
(In per cent of GDP)	-3.64	-6.1	-0.51	0.03
Overall deficit (excluding grants)	-130,741	-214,681	-17,897	1,130
(In per cent of GDP)	-3.7	-6.2	-0.51	0.03

Source: Authors' compilation based on the data from MoF.

The major financing source for budget deficit is domestic borrowing, although its share has decreased in recent years. Compared to the previous year, the domestic borrowing situation has improved (till December FY2021–22, a net Tk 10,002 crore has been paid) (Table 1.6). Over the years, foreign borrowing has been increasing in financing the deficit. Financing from foreign borrowing has increased by 30 per cent in FY2021–22 (up to December) compared to the corresponding period of FY2020–21. Additionally, borrowing from banks is rising, particularly for long term debt (net) financing. However, financing from the national savings schemes has decreased by 36 per cent during FY2021–22 (up to December), given the surplus available in hand.

Table 1.6

Financing of Budget Deficit from Various Sources

Period	Foreign Borrowing (Net)	Domestic Borrowing (Net)	National Savings Schemes (Net)	Total Financing
AFY2017	11,603	55,985	51,806	67,588
AFY2018	25,621	78,815	46,289	104,436
AFY2019	31,289	106,845	50,357	138,134
AFY2020	41,610	108,049	15,139	149,659
AFY21 December	2,164	2,153	1,424	4,318
AFY21	45,463	82,088	43,040	127,551
BFY2022	97,738	113,453	32,000	211,191
AFY22 December	6,582	-7,888	489	-1,306
AFY21 (up to Dec 20)	6,795	11,077	20,995	17,872
AFY22 (up to Dec 21)	8,852	-10,002	13,479	-1,150

Source: Authors' compilation based on the data from MoF.

1.3.7 Major Highlights

In line with the budget deficit, revenue mobilisation will need to be improved. It is expected that the revenue shortfall may reach approximately Tk 30,000 crore in FY2021–22. The revenue targets for FY2022–23 should be set accordingly. Operating expenditure owing to subsidies and interest payments is expected to rise in the latter half of FY2021–22, and the upward trend is likely to continue in FY2022–23. The budget surplus at the end of the first half of FY2021–22 is not at all desirable, particularly when the economy is about to turn around from the COVID-19-induced shocks; and ensuring utilisation of budgetary allocations is of paramount importance.

1.4 HIGH PRICES AND LOW WAGES: A TIME FOR STRUGGLE AND COMPROMISE

1.4.1 Introduction

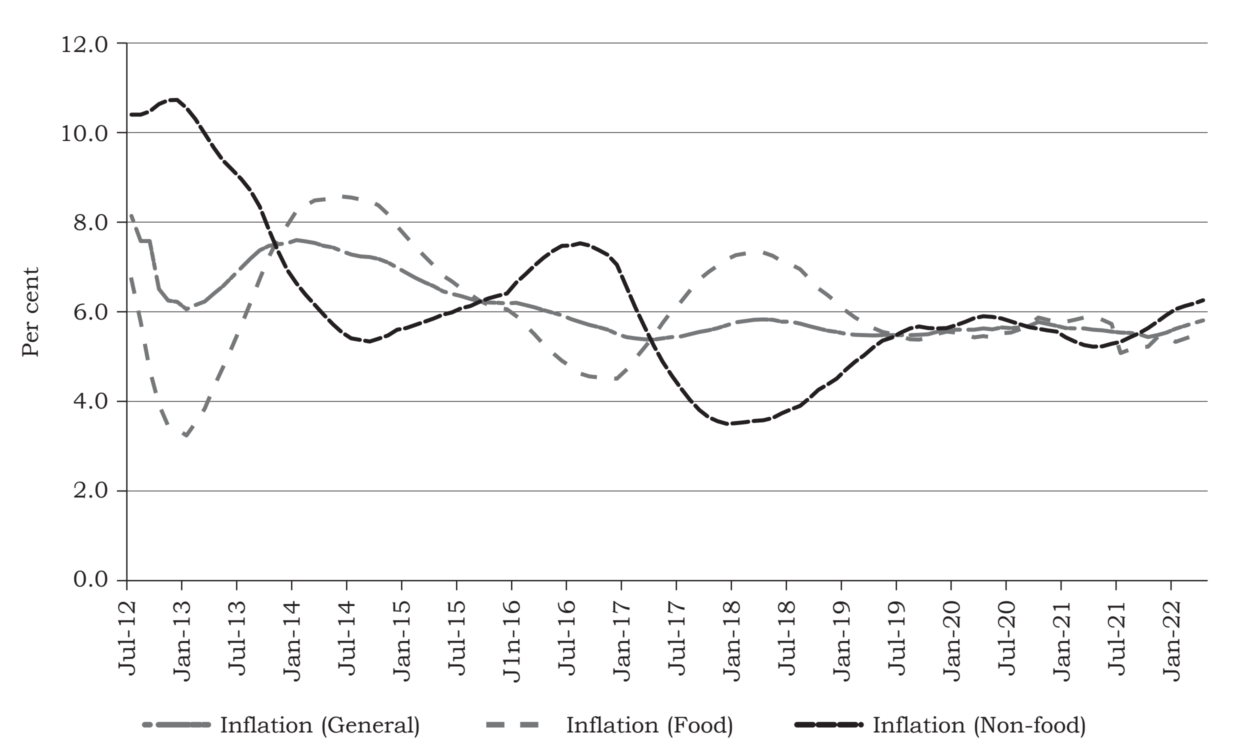
The struggle of the poor and low-income group that began with the outbreak of COVID-19 in early 2020 is now worsened due to the rise in prices of essential commodities. As the pressure of price hikes continues to mount, a large section of people is struggling with their limited budgets to stay afloat. This in turn is affecting the economic recovery. Although the current price hike is mainly due to high import cost, domestic factors including market distortion by a few dominant players are also responsible for the present circumstances.

1.4.2 CPI Inflation Trends and the CPI Consumption Basket

CPI has been used to measure inflation in almost all economies, including Bangladesh. Figure 1.10 shows the 12-month average inflation rate from July 2012 to April 2022. As can be seen, the data show that 12-month average food and non-food inflation rates have fluctuated in a cyclical pattern over the past 10 years.

Figure 1.10

12-Month Average Inflation Rate from July 2012 to April 2022



Source: Authors' calculations based on the data from Bangladesh Bank (Bangladesh Bank, 2022a).

It can be seen that the increase in food inflation were generally accompanied by the decreases in non-food inflation. Hence, the overall general inflation rate has remained largely stable in the short term. Whereas, in the long term, the overall general inflation rate has experienced a slight decline from 2012 to 2022.

Engel's law states that, as income increases, people spend a smaller portion of their total income on food (Norton, Alwang, & Masters, 2014). In Bangladesh, nominal household income increased by 7.86 per cent per year on average while real household income increased by 0.16 per cent per year on average between 2010 and 2016 (BBS, 2019). Food expenditure as a share of income decreased from 53 per cent in 2010 to 46 per cent in 2016 and food expenditure as a share of total consumption expenditure decreased from 55 per cent in 2010 to 48 per cent in 2016 (BBS, 2019a). However, as can be seen in Table 1.7, the weights used for food in the calculation of CPI are significantly higher than the share of food expenditure in either income or consumption expenditure. The consumption basket, created in 2005 to be used for calculating overall general inflation, no longer reflects the current consumption pattern of consumers or the actual prices in the market in 2022.

Inflation during COVID-19 exceeded the monetary policy targets set in FY2019–20, FY2020–21 and FY2021–22 as shown in Figure 1.11. Due to problematic calculations of the CPI, actual inflation did not exceed inflation targets of the monetary policy by a large margin. In the pre-pandemic years, inflation targets were met in FY2014–15, FY2015–16, FY2016–17 and FY2018–19, although, in reality, the cost of living kept rising.

Table 1.7

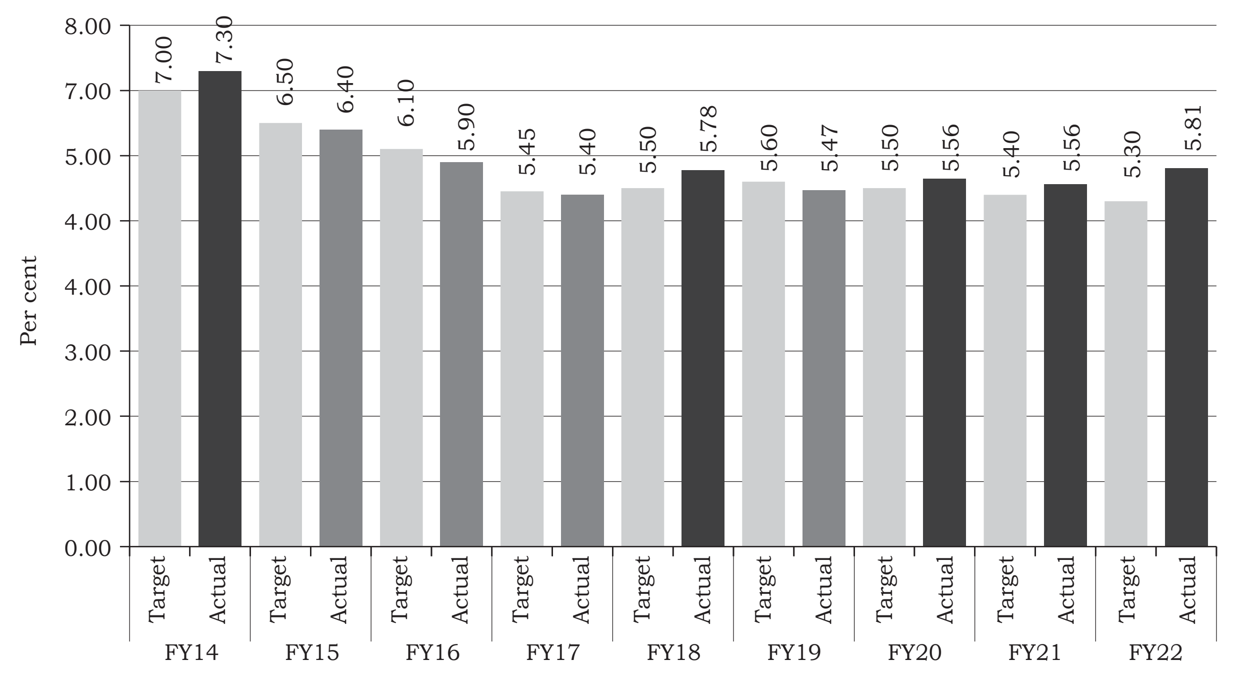
Consumption Basket versus Consumption Pattern

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
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
Weight 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

Source: Based on the data from the BBS (BBS, 2019a and BBS, 2011).

Figure 1.11

Monetary Policy Targets versus Actual Inflation Rates



Source: Rate of inflation (actual) data has been taken for the month of April 2022 from Bangladesh Bank Monthly economic trend (Bangladesh Bank, 2022a).

1.4.3 The Cost of Living in Dhaka City

Analysis reveals that at least 29 imported essential food items currently face a high incidence of tax as shown in the table 1.8. 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 has recently been obliged to withdraw VAT on soybean oil through a bid to prevent further price hike. It is likely that if inflation continues at the present rate, the government may be compelled 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.

Table 1.8

Import Tariff List on Some 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 from 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 from 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
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

(Table 1.8 contd.)

(Table 1.8 contd.)

Description	CD	SD	VAT	AIT	AT	RD	EXD	TTI
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

Source: Authors' compilation based on the data from Operative Tariff Schedule, NBR (National Board of Revenue, 2022).

Bangladesh Telecommunication Regulatory Commission (BTRC) declared its "One Country, One Rate" policy with the objectives to provide affordable broadband internet and reduce the digital divide. Unfortunately, it appears that most internet service providers (ISPs) are currently not abiding by the BTRC mandated prices, especially for the internet packages of higher speeds. Additionally, as can be seen in the Table 1.9, there are wide variations in the prices of broadband internet across the

Table 1.9
Broadband Price Recommendation by BTRC

Broadband Price Recommendation by BTRC		
Speed, in Mbps	**Price per month, in BDT**	**Price per Mbps, in BDT**
5	500	100
7.5	675	90
10	800	80
15	1050	70
20	1200	60
30	1500	50
40	1600	40
60	1800	30
Average Price of 60 Mbps Broadband Internet in Bangladesh		
City	**Price per month, in Tk**	**Price per Mbps, in Tk**
Barisal	2,150	36
Chittagong	2,578	43
Dhaka	2,293	38
Khulna	5,333	89
Mymensingh	2,200	37
Rajshahi	2,293	38
Rangpur	5,000	83
Sylhet	2,000	33
National	2,610	44

Source: Authors' calculations based on the data from BTRC (BTRC, 2022) and Numbeo (Numbeo, 2022).

country which is completely contradictory with the “One Country, One Rate” policy of the BTRC. The Bangladesh Competition Commission, should file lawsuits under Bangladesh Competition Law 2012, clause 15(2)(a), against all ISPs which are violating BTRC’s mandate by colluding within themselves and charging abnormally high prices.

Data on the average price in Dhaka city retrieved from the Trading Corporation of Bangladesh (TCB) (TCB, 2022) combined with the data on average daily consumption (per person) from Bangladesh Urban Socioeconomic Assessment Survey 2019 (BBS, 2020) help shed light on the average monthly expenditure on food (in taka) within Dhaka city as of May 2022, which is outlined in detail in the table 1.10.

Average daily consumption per person is based on average daily consumption within the cities of Dhaka and Chittagong in 2019. The calculated monthly expense per person and per household are based on certain assumptions in order to draw a clear picture. For instance, each month has been assumed consisting of 30 days and each member of the four-person household is considered to each consume the average diet of an adult. Furthermore, only one person is considered to be working to earn for each household.

On average, the monthly expense per household of four persons for food items such as rice (Pijam), loose unprocessed flour (aata), and lentils (Musoor daal) costs Tk 2,164, Tk 437, and Tk 243 per kilogram respectively. Chicken (broiler) costs Tk 325 on average monthly expense per person; but

Table 1.10

Average Monthly Food Expenditure in Dhaka City in May 2022 in Tk

Item	Unit of Measurement	Average Daily Consumption per Person (as of 2019)	Average Price in Dhaka City, in Tk (as of 30 May 2022)	Average Monthly Expense per Person	Average Monthly Expense per Household of Four Persons
Rice (*Pijam*)	(as of 2019)	Average Price in Dhaka City, in Tk	53	541	2,164
Loose unprocessed flour (*aata*)	(as of 30 May 2022)	Average Monthly Expense per Person	Average Monthly Expense per Household of Four Persons	109	437
Lentils (*Musoor daal*, big granules)	Kilogram	0.0189	108	61	243
Soyabean oil (loose)	Litre	0.0286	186	160	638
Onion (local)	Kilogram	0.0193	38	22	88
Garlic (local)	Kilogram	0.0128	100	38	153
Ginger (local)	Kilogram	0.0128	120	46	184
Chilli (dry chilli, local)	Kilogram	0.0100	195	58	233
Turmeric (local)	Kilogram	0.0124	235	87	349
Fish (*Rui*)	Kilogram	0.0798	300	718	2,872
Beef	Kilogram	0.0527	665	1,051	4,205
Mutton	Kilogram	0.0424	975	1,241	4,964
Chicken (broiler)	Kilogram	0.0723	150	325	1,301
Milk (liquid)	Litre	0.0844	81	204	816

(Table 1.10 contd.)

(Table 1.10 contd.)

Item	**Unit of Measurement**	**Average Daily Consumption per Person (as of 2019)**	**Average Price in Dhaka City, in Tk (as of 30 May 2022)**	**Average Monthly Expense per Person**	**Average Monthly Expense per Household of Four Persons**
Milk (powder, cheapest brand)	Kilogram	0.0142	625	267	1,067
Eggs	Kilogram				
(20 eggs)	0.0199	205	122	489	
Potato	Kilogram	0.0772	28	64	257
Bananas	Kilogram	0.0532	103	165	660
Sugar	Kilogram	0.0207	79	49	196
Salt	Kilogram	0.0104	33	10	41
Total monthly expenditure on food (*regular diet*)				**5,339**	**21,358**
Total monthly expenditure on food, excluding fish, beef, mutton, and chicken (*compromised diet*)				**2,004**	**8,016**

Source: i) Authors' calculations based on the data from Bangladesh Urban Socioeconomic Assessment Survey 2019 (BBS, 2020), Bangladesh Household Income and Expenditure Survey 2016 (BBS, 2019b), Trading Corporation of Bangladesh (TCB, 2022), and Numbeo (Numbeo, 2022).

Note: i) Average daily consumption of soybean oil based on average per capita consumption data from Bangladesh Household Income and Expenditure Survey 2016; ii) assuming that one kilogram of eggs contains 20 eggs; iii) assuming that average daily consumption of bananas is equivalent to average daily consumption of fruits; iv) assuming that average daily consumption of turmeric is equivalent to average daily consumption of spices; v) average daily consumption per person is based on average daily consumption in Dhaka and Chittagong cities in 2019, as per the data from the Bangladesh Urban Socioeconomic Assessment Survey 2019; vi) assuming that each month consists of 30 days.

when calculated for a household with four persons, it costs Tk 1,301. While eggs, assuming that one kilogram contains 20 eggs, would cost Tk 489 per household. If a person were to consume mutton, then on average the monthly expense would be Tk 1,241 per kilogram, and Tk 4,964 for a household of four persons.

Based on the average per capita consumption data from Bangladesh Household Income and Expenditure Survey 2016 (BBS, 2019b), average monthly expense for loose soybean oil per litre is calculated to be Tk 638 per household of four persons. For household of four people, seasonings per kilogram such as salt cost Tk 41 and spices such as local turmeric cost Tk 349 (assuming that consumption of turmeric is equivalent to average daily consumption of spices). If the average daily consumption of bananas is considered as an equivalent to average daily consumption of fruits, then the average monthly expense per person is Tk 165, while expense per household of four persons if Tk 660.

The calculated total monthly expenditure has been divided into two parts—regular diet and compromised diet. While the regular diet entails all the listed items within the table 1.10, compromised diet excludes the consumption of fish, beef, mutton, and chicken.

The total monthly expenditure on food in terms of regular diet has been calculated to be Tk 5,339 per person and Tk 21,358 per household of four persons. On the other hand, the total monthly expenditure on food as a compromised diet which excludes fish, beef, mutton, and chicken would cost Tk 2,004 per person and Tk 8,016 per household of four persons.

The average monthly non-food expenditure has been calculated in the Table 1.11 to outline the expenses of rent, utilities, health, hygiene, education, transportation, mobile phone, and internet in Dhaka city in Bangladeshi taka as of May 2022. The average values were calculated based on the data from Numbeo (Numbeo, 2022), World Development Indicators (World Bank, 2022) and BTRC (BTRC, 2022). In cases where original data were provided in USD currency, the amount was converted to taka assuming 1 USD equals to 87.90 taka as per official exchange rate provided by the Bangladesh Bank as of 27 May, 2022 (Bangladesh Bank, 2022b).

Table 1.11

Average Monthly Non-Food Expenditure in Dhaka City in May 2022 in Tk

Category	Item	Average Monthly Expense
Rent	Apartment with one bedroom outside of city centre	7,274
Rent	Apartment with one bedroom in city centre	11,909
Rent	Apartment with three bedrooms outside of city centre	18,667
Rent	Apartment with three bedrooms in city centre	32,568
Utilities	Basic electricity, heating, cooling, water, and garbage for a 915 square feet apartment	3,789
Health	Out-of-pocket expenditure on health for a household of four persons	2,625
Hygiene	100 gram bar of bathing soap, 100 gram of handwashing soap, 100 gram tube of toothpaste, 1 kilogram of detergent powder, 125 gram dishwashing soap bar, 1 roll of toilet paper, 1 litre toilet cleaner, 180 mililitre bottle of shampoo, 5 regular sanitary napkins	752
Education	Preschool or kindergarten, full day, private, monthly for one child	6,818
Transportation	One two-way trip of average length within city on each weekday (22 days per months) using public transport	1,760
Mobile phone	Five minute local voice call daily using prepaid mobile phone, and paying regular tariff without any discount or plan	192
Internet	5 Mbps broadband internet connection	500

Source: i) Authors' calculations based on the data from Numbeo (Numbeo, 2022), World Development Indicators (World Bank, 2022) and BTRC (BTRC, 2022).
Note: i) All figures shown are average values; ii) data for out-of-pocket expenditure on health is for 2019 at purchasing power parity; iii) assuming 1 USD equals to Tk 87.90, as per official exchange rate provided by Bangladesh Bank as of 27 May 2022 (Bangladesh Bank, 2022b); iv) cost of hygiene items based on retail prices as of 28 May 2022, and assuming that the cheapest and most commonly available brand of each item is chosen.

The expense of rent has been broken down to four categories, of which the average monthly expense of a one-bedroom-apartment outside of city centre costs Tk 7,274, an apartment with one bedroom at the city centre costs Tk 11,909, apartment with three bedrooms outside of city centre costs Tk 18,667, and an apartment with three bedrooms in city centre costs Tk 32,568. For utilities, basic electricity, heating, cooling, water, and garbage for a 915 square feet apartment were taken into consideration against the average monthly expense of Tk 3,789. Besides, for a household of four persons, the out-of-pocket expenditure on health on a monthly average amounted to Tk 2,625 based on the data from World Bank, 2019 at purchasing power parity.

However, on the basis of market prices and with the assumption that the cheapest and commonly available brand of each item is purchased, the expense for hygiene items based on retail prices as of 28 May 2022 amount to Tk 752. Moreover, monthly expenditure on private education for one child attending preschool or kindergarten for full day cost taka 6,818 (Numbeo, 2022). Expense of taka 192 for prepaid mobile phone, given a five-minute local voice call along with paying regular tariff without discount or plan, and 5 Mbps broadband internet would cost taka 500 as per BTRC's "One Country, One Rate" rule (BTRC, 2022). Finally, assuming a one two-way trip using public transport of average length within Dhaka city on each weekday, transportation expenses would amount to taka 1,760 considering a commute of 22 days per month.

Table 1.12 illustrates the four instances of average cost of living in taka, sorted by the type of housing. For calculating utilities cost, it was assumed that an apartment with one bedroom is 305 square feet in size, and an apartment with three bedrooms is 915 square feet in size. The average values pertain to one household of four persons living in Dhaka city who consume a regular diet as of May 2022.

Table 1.12

Average Cost of Living on a Regular Diet for One Household of Four Persons in Dhaka in May 2022, Classified by Type of Housing, in Tk

Broad Expense Category	Type of Housing			
	Apartment with one bedroom outside of city centre	Apartment with one bedroom in city centre	Apartment with three bedrooms outside of city centre	Apartment with three bedrooms in city centre
Rent	7,274	11,909	18,667	32,568
Utilities	1,263	1,263	3,792	3,791
Food	21,358	21,358	21,358	21,358
Health	2,625	2,625	2,625	2,625
Hygiene	752	752	752	752
Education	6,818	6,818	6,818	6,818
Transportation	1,760	1,760	1,760	1,760
Mobile phone	192	192	192	192
Internet	500	500	500	500
Total	**42,548**	**47,182**	**56,469**	**70,369**

Source: i) Authors' calculations based on the data from Bangladesh Urban Socioeconomic Assessment Survey 2019 (BBS, 2020), Bangladesh Household Income and Expenditure Survey 2016 (BBS, 2019b), TCB (TCB, 2022), BTRC (BTRC, 2022), Numbeo (Numbeo, 2022), and World Development Indicators (World Bank, 2022).

Note: i) All figures shown are average values; ii) utilities cost calculated assuming that an apartment with one bedroom is 305 square feet in size, and an apartment with three bedrooms is 915 square feet in size; iii) food cost is calculated using market prices of Dhaka city as of 16 May 2022 and assuming that each person follows a regular diet and consumes an amount of food equivalent to the Dhaka average; iv) health cost is calculated based on monthly out-of-pocket expenditure on health in 2019 at purchasing power parity for a household of four persons; v) hygiene includes 100 gram bar of bathing soap, 100 gram of handwashing soap, 100 gram tube of toothpaste, 1 kilogram of detergent powder, 125 gram dishwashing soap bar, 1 roll of toilet tissue, 1 litre toilet cleaner, 180 mililitre bottle of shampoo, 5 regular sanitary napkins, and cost of hygiene items is calculated based on retail prices as of 28 May 2022, and assuming that the cheapest and most commonly available brand of each item is chosen; vi) education cost is calculated assuming that one child goes to full day, private preschool or kindergarten; vii) transportation cost is calculated based on one two-way trip of average length within city on each weekday (22 days per months) using public transport; viii) cost of mobile phone is calculated assuming a five minute local voice call daily using prepaid mobile phone, and paying regular tariff without any discount or plan; ix) cost of internet is calculated assuming a 5 Mbps broadband internet connection.

Similarly, the average cost of living for one household of four persons in Dhaka city is shown in the table 1.13, for a compromised diet (a diet without fish, beef, mutton, and chicken) though. Hence, the total cost of living for an apartment with one bedroom outside of city centre would cost Tk 29,206, an apartment with one bedroom in city centre cost Tk 33,841, an apartment with three bedrooms outside of city centre would cost Tk 43,127, and an apartment with three bedrooms in city centre would cost Tk 57,027 for one household.

Table 1.13

Average Cost of Living on a Compromised Diet for One Household of Four Persons in Dhaka in May 2022, Classified by Type of Housing, in Tk

Broad Expense Category	Type of Housing			
	Apartment with one bedroom outside of city centre	Apartment with one bedroom in city centre	Apartment with three bedrooms outside of city centre	Apartment with three bedrooms in city centre
Rent	7,274	11,909	18,667	32,568
Utilities	1,263	1,263	3,792	3,791
Food	8,016	8,016	8,016	8,016
Health	2,625	2,625	2,625	2,625
Hygiene	752	752	752	752
Education	6,818	6,818	6,818	6,818
Transportation	1,760	1,760	1,760	1,760
Mobile phone	192	192	192	192
Internet	500	500	500	500
Total	**29,206**	**33,841**	**43,127**	**57,027**

Source: i) Authors' calculations based on the data from Bangladesh Urban Socioeconomic Assessment Survey 2019 (BBS, 2020), Bangladesh Household Income and Expenditure Survey 2016 ((BBS, 2019b), TCB (TCB, 2022), BTRC (BTRC, 2022), Numbeo (Numbeo, 2022), and World Development Indicators (World Bank, 2022).

Note: i) All figures shown are average values; ii) utilities cost calculated assuming that an apartment with one bedroom is 305 square feet in size, and an apartment with three bedrooms is 915 square feet in size; iii) food cost is calculated using market prices of Dhaka city as of 16 May 2022 and assuming that each person follows a compromised diet without fish, beef, mutton, and chicken, and consumes an amount of food equivalent to the Dhaka average; iv) health cost is calculated based on monthly out-of-pocket expenditure on health in 2019 at purchasing power parity for a household of four persons; v) hygiene includes 100 gram bar of bathing soap, 100 gram of handwashing soap, 100 gram tube of toothpaste, 1 kilogram of detergent powder, 125 gram dishwashing soap bar, 1 roll of toilet tissue, 1 litre toilet cleaner, 180 mililitre bottle of shampoo, 5 regular sanitary napkins, and cost of hygiene items is calculated based on retail prices as of 28 May 2022, and assuming that the cheapest and most commonly available brand of each item is chosen; vi) education cost is calculated assuming that one child goes to full day, private preschool or kindergarten; vii) transportation cost is calculated based on one two-way trip of average length within city on each weekday (22 days per months) using public transport; viii) cost of mobile phone is calculated assuming a five minute local voice call daily using prepaid mobile phone, and paying regular tariff without any discount or plan; ix) cost of internet is calculated assuming a 5 Mbps broadband internet connection.

Table 1.14 outlines the affordability of food on a monthly average cost basis, for workers and employees belonging to various industries based on the minimum wage they receive. As previously calculated in table 1.10, the average monthly food expense per household of four members consuming regular diet is Tk 21,358, and the average monthly food expense per household of four members consuming compromised diet (excluding the consumption of fish, beef, mutton, and chicken) is Tk 8,016. The value for minimum wage in 2022 is calculated based on the data from the Minimum Wages Board (Minimum Wages Board, 2021), assuming an annual increment of 5 per cent since latest year of wage review.

Table 1.14

Minimum Wage of Workers and Employees across Various Industries and Corresponding 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 Four Persons	
			Consuming a compromised diet without fish, beef, mutton, and chicken (Tk 8,016)	Consuming a regular diet (Tk 21,358)
Shrimp	Worker	5,616	X	X
Shrimp	Employee	6,389	X	X
Fishing and Trawler Boat Industry	Worker	6,584	X	X
Hotels and Restaurants	Worker	4,304	X	X
Hotels and Restaurants	Employee	4,304	X	X
Soap and Cosmetics	Worker	6,496	X	X
Soap and Cosmetics	Employee	6,496	X	X
Pharmaceuticals	Worker	9,293	√	X
Pharmaceuticals	Employee	9,826	√	X
Tea Packaging	Worker	8,240	√	X
Tea Packaging	Employee	9,498	√	X
Ship Breaking	Worker	17,724	√	X
Ship Breaking	Employee	16,695	√	X
Tannery	Worker	14,309	√	X
Tannery	Employee	14,309	√	X
Tailoring Factory	Worker	5,497	X	X
Cotton Textile Industries	Worker	6,486	X	X
Cotton Textile Industries	Employee	6,486	X	X
Bakery, Biscuit and Confectionary	Worker	6,716	X	X
Bakery, Biscuit and Confectionary	Employee	7,362	X	X
Automobile Workshop	Worker	6,673	X	X
Automobile Workshop	Employee	8,612	√	X
Aluminium and Enamel	Worker	9,778	√	X
Aluminium and Enamel	Employee	9,778	√	X
Garments	Worker	8,884	√	X
Garments	Employee	9,312	√	X
Glass And Silicate	Worker	9,288	√	X
Glass And Silicate	Employee	9,288	√	X
Plastic	Worker	8,513	√	X
Plastic	Employee	8,513	√	X
Re-rolling Mills	Worker	11,255	√	X
Re-rolling Mills	Employee	13,018	√	X
Private Road Vehicles	Worker	10,766	√	X

(Table 1.14 contd.)

(Table 1.14 contd.)

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 Four Persons	
			Consuming a compromised diet without fish, beef, mutton, and chicken (Tk 8,016)	Consuming a regular diet (Tk 21,358)
Private Road Vehicles	Employee	8,513	√	X
Rice Mills	Worker	8,287	√	X
Rice Mills	Employee	8,287	√	X
Leather and Footwear Factory	Worker	7,459	X	X
Leather and Footwear Factory	Employee	8,981	√	X
Construction and Timber	Worker	16,830	√	X

Source: Authors' calculations based on the data from Minimum Wages Board (Minimum Wages Board, 2021), Bangladesh Urban Socioeconomic Assessment Survey 2019 (BBS, 2020), Bangladesh Household Income and Expenditure Survey 2016 (BBS, 2019), TCB (TCB, 2022), and Numbeo (Numbeo, 2022).

Both workers and employees of the garments industry cannot afford to consume a regular diet, whereas the workers and employees of the cotton textile industry cannot even afford a compromised diet with the minimum wage they receive. Even if two members of the four-person household are working to earn monthly minimum wage, they still cannot afford to consume a regular diet.

Workers and employees of other prominent industries such as the tannery industry and ship breaking industry both cannot afford to consume a regular diet with their respective minimum wages. The leather and footwear industry's minimum wage for employee is incapable of affording to consume a regular diet, whereas a worker cannot even afford a compromised diet with the minimum wage that they earn. Individuals working in the pharmaceuticals and plastics industry also cannot afford regular diet.

Table 1.15 shows the average monthly cost of living for a household of four persons in an apartment with one bedroom located outside the city centre against the ability to afford given the average monthly earnings of workers involved in different economic activities.

Table 1.15

Average Monthly Earnings of Workers Involved in Various Economic Activities and Corresponding Ability to Afford Average Monthly Cost of Living for a Household of Four Persons in an Apartment with One Bedroom outside City Centre

Economic Activity	Average Monthly Earnings of Workers in 2022, Assuming 5 per Cent Annual Increment of Gross Salary from 2017 Onwards	Ability to Afford Average Monthly Cost of Living for a Household of Four Persons in an Apartment with One Bedroom outside City Centre	
		Consuming a compromised diet without fish, beef, mutton, and chicken (Tk 29,206)	Consuming a regular diet (Tk 42,548)
Agriculture; forestry and fishing	9,804	X	X
Mining and quarrying	11,440	X	X
Manufacturing	14,407	X	X

(Table 1.15 contd.)

(Table 1.15 contd.)

Economic Activity	Average Monthly Earnings of Workers in 2022, Assuming 5 per Cent Annual Increment of Gross Salary from 2017 Onwards	Ability to Afford Average Monthly Cost of Living for a Household of Four Persons in an Apartment with One Bedroom outside City Centre	
		Consuming a compromised diet without fish, beef, mutton, and chicken (Tk 29,206)	Consuming a regular diet (Tk 42,548)
Electricity; gas, steam and air conditioning supply	31,889	√	x
Water supply; sewerage, waste management and remediation activities	18,895	x	x
Construction	11,582	x	x
Wholesale and retail trade; repair of motor vehicles and motorcycles	14,405	x	x
Transportation and storage	14,154	x	x
Accommodation and food service activities	13,106	x	x
Information and communication	25,845	x	x
Financial and insurance activities	35,018	√	x
Real estate activities	29,250	√	x
Professional, scientific and technical activities	26,657	x	x
Administrative and support service activities	19,398	x	x
Public administration and defence; compulsory social security	28,389	x	x
Education	23,785	x	x
Human health and social work activities	25,486	x	x
Arts, entertainment and recreation	20,010	x	x
Other service activities	15,853	x	x
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	9,799	x	x
Activities of extraterritorial organizations and bodies	27,054	x	x
Not elsewhere classified	11,200	x	x
Total	**15,075**	x	x

Source: Authors' calculations based on the data from Bangladesh Labour Force Survey 2016-17 (BBS, 2018), Bangladesh Urban Socioeconomic Assessment Survey 2019 (BBS, 2020), Bangladesh Household Income and Expenditure Survey 2016 (BBS, 2019b), TCB (TCB, 2022), and Numbeo (Numbeo, 2022).

The average monthly earnings of workers in 2022 was calculated based on the Labour Force Survey (LFS) 2017 (BBS, 2018), assuming a 5 per cent yearly increment of gross salary from the year 2017 onwards. Workers involved in the electricity, gas, steam and air conditioning supply cannot afford to consume a regular diet. Workers involved in financial and insurance activities and real estate related economic activities also cannot afford regular diets.

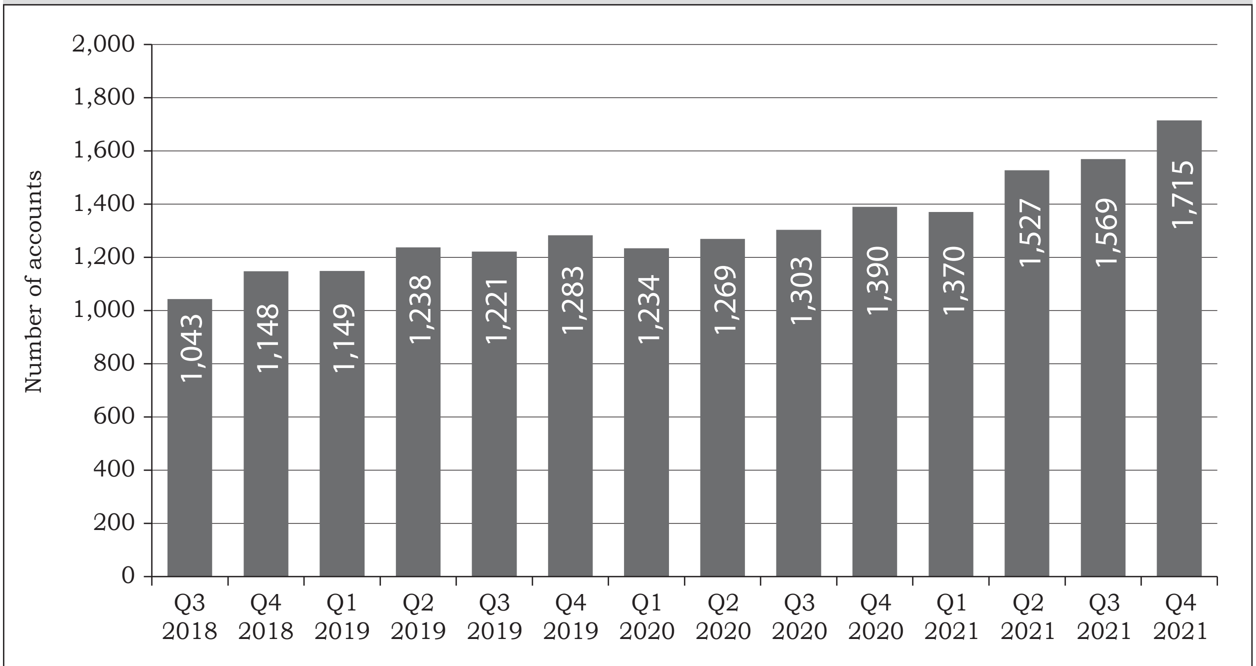
1.4.4 Those Unaffected by Inflation

While workers on minimum wages are unable to afford food and workers on average wages are unable to afford high cost of living, the number of super-rich individuals and corporations is on the rise in Bangladesh.

The number of bank accounts worth greater than Tk 50 crore revealed in Figure 1.12, and the amount of money held in such accounts presented in Figure 1.13, both have increased substantially (Bangladesh Bank, 2022). This indicates that capitalists and their corporations have been largely unaffected by rising prices.

Figure 1.12

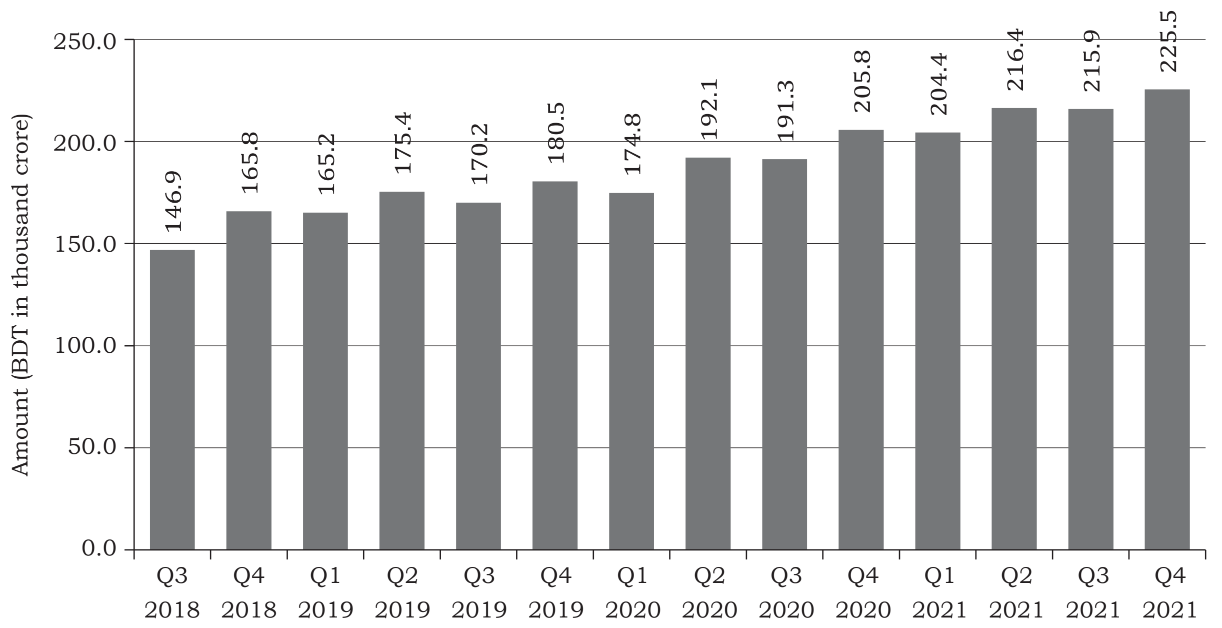
Number of Accounts Worth Greater than Tk 50 crore



Source: Authors' illustration based on the data from Bangladesh Bank (Bangladesh Bank, 2022c).

Figure 1.13

Amount of Money Held in Accounts Worth Greater than Tk 50 crore



Source: Authors' illustration based on the data from Bangladesh Bank (Bangladesh Bank, 2022c).

1.4.5 Policy Recommendations

Expansion and scaling up of social safety net programmes have been proposed by the CPD in view of the adverse impact of the pandemic to raise the living standard of people. In light of this crisis, a number of recommendations are stated below which would work towards easing the burden of increasing prices and declining purchasing power of low- and fixed-income groups.

Formulating a new consumption basket for calculating CPI inflation: Based on rigorous research as regards consumer behaviour and expenditure patterns, a new consumption basket should be formulated for calculating CPI inflation. Consequently, all targets, projections, and plans in the monetary policy and the 8th Five Year Plan (8FYP) should be revised in accordance with this new consumption basket for CPI and new base year for inflation.

Removing taxes on imported essential food items: The NBR should immediately consider removing AIT, AT and RD on all imported essential food items.

Strengthening the role of the Bangladesh Competition Commission: The role of the Bangladesh Competition Commission needs to be strengthened, particularly in the case of 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 policy against cartels as well as a zero-tolerance policy towards collusive practices. Furthermore, the Competition Act 2012 should be revised to directly address monopolies and include specific anti-trust clauses, along with concrete penalties for violators. Efficient market management through close monitoring and supervision will be critical to keep the commodity prices under control.

Considering increasing the wages of workers and employees: 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 per cent increment of salary in the face of double-digit price hikes is compelling workers to seriously compromise their standard of living.

Providing support through various means: 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. The volume of sale of essential commodities through open market sales (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.

Preparing to maintain adequate food stock: The government should prepare for maintaining adequate food stock not only through better agricultural production, but also through food import. There is a need for actual demand estimation of rice and other food items in the country. 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, mapping out strategies for production and import should be done at the earliest. Inflationary pressure will hamper a sustainable and inclusive pandemic recovery, since the real purchasing power of many people will decline leading to further inequality.

1.5 MONETARY AND BANKING SECTOR

1.5.1 Introduction

A strong financial sector is key to higher economic growth. The banking sector, the dominant sub-sector within the financial sector, has traditionally been contributing to Bangladesh's private investment, trade, commerce, and employment generation. However, due to lack of reforms, the banking sector is facing severe challenges, including high loan defaults, low profitability, and poor management. The COVID-19 pandemic is apprehended to intensify these pre-existing challenges, including higher non-performing loans (NPLs). However, due to longstanding moratorium on loan classification during the pandemic, the currently available data may be underestimating the actual level of NPL in the banking sector. Since the highest share of COVID-19 related liquidity support has been offered to large industries, there are apprehensions that there could be ingenuine borrowers who were not really affected by the pandemic. This section presents the performance of the banking sector through a set of banking and monetary indicators.

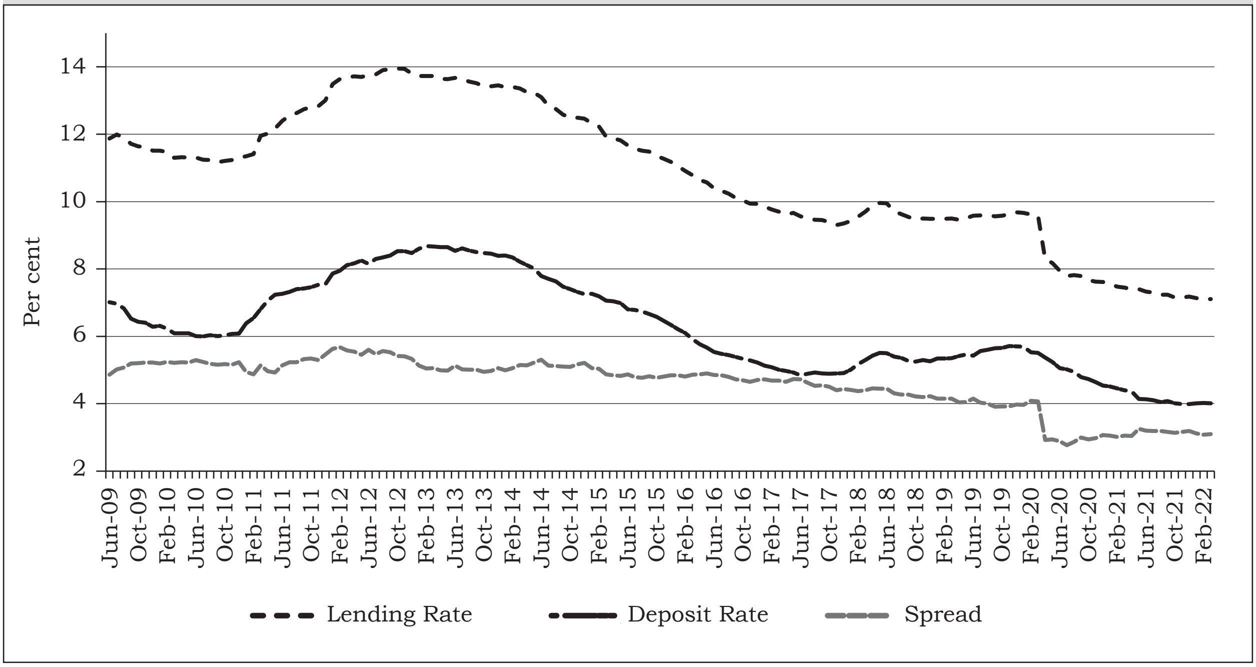
1.5.2 A Gloomy Situation of the Banking Sector

Excess liquidity in the banking system has led to a fall in the interest rates, which were already quite low even prior to 2020. During the pandemic, the weighted average lending rate in all scheduled banks has come down sharply and the weighted average borrowing rate in all scheduled banks has also declined. As a result, the interest rate spread has come down, adding to the woes of the commercial banks (Figure 1.14).

Excess liquidity in the banking system has led to a fall in the interest rates, which were already quite low even prior to 2020. The real deposit rate, calculated as the weighted average of the monthly deposit rate of all scheduled banks adjusted with the point-to-point monthly CPI inflation, fell from 0.03 per cent in March 2020 to -2.21 per cent in March 2022 (Figure 1.15). The negative real interest rate on

Figure 1.14

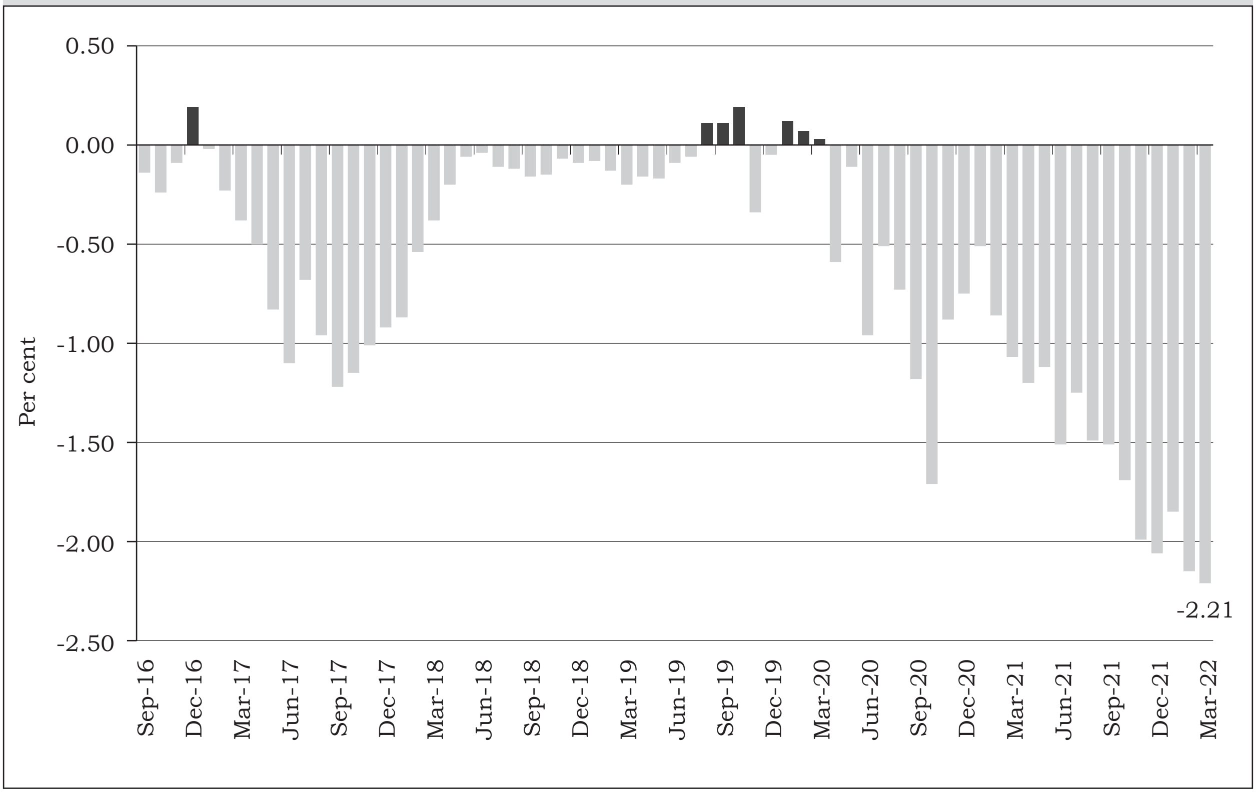
Interest Rate Spread



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022a).

Figure 1.15

Real Deposit Rate in Banks



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022a).

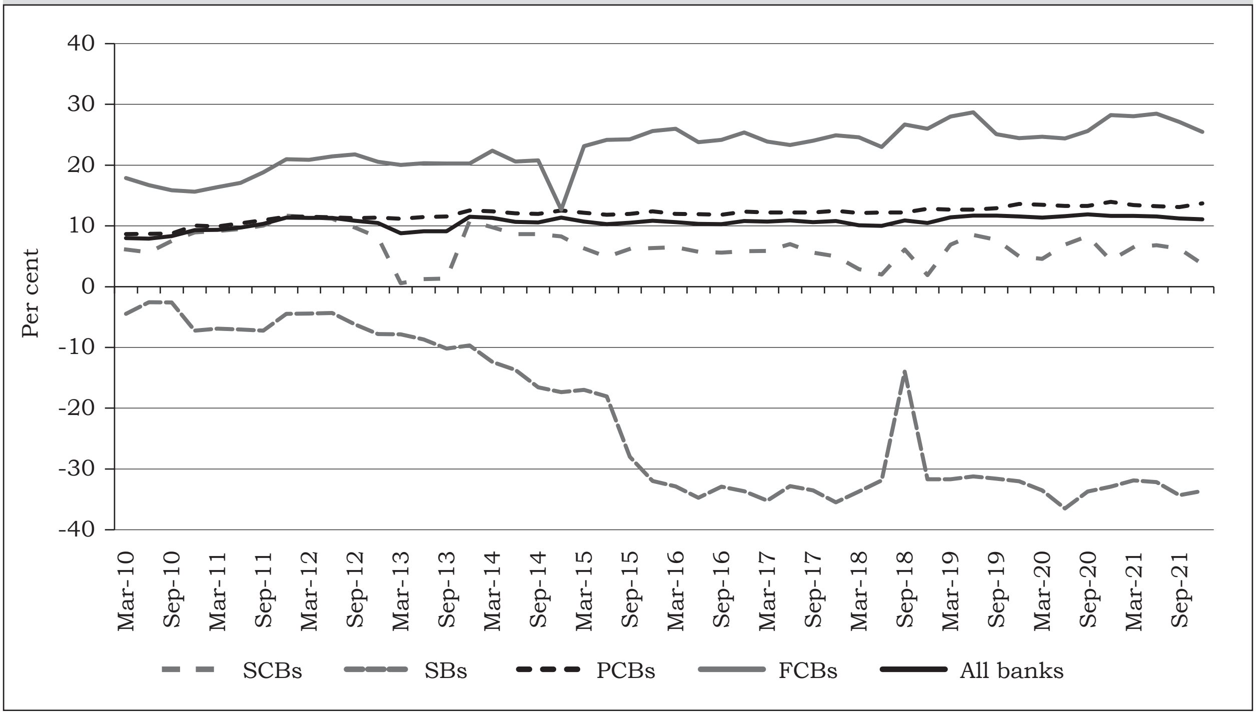
bank deposits means that value of the savings of ordinary people was being depleted away during the pandemic and during high inflation—a time when they needed to utilise their savings the most.

Bangladesh Bank's Guidelines on Risk Based Capital Adequacy state that banks must maintain a minimum total capital ratio of 10 per cent (or minimum total capital plus capital conservation buffer of 12.5 per cent) by 2019, in line with BASEL III. However, the state-owned commercial banks (SCBs) have failed to maintain minimum requirements of capital adequacy. On the other hand, the specialised banks (SBs) have remained critically under-capitalised (Figure 1.16). Without reducing NPLs, capital adequacy cannot be improved since higher levels of NPLs lead to increased provisioning requirements, which results in capital shortfall.

Due to the longstanding moratorium on loan classification, the current level of NPLs in the banking sector is hardly indicative of the reality. Nevertheless, it can be seen that the total volume of NPLs started rising from the third quarter of FY2020–21 (Figure 1.17). It is apprehended that the actual volume of NPL in the banking sector is far greater than shown by the official numbers. It is anticipated that NPL will rise further in the coming days, as loans under COVID-19 liquidity support packages were not provided in a transparent or accountable manner.

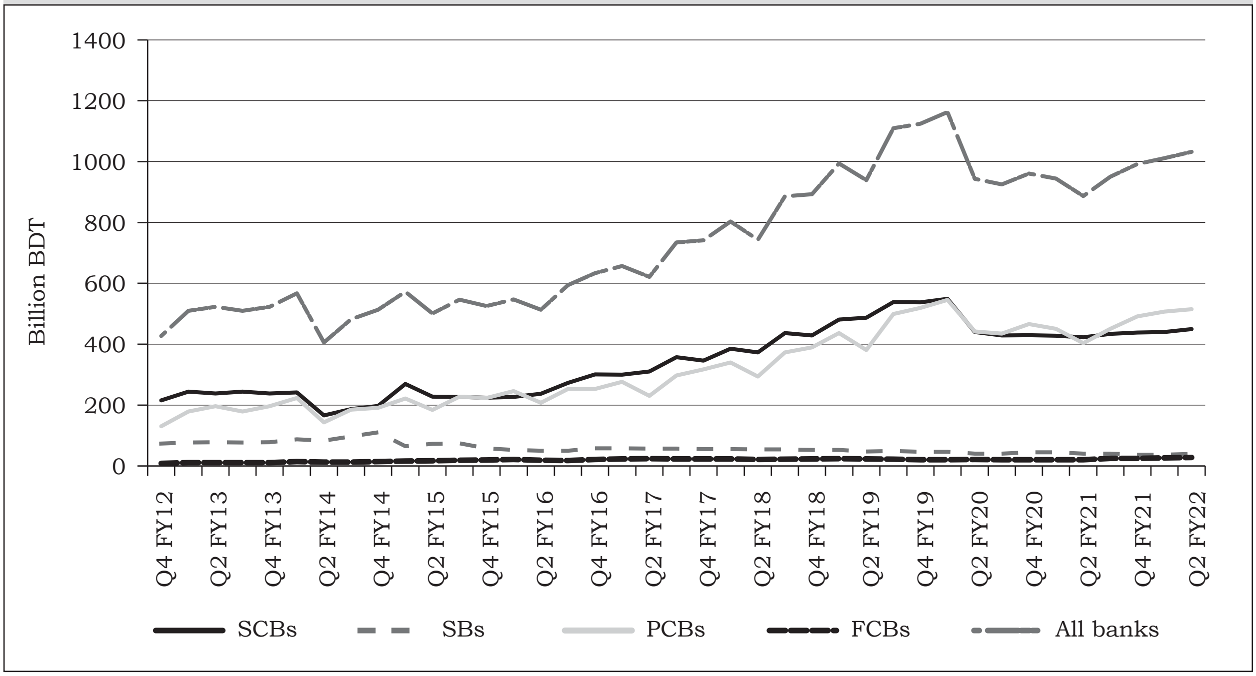
Figure 1.16

Capital to Risk Weighted Asset Ratios by Type of Banks



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2021).
Note: PCB = Private Commercial Bank; FCB = Foreign Commercial Bank.

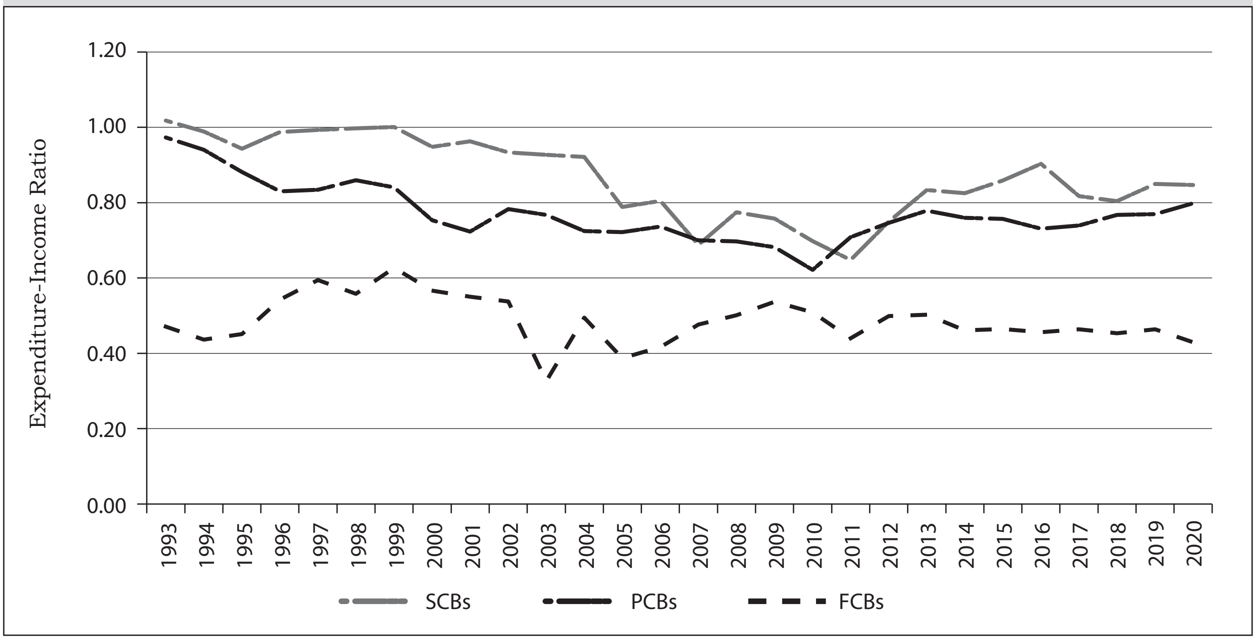
Figure 1.17
Total Classified Loan



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2021).

During the years between 1993 and 2019, the average expenditure-income ratio was 0.87 in SCBs and 0.77 in PCBs (Figure 1.18). This reveals poor management effectiveness of both SCBs and PCBs, even in the pre-pandemic period.

Figure 1.18
Expenditure-Income Ratio

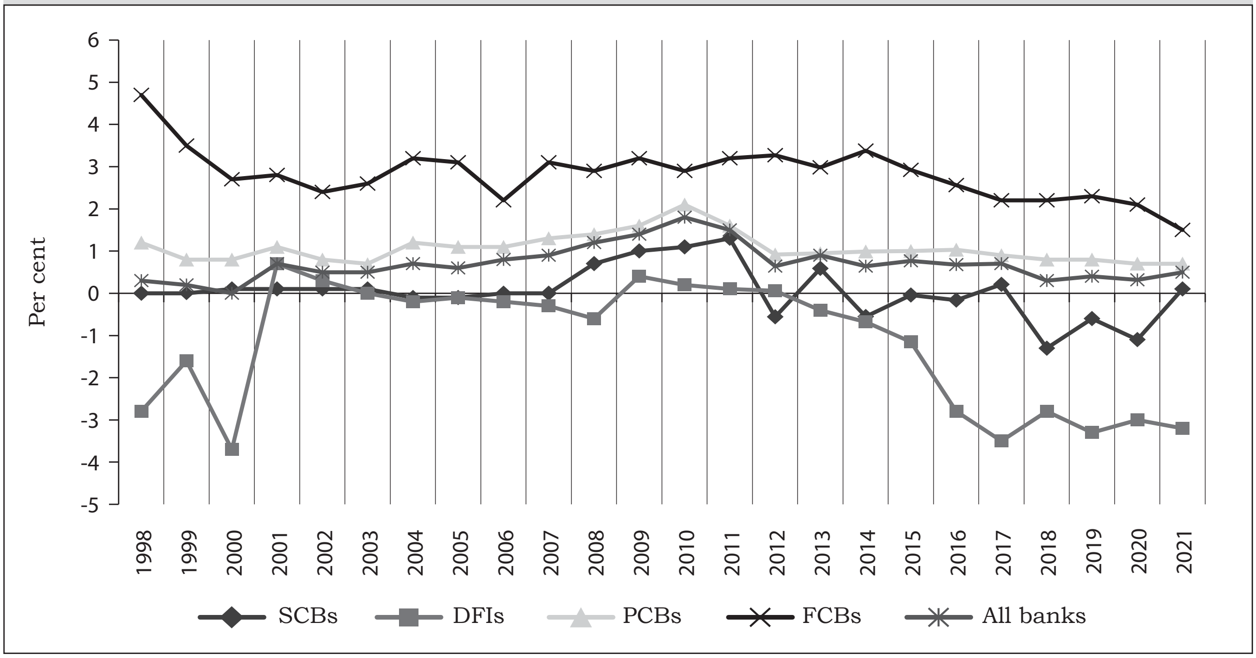


Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022a).

PCBs experienced a decline in profitability, as their return on asset (ROA) fell from 0.80 per cent in 2019 to 0.70 per cent in 2021, and their return on equity (ROE) fell from 11.2 per cent in 2019 to 10.1 per cent in 2021. Development finance institution (DFIs) dug themselves into a deeper hole after the pandemic, as their ROA and ROE plummeted in 2020. The FCBs saw their profitability fall in 2021, as both their ROA and ROE fell sharply. However, SCBs actually managed to improve their profitability in 2021. These are shown in figures 1.19 and 1.20.

Figure 1.19

Return on Asset

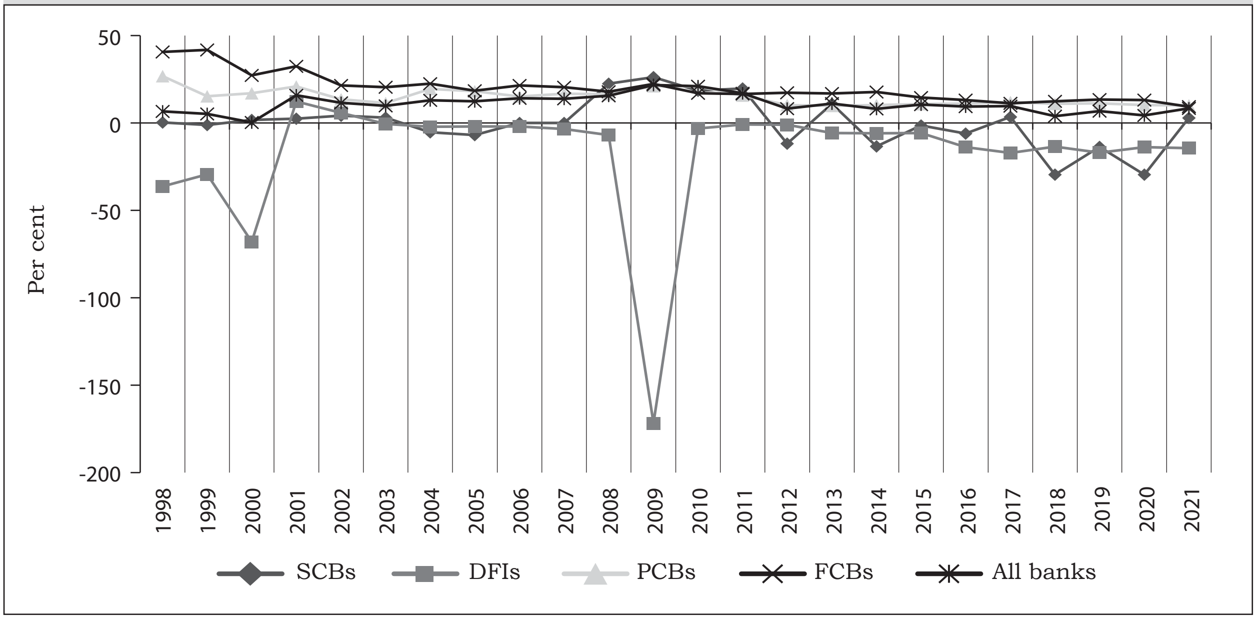


Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2021) and Bangladesh Bank Annual Report (Bangladesh Bank, 2022d).

Data from Bangladesh Bank shows that excess liquidity in the banking sector has nearly doubled from Tk 103 thousand crore in January 2020 to Tk 188 thousand crore in April 2022. During the same period, excess liquidity has nearly doubled in SCBs and nearly tripled in IBs (Figure 1.21). Excess liquid assets comprised of 44 per cent of the total liquid assets of the banking sector in April 2022 (Figure 1.21).

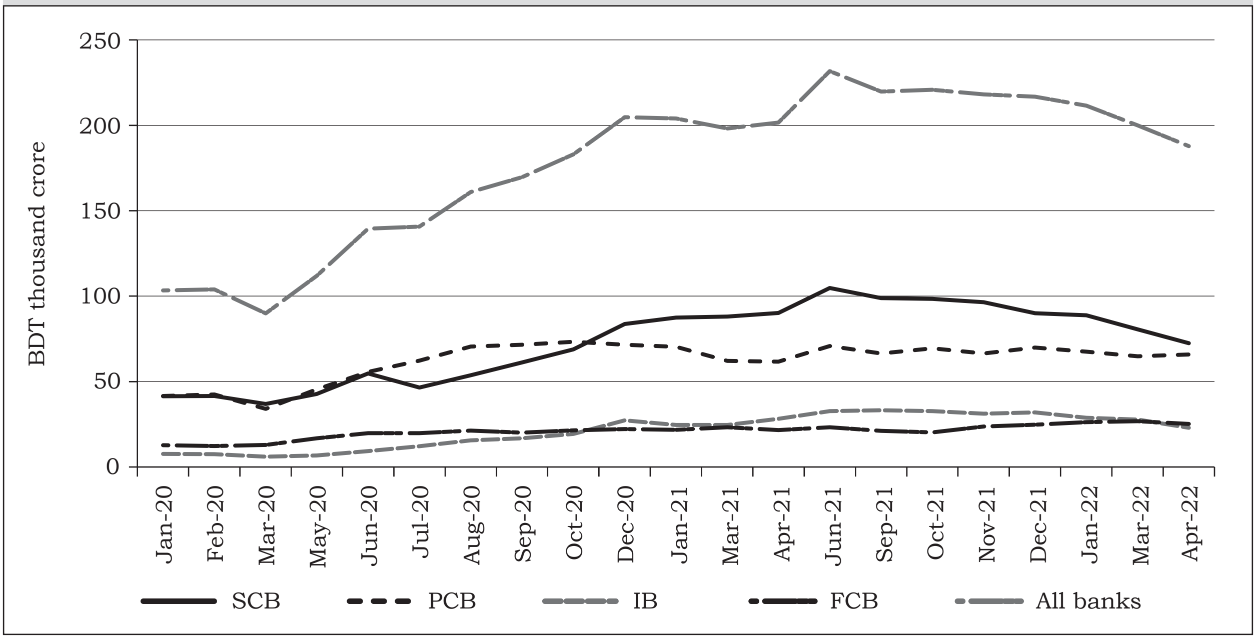
Banks have also increased their holdings of unencumbered approved securities, which are zero risk rated assets issued or guaranteed by the government. Holdings of unencumbered approved securities of all banks increased from Tk 211 thousand crore, or 67 per cent of total liquid assets, in January 2020, to Tk 312 thousand crore, or 74 per cent of total liquid assets, in April 2022 (Figure 1.22). The decision of commercial banks to hold excess liquidity in the form of unencumbered approved securities instead of funds for lending shows that commercial banks perceive that the yields on risk-free unencumbered approved securities are better than the risk-adjusted returns on interest-bearing loans that come with default risk (Figure 1.23). This indicates that commercial banks are hesitant to lend, as they probably believe that economic activity is yet to pick up, and their loans may thus have a high probability of turning bad.

Figure 1.20
Return on Equity



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2021) and Bangladesh Bank Annual Report (Bangladesh Bank, 2022d).

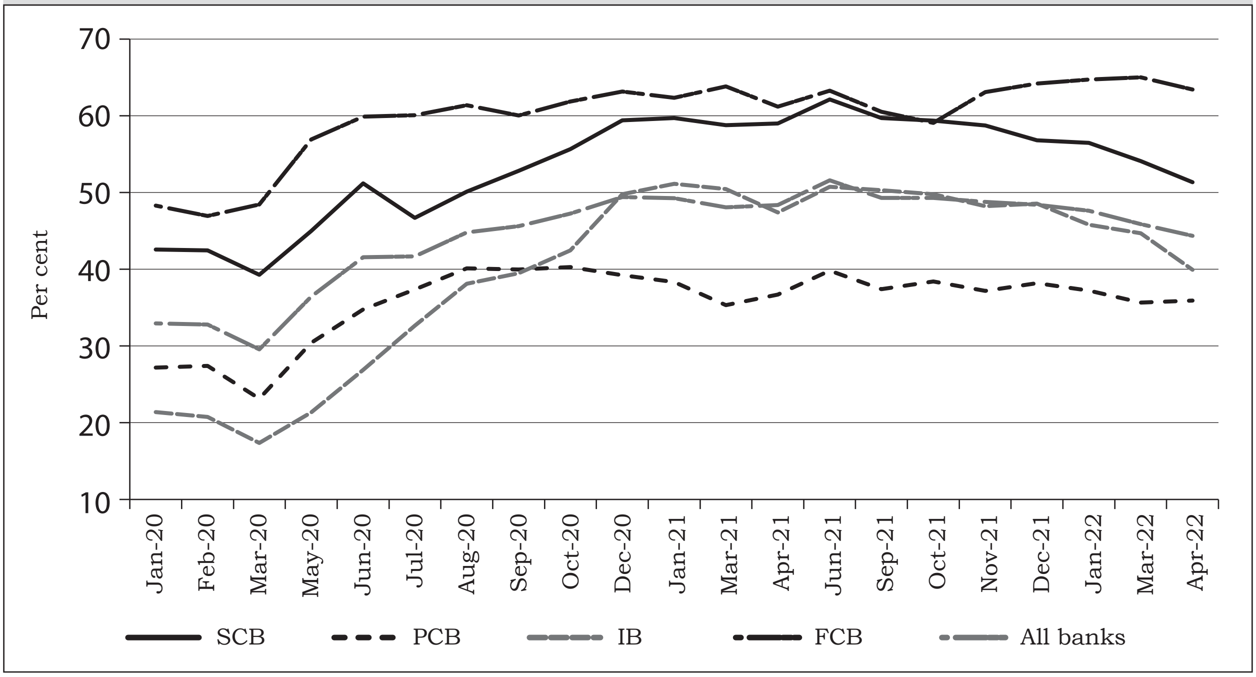
Figure 1.21
Excess Liquidity



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022e).

Figure 1.22

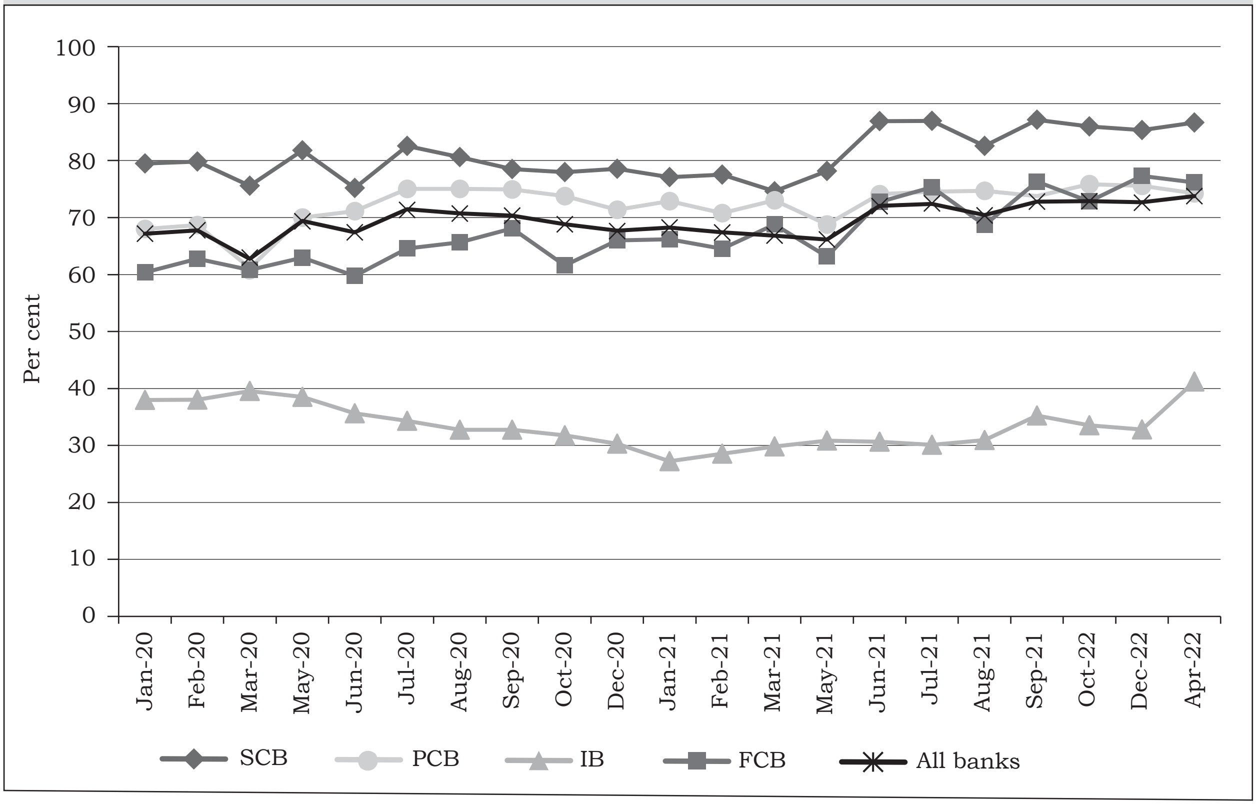
Excess liquidity as Percentage Share of Total Liquid Assets



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022e).

Figure 1.23

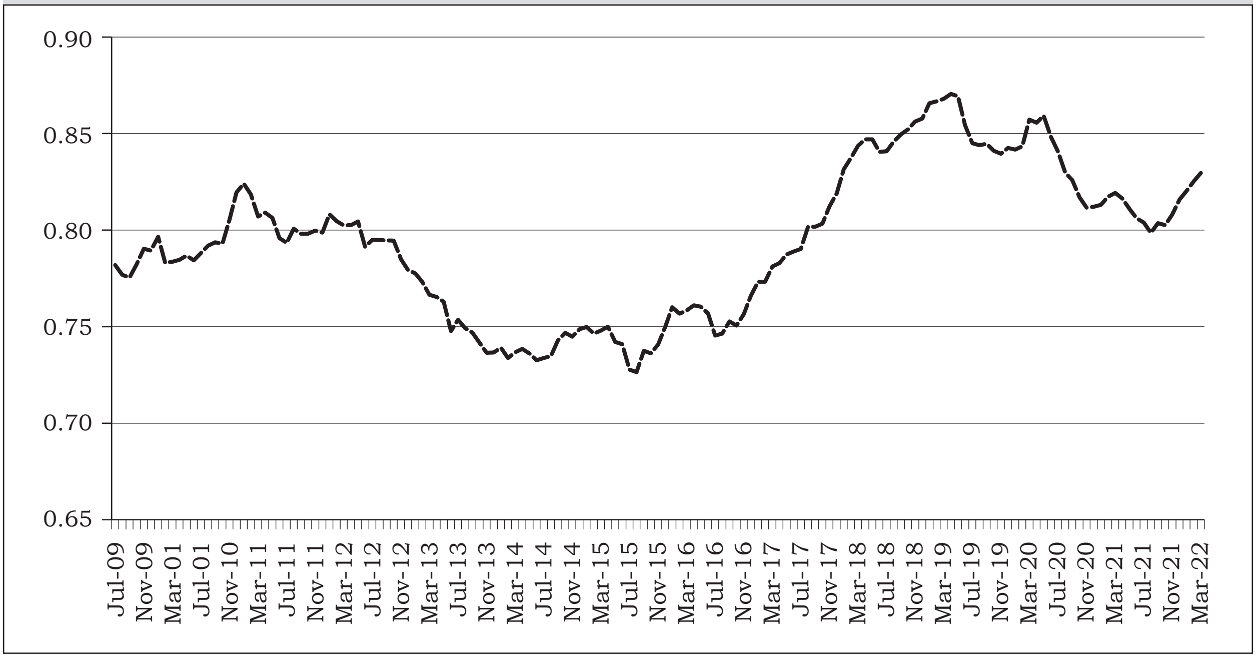
Unencumbered Approved Securities as a Share of Total Liquid Assets



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022e).

Figure 1.24

Advance-Deposit Ratio



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022a).

Excess liquidity is also a sign that the demand for loans is low, which is likely since the real economy is still experiencing the repercussions of the COVID-19 shock. The advance-deposit ratio (ADR) of all banks fell to a low of 0.80 in August 2021 (Figure 1.24). However, since then, the ADR has increased slightly, indicating that economic activity may be slowly picking up.

The monthly average call money market borrowing and lending rates have both increased sharply from 2.66 per cent in March 2022 to 4.58 per cent in April 2022. The increasing trend of call money rates implies that the demand for cash, particularly by under-capitalised banks, has been high. On 29 May 2022, the central bank increased the repo rate from 4.75 per cent to 5 per cent, whereas the reverse repo rate remained at 4 per cent (Figure 1.25). Since the weighted average monthly call money rate in April 2022 exceeded the reverse repo rate, the effectiveness of monetary policy may be compromised.

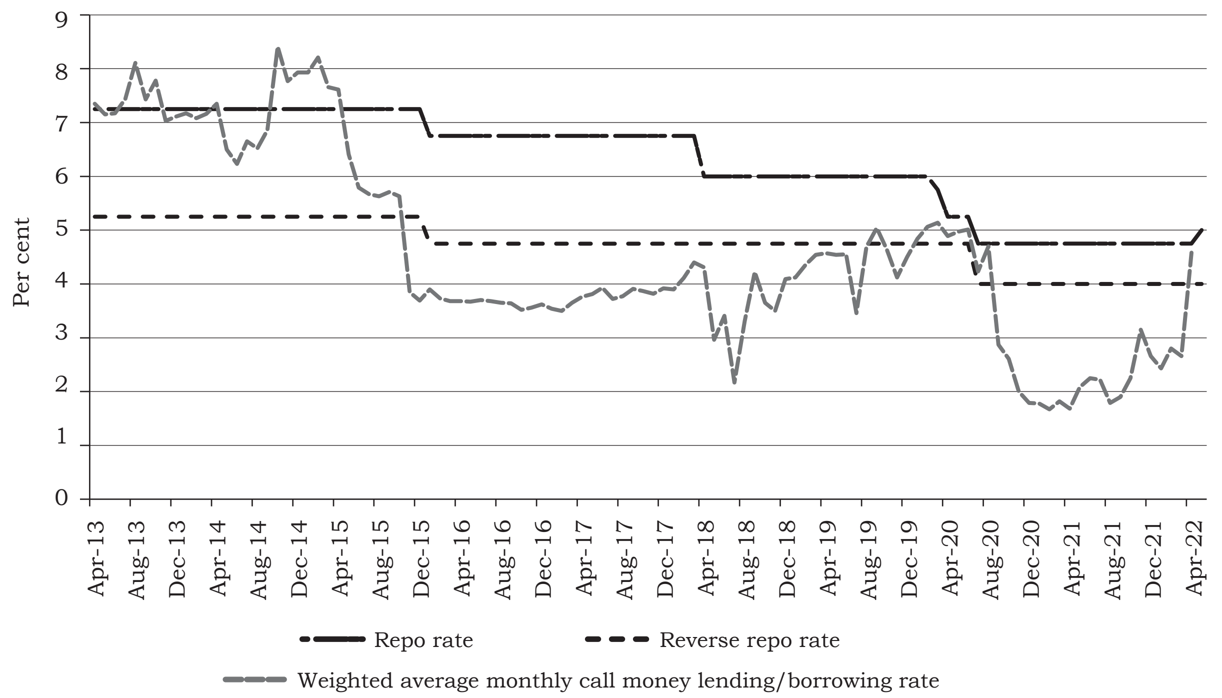
Data from Bangladesh Bank shows that in 2020, excess reserves of all banks increased from Tk 6.74 thousand crore, or 2.15 per cent of total liquid assets, in January 2020, to Tk 20.39 thousand crore, or 4.82 per cent of total liquid assets, in April 2022 (Figure 1.26).

Since excess reserves represent uninvested cash, holding excess reserves is costly for banks. However, excess reserves have been declining starting from June 2021 onwards (Figure 1.27).

In 2021, five commercial banks failed to publish their mandatory disclosures under BASEL III. These banks are: Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, Al-Arafah Islami Bank Limited, Bangladesh Commerce Bank Limited, ICB Islamic Bank Limited, and Prime Bank Limited. Additionally, 11 banks were unable to meet minimum BASEL III requirements, as per their latest disclosures (Table 1.16).

Figure 1.25

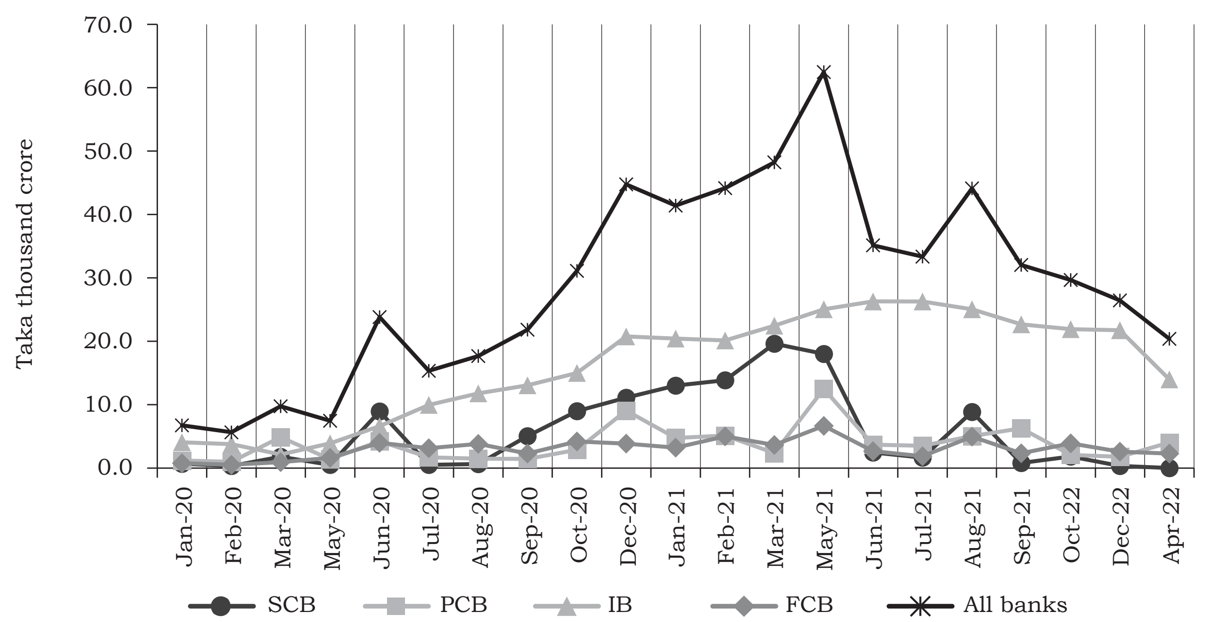
Repo, Reverse Repo and Call Money Rates



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022a) and Major Economic Indicators (Bangladesh Bank, 2022e).

Figure 1.26

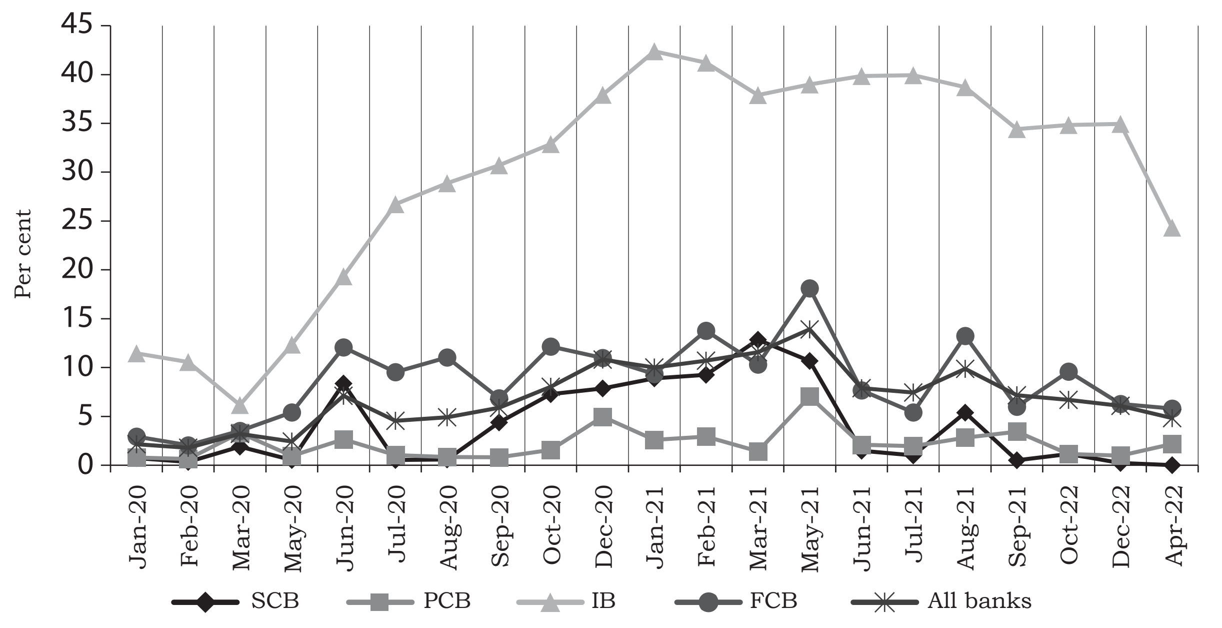
Excess Reserve (Uninvested Cash)



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022e).

Figure 1.27

Excess Reserve (Uninvested Cash) as a Share of Total Liquid Assets



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022e).

Table 1.16

Commercial Banks Which Have Failed to Meet Minimum BASEL III Requirements

Name	CET1 (in %)		LCR (in %)	NSFR (in %)	LR (in %)		Year
	Solo	Consolidated			Solo	Consolidated	
Agrani Bank Limited	4.63	4.59	222.91	107.13	2.37	2.38	2021
BASIC Bank Limited	-1.56	-	368.98	107.35	-0.82	-	2021
Janata Bank Limited	5.16	5.11	357.78	111.86	2.94	293	2021
Rupali Bank Limited	5.37	3.65	509.44	98.75	2.19	2.24	2021
Sonali Bank Limited	7.81	8.47	422.54	100.73	2.83	3.05	2021
Bangladesh Krishi Bank	-42.68	-	99.57	75.03	-30.88	-	2020
Rajshahi Krishi Unnayan Bank	-16.55	-	461.00	114.00	-12.16	-	2020
Bangladesh Commerce Bank Limited	-14.80	-14.34	100.93	119.31	-16.16	-16.24	2020
ICB Islamic Bank Limited	133.33	-	58.06	148.56	-161.55	-	2020

(Table 1.16 contd.)

(Table 1.16 contd.)

Name	CET1 (in %)		LCR (in %)	NSFR (in %)	LR (in %)		Year
	Solo	Consolidated			Solo	Consolidated	
The Farmer's Bank Limited (Padma Bank Limited)	6.42	6.25	95.27	170.75	5.02	4.89	2021
National Bank of Pakistan	30.46	-	91.74	28.5	17.5	-	2021

Source: Authors' compilation based on mandatory BASEL III disclosures of aforementioned banks.
Note: BASEL III requirements stipulate that banks should maintain Common Equity Tier 1 (CET1) to Risk Weighted Assets (RWAs) ratio greater than 4.5 per cent, Liquidity Coverage Ratio (LCR) greater than 100 per cent, Net Stable Funding Ratio (NSFR) greater than 100 per cent, and Leverage Ratio greater than 3 per cent.

Recurrent recapitalisation of the SCBs by the government has emerged as an issue of concern, as the performance of the banks is not improving. It has been estimated that the government has spent Tk 15,705 crore in recapitalising the banks during the period between FY2008–09 and FY2016–17. This amount would be sufficient for building 4 deep seaports like Payra. This has set bad examples and will encourage banks involved in irregularities.

Monetary policy in the upcoming fiscal year needs to be formulated in such manner that it would tackle the challenges posed by the uncertainties caused by COVID-19, at the same time control the rising cost of living which is harming the middle class and the poor. Such formidable feats must be performed against the backdrop of excess liquidity in the banking sector, which will make this effort even more arduous.

Excess liquidity in the banking system may induce commercial banks to behave in ways which may jeopardise the stability of the financial system and make it difficult for the central bank to achieve its monetary policy goals. For example, banks may attempt to offset their losses from holding excess liquidity by giving out risky loans which may lead to higher volume of NPLs, higher inflation, and the creation of asset bubbles.

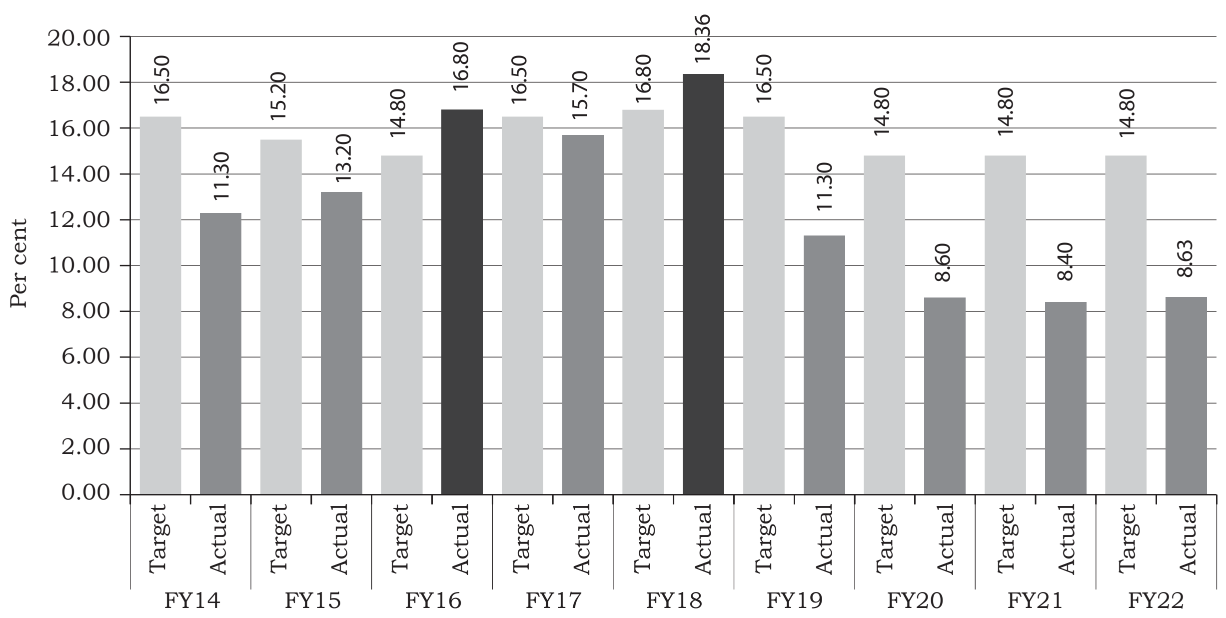
Excess liquidity in the banking system also weakens the interest-rate transmission mechanism of monetary policy, making monetary policy less effective in fine-tuning aggregate demand. Moreover, when there is excess liquidity in the banking system, commercial banks may perceive the opportunity cost of holding excess balances at the central bank to be low, and hence be slow to act to reduce excess liquidity. As a result, the central bank would find it more challenging to determine the ideal level of desired and excess reserves.

Despite stellar economic growth in the pre-pandemic years, private sector credit growth targets were not met in FY2013–14, FY2014–15, FY2016–17, FY2018–19, FY2019–20, FY2020–21, and FY2021–22 (Figure 1.28). In response to low private sector credit growth, the central bank had to reduce its monetary policy targets in several years. Weak private sector credit growth in an economy is indicative of low private sector investment.

Broad money growth was within the targets set by the monetary policy in FY2019–20, FY2020–21, and FY2021–22. During FY2013–14 to FY2021–22, broad money growth was always below the target set by the monetary policy, except that in FY2015–16 (Figure 1.29).

Figure 1.28

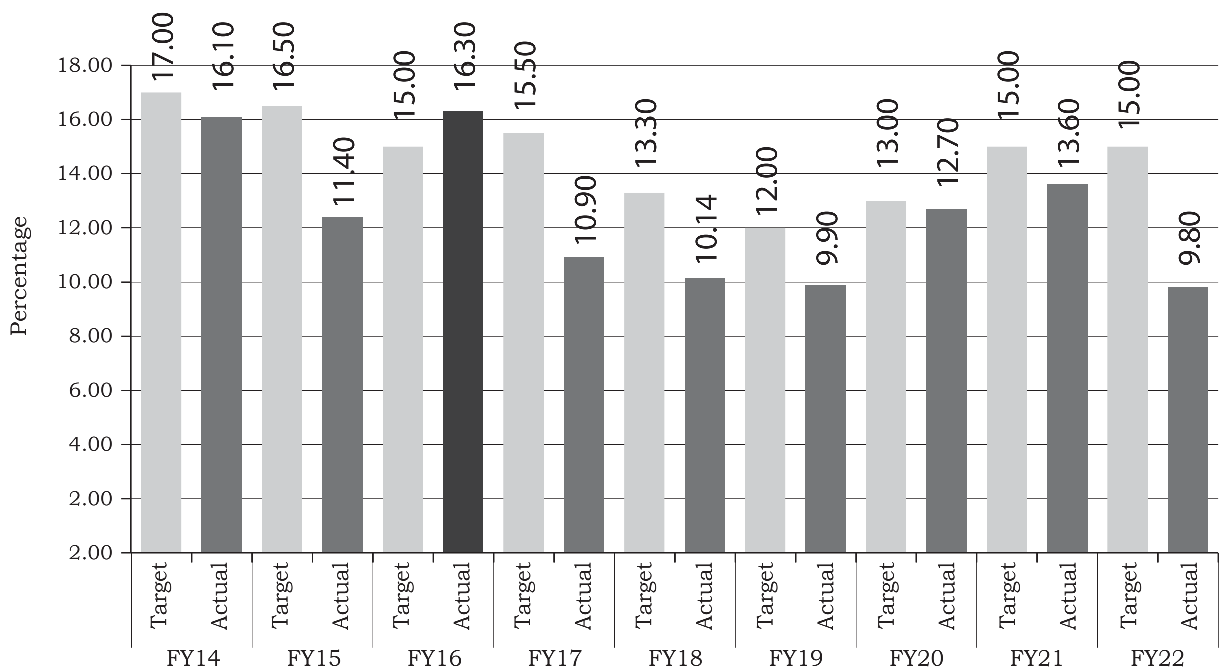
Private Sector Credit Growth: Monetary Policy Targets versus Actual



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022f).

Figure 1.29

Broad Money: Monetary Policy Targets versus Actual



Source: Based on the data from Bangladesh Bank (Bangladesh Bank, 2022f).

The severity of high NPLs is currently invisible due to the measures taken to ease loan classification. However, the volume of NPL may rise significantly in the coming days as impact of lifting the moratorium on loan classification becomes visible.

At present, problems of the banking sector are being tackled by government's support. This is possible since banking assets are only about 56 per cent of GDP. When banking assets will increase, the government may not be able to do so. As Bangladesh prepares for graduation from a Least Developed Country (LDC) to a developing country and from a lower middle-income country to an upper middle-income country, it is crucial to develop a sound financial system which will ensure finance for development, not finance for crony capitalism. Regrettably, reform in the banking sector is still an unfinished agenda.

1.5.3 Policy Recommendations

This section discussed some of the pressing issues of the banking sector based on the limited data which was available at the time of writing. Based on the performance of the banking sector, recommendations for enabling the banking sector to play a more constructive role in the economic recovery from the pandemic include the following:

- Loans should be provided to the cottage, micro, small and medium enterprises (CMSMEs) in the short term.
- Disbursement of the government's COVID-19 liquidity support for small businesses, farmers and low-income professionals should be expedited immediately.
- In the medium term, reforms should be the priority of the policymakers, in view of the increased responsibility of the sector for a growing economy.
- Transparency and accountability mechanisms should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all liquidity support packages should be published on a monthly basis.
- Banks with excess liquidity should be discouraged by the central bank from taking unnecessary risks.

1.6 EXTERNAL SECTOR: A TIME OF UNFORESEEN VOLATILITY AND UNPRECEDENTED PRESSURE

Bangladesh's external sector has never been under so much pressure, and has never experienced such volatility, as in the recent times. Trade deficit is anticipated to cross USD 30.0 billion mark, current account deficit is to cross the USD 18.0 billion mark and the negative overall balance anticipated to cross the USD 5.0 billion mark by the end of FY2021–22. The resultant drawdown on reserves, volume-driven export not catching up with price-driven imports, and the negative growth in remittances have led to significant uncertainties and speculative behaviour in the exchange rate market. This has led to, in the end, the significantly crucial policy shift after about a decade (the last time there was a shift was in 2012) to free float from the prevailing managed float. Bringing stability back in the exchange rate market and addressing the adverse consequences of imported inflation will call for prudent monetary management, and strategic fiscal management and the coordination between the two.

1.6.1 Deteriorating Balance of Payment Position

As was mentioned, the negative trade balance is anticipated to exceed (-) USD 30.0 billion in FY2021–22 driven by rising import payments as against the relatively lower rise in exports. Table 1.17 shows the balance of payments (BOP) scenario for the first 10 months of the ongoing FY2021–22. Against the backdrop of the negative growth of remittances, the negative current account balance rose sharply in the FY2021–22 (July–April): rising from (-) USD 1.6 billion to (-) USD 15.3 billion, unprecedented in recent history. The increase of (+) USD 2.5 billion in the Financial Account could not dent on the overall balance position which went from the positive (+) USD 7.49 billion to the negative terrain of (-) USD 3.7 billion, a difference of more than 11.0 billion USD.

Table 1.17

Disquieting Development in BOP during July–April period (FY2020–21 versus FY2021–22)

(in million USD)

Items	**2020-21^{R} July-Apr**	**2021-22^{P} July-Apr**	**% Changes**
Trade balance	-18013	-27569	-53.1
Current Account Balance	-1653	-15317	-826.6
Financial account	9598	12029	25.3
Overall Balance	7499	-3710	-149.5

Source: Authors' calculation based on the data from Bangladesh Bank.

1.6.2 Volume-driven Export Earnings

While export growth has been robust at 34.1 per cent over the first 11 months of FY2021–22, from foreign exchange retention perspective estimation of net export, as against gross export shown in Table 1.18, is no less important. This is because exports, more specifically that of apparels is, to a large extent, dependent on import of cotton, yarn and fabrics. The two figures for FY2021–22 (July–May) are estimated to be USD 25.90 billion and USD 47.17 billion respectively (net export being about 55.0 per cent of gross export). The slowdown in export growth in May 2022 in the face of lower growth and against the backdrop of signs of recession in some of the key markets, do not augur well for export sector performance in the coming months.

Table 1.18

Stylised Data on Bangladesh's Export FY2021–22 and FY2020–21 (July–May) *(in billion USD)*

Major Export Items	**FY22 (July-May)**	**FY21 (July-May)**	**Export Growth (in %)**	**Net Export (July-May FY22)**	**Net Export (July-May FY21)**	**Net Export Growth (in %)**
RMG	**38.52**	**28.56**	**34.9**	**18.56**	**13.73**	**35.2**
Knitwear	20.99	15.36	36.6	11.54	8.45	36.6
Woven garments	17.54	13.20	32.8	7.01	5.28	32.8
Non-RMG	**8.65**	**6.62**	**30.7**	**7.35**	**5.65**	**30.2**
Total	**47.17**	**35.18**	**34.1**	**25.90**	**19.37**	**33.7**

Source: Estimated from EPB data.

Note: RMG = Readymade garments. For calculating net export, below-mentioned weights were considered for particular export items: knitwear: 0.55, woven garments: 0.4, home textiles: 0.6, other items (non-RMG, non- home textile): 0.9.

Also to note, Bangladesh export growth has been mostly volume-driven. Buyers and brands have been able to pass on the rise in the price of the key inputs going into apparels export (cotton, yarn and fabrics, with price of cotton rising by more than 50.0 per cent in April 2022 compared to corresponding period of 2021. This is true both for the US and the EU markets (more for woven-RMG) as indicated in Table 1.19 and Table 1.20.

Table 1.19

Bangladesh Exports to US: Value, Price and Volume Effects

HTS Code	FY21 (Jul–Mar)			FY 22 (Jul–Mar)			Percentage increase		
	Volume (in millions)	Value (in million dollars)	Per Unit price (in USD)	Volume (in millions)	Value (in million dollars)	Per Unit price (in USD)	Value	Volume	Per unit price
61 (Knit)	814.6	1456.4	1.8	1,141.7	2,377.3	2.1	63.2%	40.2%	16.7%
62 (Woven)	569.3	2802.4	4.9	747.0	3900.1	5.2	39.2%	31.2%	6.1%
Overall	1383.9	4258.8	3.1	1,888.7	6,277.4	3.3	47.4%	36.5%	6.5%

Source: Estimations based on USITC data.

Table 1.20

Bangladesh Exports to EU: Value, Price and Volume Effects

TS Code	FY21 (Jul–Mar)			FY 22 (Jul–Mar)			Percentage Change		
	Volume (in million Kg)	Value (in million euros)	Per Kg price (in euros)	Volume (in million Kg)	Value (in million euros)	Per Kg price (in euros)	Value	Volume	Per Kg price
61 (Knit)	502.6	5935.1	11.8	613.3	8193.7	13.4	38.1%	22.0%	13.2%
62 (Woven)	244.3	3512.7	14.4	285.2	4390.4	15.4	25.0%	16.7%	7.1%
Overall	746.9	9447.8	12.6	898.5	12584.1	14.0	33.2%	20.3%	10.7%

Source: Estimations based on the data from EuroStat.

1.6.3 Remittance Flows Have Been Declining, but Expected to Catch Up

While remittance growth was a negative (-15.9 per cent) in the first 11 months of FY2021-22 (July–May), compared to the corresponding period of pre-pandemic FY2019-20, this was 17.2 per cent higher (Table 1.21). The floating of currency should reduce the significant difference between the official exchange rate and the curb market and in the informal hundi/howla transactions. While the incentive for remittance (at 2.5 per cent of the remitted amount) may continue for now till the market stabilises, the government may revisit the necessity and the amount taking the emerging dynamics into consideration.

Table 1.21

Remittance inflow July–May (FY20–FY22) *(in billion USD)*

FY20 (July–May)	FY21 (July–May)	FY22 (July–May)	FY20–FY21 (July–May) remittance earnings growth (in %)	FY21–FY22 (July–May) remittance earnings growth (in %)	FY20–FY22 (July–May) remittance earnings growth (in %)
16.37	22.84	19.19	39.5	-15.9	17.2

Source: Authors' calculation based on Bangladesh Bank data.

The large number of people joining overseas job markets should be reflected in the remittance flow in FY2022–23. In July-April of FY2021–22 about 7.99 lac people have gone to various countries in Middle East. Comparable figures for FY2019–20 and FY2020–21 were 5.31 lac and 2.17 lac. Special attention should be given to new employment opportunities in post-pandemic Malaysia and Singapore job markets. In view of the steps taken by Bangladesh Bank (floating exchange rate) and the incentive, and the rising number of migrant workers joining overseas job market, remittance flows should approximate the spike of FY2020–21 in FY2022–23.

1.6.4 Prudent Exchange Rate Management: Call of the Day

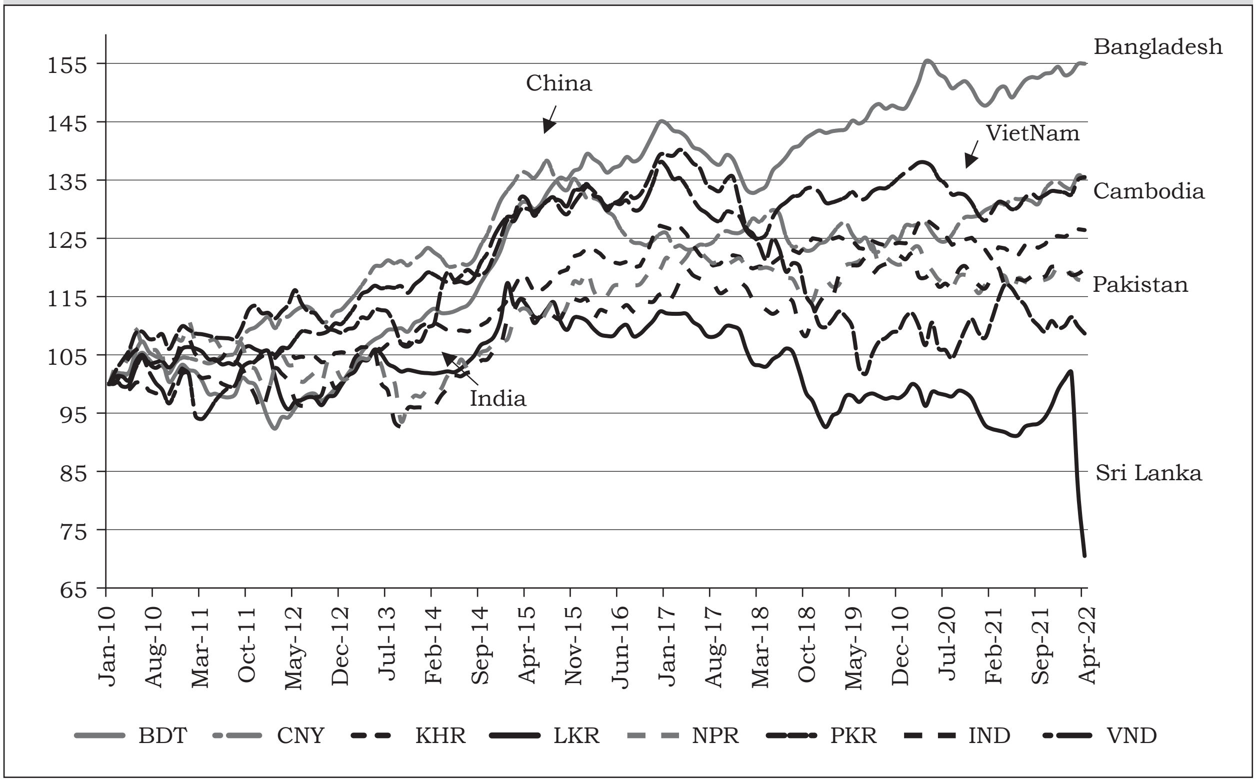
The real effective exchange rate (REER) of Bangladeshi Taka (BDT) was consistently higher regarding Bangladesh's competitors (with 2010 as base year). This is clearly visible in Figure 1.30.

The gap between REER and the nominal effective exchange rate (NEER) of Bangladesh has been widening over the years as evidenced from Figure 1.31. This called for a readjustment through depreciation of BDT. Indeed, in the recent past, CPD has been arguing for gradual depreciation of the BDT against major currencies.

Bangladesh's managed float was no more tenable for a number of reasons: While Bangladesh Bank had depreciated the taka eight times this year, it proved to be too little too late. The declining reserves situation did not allow Bangladesh Bank to go for unlimited dollar injection (it had already done so to the extent of USD 6.2 billion in FY2021–22). CPD had argued in successive IRBD reports that Bangladesh's exports were becoming less competitive than those of its major competitors; remittance flows were also being disincentivised because of this. CPD, as was mentioned earlier, was arguing for depreciation of BDT also in view of the growing gap between REER and NEER and non-alignment of nominal exchange rate with this. Figure 1.32 brings out the issue in a telling manner.

Figure 1.30

REER of Selected Developing Countries

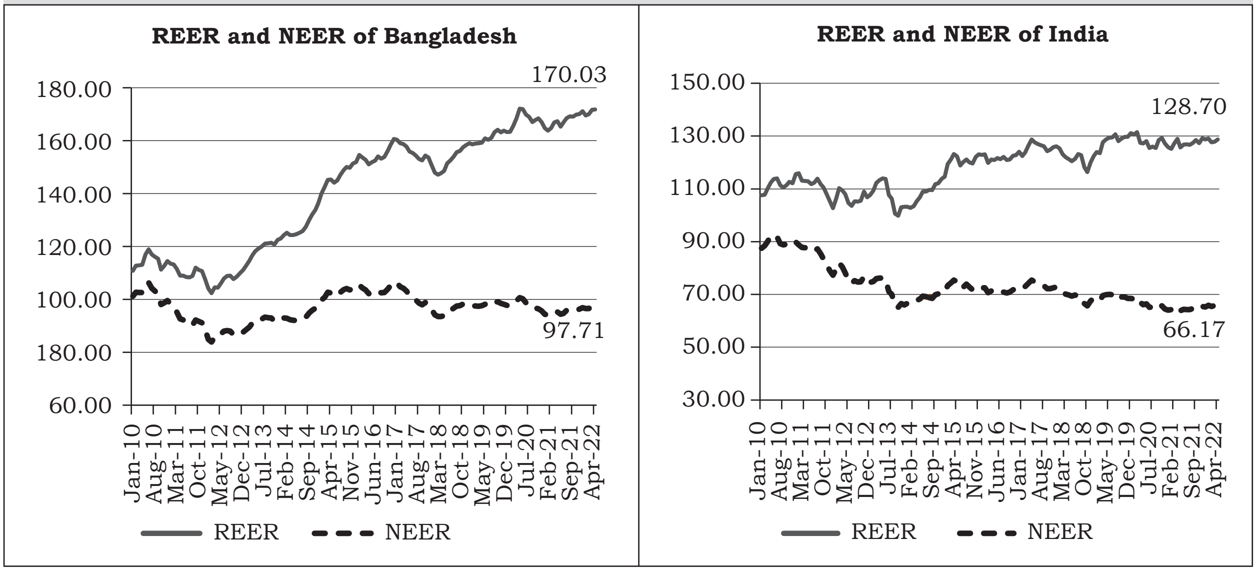


Source: Authors' illustration based on the data from Brugel.

Note: CNY = Chinese Yuan; KHR = Cambodian Riel; LKR = Sri Lankan Rupee.

Figure 1.31

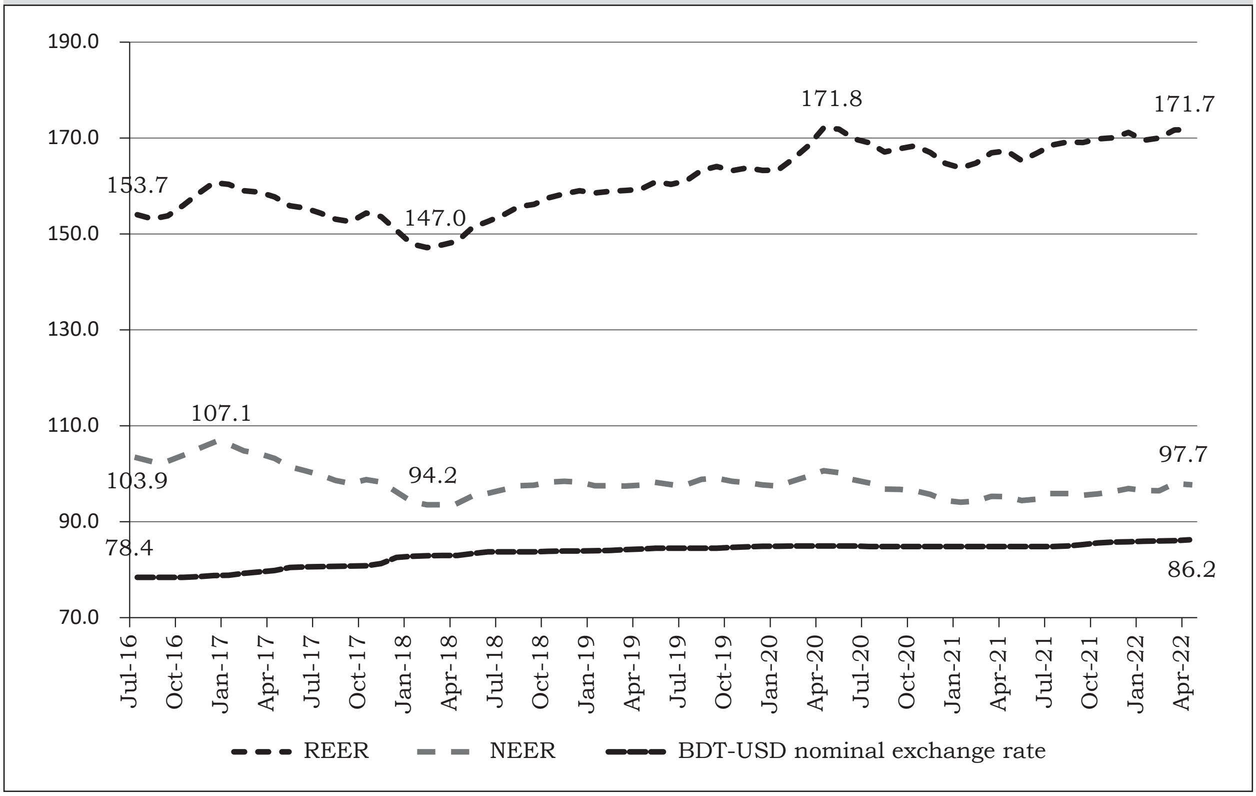
REER and NEER of Bangladesh and India



Source: Authors' illustration based on the data from Brugel.

Figure 1.32

REER, NEER and USD-BDT Exchange Rate Trends



Source: Authors' illustration based on the data from Bruegel and Bangladesh Bank.

While the gap between REER and NEER was rising, the USD-BDT 'Managed Float' exchange rate did not go for necessary correction. Taka became appreciated as a consequence. Thus, the recent market correction, induced by the current BOP position and free float, should not have come as a surprise.

To recall, CPD's Policy Suggestions three years back (CPD's Policy Suggestions: IRBD 2019) included the followings:

- A gradual depreciation of the BDT should be pursued with the help of the central bank's sterilisation interventions
- A sharp depreciation may have adverse implications for import payments, consumer prices and foreign debt servicing.
- Depreciation of BDT will also help incentivising export and remittances; hence, cash incentives will not be required.
- In the short term, the expected deficit in the current account may be brought down by containing imports.
- The government may also consider raising import duties on selected luxury items and consumer goods.
- Bangladesh Bank can selectively impose higher letter of credit (LC) margin to discourage imports.

However, while Bangladesh started to actively pursue a policy of depreciation, after exhausting its tool of dollar injection, it proved to be too late. This in the end called for the surgical operation of moving from managed float to a free float.

This move, under the circumstances, is a step in the right direction. There is going to be market correction in the USD-BDT exchange rate. This is evident from the behaviour of the exchange market over the recent past weeks. However, as in 2012 there is a possibility of (reverse) correction once the foreign exchange market settles down and readjusts. No doubt, in the short run, free float was likely to lead to deepening of imported inflation. However, it is to be noted that Bangladesh was not being able to enforce its 'managed float' anyway in case of L/C openings and settlements and in the context of the inter-Bank dollar market (as also for export settlements and remittance flows). So 'imported inflation' was a reality anyway and it was not possible to address the issue through the 'managed float'. In view of the adverse implications of imported inflation for consumer prices and purchasing power of fixed income earners, and to contain import demand, the GoB and Bangladesh Bank have taken a number of steps—discouraging import of luxury items through higher L/C margin and imposition of high duties on selected items, on the one hand, and tariff rate adjustments (reduction of VAT and duties on essential commodities) on the other. There is a need to coordinate Monetary Policy and Fiscal Policy, particularly in view of the FY2022-23 budget. To address the adverse impacts of imported inflation, in the context of Budget FY2022-23 the Government should go for (i) import duty adjustment, (ii) improvement of market management (from import stage to retail, consumer and producer levels), (iii) wider and greater use of strategic food stocks and OMS, and (iv) strengthening social safety net programmes, particularly programmes for food distribution and cash transfer, through enhancement of entitlements and broadening of the net.

1.7 CONCLUDING REMARKS

In view of the emergent challenges caused due to both external and domestic factors, it is no doubt that Bangladesh's economy is under immense pressure. Various international organisations have predicted slower growth globally. It is a concern for Bangladesh's general macroeconomic situation as these challenges are expected to persist for some time. Hence, proactive immediate and medium-term measures are required by the policymakers. However, the quality, reliability and consistency of data on economic indicators will be the pre-condition for effective policymaking.

During this unprecedented economic crisis, policies should protect the purchasing power of the poor and low-income groups. Policymakers need to look beyond solely achieving economic growth and pay attention to the quality of growth so that benefits of the achieved growth are distributed in a just manner. The limits of economic growth should be distributed equally across all people. Unfortunately, before the poor and disadvantaged people could recover from the economic loss due to the pandemic, they faced yet again another crisis in the form of high cost of living.

In light of the unprecedented nature of the crisis, a number of recommendations have been set forth in this chapter of the volume. As highlighted previously, CPD has proposed various measures to ease the burden of rising prices and dwindling purchasing power of low- and fixed-income groups. This includes increasing the minimum wages in all industries by the Minimum Wage Board so that workers who earn minimum wages may at least afford basic needs. Moreover, it is recommended to increase the volume of essential commodities sold through the OMS. In order to ensure that only eligible people have access to these items at affordable rates, distribution of these commodities must be effectively managed without corruption and wastage.

Furthermore, it is suggested to selectively reduce taxes at import and domestic stages. Strategic sectors such as the energy and agriculture sectors will have to be supported through subsidies for ensuring economic growth and food security. These measures should be combined with higher efforts for domestic resource mobilisation such as increasing tax-GDP ratio and reducing unnecessary expenditures.

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Chapter 2

State of the Bangladesh Economy in FY2021–22 *(Second Reading)*

CPD's Recommendations for the National Budget FY2022–23

2.1 INTRODUCTION

The national budget for FY2022–23 is going to be presented at the National Parliament against the backdrop of a number of unprecedented challenges facing Bangladesh's macroeconomic management. The country is still in the phase of recovery from the COVID-induced adverse implications facing the economy over the past two years. The prices of essential items have been on the rise, both because of imported inflation and various domestic factors. All components of the external balances—trade, current account and overall—have been experiencing significant pressure, with rising foreign borrowings and anticipated growing pressure on future debt servicing liabilities. The government also needs to take cognisance of its election pledges, which has been demonstrated in recent times by way of policy statements as regards introduction of universal pension scheme (UPS), formulation of draft anti-discrimination law, introduction of child budget and implementation of the national social security strategy adopted earlier. The budget will also need to take cognisance of the ramifications of Bangladesh's dual graduation—graduation from the least developed country (LDC) cateory with the need to make transition to skills and productivity-based competitiveness, and the middle-income graduation with the transition to more stringent, non-grant, non-concessional terms of borrowings. The budget will also need to be aligned with the aspirations expressed in the government's Vision 2041 with the ambition of meeting the Sustainable Development Goal (SDG) targets by 2030 and graduating to an upper middle-income country by 2031 and a high-income country by 2041.

Taking cognisance of the aforesaid immediate-, short- and medium-term challenges confronting macroeconomic management, the FY2022–23 budget recommondations by the Centre for Policy Dialogue (CPD) focus on three areas: (a) fiscal framework issues which deal with the stance FY2022–23 budget should take in view of the emerging challenges; (b) sectoral and issue-specific budgetary proposals to deal with rising prices and bloating subsidy bill; and (c) medium-term issues of sustainable COVID recovery, enhanced social welfare and sustainable dual transition.

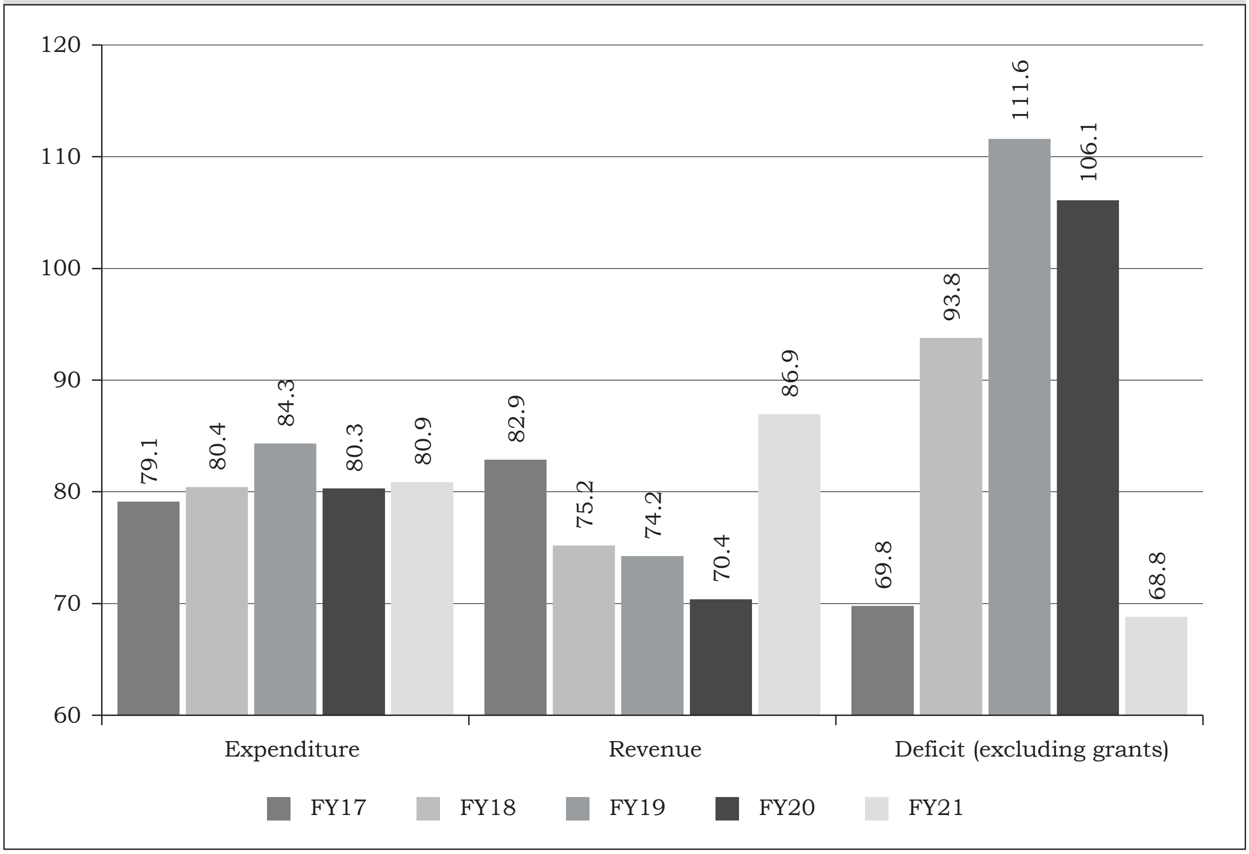
2.2 CREDIBLE FISCAL FRAMEWORK

The FY2022–23 budget comes at a time when the overall macroeconomic stability in Bangladesh is under considerable pressure due to the high prices of essentials, deteriorating current account balance due to higher growth of import payments and negative growth of remittance inflow, and a depreciating Bangladeshi taka. Higher commodity prices in the global market and the Russia–Ukraine conflict have added to this pressure. Hence, the budget for FY2022–23 must break free from its formulaic mould and should be adjusted accordingly to tackle the pressure emanating from both domestic and external fronts. Indeed, the fiscal framework for the next national budget must be accompanied by clearly-stated projections of the government related to future trends in the international prices.

Over the last decade, the budgetary target setting in Bangladesh has emerged primarily as a numbers game—with each year's targets surpassing the previous year's—notwithstanding the extent of actual attainment. As can be seen from Figure 2.1, targets for public expenditure have remained consistently unmet and generally hovered around the 80-85 per cent mark as a share of the total allocation. While revenue mobilisation recorded a sudden improvement in FY2020–21, it is largely owing to the withdrawal of funds from state-owned enterprises (SoEs), which had accumulated surplus of

Figure 2.1

Implementation Rate of Budgetary Targets *(in per cent)*



Source: Calculated from the Ministry of Finance (MoF) data (various years).

varying amounts—a feat unlikely to be repeated.[1] Due to COVID-19, the budget deficit in FY2019–20 exceeded the programmatic target, in the context of insubstantial growth in revenue earnings. In FY2020–21, the deficit was significantly below the target, as the business-as-usual (BAU) scenario resumed, with the expenditure shortfall surpassing the revenue shortfall. The latest available data from MoF shows that the government has a budget surplus to the tune of Tk 1,130 crore during the first six months of FY2021–22 (excluding grants). This is not desirable at a time when the economy is just about to turn around from the shocks induced by the COVID-19 pandemic, and there is a need for ensuring implementation of expenditure targets.

In case of budget implementation, the significant difference between programmatic targets and actual attainments can be attributed to: a) unrealistic target setting at the time of budget formulation, b) lack of institutional capacity, and c) external factors (e.g., COVID-19) beyond the control of implementing

[1]The 5G spectrum auction on 31 March 2022 fetched nearly Tk 10,600 crore which will provide some boost in the revenue mobilisation for FY2021–22. Also, the higher import payments owing to rising prices at the global level entail enhanced revenue mobilisation.

agencies. Taking these factors as well as the trade-off between inflation and growth[2] into cognisance, the national budget for FY2022–23 should be formulated in a way that will be able to meet the needs of the time.

In view of the above discussion, the following policy measures are recommended for the budget 2022–23.

- Instead of setting lofty targets that has a high risk of missing the annual marks by the end of the fiscal year by a large margin, fiscal targets should be set in a realistic manner that takes into account current macroeconomic trends. This is true for all components (and sub-components) of the fiscal framework, including revenue mobilisation, public expenditure, budget deficit and financing of the deficit.
- In the FY2021–22 budget, the personal income tax (PIT) structure has generally remained unchanged from the one introduced in the FY2020–21 budget. CPD had argued that reducing the highest tax rate (from 30 per cent to 25 per cent) was against the cause of promoting tax justice. The highest tax rate should be reinstated at 30 per cent for top earners in the FY2022–23 budget.
- In the FY2021–22 budget, corporate income tax (CIT) has been decreased for publicly traded companies (22.5 per cent from 25 per cent), non-publicly traded companies (30 per cent from 32.5 per cent), one-person companies (25 per cent from 32.5 per cent), association of persons (30 per cent from 32.5 per cent). However, to ensure uniformity, the tax rate for one-person companies should be set at 30 per cent, in line with the non-publicly traded companies' rates.
- In view of the emerging challenges of LDC graduation, a thorough reexamination of the export incentive structure should be undertaken in line with the need to make a transition to skills and productivity-based competitiveness.
- There should be a medium-term plan and timeline as regards phasing out of the various tax exemptions provided in view of the pandemic. Particularly the large industries should be brought under a planned phasing out process.
- For the forthcoming FY2022–23 budget, a feasible completion timeline for reforms that are currently in the works (e.g., the Customs Act and the Direct Tax Act) should be chalked out so that the implementation process can begin at the soonest and in earnest.
- In order to increase the number of actual taxpayers, the National Board of Revenue (NBR), using their e-TIN (tax identification number) database, should identify and pursue individuals and business entities who are registered in the system but do not submit tax returns and who are registered and submit returns but do not effectively pay taxes. A mechanism should be set up to contact the relevant entities via phone calls, SMS or emails to follow up on their return submissions or tax payments.
- NBR should launch a comprehensive online payment system for value added tax (VAT), income tax and customs together with an interface with iBAS++ and ensure harmonisation and taxpayer data sharing across various wings of the NBR as has been envisaged in the PFM Action Plan 2018–23 at the earliest.
- Tax evasion should be curbed by all means to generate resources for the priority sectors. To this end, the NBR should promote electronic-based measures, including e-TDS (tax deducted at

[2]A fiscal contraction, through running a budget surplus, can help control inflation by lowering aggregate demand. However, it is quite likely to stifle growth and undermine the recovery of jobs. A budget deficit can increase growth by boosting aggregate demand while also putting upward pressure on inflation. Overheating the economy can have ultimately a negative effect, intensifying stagflation (i.e., a period of high inflation with low or negative economic growth) and increasing average unemployment over time.

source), e-filing and cross-checking transaction data from multiple sources. Closer interaction with the Anti-Corruption Commission (ACC) should be ensured.

- Steps should be taken for speedy disposal of tax-related cases, pending with tax tribunals and with the courts.
- The existing provisions (e.g., clauses related to special tax treatment for investments in building/apartment, Bangladesh Infrastructure Finance Fund (BIFFL) bond and economic zone or hi-tech parks) for legalising undisclosed income discourages honest taxpayers while the tax evaders are encouraged. Such provision should not be continued from the next fiscal year. To tackle the problem of undisclosed income, a Benami Property Bill may be introduced, as was suggested earlier by the CPD.
- Available evidence from international sources suggests that the major part of the illicit financial flows (IFF) was on account of trade-related mis-invoicing. 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 (TBML). To carry out its responsibilities in an effective manner, TPC should be adequately endowed with the required financial, technical and human resource, and forensic investigation capacities in the upcoming budget.
- CPD reiterates its earlier proposals urging the NBR to initiate wealth and property tax in Bangladesh. Also, an inheritance tax, informed by global best practices, may be introduced. Besides mobilising additional revenue, such initiatives could also provide an opportunity to build a more equitable society, particularly in view of the proposed anti-equity law placed before the parliament.
- In view of Bangladesh's LDC graduation in 2026, the NBR needs to urgently conceptualise and implement a medium-term strategy for increasing revenue collection from alternative sources that will be able to substitute for the potential decline in revenue from import tariffs in the post-LDC graduation period.
- The government should lay out the plans for finalisation and enforcement of the reforms in the areas of revenue mobilisation, including direct tax, customs, and VAT. The 'PFM Action Plan 2018-2023 to implement the PFM Reform Strategy 2016-2021' and National Strategy for Preventing Money Laundering and Combating Financing of Terrorism should be updated in view of the latest implementation progress.
- Priority for public expenditure should be set clearly. COVID-19 recovery and rising prices of essentials should guide the design of the fiscal framework. To this end, food production, social safety net programmes (including the public works programmes), subsidies for agriculture, energy and power sector, and health and education sectors should receive adequate attention.
- More budgetary allocations should be earmarked for rising demands for subsidies and social safety net programmes. The subsidies can act as a buffer to temporarily halt the pass-through of rising global prices to the domestic economy.
- Earlier government measures to cut down 'unnecessary and luxury' public expenditure (e.g., government vehicle purchase, foreign trips) should be reinstated.
- In view of containing the budget deficit, the annual development programme (ADP) for FY2022–23 should be carefully formulated. Whilst finance for the ongoing projects should be made available in the ADP, caution should be exercised in considering new projects for inclusion in the ADP of FY2022–23.
- Responsible government agencies should focus on public infrastructure projects that are closer to completion.
- More emphasis should be laid on the utilisation of foreign aid. This will help in managing the budget deficit as well as the balance of payment (BOP).

- The government should set up an independent committee to evaluate the increasing financial requirements for the public infrastructure projects. Good governance for these projects must be ensured. To this end, the government should make all development project proformas (DPPs) publicly available for independent scrutiny. To this end, the government should also consider conducting a comprehensive public expenditure review at the earliest.
- The government will also need to formulate a medium-term debt management strategy in view of the changed composition of loans availed by the government. Considering the changing scenario of the foreign loan regime in view of Bangladesh's development needs, available resources for the country, payment frequency, and the implication of the dual graduation need to be considered.

2.3 ADDRESSING THE RISES IN THE PRICES OF ESSENTIALS

As the low-income and vulnerable population groups in Bangladesh were struggling to recover from the adverse impacts of the COVID-19 pandemic, the unabated rise in the prices of essentials has put them into further misery. Over the last two years, a large number of low-income people have been dealing with COVID-induced shocks in the form of loss of income and employment opportunities, decreased expenditure on food and other essentials, additional loan burden, dissavings, and distress selling of assets (Rahman et al., 2021; Bhattacharya et al., 2021; BIGD and PPRC, 2021). Although the official data on inflation paint somewhat of a tolerable picture[3], as has been pointed out by several research findings and media reports, this does not reflect the ground realities.[4] Indeed, people belonging to the fixed income earning groups are grappling to maintain their living standards. It will not be far-fetched to say that the official information on inflation does not capture the actual structure of spending of general consumers, rather tends to undermine the sufferings of the lower- and middle-income groups.

A number of reasons can be attributed to the skyrocketing prices of essentials. At the global level, commodity prices have been creeping up[5] owing to, inter alia, supply-demand mismatch; supply chain interruptions such as shortage of shipping containers and vessels; changes in consumer preferences; and higher energy prices (ECB, 2021). In addition, the recent conflicting situation involving Russia and Ukraine has exacerbated the situation. In the case of Bangladesh, the hike in domestic diesel and kerosene prices and increased money supply through the stimulus packages can be connected to the escalating price level, besides the rising global prices (ADB, 2022). Curiously, the extent of the price hike in Bangladesh was often greater compared to the global market (CPD, 2022). A number of media outlets have reported several reasons behind this phenomenon, including the lack of competition at the import stage and syndication, intentional stockpiling of commodities, deliberate scaling down of supply, increased number of intermediaries in the value chain from producers to consumers and importers to retailers, illegal toll collection on the highways during the transportation, and weak monitoring by the administration (Suman, 2022; Kashem and Ali, 2022; The Daily Inqilab, 2022 and USDA, 2022).

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[3]As per Bangladesh Bureau of Statistics (BBS) data, nationally, overall inflation was 5.7 per cent in February 2022 (on a 12-month moving average basis) while food and non-food inflation stood at 5.4 per cent and 6.1 per cent respectively.

[4]In fact, the data on prices of daily necessities provided by the Trading Corporation of Bangladesh (TCB), a government agency itself, exhibit much higher level of inflation when compared to the BBS data.

[5]IMF's commodity price index rose from 137.4 in January 2021 to 191.0 in January 2022 (For details: https://www.imf.org/-/media/Files/Research/CommodityPrices/Monthly/Table1aMARCH.ashx). FAO's (The Food and Agriculture Organization of the United Nations) food price index rose to a record high of 159.3 in March 2022 – indicating a whopping 33.6 per cent growth over the index value of 119.2 prevailing in March 2021 (for details: https://www.fao.org/worldfoodsituation/foodpricesindex/en/). FAO also forecast a reduction (2.0 per cent) of global trade in cereals in 2021-22 owing to the Ukraine-Russia conflict.

The current situation has become onerous even for the middle-income segment of the population. As the high level of prices is expected to continue for the remainder of FY2021–22 and at least throughout the early months of FY2022–23 (ADB, 2022), curbing the prices of essentials should be the most urgent and critically important macroeconomic policy objective in Bangladesh.

To this end, the following suggestions are put forward for the upcoming budget of FY2022–23:

- Government should carefully examine the duty and tax structures of the essential commodities, both at import and domestic levels, and make downward adjustments with a view to providing some respite to low and limited income-earning consumers. The increased price level of most of the other commodities should be able to compensate for the potential revenue loss to this end.
- Tax-free income threshold for personal income should be raised to Tk 3.50 lakh in view of the added pressure of the rising food inflation and income erosion induced by the pandemic. The next slab for PIT, which is 5 per cent for an additional Tk 1 lakh, should be increased to Tk 3 lakh to provide a cushion for the middle-income earners.
- Government should extend the scope of direct cash/kind assistance programmes for low-income population groups.
- Volume of essential commodities sold through the open market sales (OMS) should be increased. Government should set higher targets for foodgrains procurement and food distribution programmes. To this end, adequate resources should be allocated in the FY2022–23 budget. Furthermore, the distribution of these commodities must be managed efficiently and without corruption so that only the eligible can obtain the essential items at lower prices.
- Competition Commission's role should be strengthened. Skilled professionals as required should be hired to this end, particularly with a view to monitoring markets for essential commodities on a regular basis. The Commission should create a database, monitor the operations of prominent market players on a regular basis, investigate market control and manipulation (if any), and take appropriate actions. An adequate budget should be earmarked for the Commission to perform these duties. To this end, the Ministry of Commerce should also work in tandem with the Commission.
- Government should provide additional support for subsidised credit programmes for the agriculture sector (both crop and non-crop) to incentivise production during the next fiscal year.
- Government should continue providing stimulus to the small and medium enterprises to help them survive the difficult times.

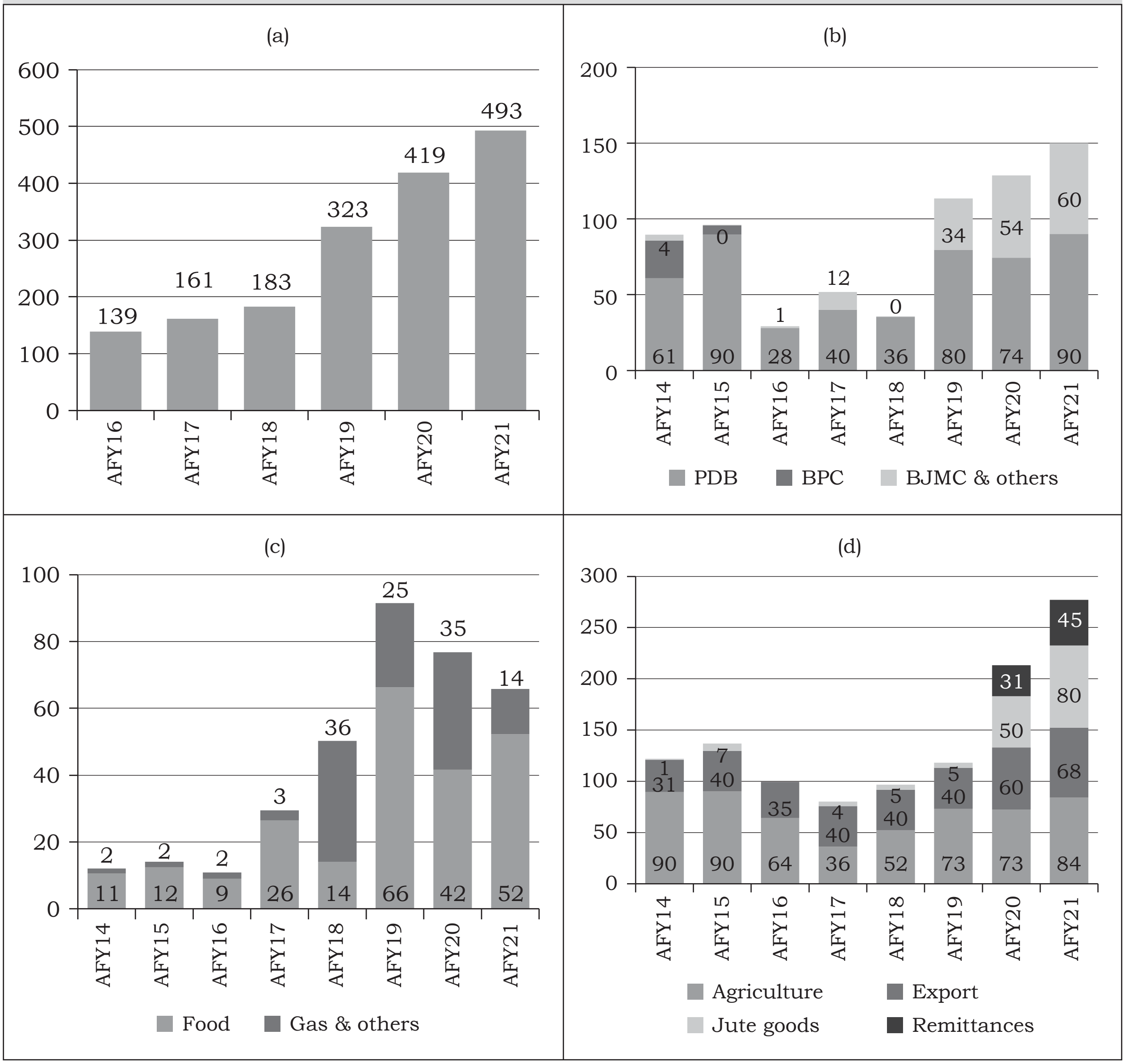
2.4 SUBSIDY ISSUES

Subsidy management has emerged as a challenging area from the perspective of the broader fiscal management as Bangladesh embarks on the post-COVID recovery phase. Subsidy, as is known, is provided in many forms: cash loan support and fiscal incentives to different sectors including agriculture, export, jute goods, power and energy. Over the years, the total subsidy budget has been on the rise, from Tk 13,924 crore in FY2015–16 to Tk 49,330 crore in FY2020–21—an increase of 50.8 per cent per year (Figure 2.2 a, b, c and d). The highest amount is spent on fiscal incentives served to different sectors (56.2 per cent in FY2020–21), followed by cash loans for Bangladesh Power Development Board (BPDB), Bangladesh Petroleum Corporation (BPC) and Bangladesh Jute Mills Corporation (BJMC) (30.4 per cent) and subsidies for food and gas and others (13.3 per cent in FY2020–21).

The allocated amount of subsidy in RFY2020–21 was 1.64 per cent of the gross domestic product (GDP), while the total actual expenditures on the same were 1.27 per cent and 1.53 per cent of GDP in FY2017–18 and FY2018–19, respectively. The increase in the total subsidy expenses is attributable

Figure 2.2

Overview of Cash Loan, Subsidy and Fiscal Incentive *(in billion Tk)*



Source: Ministry of Finance.
Note: (a) Total, (b) Cash Loan, (c) Subsidy, (d) Fiscal Incentives.

to an increase in fiscal incentives (from 0.46 per cent in AFY2018–19 to 0.92 per cent of GDP in RFY2020–21) due to a significant increase in incentives for the jute goods and the recent introduction of cash incentives on inward remittance flows. Likewise, food subsidy expenses have increased significantly (by more than four times) since FY2018–19. On the other hand, the major part of cash loan support (75 per cent of the total cash loan since FY2013–14) has been allocated to the BPDB, a government agency. However, against the backdrop of the highly significant liabilities in the power and energy sector (Tk 43,214 crore in FY2021–22)—mainly due to the rise in petroleum and liquefied natural gas (LNG) prices— the allocation for cash loan support to this sector could experience a steep increase in the coming days.

Various studies have questioned the extent to which various subsidies have actually been effective in terms of actual contributions, particularly in addressing the prevailing market failure and improving equity in targeted sectors and economic activities (Steenblik, 2008). The proposed budget for FY2022–23 should highlight the rationalisation of subsidy and subsidy management from medium- to long-term perspectives.

Following recommendations may be considered as regards subsidy allocation in the FY2022–23:

- **Prioritise payment of higher subsidy for fertiliser:** Allocation of subsidy for the agriculture sector needs to be increased, particularly for accommodating the higher import price of fertiliser. International fertiliser price has experienced a record rise in recent months due to COVID-19 restriction, temporary banning of fertiliser export by China (to meet its domestic demand), banning of fertiliser export by Russia (due to the ongoing Russia-Ukraine war) and higher raw material costs, mainly of gas (Lopez, 2022; World Bank, 2021a). An additional subsidy amount of Tk 18,500 crore would be needed to be allocated in FY2022–23 budget in view of price rise if the subsided fertiliser price for the farmers is to be kept at the present level. It is to be noted that various forecasts indicate that the international price of fertiliser is likely to remain higher at least till the end of 2023, which implies that this higher subsidy against the higher price may need to be continued in subsequent years as well. Budget for FY2022–23 should be informed by the current and anticipated fertiliser price in the global market.
- **Strengthen market monitoring to ensure access to inputs at subsidised price:** It was reported that farmers had to buy fertiliser at a higher than the stipulated subsidised rate; same was seen for other subsidised agro-inputs (Prothom Alo, 2021). Weak market monitoring, particularly at retailers' and distributors' ends, is perhaps the reason for this situation. Ministry of Agriculture should be asked to strengthen monitoring of the supply channel, from dealers and distributors to farmers, to ensure efficient distribution of fertiliser and other inputs.
- **Maintain the current level of subsidy on inward remittances:** The recent 0.5 per cent increase (in January 2022) in direct incentives on remittance flows in addition to earlier 2 per cent (in total 2.5 per cent) has contributed positively in the form of remittance flows to Bangladesh. This has benefitted remittance-receiving households through increased purchasing capacity amid high inflationary pressure. Given the rising fiscal expenditure owing to the rise in cash incentives, the government should prioritise curbing the migration cost and lowering the remittance sending cost from selected countries. At present, there is a significant gap between the rate for remittance kerb market rate. CPD had earlier advocated for gradual depreciation of Taka. However, in view of the current high commodity price, exchange rate stability should be prioritised and other measures to encourage transfer of remittance through formal channels should be emphasised.
- **Allocate more resources for food subsidy:** Given the significantly high level of agricultural commodity prices in the world market and high domestic inflationary pressure, subsidised food distribution among the targeted group of people needs to be increased in the next fiscal year. Hence, the allocations for food subsidy, through direct in-kind support and price support, need to be increased.
- **Restructure subsidy in view of LDC graduation:** LDC graduation will mean that certain forms of industrial and export subsidies will be incompatible with the World Trade Organization (WTO). Accordingly, for example, the direct export subsidy allocation, such as cash incentives to major export-oriented sectors, will need to be gradually reduced. Bangladesh should consider innovative incentive schemes similar to the ones in India, China, and Vietnam to support the export industry. For example, India provides incentives for manufacturing investment and Vietnam and China for skill and technology upgradation (The Business Standard, 2022). At the same time, the

government should design a mid-term strategy to decide to what extent such subsidies will be fiscally sustainable. Instead of subsidising in the form of cash incentives and tax concessions, the government should consider providing in-kind benefits (such as active labour market programmes, social safety net programmes, health insurance and support for ease of doing business).

- **Undertake comprehensive reforms of the SoEs:** A large part of state-owned enterprise (SoEs) has been a continuous drag on the economy for the past years. Only in FY2018–19, the net loss of four SoEs, Bangladesh Chemical Industries Corporation (BCIC), Bangladesh Textile Mills Corporation (BTMC), Bangladesh Sugar and Food Industries Corporation (BSFIC), and BJMC, reached Tk 2,416 crore. Government should undertake a comprehensive review of SoEs, consider liquidation of losing SoEs and handing over of SoEs assets to the special economic zones (SEZs) and export processing zones (EPZs) for the development of special economic zones for SMEs and other industries.
- **Re-negotiate contractual arrangements for paying capacity payment to independent power producers:** Excessive electricity capacity payment is causing a huge expenditure burden on the government agency, the BPDB. Consequently, BPDB has been saddled with significant losses (Tk 4,352 in FY2019–20; Tk 8,664 crore in FY2020–21). In order to reduce the subsidy pressure in the power sector, government should instruct the Ministry of Power Energy and Mineral Resources (MoPEMR) to re-negotiate the contracts as regards capacity payment negotiated earlier with the independent power producers. The GoB should instruct the MoPEMR not to sign any new contracts or renew contract in the power sector with provisions for capacity payment.
- **Gradually phase out fossil-fuel based energy:** According to recent media reports, BPDB and BPC have been incurring a loss of Tk 24 crore and Tk 63 crore per day, respectively, in the wake of increased global energy prices (Hasan, 2022). The power and energy sectors will need to be provided significant subsidies in FY2022–23 as short-term measure so that the loss incurred is not passed on to consumers and producers. Government may consider withdrawing VAT and other duties at the import stage to lessen the import price of petroleum and LNG. Government could think of borrowing short term-loans from multilateral agencies (Islamic Development Bank or IDB, World Bank, and others) or bilateral sources (KSA, Qatar) to pay the import bill for energy (i.e., petroleum). In the medium to long term, the government should put focus on exploring natural gas by exploring off-shore and on-shore potential sources. Adequate resources should be allocated in FY2022–23 budget towards this. The budget should have provisions for subsidising and incentivising investment in renewable energy-based power generation.

2.5 BUDGET FOR COVID-19 RECOVERY

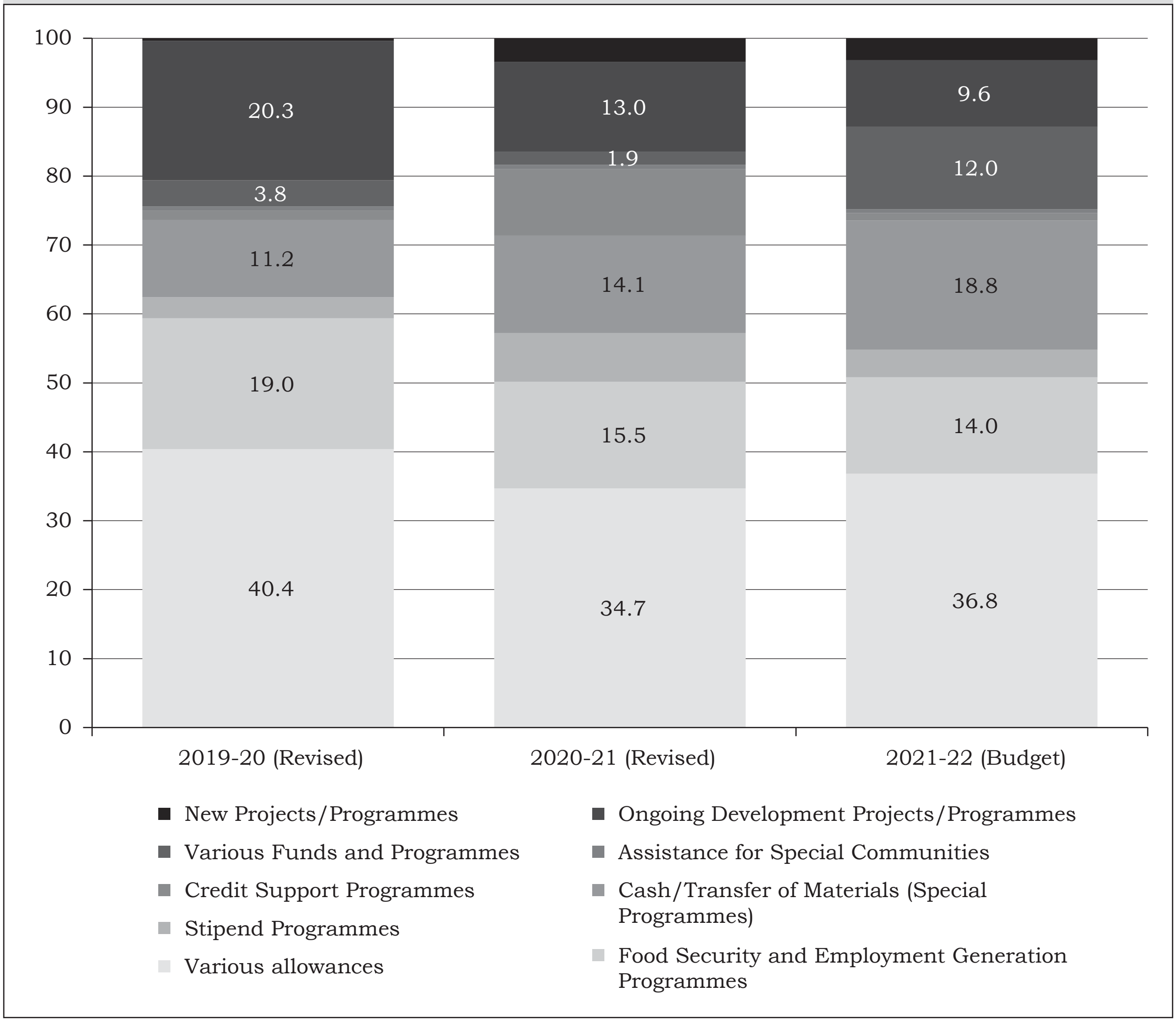
a) Social Safety Net Programme

Social protection related activities have been undertaken in Bangladesh under various social safety net programmes following the 'life cycle approach' advocates in the National Social Safety Strategy. Three key areas covered under social safety net programmes are—(a) child and family social protection schemes; (b) social protection for women and men of working age; and (c) social protection for older women and men—pensions and non-health benefits. It is reckoned that the current structure and composition of the social safety net programmes are not adequate in view of government's policies and pledges in light of the current and future needs of the country. First, Bangladesh is in the process of graduating from the LDC group by 2026. Its social safety net programmes do not align with post-LDC developing countries (World Bank, 2006). Second, Bangladesh aspires to become an upper-middle-income country (threshold income level of USD 4,096) by 2031 and a high-income country (USD 12,535) by 2041. In view of these, its current programme needs significant restructuring and upgradation to match those of upper-middle/high-income countries. Third, the rising number of ageing populations will gain momentum over the coming years which will necessitate refocusing of social protection on the needs of the old age population. Fourth, in view of ensuring the health and income security of workers, the issue of social insurance related programmes is what to which highest priority should be given. Against this backdrop, the government's announcement of the introduction of a UPS from the next fiscal would be a positive development.

At present, social safety net related activities cover a total of 143 different programmes under nine categories (Figure 2.3). During FY2021–22, the total allocation for social safety net programmes was Tk 10,7614 crore which was 17.8 per cent of total budget and 3.1 per cent of GDP. The allocation has been increasing over the years. Major share of social safety net programmes is allocated for various allowances (36.8 per cent in FY2021–22) followed by cash transfers (18.8 per cent) and food security

Figure 2.3

Allocation Pattern of Social Safety Net Programmes and Social Empowerment



Source: Author's representation based on the MoF data from 2017-2022.

and employment creation (14.0 per cent). However, share of allocation for various categories has experienced changes over the years—it has reduced for various allowances, and for food security, credit support programmes while share has increased in case of cash transfers, various funds/ programmes. It is to be noted that pension to government employees accounts for 67.3 per cent of total allowances and 24.9 per cent of total social safety net programmes. If the pension of public sector workers is excluded, relevant shares will come down significantly (Table 2.1).

Table 2.1

Share of Pension in Various Allowances

Particulars	Beneficiaries (Persons in lac)			Budget (Taka in crore)		
	BFY21	RFY21	BFY22	BFY21	RFY21	BFY22
Various allowances	107.3	107.2	122.8	33739.3	33191.2	39637.3
Pension for Retired Government Employees and their Families	6.3	6.3	7.5	23000	23000	26690
Per cent of pension of various alliances	5.9	5.9	6.1	68.2	69.3	67.3

Source: MoF, (2022).

Despite a large number of social safety net programmes, with significant coverage, these are yet to cover the total eligible population in all areas. As International Labour Organization (ILO) report (ILO, 2021) mentions, the highest proportion of population is covered under old age support (39 per cent of total old age people) followed by children (29.4 per cent), mothers with newborn (20.9 per cent) and persons with disabilities (18.3 per cent). The National Social Security Strategy (NSSS) has proposed inclusion of new social safety net programmes and reforms in existing programmes in support of children. The Blooming Children Report of the Government of Bangladesh (GoB) (MoF, 2018) had earlier proposed to increase the budget for children to 20 per cent of the total development budget. However, the allocation currently stands at 15 per cent (MoF, 2020). Workers are not included in the social safety net programmes and only a small share of workers with injury are covered under relevant programmes (12.5 per cent). Workers are the least protected under the country's social protection system. As a matter of fact, workers tend to be least protected globally (18.6 per cent) compared to other categories of people eligible for different social protection schemes.

NSSS 2015 made a number of pledges with regard to the social safety net for different categories of people. The pledges include strengthening the social security system for the urban poor, strengthening programme for working people (15–59), operational strengthening of education and training, strengthening job creation programs, introducing unemployment, accident, sickness and maternity insurance under the national social insurance scheme, etc. As per the NSSS, the government has planned to provide an allowance of Tk 3,000 per month to the elderly above 90 years which is yet to be implemented. The Ministry of Social Welfare was assigned to prepare a list of the beneficiaries which, also, has not yet been prepared.

The Ministry of Social Welfare provides allowances to 8.85 million disadvantaged people under the social security programme. The actual number of disadvantaged people is much higher than this (as per NSSS 2015, 3.57 crore of the poorest and most vulnerable people were targeted to be covered under social safety net programmes), and the money given to them is significantly lower than the actual needs. It goes without saying that the amount of monthly allowance (Tk 500) for the elderly, and marginalised women are rather low considering the requirements. A total of 2.5 million women and 5.7 million elderly people are covered under this safety net programme in the rural areas in 162 upazillas out of 495 upazillas in Bangladesh where 33 per cent upazilla are covered under this programme.

Compared to other cohorts, the social security coverage of the workers is very low. Only 12.5 per cent of the injured workers actually benefit from this allowance. There are a total of 68.2 million workers who should be included in the UPS. Working pregnant women, sick workers, injured workers, and unemployed workers should also be gradually brought within the coverage of social safety net programmes to help them tide over periods of deprivations and sickness.

Recommendations

The National Budget for FY2022–23 may take following recommendations into consideration social safety net programmes.

- **Bring the social safety net programmes under a single window:** Government should bring the 143 social safety net programmes under a single, consolidated and integrated umbrella in order to move from social safety network to social security. These programmes can be categorised under three areas—(a) child and family social protection schemes; (b) social protection for women and men of working age; and (c) social protection for older women and men: pensions and non-health benefits.
- **Raise the amount of allowance:** Given the high-level food price inflation and rise in the living cost, the government should increase the amount of allowance, particularly for the elderly, widows and marginalised women. According to the newspaper report, the government is going to increase the allowances by Tk 100 and the coverage by 11.5 lakh. It is proposed that the government should raise the allocation to Tk 1,000 and coverage by 20 lakh people. This should increase the coverage of widow, oppressed women, and physically handicapped people. The programme should cover eligible beneficiaries of all upazilla (currently covered 162 upazillas).
- **Expand coverage of urban poor:** Government should consider increasing the coverage of urban-based destitute people. In the national budget for FY2022–23, the government should raise the allocation targeting slum-dwellers, floating people, pregnant women, and similar marginalised groups.
- **Digitalise the beneficiary list:** Restructuring of the beneficiary list should be prioritised for effective implementation of social safety net programmes. Digitalisation of the database with national identification number or other national documents for proper targeting of the beneficiaries will reduce mistargeting and corruption and complexities.
- **Introduce and restructure various child protection programme:** In view of the need to address the needs of the children, particularly against the backdrop of the covid with its adverse impacts in terms of health, nutrition, education and overall welfare, a number of measures are prepared for FY2022–23 budget: (a) universalise Mother and Child Benefit Programme (MCBP) for early childhood development. The programme will require a monthly allocation of Tk 800 for the 14.0 million children (0-4 years) where the GoB will need to allocate an additional amount of Tk 9.50 thousand crore by consolidating the existing six relevant programmes. The programme can be launched in the upcoming FY2022–23 budget with an increased monthly allocation; (b) establish a separate child directorate for monitoring and implementing child-related programmes which will eventually play an important role in universalising the MCBP; (c) allocate resources to develop a comprehensive database on children with interoperability of the existing platforms maintained by relevant ministries and other entities; (d) introduce universal mid-day meal programme for primary school students based on the experience of the already mentioned pilot programmes.

- **Introduce social protection for workers:** Government should introduce social protection for workers in the following four areas: (a) maternity protection, and paternity and parental leave benefits; (b) sickness benefits; (c) employment injury protection; and (d) unemployment protection. Maternity protection includes income security (through cash benefits), leave policies and effective access to good-quality maternal healthcare for pregnant women and mothers of newborns. Employment and labour market interventions—such as employment protection and non-discrimination, childcare solutions after woman's return to work and good occupational health and safety measures and breastfeeding facilities at the workplace—are important to give adequate protection to pregnant women and new mothers. Sickness benefits aim at ensuring income security during sickness, quarantine, or sickness of a dependent relative. Employment injury protection includes providing support to workers through prevention, treatment and rehabilitation. Unemployment protection schemes provide income support for involuntarily unemployed and underemployed people and offer assistance for return to work, in line with international labour standards.
- **Take initiative to implement UPS:** UPS which has been announced recently and is to be introduced from the next fiscal year is a welcomed initiative. It is expected that strong institutional and operational structure will be developed in order to properly manage such an important scheme.

b) Stimulus Packages

The government has declared 28 stimulus packages worth Tk 1,919.19 billion, of which the Bangladesh Bank is overseeing 10 packages directly. By February, 2022 overall disbursement progress was about 70 per cent. However, disbursement among the low-income or marginalised businesses is lower than the average level—only 60 per cent. The packages for low income and marginalised people include salaries for employees of hotels/motels, interest-providing and credit guarantee schemes for the cottage, micro, small and medium enterprise (CMSME) loans. It is to be noted that disbursement during the first phase was faster compared to that in the second phase.

A number of stimulus packages have made hardly any progress (Table 2.2). These include working capital loans for A, B and C types of industries (1.7–2.7 per cent), and credit guarantee schemes (3.2 per cent). Sluggish progress is observed in case of pre-shipment credit refinancing (11.3 per cent), low-interest working capital loans to micro, small and medium enterprises, including cottage industries (34.2 per cent), working capital loans for adversely affected large industry and service sector (33.4 per cent), agricultural refinance scheme (40.2 per cent). In contrast, considerable progress has been made in case of payment of salaries and allowances to the workers-staffs of the active export-oriented industries (98.7 per cent) and support under the export development fund (EDF) (92.7 per cent). In other words, credit support for export-oriented and large-scale enterprises has experienced better progress, primarily because of their better credit-worthiness. In contrast, the credit support for the CMSMEs and for the informal sector including the agriculture sector experienced sluggish progress perhaps because of their low level of credit worthiness. Hence, credit-based stimulus packages were difficult to reach marginal groups and CMSMEs due to poor bank-client relationships.

Table 2.2

State of Implementation of Selected Stimulus Package Under the Supervision of Bangladesh Bank

(as of February 2022)

No.	Packages	Amount (billion BDT)	Implementation (billion BDT)	Implementation rate (%)	Remarks
1	Working capital loans for adversely affected large industry and service sector.	330	327.24	99.16	(1st Phase)
		305	101.08	33.14	(2nd Phase)
	Working capital loans for “A”, “B” and “C” type industries	70	1.22	1.74	(1st Phase)
		25	0.67	2.68	(2nd Phase)
2	Interest subsidy for commercial banks against suspended interest for April-May, 2020.	20	13.9	69.5	
3	Working capital for paying salaries, and allowances of the employees of hotels, motels, and theme parks.	10	0.007		
4	Providing low-interest working capital loans to micro, small and medium enterprises, including cottage industries	200	153.86	76.93	(1st Phase)
		200	68.42	34.21	(2nd Phase)
5	Agricultural refinance scheme	50	42.95	85.9	(1st Phase)
		30	12.06	40.2	(2nd Phase)
6	Payment of salary and allowances to the workers-staffs of the active export-oriented industries.	50	49.35	98.7	
7	Pre-shipment credit refinancing scheme.	50	5.69	11.38	
8	Refinance scheme for low-income earning professionals/farmers/small businessmen.	30	23.74	79.13	
9	EDF	USD 7.0 billion	USD 6.49 billion	92.71	
10	Credit Guarantee Scheme (CGS) for CMSMEs.	20	0.64	3.2	

Source: Bangladesh Bank, 2022.

Recommendations

Following are some recommendations in terms of stimulus packages.

- **Giving priority to disbursing support under stimulus packages:** It is found that new phase of the stimulus package for certain target economic activities has been introduced and loan disbursement has been continued although the earlier phase has not yet been fully implemented. Bangladesh Bank should be asked to not allow new stimulus packages until the earlier packages are fully disbursed.

- **Meeting loan disbursement targets:** Bangladesh Bank should be asked to put pressure on the commercial banks to meet their loan disbursement targets particularly those that are earmarked for agriculture, CMSMEs, and other economic activities which have wide ranging welfare implications. Banks should be asked to encourage their branches to disburse loans by exploring the need of potential clients.
- **Promoting agri-refinance scheme:** Agriculture refinance scheme needs to be promoted by the Bangladesh government to incentivise introduction of new technology for planting and harvesting taking into account of the high demand for subsidised credit in order to ensure adequate supply of agricultural crops in the market.
- **Implement Basel III:** Bangladesh Bank should be asked to implement the Basel III in the banking sector in order to mitigate the risks facing financial sector and improve financial sector governance. Whilst Bangladesh Bank has relaxed capital adequacy ratio in view of the pandemic, banks need to ensure that risk factors are addressed properly.
- **Ensure repayment of loans:** Repayment of loans distributed under the stimulus package is what to which due importance needs to be given. Bangladesh Bank should be asked to closely monitor the state of repayment of the loan and ensure compliance with Bangladesh Bank regulations.
- **Set up an independent banking reforms commission:** In view of the state of the banking sector, the government should set up an independent banking reforms commission.

2.6 FISCAL POLICY FOR MAXIMISING SOCIAL WELFARE

Fiscal policy is an important tool for correcting market failures and maximising social welfare. In a free market equilibrium, merit goods are under-produced and under-consumed. This deprives society of the positive externalities that are associated with merit goods. Hence the production and consumption of merit goods need to be encouraged through government interventions in order to maximise social welfare. Two of the most important merit goods are health and education. Often these are neglected sectors in developing and low-income countries. Analysis of the past fiscal policies of Bangladesh shows that neither health nor education has received any importance in the national budget.

2.6.1 Protecting Public Health through Fiscal Policy

The total budget allocation for the health sector increased only by 12 per cent, from Tk 29,247 crore in FY2020–21 to Tk 32,731 in FY2021–22, which was lower than the 14 per cent average annual increase in total budget allocation for the health sector between FY2010–11 and FY2021–22. Allocation for the health sector as a share of the total budget has increased from 5.15 per cent in FY2020–21 to 5.42 per cent in FY2021–22. However, this was lower than the allocation of 6.18 per cent of budget in FY2009–10 when there was no pandemic. Actual expenditure in the health sector decreased by 6 per cent from Tk 18,677 in FY2018–19 to Tk 17,532 crore in FY2019–20. In Bangladesh, the budget allocation for the health sector has been less than 1 per cent of GDP for the past 13 years indicating that healthcare was never a priority sector for the government. On the contrary, in 2017, at least 30 LDCs spent more than 1 per cent of GDP on health (World Bank, 2022). On top of this, out-of-pocket expenditure on health in Bangladesh is not only the highest in South Asia, but also increasing over time.

In this context, it is necessary to not only increase the budget allocation and budget utilisation of the health sector but also implement a number of fiscal measures to promote improved public health and in turn maximise welfare for society. In the following exposition, fiscal measures for a few selected items are suggested.

Tax on tobacco and related products

In Bangladesh, the cigarette industry's pricing encourages purchase of relatively cheaper cigarettes. The complicated tiered tobacco tax framework supports differential pricing. Such differential pricing defeats the intended purpose of taxation as a tool for achieving beneficial public health outcomes. Hence, Bangladesh's tobacco tax structure needs to be streamlined. Cigarette affordability should be reduced as a result of tax-induced price increases. For tobacco and tobacco-related products, the government should eliminate the tiers of taxation and replace them with a single system. Additionally, a specific tax, which is fixed per pack, should be implemented instead of an ad valorem tax, which is determined as a percentage of retail price. The government will find it much easier to administer a uniform specific excise system of taxes on tobacco. It would also let the government relinquish jurisdiction over the administration of cigarette recommended retail price (RRP), which is putting strain on the tax authorities. The government lacks the resources to monitor and enforce RRPs across the country. The cigarette industry capitalises on this lack of monitoring to maximise their profits. Hence, it is suggested that the government should let the market establish the relevant price and collect tax revenue through a sufficiently high uniform specific tax that is unrelated to the tobacco product's price and only dependent on the number of sales.

We propose a uniform specific excise duty of Tk 10 per cigarette stick on all cigarettes to be implemented in FY2022–23 (Table 2.3). Such a uniform specific tax on all cigarettes should be increased by at least Tk 5 per stick each year, to account for annual inflation and income growth.

Table 2.3

Proposed Tax Structure for Cigarettes (per pack of 10 cigarettes)

Current Tax Structure in FY22						Proposed Tax Structure for FY23				
Tier	**Retail Price**		**SD**				**Retail Price**		**Specific Excise Duty**	
	Pack of 10 (in BDT)	**Per stick (in BDT)**	**Per pack of 10 (in per cent)**	**Per pack of 10 (in BDT)**	**Per stick (In BDT)**	**Tier**	**Per pack of 10 (in BDT)**	**Per stick (in BDT)**	**Per pack of 10 (in BDT)**	**Per stick (in BDT)**
Low	39+	3.9	57	22.23	2.22	All	Market based	Market based	100	10
Medium	63+	6.3	65	40.95	4.10					
High	102+	10.2	65	66.30	6.63					
Premium	135+	13.5	65	87.75	8.78					

Source: CPD's compilation of the data from the MoF (Kamal, 2021).

Note: SD = Supplementary duty.

In line with the proposed tax structure for cigarettes, the tax structure for biri, jarda and gul should also be reformed. This will protect low-income groups from health hazards and reduce the burden of health expenditure on the government. Instead of the current tier classification of biri into filtered and non-filtered, and additional groupings based on the size of the pack, we propose specific excise tax of Tk 3 per stick for all biri to be implemented in FY2022–23, and allow the price of biri to be determined by the market (Table 2.4). Such a uniform specific tax on all biri should be increased by at least Tk 1 each year, to account for annual inflation and income growth.

Table 2.4
Proposed Tax Structure for Biri

Current Tax Structure in FY22						Proposed Tax Structure for FY23				
Type of Biri	**Retail Price**		**SD**				**Retail Price**		**Specific Excise Duty**	
	Per pack (in BDT)	**Per stick (in BDT)**	**Per pack (in per cent)**	**Per pack (in BDT)**	**Per stick (in BDT)**	**Type of biri**	**Per pack (in BDT)**	**Per stick**	**Per pack (in BDT)**	**Per stick (in BDT)**
Non-filtered 25 stick handmade biri	18	0.72	30	5.40	0.22	All	Market based	Market based	75	3
Non-filtered 12 stick handmade biri	9	1.33	30	2.70	0.23				36	
Non-filtered 8 stick handmade biri	6	1.33	30	1.80	0.23				24	
Filtered 20 stick handmade biri	19	1.05	40	7.60	0.38				60	
Filtered 10 stick handmade biri	10	1.00	40	4.00	0.40				30	

Source: CPD's compilation of the data from the MoF (Kamal, 2021).

Finally, the existing tax structure on jarda and gul should also be reformulated taking cognisance of the severe health risks posed by the long-term consumption of such items. We propose a Tk 6 specific excise duty on per gram (gm) of jarda and gul to be implemented in FY2022–23, and to allow the price of jarda and gul to be determined by the market (Table 2.5). Such a specific tax on jarda and gul should be increased by at least Tk 1 each year, to account for annual inflation and income growth.

Table 2.5
Proposed Tax Structure for Jarda and Gul

Current Tax Structure in FY22						Proposed Tax Structure for FY23				
Type of Product	**Retail Price**		**SD**				**Retail Price**		**Specific Excise Duty**	
	Per 10gm (in BDT)	**Per gm (in BDT)**	**Per 10 gm (in per cent)**	**Per 10 gm (in BDT)**	**Per gm (in BDT)**	**Type of product**	**Per 10gm (in BDT)**	**Per gm (in BDT)**	**Per 10gm (in BDT)**	**Per gm (in BDT)**
10gm jarda	40	4	55	22	2.2	10gm jarda	Market based	Market based	60	6
10gm gul	20	2	55	11	1.1	10gm gul				

Source: CPD's compilation of the data from the MoF (Kamal, 2021).

In the budget for FY2021–22, companies manufacturing tobacco products were subject to 45 per cent corporate tax, which was the same rate of corporate tax as non-publicly traded mobile operator companies. Since companies manufacturing tobacco products are directly causing severe public health hazards, it is necessary to ensure that such companies pay corporate tax at a rate which is above the corporate tax rate for all other types of companies.

Therefore, in addition to the aforementioned tax reforms, we also propose that the corporate tax on all companies manufacturing tobacco products, such as cigarette, biri, chewing tobacco, jarda, and gul, to be increased from 45 per cent in FY2021–22 to 50 per cent in FY2022–23, and the associated surcharge to be increased from 2.5 per cent in FY2021–22 to 5 per cent in FY2022–23 (Table 2.6). In order to achieve the government's long-term goal of a tobacco-free Bangladesh, we also propose that the corporate tax on all companies manufacturing tobacco products, such as cigarette, biri, chewing tobacco, jarda, to be increased to 55 per cent, and the associated surcharge to be increased to 7.5 per cent, in 2026, when Bangladesh graduates from the LDC group.

Table 2.6

Corporate Tax on Tobacco Product Manufacturing Companies

Type of Company	Current Tax Structure in FY22		Proposed Tax Structure for FY23		Proposed Tax Structure for FY26	
	Corporate tax (in per cent)	Surcharge (in per cent)	Corporate tax (in per cent)	Surcharge (in per cent)	Corporate tax (in per cent)	Surcharge (in per cent)
All companies manufacturing tobacco products, such as cigarette, biri, chewing tobacco, jarda, and gul	45	2.5	50	5	55	7.5

Source: CPD's compilation of the data from the MoF (Kamal, 2021).

A hard tax for soft drinks

Carbonated soft drinks and energy drinks are significant health concerns in Bangladesh. Such beverages have a substantial amount of sugar which is a major cause for obesity, diabetes, and tooth decay. Typically, a single can of a soft drink which is around 355 millilitres, contains 39 grams of sugar (Coca Cola Company, n.d.). This is equivalent to roughly about 10 teaspoons of sugar while the World Health Organization (WHO) recommends that adults should not consume more than 6 teaspoons of sugar daily for the sake of a healthy lifestyle (WHO, 2017). Currently, the beverage and carbonated industry is subjected to a 25 per cent SD for carbonated soft drinks, and 35 per cent SD for energy drinks with a 15 per cent VAT applicable for both (NBR, 2018). In Bangladesh, carbonated soft drinks and energy drinks are widely accessible; hence, it is necessary to decrease the consumption of such beverages in order to reduce associated health risks.

Therefore, CPD recommends that the government should remove the SD on both soft drinks and energy drinks and replace it with a specific excise duty of Tk 0.1 per millilitre (ml) or Tk 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in the FY2022–23 (Table 2.7). Since sweetened beverages are a demerit good, placing a specific excise duty will reduce their consumption and provide the government with a substantial revenue. Furthermore, limiting sugary beverage

Table 2.7

Proposed Tax Structure for Soft Drinks and Energy Drinks

Current Tax Structure for FY22			Proposed Tax Structure for FY23			
Beverage	SD (in per cent)	VAT (in per cent)	Beverage	Specific excise duty (BDT per litre)	Specific excise duty (BDT per millilitre)	VAT (in per cent)
Soft drinks	25	15	Soft drinks	100	0.10	15
Energy drinks	35	15	Energy drinks	100	0.10	15

Source: CPD's compilation based on the data from NBR (2018).

intake will help Bangladesh minimise the risks of related diseases and health expenditures of the general population. This will also allow the economy to achieve SDG target 3.4 which aims to reduce non-communicable diseases by one-third by 2030 (UN, 2015).

Tax on sanitary napkins—a gender tax harming women and girls

Menstrual hygiene is a fundamental right and need of women and girls all over the world. But this right is violated when menstrual hygiene products are subjected to all kinds of tax—VAT and duties. The practice of safe hygiene is strongly connected to SDG 3 which aims to ensure good health and well-being for all (UN, 2015). Even though sanitary products are essential for women and girls for the maintenance of proper hygiene, their price is beyond the reach of most women and girls from the low-income groups of Bangladesh.

Locally produced sanitary napkins, towels, and similar sanitary products for women and girls in Bangladesh are subjected to high prices because of high incidence of tax including VAT, customs duties (CD), SD, regulatory duty (RD), and additional tax (AT) on imports of raw materials. The imposition of local VAT on production and sometimes sales tax is also reflected in the price of these products (WaterAid, 2019). SD on imported raw materials, such as air laid paper is 20 per cent. Additionally, all raw materials used in the production of sanitary napkins were subjected to 15 per cent and 5 per cent respectively in FY2021–22 (Bangladesh Customs, 2021). In the budget speech of FY2021–22, it was initially proposed that the VAT and SD at local manufacturing stage on the production of sanitary napkin will be exempted to ensure health protection of women and girls (Kamal, 2021). However, such exemption was not implemented later.

We, therefore, propose that the total tax incidence (TTI) on imported raw materials used to produce sanitary napkins and diapers should be made zero by exempting all form of VAT, CD, SD, advance income tax (AIT), RD and AT to ensure affordable sanitary napkins for women and girls from all levels of income. The TTI on imported sanitary napkins and diapers in FY2021–22 was 127.72 per cent, which we recommend to be reduced to 31.93 per cent. This is equivalent to one-fourth the existing value (Table 2.8). Given the importance of the product to women and girls, it should receive tax exemption and should not be treated like other products in this case.

Table 2.8

Proposed Tax Structure on Import of Sanitary Napkins and Related Raw Materials

(in percentage point)

Current Tax Structure in FY22									Proposed
HS code	**Product description**	**CD (%)**	**SD (%)**	**VAT (%)**	**AIT (%)**	**RD (%)**	**AT (%)**	**TTI (%)**	**TTI (%)**
96190000	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar items	25	45	15	5	3	5	127.72	31.93
48239094	Air laid paper imported by VAT registered sanitary napkin manufacturers	25	20	15	5	3	5	89.32	0
35052000	Glues based on starches, dextrins or other modified starches	5	0	15	5	15	5	49.00	0

(Table 2.8 contd.)

(Table 2.8 contd.)

Current Tax Structure in FY22									Proposed
HS code	**Product description**	**CD (%)**	**SD (%)**	**VAT (%)**	**AIT (%)**	**RD (%)**	**AT (%)**	**TTI (%)**	**TTI (%)**
35069110	Adhesives based on rubber or plastic (including artificial resins)	25	0	15	5	3	5	58.60	0
39069000	Acrylic polymers, in primary forms and other polyesters, in primary forms.	10	0	15	5	0	5	37.00	0
39199020	Performance tape or closure or side tape	25	0	15	5	0	5	55.00	0
39201020	Other plates, sheets, film, foil and ethylene imported by VAT registered personal hygiene products manufacturing industries	25	0	15	5	3	5	58.60	0
40021100	Latex of styrene-butadiene or carboxylate styrene-butadiene rubber	5	0	15	5	0	5	31.00	0
47032100	Semi-bleached or bleached coniferous chemical wood pulp, soda	0	0	15	0	0	5	20.00	0
48119090	Other paper, paperboard, cellulose wadding and webs of cellulose fibres	25	0	15	5	3	5	58.60	0
54024400	Other yarn, single, untwisted or with a twist not exceeding 50 turns per meter	5	0	15	5	0	5	31.00	0
56031110	Nonwovens, of man-made filaments, weighing less than or equal to 25 gram per square meter	25	0	15	5	3	5	58.60	0
63079000	Made up articles (including dress patterns)	25	0	15	5	3	5	58.60	0

Source: CPD compilation based on the data from Bangladesh Customs (Bangladesh Customs, 2021).
Source: HS Code = Harmonised Commodity Description and Coding System.

Tax on medicines in view of Bangladesh's LDC graduation

In Bangladesh, the expenditure on pharmaceutical products and health services takes up large proportion of people's income every month. The out-of-pocket spending on healthcare as a share of current health expenditure increased from 61 per cent in 2000 to 72.68 per cent in 2019 (World Bank, 2022a). Under the new VAT and Supplementary Duty Act 2012, the government imposed 2.4 per cent VAT on pharmaceuticals including medicines at local trading stage and 15 per cent on import of pharmaceutical products and raw materials for the production of medicines (GoB, 2019). Moreover, as an LDC, Bangladesh's pharmaceutical industry is currently enjoying the facilities under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) pharmaceutical waiver which provides an exemption from obligations to enforce patents along with data protection for pharmaceutical products. Unless Bangladesh gets an extension on the transition period of the TRIPS waiver after its graduation from the LDC group in 2026, the waiver would be exempted starting from 2026. So, Bangladesh will lose the LDC-specific support measures under this agreement.

Therefore, we propose that the VAT on medicines should be exempted starting from FY2025–26 to ensure that medicines continue to be affordable to all even after the loss of TRIPS waiver in 2026. Beyond 2026, the government will need to implement a plan to protect the local pharmaceutical industry and help retain its competitiveness in the global market. This will also benefit the people from low-income groups to access medicines and other pharmaceutical products at an affordable price.

2.6.2 Fiscal Policy for Incentivising Education

The total allocation for the education sector in FY2021–22 was Tk 71,953 crore, which was only 8.68 per cent higher than the revised budget for FY2020–21. However, education budget as a share of total budget decreased from 14 per cent in FY2009–10 to 11.92 per cent in FY2021–22. Education budget as a share of GDP has remained stagnant during recent fiscal years. The revised education budget as a share of GDP decreased to 2.08 per cent in FY2021–22 from 2.14 per cent in the revised budget for FY2020–21. Education budget utilisation has been decreasing over the years, especially for development expenditure.

Therefore, it is necessary to not only increase the budget allocation and budget utilisation of the education sector, but also implement a number of fiscal measures to promote improved education and in turn maximise welfare for society. In the following exposition, fiscal measures for English medium schools imported books, and female education stipend are proposed.

Removal of existing taxes on education

The right to education is a basic human right and education should be made accessible and affordable for all individuals in a country. While the government has exempted Bengali medium schools, and later private universities, from paying VAT on tuition fees, the VAT on English medium schools continue to be at 5 per cent (NBR, 2019). It is often deemed that the education based on English medium schooling is a luxury, and that students who study in English-medium schools belong to affluent families only and would not stay in the country in the long run. Obtaining education, irrespective of the source, is a basic right and should not be misconstrued as a luxury. In recent years, the dynamic has changed such that many middle-income families are admitting their children to English-medium schools to allow them to study according to the international curriculum and gain a competitive edge in the labour market. Parents, presumably, prefer English medium-based education in order to provide their children with benefits that would not otherwise be available to them (Mousymi & Kusakabe, 2017). English medium schools are privatised and are not recognised to have a low tuition fee. Hence the VAT on tuition fees of English medium schools puts an extended burden on the parents of middle-income families. Therefore, CPD recommends that the VAT on the tuition fees for all academic institutions, including English medium schools, should be exempted in FY2022–23, and the exemption should remain in place for an indefinite period.

Additionally, since English medium schools follow the international curriculum, the books assigned as a part of their syllabus are all imported books written by international authors. At present the TTI on foreign printed books is at 73.96 per cent. The TTI counts for 25 per cent as CD, 10 per cent as SD, 5 per cent as AIT, 15 per cent as VAT, and 3 per cent as RD. Such high duties on foreign books intended to provide children with quality education defeats the purpose of achieving the SDG 4 which aspires to "ensure inclusive and equitable quality education and promote lifelong learning and opportunities for all" (UN, 2015). As the syllabus is revised, during every academic year, parents have to buy new books for their children studying in English medium schools, while bearing such a high tax incidence. This puts further strain on families' incomes, particularly those from middle-income households. Therefore, CPD recommends that all taxes and duties on foreign imported books should be exempted in FY2022–23 to ensure that education remains affordable for all.

Female education stipend

The economic empowerment of women is critical to long-term success for any society. The government, private sector and the non-government organisations (NGOs) have all played their part in the economic empowerment of women in Bangladesh. In 1982, the GoB initiated some social safety net programmes especially targeted towards women and girls, such as the female secondary education stipend. Results from a pilot project showed that girls' secondary enrolments increased from an average of 7.9 per cent to 14 per cent in some project areas and dropout rates fell from 14.7 per cent to 3.5 per cent (Raynor, Wesson & Keynes, 2006). In 1994, the highly successful programme was launched nationwide. Female students received a monthly sum of money ranging from Tk 25 in Class 6 to Tk 60 in Class 10, as well as payments for new books and exam fees, on the conditions of the following: a minimum of 75 per cent attendance rate, at least a 45 per cent score in annual school exams, and staying unmarried until taking Secondary School Certificate (SSC) exam or turning 18 years old.

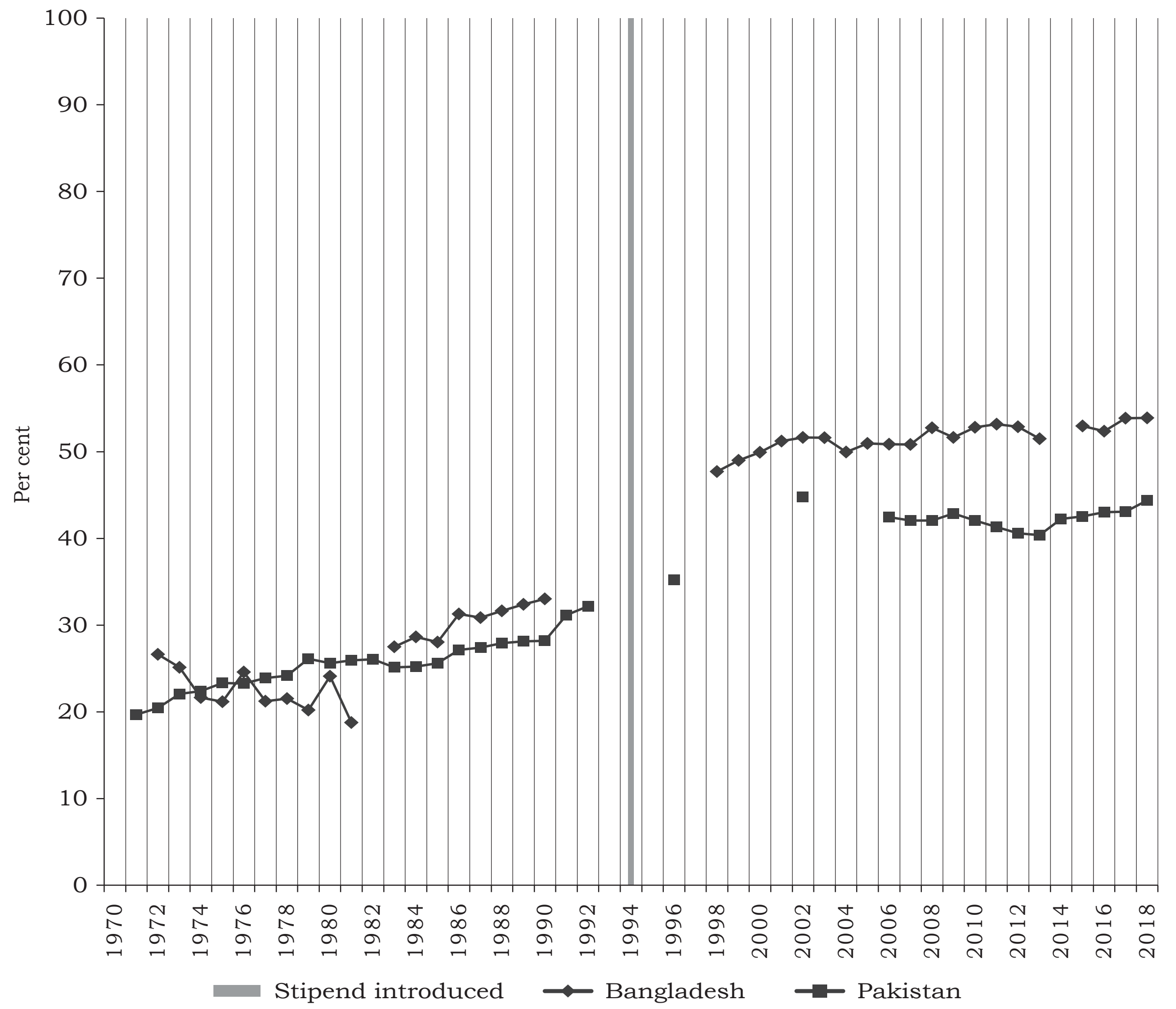
The female secondary education stipend programme in Bangladesh was not only effective in increasing girls' enrolment in schools, but also succeeded in providing a host of benefits, such as increasing the ratio of female students in secondary schools, improving female literacy rate, lowering fertility rate, controlling population growth rate and increasing female labour force participation. As a result of the catalytic benefits of its successful female secondary education stipend programme, Bangladesh managed to advance ahead of Pakistan in terms of several key socio-economic indicators. In 2018, girls comprised on 54 per cent of pupils in secondary schools in Bangladesh, whereas in Pakistan, only 44 per cent of secondary school pupils were girls (Figure 2.4). In 2017, adult female literacy rate was 70 per cent in Bangladesh, but only 46 per cent in Pakistan.

Unfortunately, the allocation for three kinds of education stipends were reduced in FY2021–22. The budget allocation for the Primary School Stipend was decreased from Tk 3,712 crore in the revised budget of FY2020–21 to Tk 1,900 crore in FY2021–22, the budget allocation for the Secondary and Higher Secondary Stipend was decreased from Tk 2,832 crore in FY2020–21 to Tk 1,841 crore in FY2021–22, and the Stipends for Undergraduate and Postgraduate Level Students was decreased from Tk 96 crore in FY2020–21 to Tk 80 crore in FY2021–22. We propose an increase in the allocation for all education stipends to be implemented in the budget for FY2022–23 (Table 2.9).

Our proposed stipend reform will benefit more than 2 crore students at all levels, and cost the government an additional Tk 10,635 crore.

Figure 2.4

Percentage of Female Pupils in Secondary Education



Source: CPD illustration based on data from the United Nations Educational, Scientific and Cultural Organization (UNESCO) (2020).

Table 2.9

Proposed Education Stipend Structure in FY23

Current Stipend Structure in FY22				**Proposed Stipend Structure in FY23**	
Name of stipend	**Number of beneficiaries (in crore)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**
Student stipend for primary education level	1.400	1,900	1,357	8,400	6,000
Stipends for secondary, higher	0.523	1,841	3,524	5,225	10,000

(Table 2.9 contd.)

(Table 2.9 contd.)

Current Stipend Structure in FY22				Proposed Stipend Structure in FY23	
Name of stipend	**Number of beneficiaries (in crore)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**
secondary and madrasah education level students					
Stipends for undergraduate and postgraduate level students	0.013	80	6,142	195	15,000
Stipends for students of technical education institutions	0.056	330	5,935	834	15,000
Stipends for physically challenged students	0.010	96	9,564	200	20,000
Stipend for improving the livelihood of transgender, Bede and disadvantaged community	0.003	26	9,759	54	20,000
Total for stipend programmes	2.004	4,273		14,908	

Source: CPD's compilation based on the data from MoF (2022).

2.7 FISCAL MEASURES TO SUPPORT GREEN TRANSITION

Green fiscal policies are an important component of attempts to address global concerns and transition to an inclusive green economy. Such policies can assist in achieving the Paris Agreement by reflecting externalities in prices, aligning government expenditures with environmental goals, and boosting revenues (UN Environment Programme, 2022). Reaching global climate commitments requires a huge amount of investment. In the energy sector alone, about USD 3.1–5.8 trillion is required per year till 2050 to reach net-zero (Lenaerts, Tagliapietra & Wolff, 2022). Removing fossil fuel subsidies has the potential to raise about USD 2.9 trillion annually (UN Environment Programme, 2022), and this can contribute to the investment required to attain global goals.

Bangladesh should take lessons from the global initiatives and efforts pertinent to addressing climate change. The government needs to promote a green fiscal policy which should be reflected in the national budget. It is in the interest of the government to work towards green growth since the country will graduate from the LDC status in 2026 and plans to become a higher middle-income country by 2031. Such transition will make environmental compliances mandatory and stringent.

Although the majority of Bangladeshis reside in rural regions at present, there is a clear tendency towards growing urbanisation. Bangladesh's economy is undergoing structural change as it progresses on its development journey. Although structural change is beneficial to development, it may be harmful to the environment. As more people relocate to cities, their carbon footprints grow larger. The aggregation of these larger footprints may have significant detrimental impacts on environmental quality. Research has shown that in Bangladesh, urbanisation is linked to higher greenhouse gas (GHG) emissions and higher annual average temperature change (Murshed & Saadat, 2018). Despite occupying just a small fraction of the world's land, urban areas are responsible for 75 per cent of global GHG emissions (UN Environment Programme, n.d.). When all possible disruptions are taken into account, cities are predicted to be at danger of losing 44 per cent of their GDP, which is equivalent to USD 31 trillion, due to biodiversity loss and environmental damage (World Economic Forum, 2022). Among various types of pollution, air and plastic pollutions are acute in large cities of Bangladesh. In the following exposition, the problem of air and plastic pollution in Bangladesh has been discussed and fiscal measures have been recommended which may be adopted in the short and long run to reduce the detrimental impacts on the environment.

2.7.1 Alarming State of Air Pollution in Dhaka and Other Cities

With growing industrialisation, urbanisation as well as energy consumption is increasing leading to higher emission of carbon dioxide (CO_2). Air pollution is one of the critical concerns related to climate, arising from higher use of energy. As of 31 December 2021, the particulate matter (PM) 2.5 concentration in Bangladesh's air was 15.4 times above the safe air quality guideline of the WHO (IQAir, 2022). Bangladesh's capital city, Dhaka experiences air pollution more than any other cities in the country.

Bangladesh is committed to reduce GHG emissions by 6.73 per cent in five sectors namely, power, transport, industry, waste, and land use by 2030 as per its Nationally Determined Contribution (NDC) document. With additional finance and technology support from external sources, Bangladesh will reduce GHG emission by 15.12 per cent (Ministry of Environment, Forest and Climate Change, 2021). In case of transport sector, the share of GHG emission by 2030 will be 8.86 per cent. By 2030, the GoB is committed towards reducing emissions from transport by 12.30 per cent on its own, and by another 10.23 per cent with international support. According to the update NDC of Bangladesh, USD 14.9 billion and USD 21.6 billion are required to deliver unconditional and conditional commitment respectively. To achieve these GHG emission reduction targets, Bangladesh needs to implement a variety of tax and regulatory measures.

There are not many fiscal measures to support green transition in Bangladesh. Only a few tax benefits and green funds are now available for promoting green energy within the power sector. The Renewable Energy Policy 2008 introduced a 15 per cent VAT exemption on all renewable energy equipment and related raw materials for producing renewable energy back in 2008. However, currently, VAT exemption only exists for the import and production of photovoltaic cells, solar modules, solar panels, and for the production of solar batteries up to 60 amperes (as per SRO No. 141-Act/121/138-VAT). The renewable energy policy has a provision for exemption of corporate income tax for companies producing renewable energy for 5 years, which can be extended after the end of the period. An environment protection surcharge (EPS) was introduced in the Finance Act 2014, although this surcharge still has not been fully implemented (Finance Division, 2020). Two Bangladesh Bank funds currently support the green energy transition in Bangladesh: Refinance Scheme for bank and financial institutions, and Green Transformation Fund (GTF) for export-oriented industries (Bangladesh Bank, 2020).

2.7.2 Plastic Pollution Getting Worse

Despite its negative impact on the environment and human health, disposable plastic is becoming more popular worldwide due to its multifunctionality and low cost. In Bangladesh, 646 tons of plastic waste are collected every day, with 48 per cent going to landfills, 37 per cent being recycled, 12 per cent ending up dumped into rivers and canals, and 3 per cent thrown in sewers and other parts of cities (World Bank, 2021b). Every year, between 24,032 to 36,047 tonnes of plastic garbage are discarded in 1,212 hot spots near canals and water bodies that are all connected to the river system in Bangladesh (World Bank, 2021). Rapid urbanisation has also increased plastic use and pollution. The annual per capita plastic consumption in urban areas has tripled to 9.0 kilogramme (kg) in 2020 from 3.0 kg in 2005. Single-use plastics like shopping bags, packs, and wrappers have been found to be most mismanaged plastic waste in Bangladesh. Annual per capita plastic consumption in Dhaka is more than three times the national average for urban areas. They obstruct drains that results in urban flooding. Plastic also poses significant risks to humans and the ecosystem.

Per capita plastic waste generated in Bangladesh was only 0.03 kg per day in 2010, compared to the global average of 0.19 kg per day (Jambeck et al., 2015). However, 87 per cent of the plastic waste generated in Bangladesh was inadequately managed, which led to the country becoming the tenth largest contributor of mismanaged plastic waste in the world in 2010 (Jambeck, et al., 2015). The Ganges River, which runs through Bangladesh and into the Bay of Bengal, was estimated to be the second largest river source of plastic inputs into the ocean worldwide in 2015 (Lebreton et al., 2017).

COVID-19 has led to a surge in unsustainable production of single use plastics and synthetic materials which have been utilised for making personal protective equipment (PPE) such as body suits, masks and face shields. Fears of virus transmission have also led to a spike in unsustainable consumption of single use tableware and cutlery. Between 26 March 2020 and 25 April 2020, around 14,165 tonnes of single use plastic waste was generated in Bangladesh, which included 455 million surgical masks, 1,216 million polyethene hand gloves, 189 million surgical hand gloves and 49 million bottles of hand sanitiser (Environment and Sioial development Organisation, 2020).

Over time, Bangladeshi policymakers have formulated several policies to address environmental challenges including pollution. In case of plastic use, Bangladeshi policymakers have undertaken several measures in the past. In 2002, Bangladesh issued a regulatory order under the 1995 Environment Act banning the use of plastic shopping bags. However, the ban had limited impact due to a lack of enforcement. The country passed the Mandatory Jute Packaging Act in 2010, which was partly successful in reducing reliance on plastic. Guidelines on reducing, reusing, and recycling plastic were introduced in the National 3R Strategy for Waste Management formulated in 2010. Moreover, the 8th Five Year Plan (8FYP) mentioned the implementation of the Extended Producer Responsibility (EPR) Policy in plastic management, with active participation of local stakeholders such as the Department of Environment (DoE), Bangladesh Plastic Goods Manufacturers & Exporters Association (BPGMEA), plastic manufacturers, research industries, and city corporation, to take responsibility for minimising disposable single-use plastic through the promotion of biodegradable plastic and suitable alternatives (Bangladesh Planning Commission, 2021). According to the National Action Plan, which is aligned with the 8FYP and is jointly implemented by the World Bank, Bangladesh has set a target of reducing plastic waste by 30 per cent by 2030. The country has set goals of lowering virgin material consumption by 50 per cent by 2030. It also aims to recycle 50 per cent of all plastics by 2025, with the goal of reaching a recycling rate of 80 per cent by 2030, and phasing out targeted single-use plastics by at least 90 per cent by 2026 (World Bank, 2021). The National Action Plan includes detailed action plans and strategies for accomplishing these goals.

2.7.3 Budget Recommendations for Reducing Air and Plastic Pollution

In view of the above, the government may consider the following fiscal measures to reduce air and plastic pollution and promote green transition of the economy:

- **VAT exemption:** The government should fully implement the commitments which it made in the Renewable Energy Policy 2008. Currently, VAT exemption exists on solar panels and batteries, but there are no exemptions on solar inverters which are a crucial component of solar power plants. Moreover, the import duty on inverters (HS 85044090) was raised by 37 per cent in the last budget of FY2021–22 (Begum, 2022). An extensive policy that considers VAT exemption on all types of equipment in a renewable power plant, especially solar power plants, should be considered from FY2022–23.
- **Incentive tariff:** An incentive tariff can be considered for electricity generated from renewables according to the Renewable Energy Policy 2008, which allows electricity generated from renewable sources to be priced 10 per cent higher than the highest purchase price of electricity generated from fossil fuel sources.
- **Environment surcharge:** The Finance Act of 2014 set a 1 per cent surcharge on the goods produced by industries polluting the environment. This environment protection surcharge should be implemented completely in FY2022–23.
- **Carbon tax:** Bangladesh can implement a carbon tax as low as USD 1 (Tk 86) per tonne of CO_2 starting from FY2025–26, in order to gradually meet the government's target set out in the 8FYP which aims to implement a 5 per cent carbon tax on the price of fossil fuels by 2025 and 15 per cent carbon tax on the price of fossil fuels by 2041 (Bangladesh Planning Commission, 2020). Such a carbon tax can bring two benefits for Bangladesh: i) a carbon tax will be a disincentive for fossil fuel-based power producers; and ii) the revenue collected from carbon tax can be utilised for the development of green energy in Bangladesh. Bangladesh has the potential to generate revenues equivalent of about 1 per cent of its GDP by charging USD 30 per tonne of CO_2 equivalent (World Bank, 2022). The tax can be levied upstream, such as at the import level or on fossil fuel-driven power producers, to make it easier to implement (World Bank, 2022). Initially, the carbon tax may be levied on selected fossil fuels only. However, carbon tax would not be feasible to be implemented on LNG, as the country is already paying a lot for the import of LNG. In the long run, the country can increase the rate of carbon tax and make it a large revenue stream to fuel green transition of the economy. A carbon tax for oil products in Bangladesh would reduce a substantial amount of carbon emissions and also yield tax revenues which could be utilised to invest in clean technologies and infrastructures that will help offset the loss of output from carbon taxes (Ahmed & Khondker, 2018).
- **Gradual phase-out of fossil fuel subsidies:** The government should gradually phase out fossil fuel subsidies starting from FY2025–26 upon its LDC graduation. Instead, the government can redirect the funds currently allocated to fossil fuel subsidies to the development of green energy. This can be a long-term solution for Bangladesh as the current international situation is not ideal for Bangladesh to remove fossil fuel subsidies immediately.
- **Feed-in tariff:** A formal feed-in tariff policy exclusively for renewable energy needs to be implemented in FY2022–23 in order to promote renewable energy in Bangladesh. Currently, an informal version of the feed-in tariff policy exists in Bangladesh. However, such a mechanism does not exclusively promote renewable energy. A clear incentive package has to be present in the policy so that it reaches all types of potential renewable energy producers regardless of their generation capacity.
- **AIT:** In order to reduce air polluting originating from the transport sector, the government should reform the AIT structure on private motor vehicles so that the AIT on fossil fuel–driven motor vehicles is 20 per cent to 45 per cent higher than the AIT on hybrid and fully electric vehicles depending on the size the vehicle's engine and electric motor. More specifically, the AIT on a car or a jeep, not exceeding 1500cc or 75kw should be Tk 25,000 per year for hybrid and fully electric vehicles and Tk 30,000 per year for fossil fuel-driven vehicles; the AIT on car or a jeep, exceeding

1500cc or 75kw but not exceeding 2000cc or 100 kw should be Tk 50,000 per year for hybrid and fully electric vehicles and Tk 62,500 per year for fossil fuel driven vehicles; the AIT on a car or a jeep, exceeding 2000cc or 100 kw but not exceeding 2500cc or 125 kw should be Tk 75,000 per year for hybrid and fully electric vehicles and Tk 97,500 per year for fossil fuel driven vehicles; the AIT on a car or a jeep, exceeding 2500cc or 125 kw but not exceeding 3000cc or 150 kw should be Tk 1,25,000 per year for hybrid and fully electric vehicles and Tk 168,750 per year for fossil fuel driven vehicles; the AIT on A car or a jeep, exceeding 3000cc or 150 kw but not exceeding 3500cc or 175 kw should be Tk 1,50,000 per year for hybrid and fully electric vehicles and Tk 210,000 per year for fossil fuel-driven vehicles; the AIT on a car or a jeep, exceeding 3500cc or 175 kw should be Tk 2,00,000 per year for hybrid and fully electric vehicles and Tk 2,90,000 per year for fossil fuel-driven vehicles; and the AIT on a microbus should be Tk 30,000 per year for hybrid and fully electric vehicles and Tk 36,000 per year for fossil-fuel driven vehicles.

- **Promoting single-use plastic product:** With the goal of reducing plastic pollution, the government should consider bringing single-use plastic products under taxation in FY2022–23. Such single-use plastic products may include: cutlery such as forks, knives, spoons, and chopsticks; plates; straws; beverage stirrers; sticks to be attached to and to support balloons; food containers made of expanded polystyrene; beverage containers made of expanded polystyrene; and cups for beverages made of expanded polystyrene. Initially, the plastic tax regime should assume a moderate stance, and in subsequent years, the tax regime could be made more stringent, and more single-use plastic products should be brought under the ambit of taxation.
- **Joint Rivers Commission:** The budget for FY2022–23 should allocate additional funding for the Joint Rivers Commission to establish a bilateral plastic waste reduction initiative with India. The government of India should also contribute to this initiative with funding, as well as technical and logistical support, in order to ensure the reduction of plastic waste in the 54 transboundary rivers shared between Bangladesh and India.

2.8 CONCLUDING REMARKS

It is evidenced by CPD's budget recommendations in the preceding sections that in view of the emergent, emerging and anticipated challenges facing the country's macroeconomic management and for making strides towards achieving immediate, short- and medium-term developmental goals of the government, Budget FY2022–23 ought to be informed by a number of hard policy choices.

For FY2022–23 budget, CPD has proposed several measures, both in terms of the concerned policy arena and sector-specific areas. In order to contain the budget deficit, CPD has proposed measures to enhance domestic resource mobilisation and raise both capacity and efficacy of public expenditure. These will call for an undertaking of new reforms and implementation of reform initiatives already taken. Targeted investment in institutional strengthening, inter-agency coordination and interoperability of systems for digital interface, and adequate resource allocation for human resource building will be required. To ease the burden of rising prices and shrinking purchasing power of low- and fixed-income earning people, CPD has proposed that measures need to be taken to selectively reduce taxes at import and domestic stages and stabilise the exchange rate.

CPD's budget recommendations are informed by an anticipation of significantly increased subsidy requirements in view of rising global prices of commodities such as oil, food, fertiliser and gas. CPD's argument has been that people's welfare and purchasing capacity rather than the extent of budget deficit should inform the budgetary stance for FY2022–23, which should be geared to revitalise the COVID-impacted economy and stimulating domestic investment. The interests of consumers, farmers and producers should remain the focus of concern for policymakers. CPD has argued favouring restructuring of incentives towards export and market diversification and continuation of support to incentivise inward remittance flows. Restructuring the subsidies should entail both reduction (e.g., subsidies for capacity payment in energy), continuation (e.g., remittance) and enhancement (e.g., food and fertiliser). A key strategic anticipation in this regard is that the high prices are transitory in nature and that the price levels would revert to the historical trends if the current scenario involving Russia and Ukraine changes for the better in the near-term future.

To raise living standard of the people, expansion and scaling up of social safety net programmes have been proposed by the CPD, particularly in view of the adverse footprints of the pandemic. The proposals have taken cognisance of the impact of the COVID on health and education sectors and on the country's children. In view of the above, a number of concrete fiscal-budgetary measures have been proposed concerning the expenditure side of the budget. CPD budgetary recommendations have argued for the consolidation of social safety net programmes and introduction of universal coverage for children through the proposed MCBP within the ambit of a separate Child Directorate mandated to integrate and implement all child-focused programmes. CPD has proposed separate programme for workers, including provision for comprehensive health insurance.

CPD feels that, whilst the significant resources going for investment in large-scale infrastructure projects are necessary for the economy, the government should set up an independent oversight mechanism to examine feasibility and assess economic and financial returns, financing modality, debt-servicing liability and ensure overall good governance for the implementation of the infrastructure projects.

CPD has stressed the need to implement the long-overdue reform measures, including the direct income tax act and reforms of the SoEs, and has reiterated the need to undertake a comprehensive public expenditure review and set up an independent banking reforms commission.

From a medium-term perspective, concrete steps and allocations have been urged in view of the transition from fossil-fuel based energy to renewable energy and the urgency of embedding green growth in development strategy.

The philosophy embedded in budgetary proposals in developing country context is redistribution of income favouring the marginalised groups and communities. In the particular context of Bangladesh, this is even more urgent in view of the rising inequality in terms of income and wealth which has further been aggravated by COVID. Rising pressure on purchasing power of the common people leading to erosion of real income has added to the woe. CPD hopes that the government will look at FY2022–23 budget as an opportunity to secure the well-being of the marginalised people, revive the COVID-impacted economy and stimulate private sector investment. It is hoped that the CPD's proposals for reforms and recommendations involving income and expenditure sides of the budget will contribute to the discourse on budgetary proposals at this critical juncture of the country's developmental journey.

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Chapter 3

State of the Bangladesh Economy in FY2021–22 *(First Reading)*

3.1 INTRODUCTION

The present report is the first reading of the State of the Bangladesh Economy in FY2021–22. This report has been prepared under Independent Review of Bangladesh's Development (IRBD), the flagship programme of the Centre for Policy Dialogue (CPD). As the country navigates through a critical phase of the COVID-19 pandemic and seeks a trajectory of sustainable recovery, the report provides an assessment of the performance of the key sectors of the Bangladesh economy and traces the trends in critical macroeconomic correlates during the early months of FY2021–22. The report makes use of the latest available data and information from domestic and international sources. Insights from key informants are also taken into cognisance to strengthen the analyses further.

Following this introduction, Section 2 reviews the performance of key macroeconomic variables for the early months of the ongoing fiscal year. Section 3 examines the nature and underlying factors of recent inflationary pressure. Performance of the external sector, which is at the same time an important source of the current nature of economic recovery and a pressure point from the perspective of macroeconomic stability, is analysed in Section 4. An assessment of the performance of the country's capital market during the pandemic period is presented in Section 5. The penultimate section (Section 6) revisits the implementation status of the stimulus packages with a view to recommending the design of the forthcoming support measures towards the economic recovery. Finally, the report closes with some concluding remarks and key outlook points for the remainder of FY2021–22.

3.2 MACROECONOMIC MANAGEMENT

Over the past several months, Bangladesh's macroeconomic management has experienced a testing time in the face of the COVID-19 pandemic. The negative impact of the pandemic was manifested in the majority of the key macroeconomic correlates. In a good sign, several indicators have shown signs of recovery in the early months of FY2021–22. However, macroeconomic management is expected to remain no less challenging. The policymakers will need to duel with the fact that the economy will call for continued support for the desired recovery at a time when macroeconomic stability is under pressure. The present section reviews the trends of major macroeconomic variables to highlight the nature of recovery and the underlying challenges.

3.2.1 NBR Revenue Collection Recorded Improved Performance Compared to the Previous Fiscal Year

According to the data available from the National Board of Revenue (NBR), during the July–October period of FY2021–22, revenue mobilised by the NBR rose by 16.6 per cent compared to the corresponding period of FY2021–21. However, this growth is much lower than the annual target set by the national budget. In order to attain the annual growth target of 27 per cent, NBR revenue will have to increase at a rate of 30.7 per cent for the remainder of the fiscal year—which is a highly daunting task, to say the least (Table 3.1). Indirect tax collection at the import and export level was more impressive, which recorded a growth rate of 21.3 per cent. Both rising import demand and increased commodity prices at the global level have helped in the attainment of this improved growth. In contrast, indirect tax collection at the domestic level increased by only 14.7 per cent during the aforesaid period, thus requiring to post about 38.4 per cent growth for the remainder of the fiscal year. Similarly, the growth of income tax collection was only 14.1 per cent and would require a 26.9 per cent growth during the remaining months of the fiscal year. The aforesaid revenue mobilisation performance of NBR could be termed a somewhat improved performance compared to the corresponding period of the previous fiscal year when only 3.5 per cent growth could be achieved. However, this low benchmark was

Table 3.1
NBR Revenue Collection Growth (%, Jul–Oct FY2021–22)

Particulars	Target FY22 over actual FY21	Jul-Oct FY21	Jul-Oct FY22	Required growth Nov-Jun FY22
Indirect taxes at import and export level	24.0	5.4	21.3	25.0
Indirect taxes at local level	32.2	0.9	14.7	38.4
Income and travel tax	23.8	5.0	14.1	26.9
Total	**27.0**	**3.5**	**16.6**	**30.7**

Source: Estimated from NBR Data.

primarily COVID-induced. It is also to be noted that subdued revenue mobilisation performance of the NBR in FY2021–21 was compensated by the non-tax revenue component with the withdrawal by the government of funds of state-owned enterprises, which had accumulated surplus. In the current fiscal year, the scope for a similar step is rather limited. As a result, overall revenue mobilisation, and hence, the execution of the programmed budget, will continue to remain a challenge in FY2021–22.

3.2.2 ADP Expenditure Continued to Remain Business-As-Usual

According to the data Implementation Monitoring and Evaluation Division (IMED), expenditure for the Annual Development Programme (ADP) continued to remain less than satisfactory during the first five months of FY2021–22. The share of allocation spent over the first five-month period in FY2021–22 is better than the previous pandemic-afflicted year; however, it was lower than the preceding years. Data for July–November of FY2021–22 indicates that actual spending under ADP was 18.6 per cent of the originally planned allocation (Table 3.2). While only 20.2 per cent of allocated local resources (Taka component) was spent, project aid utilisation was only 16.2 per cent. ADP expenditure rate of the top 10 Ministries/Divisions, which account for 75.9 per cent of the total ADP allocation in FY2021–22, was very similar (18.8 per cent) to the overall performance. Regrettably, the Health Services Division, with a 5.8 per cent share of total ADP allocation, could spend only 6.4 per cent of its annual programmed allocation during the first five months. This is by any account a disturbing feature in a time of a pandemic crisis. Local Government Division and Road Transport and Highways Division were better performers with expenditure rates of 22.8 per cent and 22.3 per cent, respectively.

Table 3.2
ADP Implementation Rate (%, Jul–Nov FY2021–22 over original ADP)

	Jul–Nov FY13	Jul–Nov FY14	Jul–Nov FY15	Jul–Nov FY16	Jul–Nov FY17	Jul–Nov FY18	Jul–Nov FY19	Jul–Nov FY20	Jul–Nov FY21	Jul–Nov FY22
Taka	27.2	21.7	19.3	18.6	20.9	18.5	18.8	22.3	19.1	20.2
P.A.	20.8	17.0	20.7	13.6	16.7	22.6	21.6	15.4	16.6	16.2
Total	**24.7**	**20.0**	**19.8**	**16.8**	**19.3**	**20.1**	**19.8**	**19.9**	**18.2**	**18.6**

Source: Estimated from IMED Data.

3.2.3 Budget Deficit Was Lower during the First Quarter of FY2021–22, According to the Central Bank Data

During the first quarter of FY2021–22, the budget deficit (to the tune of Tk 27,571 crore) remained lower than the corresponding figure of the same period of FY2020–21 (Tk 31,999 crore). On a positive note, thanks to foreign aid inflow for COVID-19 financing (including for the purchase of vaccines), about 46.7 per cent of the budget deficit was financed by net foreign financing despite the below-par performance of project aid in ADP financing. During the same period of FY2020–21, only 29 per cent of the budget deficit was financed by net foreign borrowing. Indeed, during the first quarter of FY2021–22, the net sale of National Savings Directorate (NSD) certificates was (-) 26.3 per cent lower due to the recent lowering of purchase limit and interest rates and use of technology to ensure that the purchase limit set for an individual is not breached. This would also mean that, if there is any future rise of government borrowing, it is more likely to be serviced by higher bank borrowing by the government, which remains within the limit.

3.2.4 Higher Prices of Essentials Caused Anxiety

Given that a large section of citizens of the country having to confront the negative impact of the COVID-19 on income and employment, the rising prices of essential commodities have caused serious anxiety, undermining the adjustment and recovery efforts. Increased prices in the international market, the falling value of BDT against major currencies of importing sources, and lack of good governance contributed to rising prices of essentials. The headline inflation rate does not fully capture the reality (please see Section 3 for a detailed discussion). The rate of inflation in October 2021 was only 5.4 per cent, while food inflation was 5.3 per cent. Also, the inflation data for November 2021 is not available yet. Indeed, controlling prices of essentials should receive the topmost priority from the vantage point of macroeconomic management as the country seeks to generate a faster recovery from the pandemic afflicted benchmark.

3.2.5 Private Sector Credit Growth Marginally Improved

The monetary aggregates remained at a subdued level during the four months of FY2020–21 against the respective half-yearly targets. The growth of broad money (M2) at the end of October 2021 was 10.7 per cent against the Monetary Policy Statement (MPS) target of 13.8 per cent for December 2021 (Table 3.3). Growth of credit to the private sector somewhat improved to 9.4 per cent in October 2021, which was 8.3 per cent at the end of FY2020–21. The demand for private sector credit has perhaps improved thanks to higher demand for import and export as well as overall improvement

Table 3.3
Growth of Monetary Indicators

Indicators	Jun 21 (Actual)	Jun 21 (Jul 20 MPS target)	Oct 21 (Actual)	Dec 21 (Jul 21 MPS target)	Jun 22 (Jul 21 MPS target)
Net foreign assets	27.1	5.8	11.9	13.0	10.4
Net domestic assets	9.8	18.3	10.4	14.1	16.5
Domestic credit	10.1	19.3	10.9	14.1	17.8
Credit to the public sector (including government)	19.0	44.4	18.5	30.6	32.6
Credit to the private sector	8.3	14.8	9.4	11.0	14.8
Broad money	13.6	15.6	10.7	13.8	15.0
Reserve money	22.4	13.5	10.6	14.0	10.0

Source: Compiled from Bangladesh Bank Data.

of economic activities. However, it may be challenging to attain the end-fiscal (June 2022) target of 14.8 per cent. It is to be noted that disbursement of agricultural credit also increased by 12.6 per cent during July–October FY2020–21, while disbursement of non-farm rural credit increased by 50.7 per cent. However, in both cases, the recovery of disbursed credit was lower than the preceding year. Indeed, in the second half of FY2021–22, loan recovery, including those disbursed under the stimulus packages, will be a critical challenge facing the country's financial sector and consequently for macroeconomic management.

3.2.6 Negative Balance of Payment Put Pressure on the Exchange Rate despite Robust Export Growth

Current account recorded a significant negative balance to the tune of USD (-) 4.8 billion for the July–October period of FY2021–22, largely due to the rise in trade deficit which was as high as USD (-) 9.1 billion. On a positive note, export earnings bounced back and attained a growth rate of 24.3 per cent during the first five months of FY2021–22. The growth of import payments was even higher, to the tune of 51.4 per cent in July–October FY2021–22. The significantly increased import payments was attributed to higher demand for commodities, including intermediate goods to service export orders, and increased commodity prices. Capital machinery import also recovered to pre-COVID trend with a growth of 38.6 per cent, which was (-) 30.7 per cent during the corresponding period of the previous fiscal year. The inflow of remittances declined by (-) 21.0 per cent during July–November FY2021–22. As a result, despite a large surplus in the financial account balance (USD 3.8 billion), thanks to improved net aid flows and medium and long-term (MLT) loans, the overall balance figure was negative to the tune of (-) USD 1.3 billion. It may be recalled that overall balance posted a surplus of USD 4.1 billion during the same period of FY2020–21. This has depleted foreign exchange reserve and put significant pressure on exchange rate (please see Section 4 for details).

3.2.7 The Policy Package for Supporting Recovery Needs to Take Cognisance of the New Realities

The review of trends of key macroeconomic correlates evinces that many of these are in the recovery trajectory, led by the export-oriented sectors. Overall manufacturing sector output, however, posted a restrained growth to the tune of 8.1 per cent during the first two months of FY2021–22, according to the latest available data from Bangladesh Bureau of Statistics (BBS). To maintain this trajectory, favourable macroeconomic policy support will be critically important. Regrettably, macroeconomic stability is no longer in a comfortable state. This is manifested in the rise of commodity prices fuelled by international prices and unfavourable government policy in the form of the upward revision of administered prices of diesel and kerosene (please see Section 3 for more details), a significant deficit in the overall balance of payments (BOP) leading to reduced foreign exchange reserve and volatile exchange rate (please see Section 4). Apparently, fiscal space is also shrinking, as is indicated by the government's decision in view of the upward revision of diesel and kerosene prices. Unfortunately, the absence of updated data for budget execution constrained a more rigorous assessment to this end. The global environment also remains uncertain and volatile. Fragmented economic recovery and demand in the large economies (which are also major export destinations of the country), the drastic rise of commodity prices, and the emergence of new (omicron) COVID-19 variant will pose a persistent risk to the recovery of Bangladesh economy on the external front.

Indeed, the policy response needs to take cognisance of the trends in recovery, emergent risks, and the available policy space. Perhaps the government may need to make decisions as regards gradually pulling out some of the support measures in place while keeping a sharp eye on the evolving pandemic scenario, and also prepare for possible fallouts. For example, the moratorium on bank loan recovery and classification will need closure at a time of rising non-performing loans (NPL). The commercial banks will also make the best effort towards recovering the disbursed loans under stimulus packages. During the pandemic period, several tax incentives were put in place, some of which should be time-bound.

No doubt, the economy will need a recovery package 2.0, with distributive justice, which will support the marginalised people at a time of rising prices of daily essentials and by taking into consideration their struggle during the pandemic with consequent loss of income and savings and increased debt (please see Section 5 for details). This new recovery package should also consider the increased cost of investment due to rising commodity prices (including capital goods) which have also put upward pressure on wages. To this end, unfinished support agendas such as loans to smaller entrepreneurs and fuller implementation of programmed social protection programmes (including cash transfer) must be ensured. Since the policy space is limited, the challenges of policymaking will become more acute. Powerful stakeholders will fight for the limited policy space, while the marginalised stakeholders will need more policy support.

In view of the current context, the government will be well advised to pursue a focused and targeted expansionary fiscal policy reinforced by accommodative monetary policy. Policymakers should acknowledge that a targeted flow of fiscal resources to the more vulnerable households as well as to relatively small (and informal) enterprises will have more 'aggregate domestic demand augmenting' effect and provide protection to the marginalised groups. Mobilisation of domestic resources for underwriting the targeted expansionary fiscal policy by curbing tax evasion will be helpful. However, it may not be the most critical binding constraint. The experience of the COVID-19 period shows that the ability to effectively implement expanded public expenditure programmes, including any additional stimulus packages, in quantitative and qualitative terms, is possibly the foremost binding constraint.

Lack of real-time and updated data on poverty, employment, inequality and budget execution continue to disrupt the design of the needed policy package. It is apprehended that in the absence of reliable data on these critically important indicators, policies will continue to focus on the areas where data is available (e.g., gross domestic product (GDP), per capita income, etc.). Also, in order to address the newly emerging challenges, the government will need to revitalise the lost reform and good governance agendas.

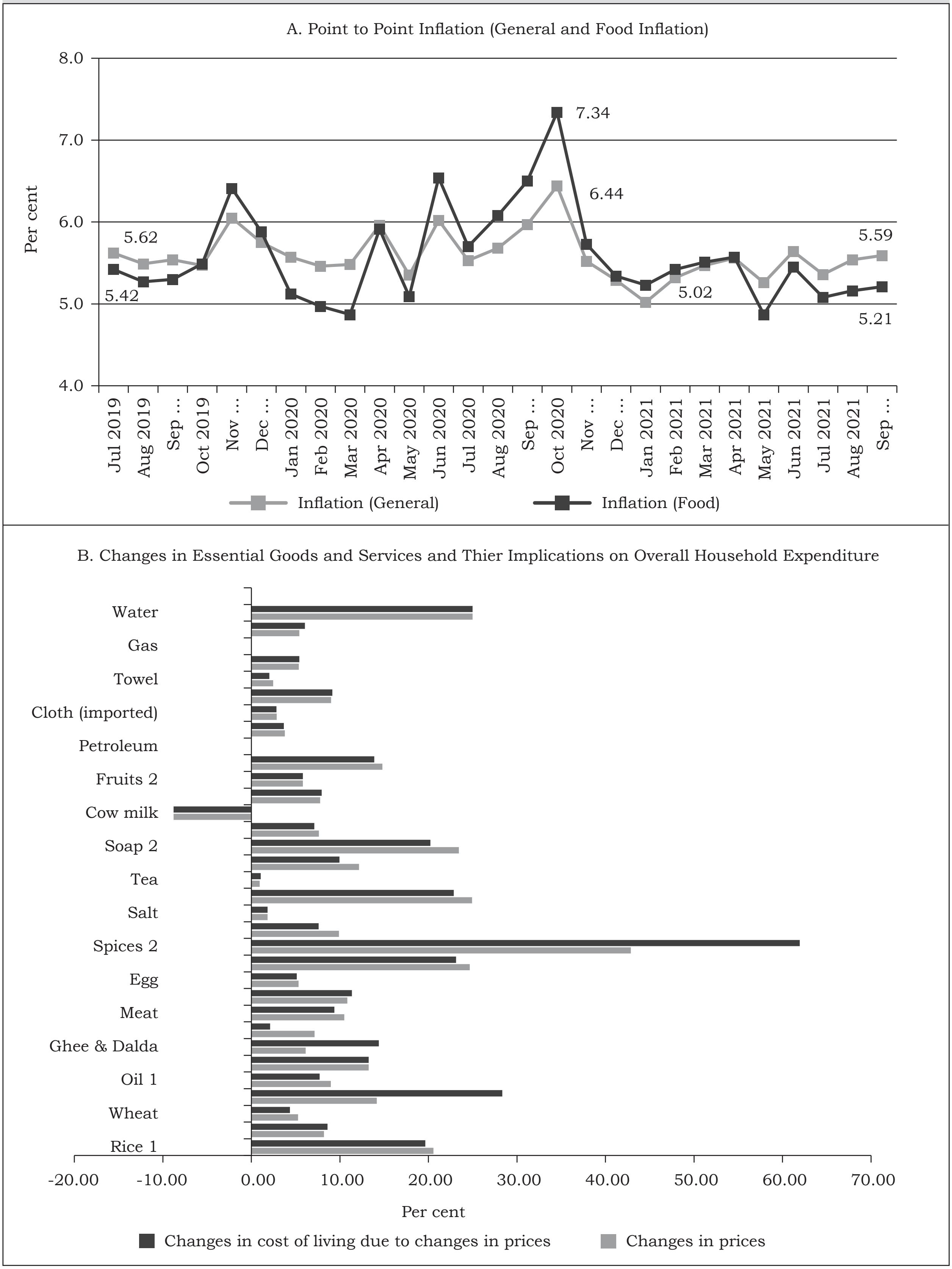
3.3 FOOD INFLATION DURING THE PANDEMIC PERIOD: HOW TO EXPLAIN IT

3.3.1 Introduction

Bangladesh has experienced inflationary pressure since the early phase of the pandemic (June 2020) that has continued in the later phase of the pandemic in 2021. Such inflation caused a significant adverse impact on consumers and, particularly, low-income households (World Bank, 2021). It is to be noted that a high inflationary trend has been observed in many developed and developing countries following the re-opening of economies after the second wave of the pandemic. Figure 3.1A presents the trends in inflation during the pre-pandemic and the pandemic period. Food inflation, which accounts for the major share of Bangladesh's inflation, reached its peak in October 2020 and decelerated until January 2021 and then started to rise, which persisted until September 2021. Given the rise in the level of poverty, slow rise in employment opportunities, and uncertainty in income opportunities, a large section of low-income households has faced increasing challenges in the face of rising inflation, particularly food inflation. According to the Consumers Association of Bangladesh (CAB), the rise in

Figure 3.1

General Inflation and Food Inflation and the Cost of Living



Source: Author's Analysis Based on Data from Bangladesh Bank and Consumers Association of Bangladesh (CAB) (n.d.).

the price of essential consumer goods has led to erosion of purchasing power and the consequent higher level of burden on household expenditure (Figure 3.1B). For example, the rise in the price of rice caused a 19.7 per cent rise in household expenditure for this item during 2020; the expenditure increased by 62 per cent for spice related consumption purposes.

Overall, a persistent inflationary pressure has become a major challenge in maintaining a minimum living standard for low-income households. This is likely to further push nutritional deficiency, particularly of children of low-income households. Inflation also has a detrimental impact on poverty levels. This section examines the nature and extent of recent inflation and factors responsible for the inflationary pressure. More specifically, the section investigates whether inflationary trends in Bangladesh and the underlying reasons are similar to the experiences of other developing countries.

3.3.2 Discussion on Commodity-wise Changes in Prices during the Pandemic Period

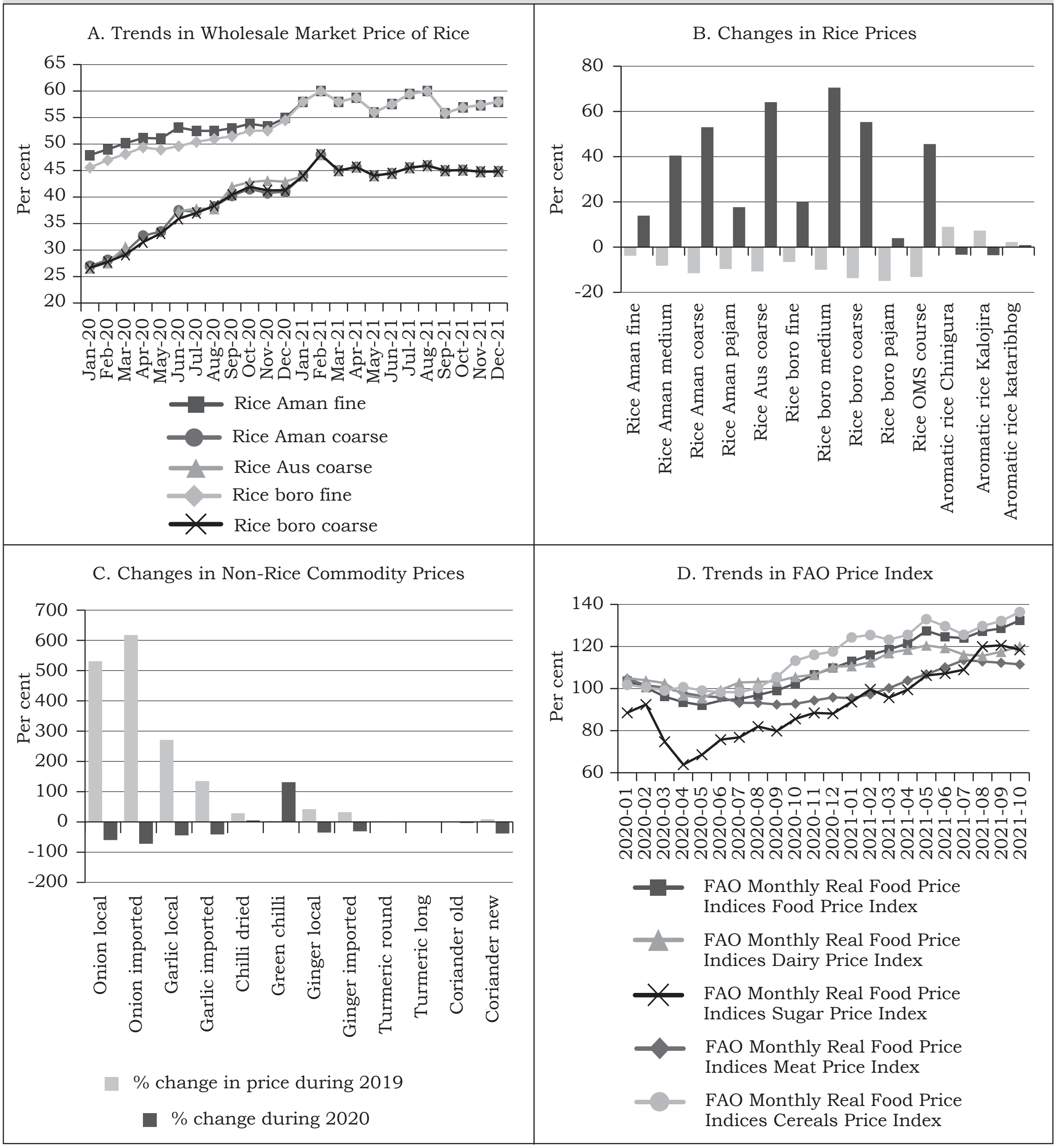
During the last three years, changes in food prices were not similar for all commodities. The rise in commodity prices is examined for two periods: (a) changes in prices during the pre-pandemic period (January 2019 to December 2019), and (b) changes in prices during the pandemic period (January 2020 to December 2020 and beyond). Figure 3.1A presents trends in prices of different food products, including rice and vegetables, at the national and international markets. During the pandemic period, the price of different types of rice has started to rise, which continued till March 2021 and has stabilised at this level afterwards. Both fine and coarse rice have experienced similar trends in price. According to Figure 3.2, while the price of all varieties of rice has declined during the pre-pandemic period, a substantial rise in the price of rice has taken place during the pandemic period, mainly in case of medium and coarse rice consumed by low-income households.

The trend in prices of vegetables and spices is found to be somewhat different during pre-pandemic and pandemic periods. The retail price of vegetables declined in 2020 against the sharp rise in prices in 2019—mainly in case of onion (local and imported), garlic (local and imported), and ginger (local and imported). On the other hand, the retail price of different types of meat experienced a mixed price rise in 2019 compared to that in 2020. The low level of rising in prices of vegetables, meat, and spices during the early phase of the pandemic is likely to be influenced by a number of factors, including: (a) restrictions of movement of goods in both domestic and international markets owing to the COVID-19; and (b) uncertainty in consumer earning which forced them to spend less on pricier essential commodities. According to Figure 3.3, price volatility during the early phase and later phase of the pandemic has been different. In most cases, volatility was higher in the early phase of pandemic both in wholesale and retail markets, including for vegetables and spices. However, the volatility is rather high both in the early and later phases of the pandemic for items like soybean oil, palm oil, and ginger, which are primarily imported commodities. The price movement of these commodities is likely to be influenced by price movement in the international market.

The movement of prices in Bangladesh is rather different compared to that in the international market. The rise in prices in the international market is seen following the first wave, since July 2020 and has continued during 2021 (till October 2021). In this period, the global economy` started to resume, and rise was mostly demand-induced and on account of pressure in the supply chain and consequent rise in prices of raw materials, transportation, and other necessary services. Indeed, all categories of products have experienced a rise in prices in the global market according to the Food and Agriculture Organization (FAO) price index (Figure 3.2). For some items, a rise in prices in the local market was visible in the pre-pandemic period. The prices of some of the products continued to rise in the early and later phases of the pandemic, while some have experienced a decline in prices.

Figure 3.2

Scenario of Rice and Spice Price Market and Overall Food Price Index

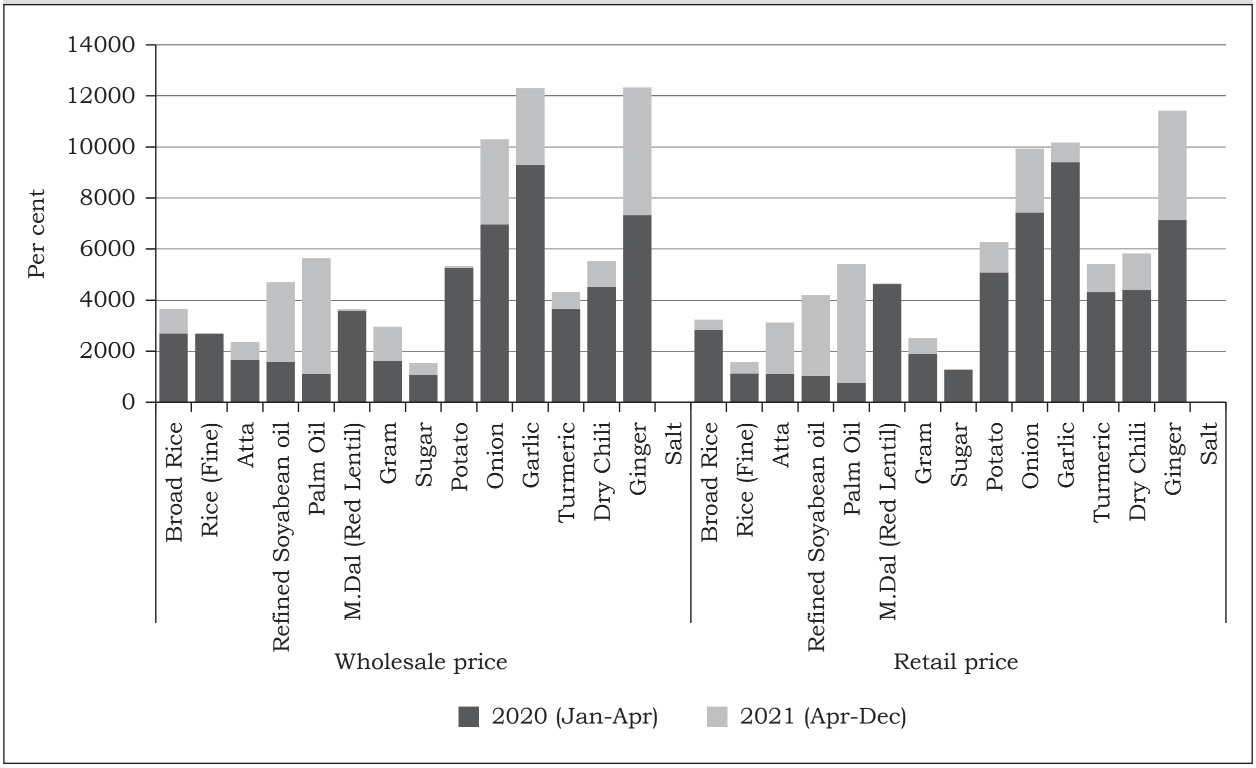


Source: Author's analysis based on BBS (2020), and FAO (2021).

Hence, the trends in prices of food products in the local market are not necessarily similar to what is experienced in the global market. The reasons underpinning the price movement in the local market are likely to be different.

Figure 3.3

Price Volatility during Pre-Pandemic and Pandemic Period



Source: Author's analysis based on the data from TCB (Trading Corporation of Bangladesh) Website.
Note: For 2020, data was available for 80 transaction days, whereas for 2021, data was available for 204 days.

Changes in prices in the supply chain of rice: Farmgate, wholesale and retail markets

Domestic production, consumption, and deficit: Domestic supply chain of rice operates primarily on the basis of domestic production and supply. Table 3.4 presents the domestic production, consumption, and deficit/surplus situation during 2015–2021. It is important to note that the

Table 3.4

Domestic Production and Consumption of Rice

(in '000 m. tons)

Year	Domestic Production		Domestic Consumption		Surplus/Deficit
	Production	Growth Rate	Domestic Consumption	Growth Rate	
2015	34500	0.00%	35100	0.00%	-600
2016	34578	0.23%	35000	-0.28%	-422
2017	32650	-5.58%	35200	0.57%	-2550
2018	34909	6.92%	35400	0.57%	-491
2019	35850	2.70%	35700	0.85%	150
2020	34600	-3.49%	36100	1.12%	-1500
2021	36250	4.77%	36700	1.66%	-450

Source: Author's compilation from Index Mundi.

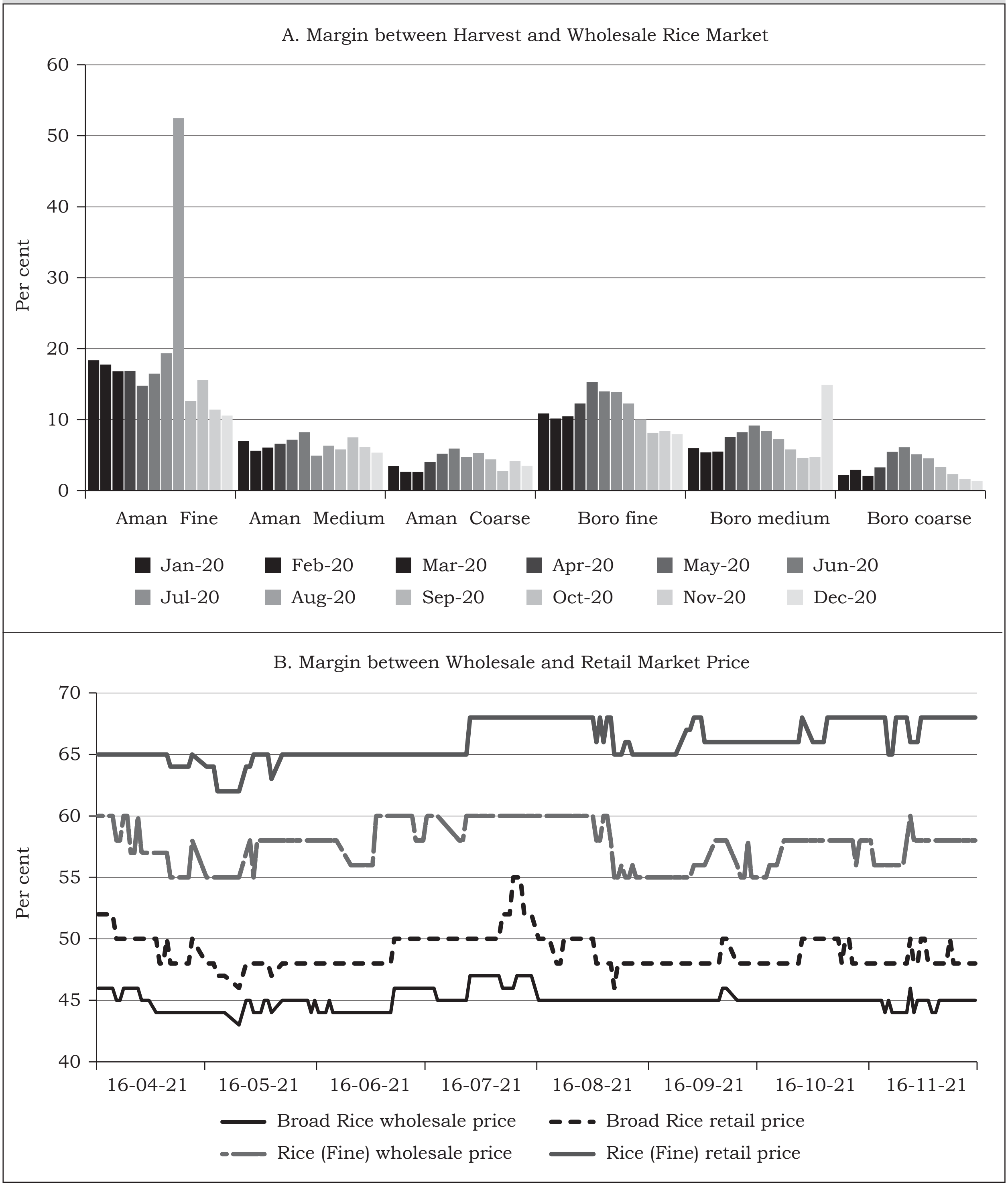
domestic production of rice has maintained considerable growth over the last several years. On the other hand, domestic consumption also maintained consistent growth over the years, particularly during 2020 and 2021, when it increased by over 1 per cent per year. Despite having a good harvest of rice, this is found to be inadequate to meet domestic demand. As a result, there was a deficit in rice supply from the local market. Since rice is the most essential staple food, this was quickly reflected in the retail market price. Moreover, the deficit in the local market, unless properly managed, would create scopes for market manipulation by different concerned actors.

Distribution of margin in the supply chain: The supply chain of rice is mainly operated by farmers, aratders, pikars, bepari, millers, wholesalers and retailers. In a well-organised and well-managed competitive supply chain, the level of margin for different market agents of rice is expected to follow the general marketing principle—the higher the volume of products to be transacted, the lower the level of the agent's margin. Figure 3.4 presents the margin distribution at different levels—farmgate, wholesale and retail markets during pre-pandemic and pandemic periods. The margin received by agents working at the farmgate level, including those by the rice millers, is higher in the case of fine rice (e.g. fine aman and fine boro) than is the case for coarse rice (e.g. coarse aman and coarse boro). It is important to note that the margin level was very high in the early and mid-2020s compared to that in the late 2020s. However, the margin received by agents working in wholesale and retail markets fluctuated, at moderated level, though their margin was higher in the case of fine rice. Fluctuation of margin is rather high at rice millers' end compared to that at wholesalers' and retailers' end. Such a pattern of distribution of the margin in the supply chain is difficult to explain in a competitive market structure. In other words, some market agents, particularly rice millers, are likely to play the role of 'dominant market agents' and influence the market price and receive higher margins.

Public food stock, PFDS and their impact on rice price: Rice market price is found to be influenced by the level of availability of public food stock, particularly rice. Usually, an inverse relationship is observed whereby higher rice stock transmits the market signal of an adequate supply of foodgrains that signals market price stability and vice-versa. Table 3.5 presents the food stock, food procurement, and food distribution during 2019–2021. The stock of rice was relatively high during 2019 (on average 1241 thousand metric ton), which, however, gradually declined in the following years. During 2021 (as of September 2021), the average stock was lower at 944 thousand metric tons; however, the stock situation has improved in the last three months due to higher procurement and import. Higher food stock has helped stabilise the market price in recent months though it has yet to have any positive impact on market price. This is perhaps because of a lack of consistent and available supply of bulk scale rice stock in public warehouses, which could transmit a positive market signal. It is to be noted that a considerable level of use of public food stock for distributing food among the low-earned people under the safety net programmes, including open market sales across the country, would require a consistently high stock of rice in the warehouses. This has been found to be rather difficult to maintain.

Figure 3.4

Gross Margin at Farmgate, Wholesalers and Retailer's Ends



Source: Author's analysis based on BBS (2020) and TCB (n.d.).

Table 3.5

Public Foodgrains (Rice) Procurement, Food Stock, and Food Distribution

(in thousand metric ton)

Month	Procurement of Rice			Food Stock (Rice)			Food Distribution (Rice)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
January	287.5	340.7	34.3	1291.3	1260	459	46.0	69.1	65.9
February	223.8	321.2	21.5	1391.5	1492	470	122.0	88.4	71.8
March	24.9	76.7	5.4	1182.5	1305	334	233.0	262.2	245.6
April	0.0	0.0	0.1	975.7	1009	207	220.0	293.4	224.6
May	320.9	51.5	311	1048.6	753	553	247.0	305.7	89.8
June	414.7	282	0.0	1255.8	838	1056	206.0	195.9	28.13*
July	312.9	286	228	1491	963	1199	76.6	159.2	180.1
August	276.1	174.8	364	1620	1071	1557	144.6	65.8	131.7
September	85.3	116.4		1437	963	1360	265.9	223.0	270.0
October		0.0		1211	719		224.7	242.3	
November	0.2	0.2		999	494		211.3	224.2	
December	59.4	21.9		990	461		68.2	58.7	
Average/ Total	2005.7	1671.4	964.3	1241	944	799	2065.3	2187.9	1279.5

Source: Food Planning and Monitoring Unit or FPMU (n.d.).

Table 3.6

Rice Import by Government and Private Sector

(in thousand metric ton)

Month	Public Import (rice)			Private Import (rice)		
	2019	2020	2021	2019	2020	2021
January	6.6	0	30.2	7	0	45
February		0	61.6	18	0	176
March		0	105.1	31	0	279
April	14.4	0	98.4	9	0	258
May		0	152.6	10	0	10
June		0		1	0	17
July	0	0	95.6	4	0	0
August	0	0	128.7	0	0	0
September	0	0	75.1	0	0	123
October	0	0		0	0	
November	0	0		0	0	
December	0	4.1		0	0	
Total	0	4.1	747.2			

Source: FPMU (n.d.).

During July–September 2021, a considerable amount of rice has been distributed with a view to addressing the need of the low-income people during covid and post-covid period, which is likely to be continued in the upcoming months. Accordingly, public food stock is expected to be under consistent downward pressure. There will be a need for on a continuous basis procurement to maintain the required amount of food stock. Public procurement from the domestic market has been consistently lower than the target over the past several months, which led the government to go for a considerable amount of import (Table 3.6). During this period, import of rice by the private sector has continued to be carried out at a moderate level. Together, public and private sectors will need to ensure that adequate rice is available in the market and the stock. A good harvest may not be enough to ensure this.

Domestic demand for rice is difficult to meet through domestic production given the rise in demand for rice by low-income consumers as also other consumption needs outside the households. Besides, government's public foodgrain distribution system (PFDS) requires adequate rice stock, along with adequate domestic availability. A revised estimate of domestic demand for rice under the changing consumption structure is needed. There is a need to put emphasis on the timely import of rice on the part of public and private sectors in short and medium terms. Emphasis should also be put on raising the productivity of rice production and lowering of the production cost through mechanisation and technological upgradation of agricultural products and agricultural land.

Change in prices in the supply chain of imported non-rice products: Importers, wholesalers and retailers levels

Changes in Prices of Non-Rice Food Products: Imported commodities such as sugar, soybean, palm, lentils and wheat have experienced different levels of rise in prices at different stages—import, wholesale and retail stages (Table 3.7). During FY2020–21, a higher level of rise in import price was observed for soybean oil, palm and lentils, while a lower level of rise in import price was observed for sugar and wheat. The price response in the wholesale and retail markets was largely in alignment

Table 3.7

Prices of Imported Commodities at Different Stages (Tk/Kg)

Year	Commodity	Changes in prices (y/y)				Price (Tk/Kg)			
		International market	Local importer's end	Wholesaler's end	Retailer's end	International market	Local importer's end	Wholesaler's end	Retailer's end
2020-21	Sugar	32.5	47	58	63	43.7	4.2	3.5	0.0
	Soybean Oil**	84.0	90	99	113	31.0	24.5	21.9	27.0
	Palm**	73.8	82	88	90	32.4	34.8	31.8	11.1
	Lentils		50	64	73		21.3	1.4	7.4
	Wheat**	18.7	22	26	38	9.9	6.3	-0.6	35.7
2019-20	Sugar	22.6	46	56	63	-5.2	15.1	17.2	23.5
	Soybean Oil	64.2	73	82	89	2.9	7.3	3.1	4.7
	Palm	55.7	61	67	81	20.3	10.3	7.8	17.4
	Lentils		41	63	68		17.3	29.7	17.2
	Wheat	17.0	21	26	28	-8.8	-5.5	4.3	-9.7

Source: Retail Price collected from Department of Agricultural Marketing (DAM) website (DAM, n.d.), Wholesale price collected from BBS (2020).

Note: **Global import price of Soyabean, palm oil, and wheat for FY2020–21 has been collected from Federal Reserve Economic Data (FRED) (n.d.) where International Monetary Fund (IMF) was mentioned as source.

Table 3.8

Margin of Imported Commodities at Different Stages (Tk/Kg)

Year	Commodity	Importer's Margin	Wholesaler's Margin	Retailer's Margin
2020-21	Sugar	14.5	10.7	4.8
	Soybean Oil	6.0	9.0	13.6
	Palm	8.2	5.7	2.2
	Lentils		14.1	8.8
	Wheat	3.3	4.1	11.9
2019-20	Sugar	23.4	10.7	6.8
	Soybean Oil	8.0	9.0	7.4
	Palm	5.3	5.7	14.4
	Lentils		22.0	4.7
	Wheat	4.0	5.5	1.8
2018-19	Sugar	16.0	8.4	3.0
	Soybean Oil	5.0	11.4	5.9
	Palm	9.0	6.5	7.2
	Lentils		13.6	9.2
	Wheat	3.0	3.3	5.8

Source: Author's analysis based on Table 7.

with the import prices of concerned commodities. The retail markets for wheat and palm, on the other hand, behaved differently. This market feature was observed both in 2020 and 2021. During the same period, the global market price for similar products experienced contrasting nature of change. During FY2020–21, the most significant changes in international price were observed in case of sugar, soybean oil, and palm.

A key point to note is that changes in the international market prices for selected products do not necessarily influence the local market prices to the same tune for all such imported products. Likewise-, from the pairwise correlation test[1], it has been found that the local importer-, wholesaler-, and retailer-level prices of imported goods like soybean and palm oil are highly positively correlated with the international market price. Meanwhile, sugar prices at the domestic market are less correlated (especially the retailer price) to the international market price except for a very high positive correlation between wholesalers and local importers. On the other hand, in terms of wheat, the pairwise correlations between wholesalers and the international market and between wholesalers and local importers prices are both found to be negatively correlated.

Market price along the local supply chain tends to be influenced by the role played by the key agents, including importers, wholesalers and retailers. The nature of market-based performance can be examined by analysing the distribution of margin in the supply chain. Hence, it is important to examine how much margin is received by different market agents at different stages of the value chain. This has been done in the case of selected imported products. According to the theory of marketing, market agents transacting higher volume are likely to receive lower margins per unit of sales. However, the following table highly contradicts the general theory of marketing since it is found

[1]The pairwise positive correlation indicates that the prices of the two products go in tandem (i.e., if one increases then another also moves upward) whereas a negative correlation means the prices of the two products move in the opposite direction.

that the margin taken by the wholesalers is higher than that of the retailers. Table 3.8 presents the margin in value chains of the selected products. The margins received by importers are considerably high compared to wholesalers and retailers, which is usually not the case in a competitive market structure. It appears that the importers have been taking advantage of their ‘dominant market player’ role in the supply chain, thereby influencing the price and reaping higher margins. Consequently, importers’ price does not necessarily correlate with the international market price.

3.3.3. External Factors Likely to Impact Price Changes in the Commodity Market

During the period under discussion, a number of external factors are likely to have contributed to the inflation in domestic market. These include: (a) rise in real effective exchange rate (REER) of BDT against USD; (b) money-led inflation due to diversion of subsidised credit in non-productive activities; and (c) upward adjustment of petroleum price in the domestic market.

Rise in REER of BDT against USD

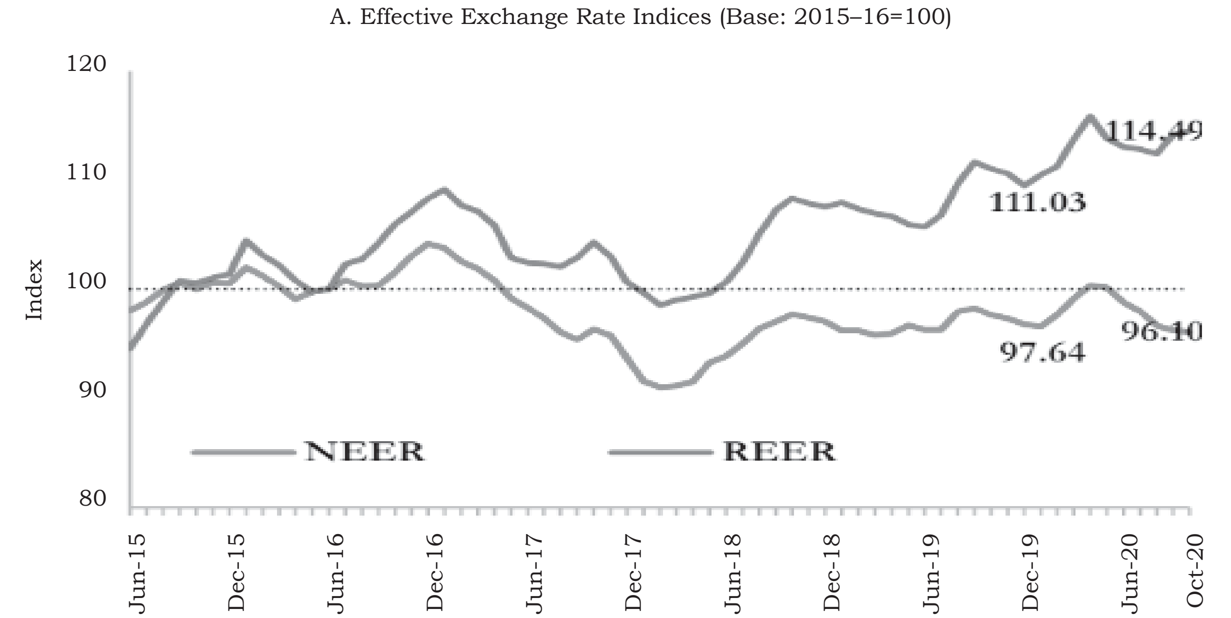
While REER has posted a general rise over the recent past, indicating that BDT is overvalued, and exports were becoming less competitive. The central bank has attempted to ease the pressure by selling dollars in the market. This has resulted in stalling the further depreciation of taka, but the fact is that taka has already depreciated by about 0.85 points after remaining stable for long period of time (Figure 3.5). At a time, high global commodity prices have resulted in a further rise in prices of imported commodities.

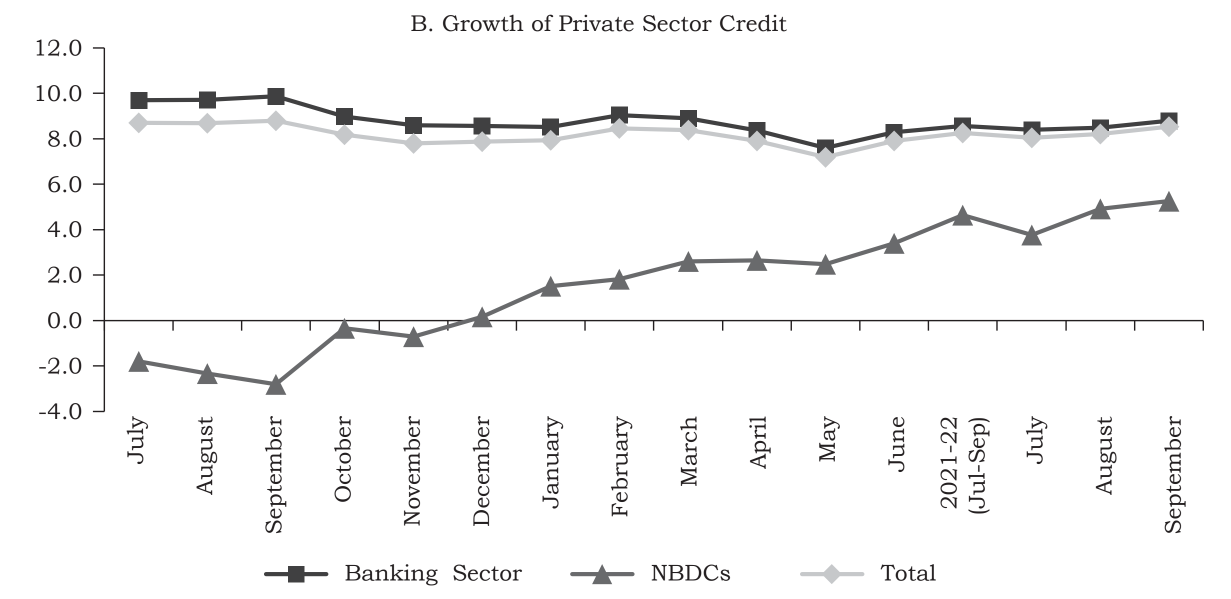
Private sector credit growth

It is apprehended that a higher level of broad money supply, particularly through the disbursement of private sector credit during the pandemic, was likely to contribute to inflation to some extent. Private sector credit growth has maintained a consistent trend during 2021. Around 8 to 9 per cent level of growth has been maintained during 2021, which is lower with the MPS targets for private sector credit growth (14.8 per cent) during the last and current fiscal years. However, the credit disbursed by the specialised banks such as Karma Sangsthan Bank and Prabashi Kalyan Bank has increased sharply from a mere 1.5 per cent in January 2021 to 5.3 per cent in September 2021. In fact, the credit growth was negative over a large part of 2020. It is reported by various media that banks invested in the stock market during the uncertain period of the capital market in 2020 and 2021. The banking surplus liquidity stood at Tk 204,070 crore as of January 2021, a year-on-year surge of 97 per cent. The amount stood at Tk 103,358 crore in the same month a year ago. The contribution of investment income rose to a higher extent in 2020 because of banks’ increased investment in treasury bills, bonds, and the stock market. Banks’ investment in bonds and other securities rose 8.84 per cent to Tk 314,747 crore in the second quarter of the last year. Hence, the bubble created in the capital market would partly contribute to such investments and other bank borrowers that may have contributed to inflation to some extents.

Figure 3.5

Implication of REER and Credit Growth in the Private Sector



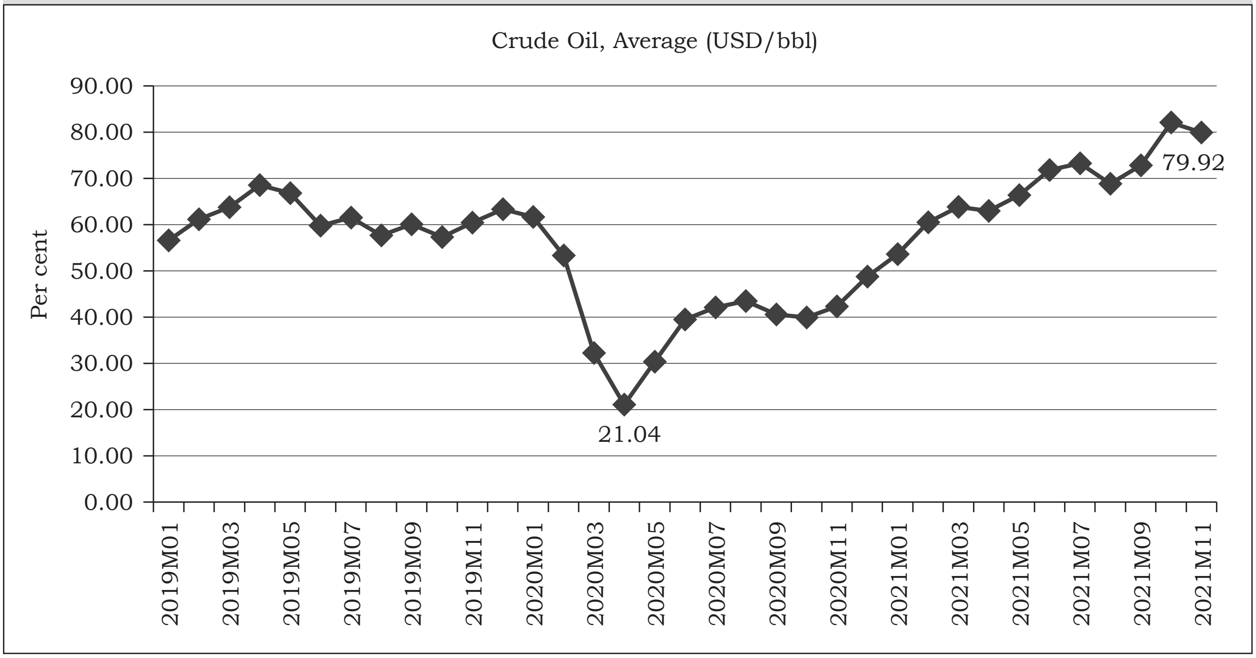


Source: Bangladesh Bank, 2021b.

Upward adjustment of petroleum price

The Ministry of Power, Energy and Mineral Resources (MoPEMR) has recently made an upward adjustment of petroleum products, particularly diesel and kerosine, taking into account the loss incurred by the Bangladesh Petroleum Corporation (BPC) arising from higher due to rise in import price—from as low as USD 21 per barrel in May 2020 to USD 79.9 per barrel in November 2021 (Figure 3.6). The MoPEMR has increased the diesel price by 23 per cent from Tk 65 to Tk 80. Given

Figure 3.6
Crude Oil Price Hike in the International Market



Source: World Bank (n.d.).

the widespread use of petroleum in agricultural production, transportation and milling of rice, the production and marketing costs of rice are likely to be pushed upward as a consequence. According to a newspaper report, 69 per cent of boro cultivation is based on diesel-based shallow tubewell (STW) irrigation. The rise in diesel price could raise the cost of boro production by around 25 per cent.[2] A similar impact may be observed in the cultivation of other crops and vegetables, albeit perhaps at a lower level. Hence, a cost-driven rise in harvest price of upcoming crops, including Boro rice, would further create inflationary pressure in the coming months.

3.3.4 Conclusion

The high food inflation in the domestic market during the pandemic period, particularly during the later phase of the pandemic (in 2021), is likely to be influenced by structural weaknesses in the rice value chain. The local market is influenced by the global market's price trend to a certain degree, primarily for the imported commodities. However, this cannot fully explain the internal market dynamics and its implications for the prices of essential commodities. It is suggested that the government should take necessary steps regarding following issues:

a) A proper re-estimation of rice demand is urgently required given the increasing demand for rice. The existing base of rice demand could not provide a proper market signal and has given rise to a number of challenges in ensuring rice price stability in the market.
b) The role of the dominant market players in rice and non-rice imported products, particularly rice millers and importers, needs to be revisited. It appears that these players have been influencing the market and taking undue advantage of the market through higher margin.

[2]The Bonik Barta report, published on 27 November 2021.

c) The role of the Competition Commission needs to be strengthened, particularly with respect to the market for essential consumer goods. The Commission should develop a database, regularly monitor the dominant market players' operations, investigate the exercise of market controlling and manipulating behaviour (if any), and take proper measures in this connection.
d) Given the rise in poverty and changing consumption patterns, particularly of urban employed people and their families, timely import of rice should be given importance in the short- and medium-term policies.
e) Targeted public investment is needed to enhance productivity particularly in rice production, and to lower the production costs through mechanisation and other means.
f) Lower adjustment of diesel price will be required to reduce tillage, irrigation and transportation costs which will help reduce the production cost, particularly for boro production and other diesel-used agro-products.

3.4 ANALYSIS OF EXTERNAL SECTOR PERFORMANCE

As the year 2021 draws to a close, two distinctive trends can be discerned as far as the external sector performance of Bangladesh is concerned. On the one hand, and on a positive note, both export earnings and import payments have posted robust growth rates in the first five months of the current FY2021–22, as against the corresponding period of FY2020–21. Also, migrant workers are once again joining the overseas jobs market in large numbers, following the almost near-zero movement at the height of the pandemic. Through multiplier effects, these are expected to have positive impacts on production investment, export, labour market and earnings opportunities of people. On the other hand, on a challenging note, as of October 2021, the deficit in the country's trade balance has registered a significant rise, and the current account balance has entered into negative terrain from the previous surplus of the corresponding period of FY2020–21. With import payments rising at 50 per cent (during the first four months of FY2021–22 in the backdrop of relatively lower levels of export growth and negative growth of remittance flows), the demand for dollars has been on the rise with a consequent appreciation of the USD. To stall further depreciation of the BDT against the dollar, in a reversal of its earlier stance, Bangladesh Bank has to sell dollars in the market. The likelihood of imported inflation on account of the depreciating taka has been accentuated by the rise in commodity prices in the global market. As a result, inflation management and exchange rate management have emerged as new challenges which will define the efficacy of macroeconomic management as the economy gets ready for the new year 2022.

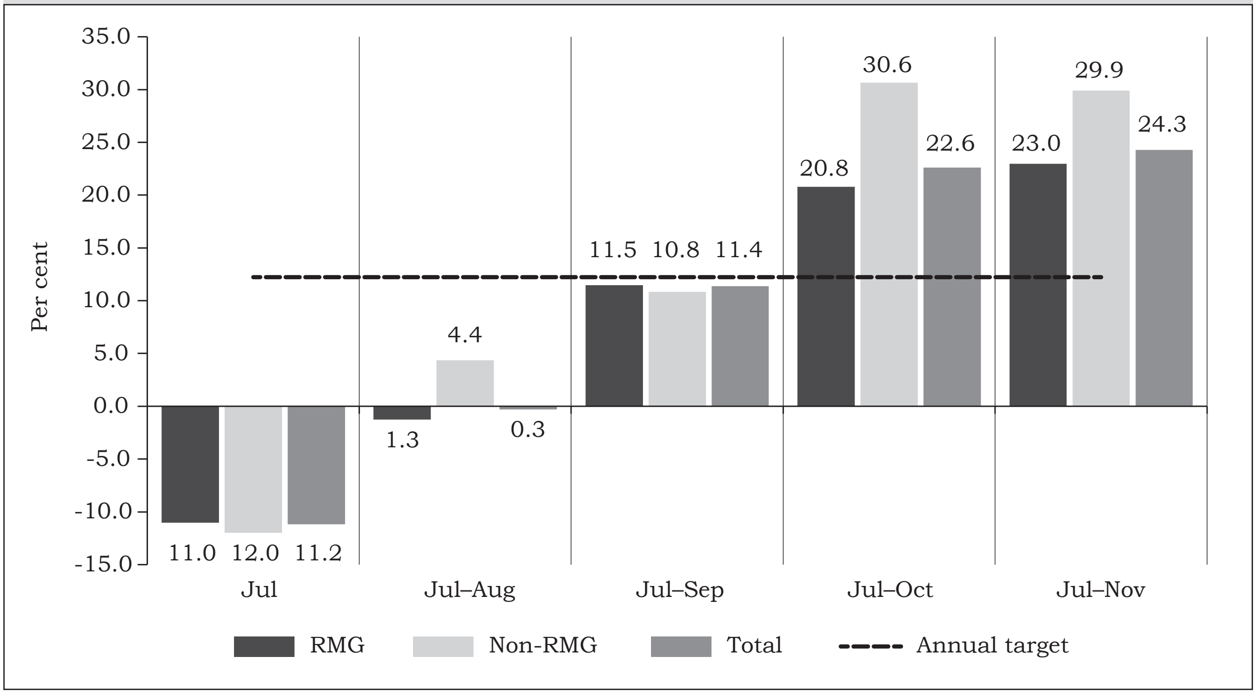
Following sub-sections elaborate on some of the key external sector trends, disquieting developments and emerging challenges, as is evidenced from the performance of the sector during the first half of FY2021–22.

3.4.1 Growth of Export Earnings Is Well above the Strategic Annual Target but Conceals Disquieting Trends

On an encouraging note, export earnings have registered an impressive growth during the first five months (July–November 2021) of FY2021–22, with a growth of 24.3 per cent compared to the corresponding period of FY2020–21 (export growth in FY2020–21 over the matched period of FY2019–20 was only 0.9 per cent). While the base effect of low growth in FY2020 is an issue, the export performance is no doubt encouraging. As can be seen from Figure 3.7, exports have picked up particularly during the September–November 2021 period. Growth of export earnings in the first five months had indeed surpassed the strategic annual target of 12.2 per cent set out for FY2021–22.

Figure 3.7

Targeted and Achieved Growth of Export Earnings



Source: Authors' Calculation from EPB Data.

As would be expected, for the most part, this growth has been anchored in the high growth of export earnings from the readymade garments (RMG), at 23 per cent, compared to the July–November period of FY2020–21. To be noted, the growth of non-RMG export earnings was also an impressive 30 per cent during this period.

In line with the trends, more than three-fourths of the incremental export earnings was generated on account of the RMG sector, signalling the continuation of the predominance of the item in the country's export basket and the rising export concentration in recent years (Table 3.9). Share of RMG in total exports stood at 80.1 per cent during the July-November period of FY2021–22 (the corresponding share in FY2020–21 was 81.2 per cent).

Table 3.9

Incremental Share of Exports during July-November FY2021–22

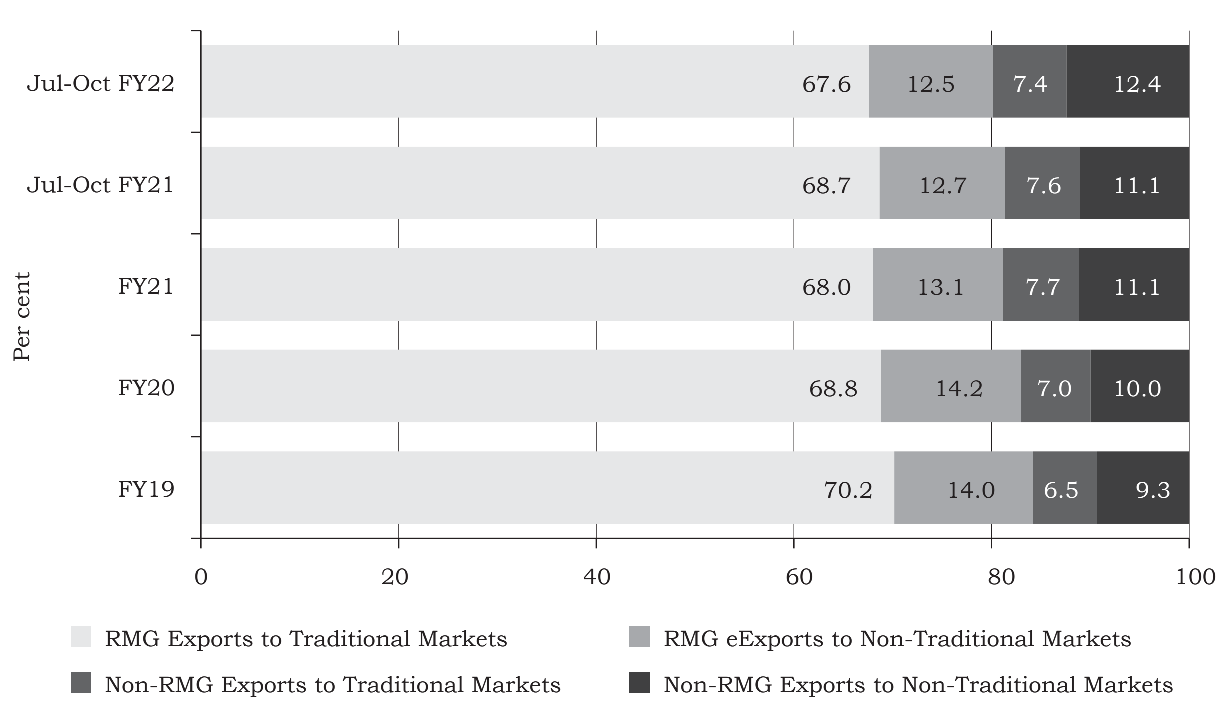
(in per cent)

RMG			Non-RMG							All Products
Knit	Woven	Total	Raw jute	Leather	Home textiles	Frozen & live fish	Pharmaceuticals	Other non-RMG	Total	
47.8	28.8	76.6	0.6	0.3	2.9	1.4	0.5	17.6	23.4	100.0

Source: Authors' calculation from EPB data.

Figure 3.8

Market and Product Composition of Bangladesh Exports *(in per cent)*



Source: Authors' Calculation from EPB Data.

Figure 3.8 shows market and product concentration, indicating the persisting trend of market concentration in traditional markets including the European Union (EU), United States of America (USA), and Canada. Despite repeated efforts towards export and market diversification, export concentration, on both counts, has remained the dominant feature in Bangladesh's export structure. However, non-RMG market share in non-traditional markets has been showing some positive trends, with the share in the total export increasing by about a third (Figure 3.8).

It is to be noted that the growth rate of knit-RMG (with its relatively higher domestic value addition) has been higher (25.9 per cent) in the first five months of FY2021–22 compared to the woven-RMG (19.3 per cent). This would mean higher growth of net export earnings from RMG as against the growth of gross RMG exports on account of higher domestic value retention.

However, robust RMG growth rates conceal a disquieting message. One will need to take cognisance of the fact that the growth of RMG in terms of export earnings is the combined result of price effect and volume effect. In this connection, it is pertinent to recall that the price of cotton in the global market has increased considerably in recent times. This was, on average, USD 2.3 (per kg) in July–October 2021 compared to USD 1.6 (per kg), on average, over the corresponding period of 2020. This sharp rise of 47.9 per cent in cotton prices had a knock-on effect on prices of both yarn and fabrics, as would be expected.

Analysis carried out by the authors indicates that, in the US market, the growth in export earnings, by 23.8 per cent (during July–October 2021 period), was mostly driven by volume, which rose by

19.8 per cent; in contrast, the rise in price per dozen was a mere 3.3 per cent (Table 3.10). In case of woven-RMG, the predominant export to the US market, average prices rose by only 1.9 per cent. The rise in export value of 13.2 per cent was mostly driven by growth in volume of 11.1 per cent. In the case of knit-RMG, the situation was somewhat different—export earnings rose by 44.6 per cent, with average prices (per dozen) increasing by 14.3 per cent, while the export volume rose by 26.5 per cent (Table 3.10).

Table 3.10

Bangladesh's RMG Exports to US: Value, Price and Volume Effects

HS Code	2020 (Jul-Oct)			2021 (Jul-Oct)			Percentage Increase		
	Volume (in million dozen)	Value (in USD million)	Per dozen price (in USD)	Volume (in million dozen)	Value (in USD million)	Per dozen price (in USD)	Value	Volume	Per dozen price
61 (Knit)	26.61	680.12	25.6	33.67	983.67	29.20	44.6%	26.5%	14.3%
62 (Woven)	20.35		65.7	22.60		67.00	13.2%	11.1%	1.9%
Overall	46.96		42.97	56.27		44.38	23.8%	19.8%	3.3%

Source: Authors' calculation based on United States International Trade Commission (USITC) data.

This scenario as regards the drivers of the rise in export earnings is also corroborated in case of the EU market, with average growth of export earnings mostly accounted for by the rise in volume rather than that of price (Table 3.11). Export earnings rose by 8.9 per cent in the backdrop of the rise in volume of 7.9 per cent as against the rise in price of an insignificant 0.9 per cent (per kg).

Table 3.11

Bangladesh's RMG Exports to the EU: Value, Price and Volume Effects

HS Code	2020 (Jul-Oct)			2021 (Jul-Oct)			Percentage Change		
	Volume (in million Kg)	Value (in million euros)	Per Kg price (in euros)	Volume (in million Kg)	Value (in million euros)	Per Kg price (in euros)	Value	Volume	Per Kg price
61 (Knit)	237.9	2,920.7	12.3	262.3	3,317.5	12.6	13.6%	10.3%	3.0%
62 (Woven)	113.5	1,668.6	14.7	116.9	1,681.4	14.4	0.8%	3.0%	(-) 2.2%
Overall	351.4	4,589.3	13.1	379.2	4,998.9	13.2	8.9%	7.9%	0.9%

Source: Authors' calculation based on Eurostat data.

A comparison of the estimated data presented in Tables 10 and 11 shows that the trend of volume-driven growth is more prominent for woven-RMG compared to what was the case for knit-RMG. It will be appropriate to draw the conclusion that, where domestic value addition is higher (as in case of the knit-RMG), the competitive strength and bargaining power of exporters are, to that extent, stronger.

To note, these two markets (the USA and the EU) account for 70.3 per cent of total RMG exports of Bangladesh.

The above results indicate that brands and buyers had only marginally absorbed the rise in the costs of apparels production (on account of rise in price of cotton, the key input, as also yarn and fabrics). The burden of the increase in production costs had to be borne primarily, and almost exclusively, by Bangladesh's RMG entrepreneurs. To what extent this reflects the weak bargaining capacity of Bangladesh's exporters of apparels and/or to what extent this originated from prices having been negotiated earlier with the brands and buyers (prior to the hike in prices of key inputs) needs to be investigated further. However, the fact remains that export growth was primarily volume-driven and this had a number of implications. It had important consequences for the bottom line of the entrepreneurs and their (falling) profit margins. Profit is being made primarily on scale and volume, and not in prices. This is also likely having implications for workers who are possibly having to meet higher production targets. The rise in productivity is not being realised through higher prices, although it is helping Bangladesh's apparels to remain competitive. This also has important implications for wages.

The analysis once again reveals the predominant power of brands and buyers, in terms of price setting, in the buyer-driven value chain in the global market for apparels. In view of this, it is reckoned that Bangladesh's entrepreneurs need to strategically plan to get into the forward segment of the apparels value chain, through development of their own brands and investing in retail business in major export markets. This will help get better prices, enhance competitive strength, increase profit margins, enhance capacity to pay better wages and also raise domestic value retention component in the gross earnings from export of apparels.

3.4.2 Growth of Import Payments Has Been Phenomenal

The growth of import payments has exhibited a phenomenal jump of 51.4 per cent when performances of July–October period of FY2021–22 is compared with the corresponding period of FY2020–21. Further product level analysis reveals that import payments for foodgrains increased by 57.7 per cent, owing primarily to the rise in import of rice (an increase of 46.5 times!). Import payments of consumer goods increased by 54.2 per cent over this period, in the backdrop of the rise of import payments for edible oil (83 per cent growth).

Intermediate goods imports also experienced an accelerated growth rate. During July–October FY2021–22, growth of import payments for these times was 58.2 per cent over the corresponding period of FY2020–21 when the comparable growth was a negative (-) 12.0 per cent. Import bills for crude petroleum and petroleum-based products (POL) increased by 65.8 and 16.0 per cent, respectively. Furthermore, significant growth was observed in cases of pharmaceutical products (202 per cent), fertilisers (267.2 per cent), raw cotton (60 per cent), yarn (149.4 per cent), textile and articles thereof (50.3 per cent) and iron, steel and other base metals (74.1 per cent). To note, more than 30 per cent of the incremental import payments was on account of RMG related goods.

Growth of import payments of capital goods was 39.3 per cent in July–October FY2021–22; in FY2020–21 the growth was negative (-22.3 per cent) compared to the corresponding period of FY2019–20. Import payments for capital machineries increased by 38.6 per cent during the period under consideration, in contrast to the low (-) 30.7 per cent growth in FY2020–21 (over the corresponding period of FY2019–20).

Surge in imports of production related items, raw materials, intermediates and capital goods augurs well for the economy and is an indicator of some rebound of COVID-induced subdued economic activities in the preceding year. However, the effect of low base of the previous year should be kept in mind in this connection.

It also needs to be noted that a large part of the significant rise in import payments is attributable to the rise in global commodity prices. Both supply-side factors (e.g., OPEC (The Organization of the Petroleum Exporting Countries) policy-induced oil price rise) and demand-side factors (in the backdrop of the resurgence of economic activities in developed countries), as also spike in shipping and container costs (of 300–450 per cent) have led to the rise in global commodity prices. As the data in Table 3.12 shows, except for rice (negative growth), most other commodities saw a significant rise in prices. This has, in turn, resulted in an increase in prices of many other commodities, which hinge on prices of fuels in the international markets. All these had a cumulative effect in the form of a rise in import payments and, consequently, high import growth.

Table 3.12

Change in Global Commodity Prices during July–October 2021

Commodities	**Unit**	**Average price**		**Change (in per cent)**
		Jul–Oct 2020	**Jul–Oct 2021**	
Crude oil, Brent	USD/barrel	42.2	75.7	79.5
Natural gas	Index (2010=100)	45.4	160.9	254.4
Palm oil	USD/mt	767.5	1174.1	53.0
Soybean oil	USD/mt	877.2	1446.1	64.9
Rice, Thai 5 per cent	USD/mt	490.8	404.5	-17.6
Sugar	USD/kg	0.3	0.4	46.5
Cotton (index)	USD/kg	1.6	2.3	47.9
DAP	USD/mt	340.6	633.2	85.9
TSP	USD/mt	277.7	575.4	107.2
Urea	USD/mt	239.9	500.5	108.7
Aluminium	USD/mt	1732.7	2717.4	56.8
Iron ore	USD/dmtu	118.3	155.9	31.8

Source: Authors' calculation from World Bank (n.d.).

3.4.3 While Outward Migration Resumes, Remittance Inflow Posts Negative Growth

During the first five months of FY2021–22, a total of 242,086 Bangladeshi citizens had joined overseas job markets. This is indeed a welcome recovery from the dismal figure of the corresponding period of FY2020–21 (8,053). The number, while large, however, is still somewhat below the corresponding number of the pre-pandemic FY2019–20. The rise in outward migration can be attributed to the reopening of borders and the resumption of economic activities in major destination countries. To note, the majority of workers, almost three-fourths of the total (about 74.6 per cent), went to Saudi Arabia, which accounted for 24 per cent of total remittance flow in the first five months of FY2021–22.

During the ongoing pandemic, period remittance inflow to Bangladesh showed an interesting trend. Bangladesh received the highest ever inflow of remittance in FY2020–21 (USD 24.8 billion) at the height of the pandemic (a 35 per cent rise compared to FY2019–20). This may be attributable to the shift of remittances from informal to formal channels, 2 per cent cash incentive on remitted money, sending additional funds to support families afflicted by COVID as also by the floods in July 2020, the so-called Hajj effect, and accumulated savings having sent back home by returnee migrants in the face of uncertainties (World Bank, 2021). However, the scenario has undergone significant changes during the first five months of FY2021–22 when remittance inflow suffered a (-) 21.0 per cent decline over the comparable period of FY2020–21. This amount is, however, 11.6 per cent higher than that of the corresponding period of FY2019–20 (i.e., pre-pandemic period). The recent fall in remittance flows could be attributed to several reasons, including reverting back of part of remittance to informal channel with the resumption of trade, travel and tourism, and the rising gap between the official exchange rate (plus the 2 per cent incentive) and the curb market rate (resulting in a spread of 3-4 taka).

3.4.4 BOP Slides into an Uncomfortable Position

In spite of the robust export growth, trade deficit posted a significant rise and rose from USD (-) 3.49 billion to USD (-) 9.09 billion in the first four months, in the backdrop of higher import growth. In view of negative growth of remittances, the current account balance also weakened further and got into the negative terrain, to USD (-) 4.77 billion, over the first four months of the ongoing fiscal year compared to the USD (+) 3.63 billion in FY2020–21. The substantial increase in the financial account, from USD 0.65 billion to USD 3.78 billion, provided some cushion and comfort thanks to the higher net aid flows and medium to long term loans. For July–October FY2021–22, the overall balance stood at a negative USD (-) 1.3 billion, whereas the corresponding figure for FY2020–21 was USD (+) 4.1 billion.

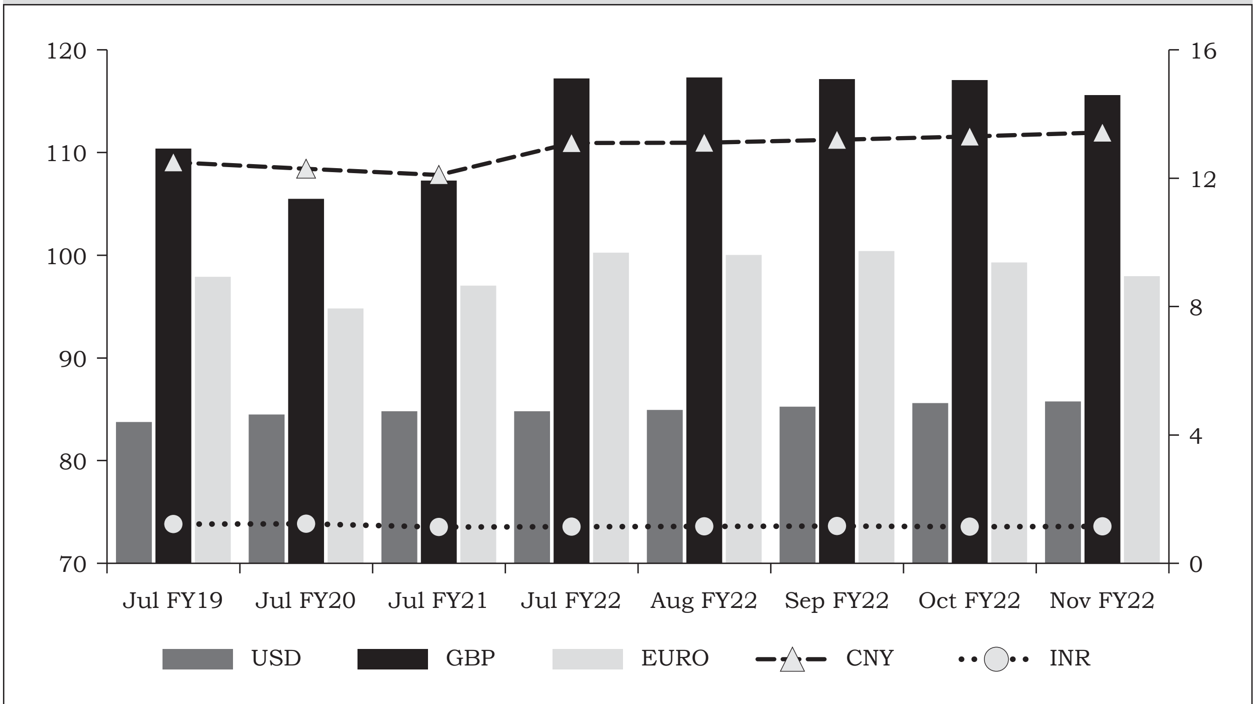
The fall in overall balance is also reflected in the foreign exchange reserve scenario. At the end of FY2020–21, Bangladesh had a reserve worth about USD 46.4 billion, which came down to USD 44.9 billion in November 2021. In this connection, it needs to be recalled that the IMF has raised question as regards the accuracy of accounting practices associated with the estimation of foreign exchange reserves. Indeed, several media outlets, citing a draft IMF report, mentioned that the foreign exchange reserve at the end of FY2020–21 was overstated to the tune of about USD 7.2 billion (15 per cent 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. Bangladesh Bank may like to revisit the reserves estimation methodology and correct the anomalies, if any, to arrive at a reliable estimate of unencumbered foreign reserves.

3.4.5 Exchange Rate Movement Could Soon Emerge as a Source of Stress

In the backdrop of rising demand on account of import, resumption of travel abroad (for health, studies purposes) and tourism, as also falling remittance flows, the exchange rate came under some pressure in the early months of FY2021–22. During July-November of FY2021–22, exchange rate of Bangladeshi Taka (BDT) against USD experienced a depreciating trend (Figure 3.9). Interestingly, over the same time frame, the BDT has shown a generally appreciating trend against the Euro and the UK Pound Sterling (GBP). While the exchange rate of BDT against the Indian Rupee (INR) has been volatile, it has been depreciating against the Chinese Yuan (CNY).

As is known, movements in the REER is generally taken into consideration while formulating exchange rate policies. According to CPD (2016), fluctuations in REER could explain a significant part of the movement of the balance of trade in Bangladesh. As Figure 3.10 shows, the REER has been on a secular rise between 2016 and 2021. However, the nominal effective exchange rate (NEER) has exhibited the opposite trend with subtle increases in the most recent months. The rise in the REER would imply that the exports of the country has become more expensive than its competitors (while imports have become cheaper). As the figures indicate, the REER of BDT appears to be overvalued and would have experienced some depreciation had Bangladesh pursued a pure floating exchange rate regime instead of the current practice of managed float. As is the case, in recent times, the central bank has been actively intervening in the foreign exchange market by selling USD to limit any significant slide of the BDT. As can be seen from Figure 3.10, the BDT has experienced some depreciation during the first five months of FY2021–22 after a prolonged period of stability. If further adjustments are made taking

Figure 3.9
Exchange Rate of BDT against Selected Currencies



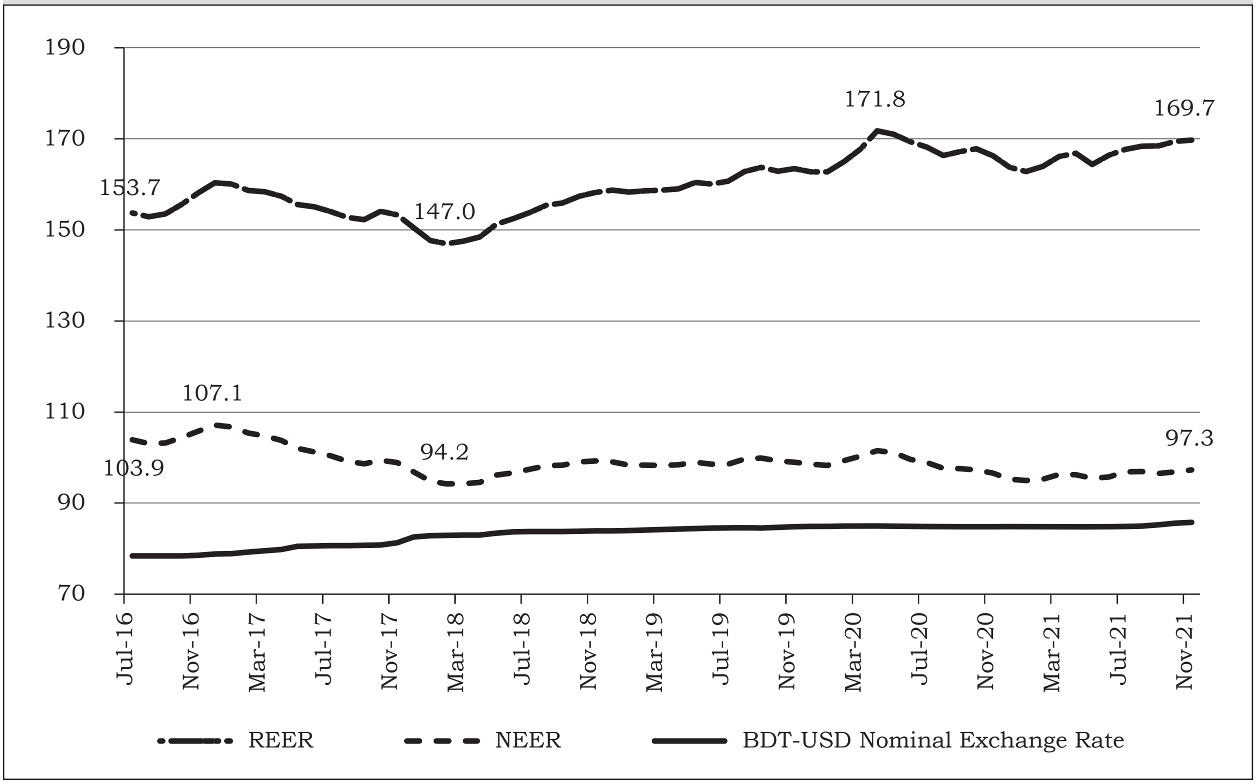
Source: Compiled from Bangladesh Bank data.
Note: Indian Rupee and Chinese Yuan are Shown in the Secondary Axis.

cognisance of the REER movement, it should depreciate further in the foreseeable future. However, it is difficult to predict to what extent this will happen, and that will also hinge on the central bank policy concerning direction and depth of market intervention.

Currently, Bangladesh Bank has been selling USD to ease the pressure and stall further depreciation of the BDT (the currency depreciated by about Tk 0.85 against the USD over the July–October 2021 period). About USD 2.0 billion has been sold by the Bangladesh Bank over the last few months. This is in contrast to FY2020–21 when the central bank was mopping up USD, by buying a record USD 8.0 billion to prevent the BDT from appreciating further.

The strategy being pursued by Bangladesh Bank with a view to arresting the depreciation of the BDT, by making more dollars available in the market, is a logical step in the present context. While gradual depreciation of BDT, in view of aggressive depreciation policy pursued by its competitors, is a desirable medium-term strategy, given the current context of high global commodity prices and the likelihood of imported inflation, the central bank will need to exercise caution as to what extent this should be allowed. The forex reserves are (still) at a comfortable level (about six months' equivalent of imports even if the current import growth persists). Bangladesh Bank, thus, has some leveraging power to exercise in the form of injecting USD in the economy as it is doing now. One word of caution though: by selling USD the Central Bank is also mopping up money from the market. The credit uptake growth is still below the monetary target of 14.8 per cent (at present private sector credit growth is less than 10 per cent), and the central bank should not be seen crowding out the private sector from the credit market.

Figure 3.10
REER, NEER and USD-BDT Exchange Rate Trends



Source: For BDT-USD Nominal Exchange Rate, Data from Bangladesh Bank was Used. For REER and NEER, Data from Darvas (2012), Updated on 5 December 2021, was used.

3.4.6 Concluding Observations

As the year 2021 comes to an end, at the halfway mark of FY2021–22, there are clear signs of recovery of the external sector as depicted in robust export and import growth rates and in the rising numbers of workers going abroad. Remittance earnings, which, while depicting negative growth in comparison to the very high benchmark of the preceding year, are higher than the corresponding period of the pre-pandemic year. At the same time, there are a number of disquieting signals, as manifested in the volume-driven nature of export growth, the weakening of the BOP position and further weakening of the taka at a time of rising commodity prices. From a macroeconomic management perspective, the challenge will be for the central bank to be able to keep the rate of inflation at a manageable level. Energetic steps to reduce the cost of doing business and proper incentivisation of exports will be needed if the policy primarily focuses on keeping the exchange rate stable at around the current level. The cash incentives against remittances should be continued, and investment in wage earners' bonds should be encouraged to discourage the transfer of money through informal channels in the face of the rising gap between the official exchange rate and curb market rate.

3.5 REDESIGNING SUPPORT MEASURES

As part of its overarching countercyclical policy to deal with the economic slowdown, the government has pushed out multiple liquidity assistance and fiscal stimulus measures in its immediate reaction to the COVID-19 pandemic. Banks are expected to play a key role in the recovery of pandemic-affected economy since 86.72 per cent of the government's COVID-19 response funding is in the form of liquidity support. Even before the start of the pandemic, the banking industry was recognised to be particularly vulnerable. As a result, when the banking sector was charged with providing the greatest ever liquidity assistance and fiscal stimulus packages, it was unclear if the industry would be able to fulfil its obligations. It was emphasised that the form and architecture of Bangladesh's COVID-19 relief funds gave plenty of space for financial malfeasance.

CPD has earlier stated that the banking sector's long-standing issues might become much more acute as a result of the pandemic's extra hurdles. Despite releasing over 100 circulars on liquidity support packages over the last year, the central bank has been unable to close regulatory loopholes. As a result, some of the government's liquidity assistance packages are now available to banks that are weak and mismanaged. Furthermore, loan defaulters were given access to these packages. Regrettably, publicly available data on the status of the liquidity packages' implementation from official sources has been difficult to come by, so it is unclear which banks have received the government's COVID-19 liquidity support packages, how much liquidity they have received, and how much money they have given out.

Since big companies have received the majority of COVID-19-related liquidity support, it is apprehended that crony capitalists may utilise their significant political clout to exploit banks to collect more than their fair share of funding. Considering that the central bank has not specified any clear, objective, or quantitative criteria for defining the word "affected," commercial banks must use their own judgment to determine whether prospective loan applicants have been "affected" by COVID-19. It's unclear how commercial banks determined which firms were "affected" by COVID-19 and on what basis they issued loans from the government's COVID-19 liquidity assistance programmes. As a result, there are reasons to be concerned about the banking sector's condition during the current pandemic.

On the other hand, 13.28 per cent of the government's COVID response funds that were in the form of fiscal stimulus could not find much success either. The geographical distribution of the government's COVID-19 relief was not appropriately linked with the country's socio-economic circumstances, as regions with greater poverty rates got less rice and cash help than districts with lower poverty rates (Khatun & Saadat, 2021). Members of the ruling party who were assigned with managing relief activities have been involved with stealing, storing and illegally selling rice, soybean oil, sugar and other essential food items that were meant for distribution among the poor through safety net programmes such as Vulnerable Group Feeding (VGF) or Open Market Sales (OMS).

Thus, it appears that the time has come to redesign the government's economic response to the COVID-19 pandemic. This report discusses some of the pressing issues concerning the government's COVID-19 response funding, based on the limited data which was available at the time of writing. A brief overview of the status of the government's COVID-19 support measures and relief funds has been provided. The approximate needs of the poor have been estimated using a number of different methods. Finally, proposals have been put forward for redesigning the government's economic response to the COVID-19 pandemic.

3.5.1 Status of COVID-19 Support Measures and Relief Funds

A summary of COVID-19 relief packages announced by the government are outlined in Table 3.13. Bangladesh's fiscal stimulus package is a meagre 13.28 per cent of its total COVID-19 relief funds or only 0.9301 per cent of its GDP (Table 3.13), and falls far short of the 11 per cent of GDP that is estimated to be required to mitigate the socioeconomic impacts of COVID-19 (UNESCAP, 2020). Ironically, the largest industries which are relatively more capable of dealing with shocks got the

Table 3.13

COVID-19 Support Measures and Relief Funds Announced by the Government of Bangladesh

Name of the package	Allocation				Disbursement		
	In million USD	In crore BDT	As share of total COVID funding	As share of GDPii	Share of funds disbursed (in %)	Number of recipients	As of date
Liquidity support packages							
1. Special fund for salary support to export oriented manufacturing industry workers	582.75	5,000	2.61	0.1825	100	3,778,969 persons (Female- 54%)	Nov'21
2A. Providing working capital facilities for the affected large industries and service sector organisations (Phase 1)	4662.00	40,000	20.84	1.4602	81.76	3306iii entities	Nov'21
2B. Providing working capital facilities for the affected large industries and service sector organisations (Phase 2)	3846.15	33,000	17.19	1.2047	14.61	418	Nov'21
3A. Providing working capital facilities to small (including cottage industries) and medium enterprises (Phase 1)	2331.00	20,000	10.42	0.7301	76.93	97,814	Nov'21
3B. Providing working capital facilities to small (including cottage industries) and medium enterprises (Phase 2)	2331.00	20,000	10.42	0.7301	9.07	14,657	Nov'21
4. To increase the facilities of Export Development Fund introduced by Bangladesh Bank	2476.69	21,250	11.07	0.7757	100	9,791 entities	Nov'21
5. Pre-shipment Credit Refinance Scheme	582.75	5,000	2.61	0.1825	8.57	67 entities	Nov'21
6A. Agricultural Refinancing Scheme (Phase 1)	582.75	5,000	2.61	0.1825	79.92	1,85,336 persons	Nov'21
6B. Agricultural Refinancing Scheme (Phase 2)	349.65	3,000	1.56	0.1095	N/A	N/A	Nov'21
7. Refinancing scheme for low-income farmers and small traders	349.65	3,000	1.56	0.1095	77.44	4,31,418 persons	Nov'21
8. Creation of jobs through loans (through Village Savings Bank, Employment Bank, Expatriates' Welfare Bank and PKSF) (Phase 1)	372.96	3,200	1.67	0.1168	21.4	N/A	Jun 21
9. Creation of jobs through loans (through Village Savings Bank, Employment Bank, Expatriates' Welfare Bank and PKSF) (Phase 2)	174.83	1,500	0.78	0.0548	N/A	N/A	N/A

(Table 3.13 contd.)

(Table 3.13 contd.)

Name of the package	Allocation				Disbursement		
	In million USD	In crore BDT	As share of total COVID funding	As share of GDPii	Share of funds disbursed (in %)	Number of recipients	As of date
Liquidity support packages							
10. Government subsidy for interest waiver of deferred bank loans for the month of April-May/2020	233.10	2,000	1.04	0.0730	100	7,282,253 persons	Nov'21
11. Credit guarantee scheme for small and medium enterprises sector	233.10	2,000	1.04	0.0730	1.45	N/A	June'21
12. Stimulus package for small businesses and entrepreneurs, delivered through various associations and foundations (2021)	174.83	1,500	0.78	0.0548	N/A	N/A	N/A
13. Working capital credit facility for hotel/ motel/theme parks.	116.55	1,000	0.52	0.0365	N/A	N/A	Nov'21
Total liquidity support	19399.77	166,450	86.72	6.0763			
Fiscal stimulus packages							
14. Special honorarium to doctors, nurses and health workers	16.08	138	0.07	0.0050	0	N/A	June 21
15. Health insurance and life insurance	87.41	750	0.39	0.0274	3.4	42v persons (41 male; 1 female)	June 21
16. Distribution of free food items	291.38	2,500	1.30	0.0913	43vi	2,34.00,000vi households (70% male-headed; 30% female- headed)	N/A
17. Distribution of rice at the rate of BDT 10 per kilogram	89.74	770	0.40	0.0281	100	N/A	N/A
18. Special OMS at the city area	17.48	150	0.08	0.0055	N/A	N/A	Sept'21
19. Food support through DCs (Calling @ 333)	11.66	100	0.05	0.0037	N/A	N/A	Sept'21
20. Distribution of cash among the targeted population	154.55	1,326	0.69	0.0484	70vii	34,97,353vii households (75% male-headed; 25% female-headed)	Sept'21
21. Increase the coverage of the allowance programmes	94.99	815	0.42	0.0298	3viii	156,218viii persons	May 21

(Table 3.13 contd.)

(Table 3.13 contd.)

Name of the package	Allocation				Disbursement		
	In million USD	In crore BDT	As share of total COVID funding	As share of GDPii	Share of funds disbursed (in %)	Number of recipients	As of date
22. Expansion of Cash Allowance Program	139.86	1,200	0.63	0.0438	N/A	N/A	Sept'21
23. Cash disbursement among pandemic-hit people (2nd tranche)	108.39	930	0.48	0.0339	N/A	BDT 2,500 each for 3,600,000 families	Sept'21
24. Cash transfer to the targeted poor people	52.45	450	0.23	0.0164	N/A	N/A	Sept'21
25. Construction of houses for homeless people	248.25	2,130	1.11	0.0778	N/A	9,039 households (62% male-headed; 38% female-headed)	May'21
27. Support for farm mechanisation	375.29	3,220	1.68	0.1175	84.1	N/A	June'21
28. Agricultural subsidies	1107.23	9,500	4.95	0.3468	76vii	N/A	June'21
29. SSNP for unemployed and poor workers of export-oriented RMG, leather and footwear sectors	174.83	1,500	0.78	0.0548	0.1	N/A	June'21
Total fiscal stimulus	**2969.58**	**25,479**	**13.28**	**0.9301**			
Total COVID-19 funding	**22369.35**	**191,929**	**100.00**	**7.0064**			

Source: Authors' compilation based on data from MoF (2021); Bangladesh Bank (2021c); Bangladesh Bank (2021d).

Note: i) Assuming an exchange rate of USD 1 equal to BDT 85.80, as per Bangladesh Bank exchange rate of 22 December 2021; ii) Assuming that GDP is equal to BDT 2,739,332.4 crore, as per the final GDP estimate for FY2019–20 by BBS; iii) N/A implies no data was available at the time of writing; iv) PKSF = Palli Karma-Sahayak Foundation; v) SSNP = Social safety net programme.

greatest support from COVID-19 relief funds. Although COVID-19 is fundamentally a public health crisis, less than 1 per cent of the total funds were allocated for purposes related to healthcare. Computable general equilibrium model simulations have estimated that 2.5 per cent of GDP would be needed to strengthen the public health infrastructure in Bangladesh so that it can deal with the COVID-19 crisis (UNESCAP, 2020). Most notably, there was no allocation for subsidising the treatment of patients at private hospitals or building new hospitals. No health funding was allocated for research, presumably on the premise that efforts towards making a vaccine for the disease are best left to more advanced countries. Finally, there was no dedicated liquidity support or fiscal stimulus package specifically for women and so the general liquidity support and fiscal stimulus packages have failed to address the special needs of women.

Although the liquidity support and fiscal stimulus packages for COVID-19 began to be announced from 25 March 2020 onwards, even after more than 20 months, the overall pace of fund disbursement appears to be slow. Even more disconcerting is the fact that the pace of disbursement of packages—in which the beneficiaries are likely to be crony capitalists and powerful elites—has been faster than the pace of disbursement of packages that are meant for the poor and vulnerable.

The potential of a K-shaped recovery is being explored widely throughout the world. This means that stimulus packages and liquidity assistance will aid large industries and government organisations in recovering more quickly, while small and medium enterprises (SMEs) would lag behind. Bangladesh's recovery from COVID-19 is expected to take a K-shaped pattern, as smaller businesses would continue to struggle while larger companies would bounce back rapidly. People from low-income families and the poor in general have been disproportionately affected by the pandemic and have not been able to obtain appropriate government assistance. Given the importance of SMEs as sources of employment, the sluggish recovery of this sector may result in an increase in inequality. This might jeopardise the recovery's long-term viability. As a result, authorities must map out the route to recovery in a way that does not overlook the economy's weaker but crucial sectors.

Ironically, second phase allocations have been provided to four existing liquidity support packages which have failed to completely disburse the funds that were allocated to them during the first phase. This tendency of starting afresh without completing the unfinished is prevalent in the government's national plans, such as Five Years Plans, as well as in various projects commissioned by the government every year. Now that this "start new first, finish old later" tendency has permeated into the government's COVID-19 funds, there is a possibility that the government's economic response to the pandemic will face an impasse in the coming days.

3.5.2 Requirements of the Poor

Since the start of the pandemic, a number of research studies by various organisations, including CPD, have attempted to estimate the number of people who have slid into poverty due to the pandemic. As a result, the term "new poor" was coined to identify such people.

Table 3.14 shows some of the estimates of the number of new poor in Bangladesh. It can be seen that the number of new poor during the peaks of the coronavirus outbreaks were around 35 million (Z. Ali et al., 2021) to 36 million (Rahman et al., 2020) in 2020. However, in 2021, as the infection rates subsided, vaccinations increased, and the economy gradually recovered, the number of new poor dropped to around 24 million (Rahman & Matin, 2021). However, since the number of old poor, or the number of poor people in the pre-COVID period, were already more than 33 million (BBS, 2019), the total number of poor people in the country was still alarming highly in post-COVID period.

Table 3.14

Estimated Number of New Poor and Total Poor

(in per cent)

Study and time of estimation	Number of new poor	Number of old poor	Number of total poori	Total poor as share of total population (%)	New poor as a share of the total population (%)
BBS (2019) (pre-COVID period)	-	33,937,750	33,937,750	20.5	-
CPD (2020)	-	-	75,700,000	-	-
BIDS and University of Bath (2020)	35,500,000	-	-	25.9	19.7
BIGD-PPRC (April 2020)	36,944,858	-	70,022,846	43.4	22.9
BIGD-PPRC (March 2021)	24,500,000	-	-	-	14.75
SANEM (2020)	-	-	-	42.0	20.4

Source: Authors' calculations based on data from Rahman et al. (2020); Rahman & Matin (2021b); Raihan et al. (2021); Z. Ali et al. (2021); BBS (2019); CPD (2020a).

Note: i) Number of total poor calculated assuming that the number of old poor was equal to 33,937,750 BBS, 2019 except for CPD (2020).

Concerning the increase in the national poverty rate and the large number of people who became poor during the pandemic, the government in several instances mentioned that direct cash transfers

Table 3.15

Minimum Cost of Essential Food Items for One Household of Four Persons for One Month

Item	Unit	Minimum price per unit in BDT (as of 20 Dec 2021)	Average per capita per day intake	Minimum total cost (in BDT)
Rice (coarse)	kilogram	50	0.3672	2,203
Soyabean oil (loose)	litre	140	0.0252	423
Lentils (local)	kilogram	95	0.0157	179
Potato	kilogram	24	0.0648	187
Onions (local)	kilogram	40	0.0311	149
Garlic (local)	kilogram	50	0.0301	181
Chili (powder)	kilogram	260	0.0129	402
Turmeric (local)	kilogram	200	0.0301	722
Ginger (local)	kilogram	80	0.0301	289
Sugar	kilogram	75	0.0064	58
Salt	kilogram	30	0.0307	28
Eggs (farm)	20 eggs (approximately 1 kilogram)	165	0.0136	269
Fish (Rui)	kilogram	250	0.0626	1,878
Chicken (broiler)	kilogram	160	0.0171	328
Total minimum cost per household of 4 individuals per month				7,297

Source: Authors' calculation based on data from TCB (2021) and BBS (2019).

Note: i) Minimum price per unit refers to minimum retail price in Dhaka; ii) Minimum cost is calculated assuming that each person consumes the national average amount of each item, a single household consists of four individuals and one month has 30 days.

of BDT 2,500 would be provided per family for selected poor families nationwide. While theoretically, this was clearly a step in the right direction, in practice, the government's attempts to provide direct cash transfers to the poor were too little, too late, and too unaccountable (T. O. Ali et al., 2021). For instance, Table 3.15 shows that the minimum cost of a small basket of essential food items for one household of four persons for one month based on prices in Dhaka city as of 20 December 2021 would be BDT 7,297 per month, assuming that each person consumed the national average amount of food per day, as per the Household Income and Expenditure Survey 2016 (BBS, 2019).

Juxtaposing the estimates of the new poor with various assumptions of basic subsistence, we find that the funding required to support the new poor for one month varies from 0.15 per cent of GDP to 0.66 per cent of GDP (Table 3.16).

Table 3.16

Funding Requirement for the New Poor for One Month (as Percentage of GDP)

Assumptions	For 35.5 million people for 1 month*	For 36.9 million people for 1 month**
Assuming each individual gets BDT 38.2 per day, which is required for a nutrient adequate diet	0.15	0.15
Assuming per capita per month support required for rural 'new poor' is BDT 1,450	0.20	0.19
Assuming per capita per month support required for urban 'new poor' is BDT 1,745	0.24	0.23
Assuming each households gets BDT 7,297 per month which is the minimum cost of essential food items for one household for one month	0.25	0.24
Assuming each households gets BDT 8,000 per month which is close to the lower poverty line for a family of 4 members in 2020 prices	0.27	0.26
Assuming each individual gets BDT 163 per day or USD 1.9 per day	0.66	0.63

Source: Authors' calculations based on data from Nowar et al. (2021); Rahman et al. (2020); Rahman & Matin (2021); Raihan et al. (2021); Z. Ali et al. (2021); BBS (2019); CPD (2020a).
Note: *Z. Ali et al. (2021); **Rahman et al. (2020).
i) Number of total poor calculated assuming that the number of old poor was equal to 33,937,750 (BBS, 2019); ii) Assuming USD 1 = BDT 85.80.

Similarly, juxtaposing the estimates of the total with the various assumptions of basic subsistence, we find that the funding required to support the total poor for one month varies from 0.29 per cent of GDP to 1.35 per cent of GDP (Table 3.17).

Table 3.17

Funding Requirement for the Total Poor for One Month (as Percentage of GDP)

Assumptions	**For 75.7 million people for 1 month***	**For 70 million people for 1 month****	**For 69.4 million people for 1 month*****
Assuming each individual gets BDT 38.2 per day, which is required for a nutrient adequate diet	0.32	0.29	0.29
Assuming per capita per month support required for rural 'new poor' is BDT 1,450	0.40	0.37	0.37

(Table 3.17 contd.)

(Table 3.17 contd.)

Assumptions	For 75.7 million people for 1 month*	For 70 million people for 1 month**	For 69.4 million people for 1 month***
Assuming per capita per month support required for urban 'new poor' is BDT 1,745	0.48	0.45	0.44
Assuming each households gets BDT 7,297 per month which is the minimum cost of essential food items for one household for one month	0.50	0.47	0.46
Assuming each households gets BDT 8,000 per month which is close to the lower poverty line for a family of 4 members in 2020 prices	0.55	0.51	0.51
Assuming each individual gets BDT 163 per day or USD 1.9 per day	1.35	1.25	1.24

Source: Authors' calculations based on data from Nowar et al. (2021); Rahman et al. (2020); Rahman & Matin (2021); Raihan et al. (2021); Z. Ali et al. (2021); BBS (2019); CPD (2020a).

Note: *CPD (2020a); **BIGD-PPRC (2020); BBS (2019); ***Z. Ali et al. (2021); BBS (2019).

i) Number of total poor calculated assuming that the number of old poor was equal to 33,937,750 (BBS, 2019); ii) Assuming USD 1 = BDT 85.80.

In general, our findings indicate that the BDT 2,500 is insufficient to sustain one household for even one month, even when considering only the cost of food.

3.5.3 Redesigning Support Measures

The government has attempted to extend SSNPs that give basic help to disadvantaged populations in order to deal with the emerging COVID-19 situation. Since the government has pledged to expand its social safety net coverage, it is necessary to compile a list of the households covered by the government's social safety net. The disadvantaged group in both rural and urban areas must be included in this list of recipients. Although a list for the rural poor is already available through various SSNPs there is no such list for the urban poor. A significant commitment from non-government organisations (NGOs) and local entities (upazilla and union leaders) is also necessary to make the selection and delivery of assistance measures for the beneficiaries of the SSNPs more efficient.

The transparency and accountability of Bangladesh's COVID-19 stimulus plan will be the key to its successful operationalisation and implementation. Hence it is critical to make sure that the beneficiaries are selected based on clear, objective and quantitative criteria, and vested interests are not allowed to intervene. Beneficiary targeting, or bringing in the right group of people, has been a major weakness of SSNPs in Bangladesh. Reducing leakages and proper targeting can help release significant resources that can serve the more vulnerable and deserving groups more effectively. The general problems of errors in listing poor who need relief will deprive several poor, including women. Without connections with the powerful local people, it has been proved to be difficult to get included in the list of beneficiaries. Such malpractices have been reported in the media even during the COVID-19 crisis.

In order to ensure that social protection does not transform into political protection, it is necessary to transcend from the humanitarian approach of targeted safety nets to the right-based approach of universal social protection. It is easy to be deceived into thinking that providing non-contributory universal social protection floors in developing countries with large numbers of vulnerable people is prohibitively expensive. However, previous research has shown that it may not be the case for Bangladesh (Khatun & Saadat, 2020).

Preliminary estimation of the cost of providing universal social protection floors in Bangladesh

School suspensions to control COVID-19 transmission has impacted the overwhelming majority of the student population globally, decreasing learning opportunities and driving a wedge between prevailing educational inequalities. In Bangladesh, school closures to prevent the spread of COVID-19 have left 40 million students out of school for more than 6 months, as of September 2020 (Kamal, 2020). Since only 5.6 per cent of households in Bangladesh had a computer in 2019 (BBS & UNICEF, 2019), an estimated 37.76 million students would not have access to online learning opportunities during the pandemic. Since school closures in March, only 25 per cent of children in rural Bangladesh have watched TV classes, while only 2 per cent of children in rural Bangladesh have watched online educational programmes (Asadullah et al., 2020). School closures due to COVID-19 have deprived 2.96 million children in Bangladesh (WFP, 2020) and 379 million children worldwide (UN, 2020) from school meals, which has adversely affected their health and made them more susceptible to disease.

Only 35 per cent of children worldwide, 28 per cent of children in Asia, and 29.4 per cent of children in Bangladesh were covered by social protection benefits in 2017 (ILO, 2017). Calculations for Bangladesh, using ILO's Social Protection Floors Cost Calculator, show that the cost of providing cash benefits equal to 25 per cent of the national poverty line to all children less than five years old would be only 1.04 per cent of GDP (Khatun & Saadat, 2020) (Table 3.18). On the other hand, considering USD 1 per day at purchasing power parity (PPP) to all children less than five years old in Bangladesh would cost 1.24 per cent of GDP (Khatun & Saadat, 2020).

Table 3.18

Cost of Child Benefits (as Percentage of GDP)

(in per cent)

Type of programme	**Universal**				**Directed to the poor (National Poverty Line)**			
Age groups (in years)	0–4	5–9	10–14	0–14	0–4	5–9	10–14	0–14
Benefit level								
100 of national poverty line	4.17	4.26	4.46	12.90	3.48	3.56	3.73	10.79
75 of national poverty line	3.13	3.19	3.35	9.68	2.61	2.67	2.80	8.09
50 of national poverty line	2.08	2.13	2.23	6.45	1.74	1.78	1.86	5.40
25 of national poverty line	1.04	1.06	1.12	3.23	0.87	0.89	0.93	2.70
100 of minimum salary	7.98	8.15	8.54	24.70	6.67	6.81	7.14	20.65
75 of minimum salary	5.98	6.11	6.40	18.52	5.00	5.11	5.35	15.49
50 of minimum salary	3.99	4.08	4.27	12.35	3.33	3.41	3.57	10.33
25 of minimum salary	1.99	2.04	2.13	6.17	1.67	1.70	1.78	5.16
USD 2 PPP per day	2.48	2.53	2.65	7.67	2.07	2.12	2.65	6.41
USD 1 PPP per day	1.24	1.27	1.33	3.83	1.04	1.06	1.11	3.21

Source: Authors' compilation based on calculations by Khatun & Saadat (2020).

Note: i) Calculations include only the cost of non-contributory social assistance benefits for the specified population; it does not include social insurance; ii) Social insurance is financed by employers and workers contributions, and delivers higher benefits; iii) Child benefit consists of a cash transfer to families with children of the selected age groups; iv) Administration costs are included for all benefits and 3 per cent administrative costs are assumed for all universal benefits; v) Assuming that total population is 158,512,570, GDP per capita is BDT 78,065, National Poverty Line is BDT 33,230, Minimum salary is BDT 63,600, percentage of children in the population is 29.4 per cent, percentage of orphans among children is 0.0 per cent (rounded to first decimal place), percentage of older persons in the population is 5 per cent, rate of disability is 3.24 per cent, total fertility rate is 2.4, and percentage of fertile age women is 2.1 per cent.

Women and girls are being disproportionately affected by the COVID-19 pandemic due to a surge in domestic violence, additional care work owing to the closure of schools and day-care centres and exposure on the front lines in fighting the virus. Lockdowns imposed to curtail the spread of COVID-19 have compelled many women to remain in close proximity with their partners for prolonged periods, which has often made them victims of domestic violence. In South Asia, 37 per cent of women reported suffering from domestic violence and in Bangladesh, 49 per cent of women and girls reported feeling threat to their safety and security since the start of lockdowns and general holidays (UNESCAP, 2020). In Bangladesh, 55 per cent of women and 44 per cent men reported an increase in the time spent for unpaid domestic work, while 58 per cent of women and 56 per cent of men reported an increase in the time spent for unpaid care work since the start of the pandemic (UN Women, 2020).

Research has shown that the increase in job-protected paid maternity leave was associated with a significant decrease in infant mortality, although unpaid maternity leave was not (Human Rights Watch, 2011). Regrettably, worldwide 41 per cent of women with newborns received maternity benefits in 2017, while in Bangladesh, the share of women with newborns receiving maternity benefits was only 20.9 per cent in 2017 (ILO, 2017). Calculations for Bangladesh, using ILO's Social Protection Floors Cost Calculator, show that the cost of providing maternity cash benefits equal to 100 per cent of the national poverty line to all mothers during four months around childbirth would only be 0.30 per cent of GDP (Khatun & Saadat, 2020) (Table 3.19).

Table 3.19

Cost of Universal Social Benefits (as a Percentage of GDP)

Type of benefit	Disability	Maternity	Orphans
Benefit level			
100% of national poverty line	0.93	0.30	0.01
75% of national poverty line	0.70	0.23	0.01
50% of national poverty line	0.47	0.15	0.00
25% of national poverty line	0.23	0.08	0.00
100% of minimum salary	1.78	0.58	0.01
75% of minimum salary	1.34	0.44	0.01
50% of minimum salary	0.89	0.29	0.01
25% of minimum salary	0.45	0.08	0.00
USD 2 PPP per day	0.55	0.18	0.00
USD 1 PPP per day	0.28	0.09	0.00

Source: Authors' compilation based on calculations by Khatun & Saadat (2020).

Note: i) Calculations include only the cost of non-contributory social assistance benefits for the specified population; it does not include social insurance; ii) Social insurance is financed by employers and workers contributions, and delivers higher benefits; iii) Child benefit consists of a cash transfer to families with children of the selected age groups; iv) Administration costs are included for all benefits and 3 per cent administrative costs are assumed for all universal benefits; v) Assuming that total population is 158,512,570, GDP per capita is BDT 78,065, National Poverty Line is BDT 33,230, Minimum salary is BDT 63,600, percentage of children in the population is 29.4 per cent, percentage of orphans among children is 0.0 per cent (rounded to first decimal place), percentage of older persons in the population is 5 per cent, rate of disability is 3.24 per cent, total fertility rate is 2.4, and percentage of fertile age women is 2.1 per cent.

The Maternity Allowance Programme in Bangladesh provides a one-time-only payment of BDT 500 per month (approximately USD 6 per month or USD 0.20 per day) for a two-year period to women above the age of 20 years old living in specifically targeted rural areas whose household income is less than BDT 1,500 per month and who were pregnant with their first or second child during the month of

July [Strengthening Public Financial Management for Social Protection (SPFMSP) Project, 2017]. The Lactating Mother Allowance Programme in Bangladesh also provides a one-time-only payment of BDT 500 per month (approximately USD 6 per month or USD 0.20 per day) for a two-year period to women above the age of 20 years old whose household income is less than BDT 8,000 per month (in case of formal employment) or less than BDT 5000 per month (in case of informal employment) and who were pregnant with their first or second child during the month of July (SPFMSP Project, 2017). It can be shown that increasing the maternity cash benefits to be equal to USD 1 at PPP per day to all mothers during four months around childbirth would cost only 0.09 per cent of GDP in Bangladesh (Khatun & Saadat, 2020) (Table 3.19).

People with physical disabilities face are the bigger victims of lockdowns and social distancing interventions since they have to depend largely on others for their everyday activities (ADD International, 2020). More than 70 per cent of persons with disabilities in Bangladesh participating in some forms of economic activity prior to the pandemic lost their livelihoods during the lockdown (Innovision, 2020). Persons with disabilities have mentioned that they have been disproportionately neglected by the government's COVID-19 assistance (ADD International, 2020). Unfortunately, in Bangladesh, only 18.5 per cent of people with disabilities were protected with benefits in 2017 (ILO, 2017). Calculations for Bangladesh, using ILO's Social Protection Floors Cost Calculator, show that the cost of providing cash benefits equal to 100 per cent of the national poverty line to all persons with severe disabilities would be only 0.93 per cent of GDP. On the other hand, providing USD 2 per day PPP to all persons with severe disabilities in Bangladesh would cost 0.55 per cent of GDP (Khatun & Saadat, 2020) (Table 3.19).

The risk of severe COVID-19 is known to be higher in older individuals (Clark et al., 2020). Although pensions for the elderly are the most commonly provided form of social protection in the world, 66 per cent of the elderly population in Bangladesh are still not covered with any social protection benefits (ILO, 2017). Bangladesh also has some of the most stringent legal requirements for obtaining old-age pensions in South Asia. Calculations for Bangladesh, using ILO's Social Protection Floors Cost Calculator, show that the cost of providing cash benefits equal to 100 per cent of the national poverty line to all persons aged 65 years and above would be 2.18 per cent of GDP. On the other hand, providing USD 2 per day PPP to all persons aged 65 years and above in Bangladesh would cost 1.30 per cent of GDP (Khatun & Saadat, 2020) (Table 3.20).

COVID-19 has established a new normal of working from home. However, while white-collar workers continued their work from home during the pandemic, blue-collar workers were unable to do so (Lewandowski, 2020). Around 1.6 billion informal sector workers worldwide faced a 60 to 81 per cent drop in their incomes in the first month of the COVID-19 pandemic in their region (UN, 2020). CPD's research has shown that negative shocks on household consumption due to COVID-19 in the range of 9–25 per cent may lead to an increase in Gini coefficient of income inequality in Bangladesh from 0.48 in 2016 to 0.52 in 2020 (CPD, 2020). Rapid response telephonic surveys have shown that between February and April 2020, households below the national lower poverty line experienced a 73 per cent fall in income, households below the national upper poverty line experienced a 75 per cent fall in income, and vulnerable non-poor households experienced a 66 per cent fall in income (Rahman & Matin, 2020a). It must be kept in mind that even in pre-COVID period, 55 per cent of the total population of Bangladesh belonged to the vulnerable category with an income of USD 1.9 to USD 3.8 per capita per day (Hill & Genoni, 2019). Eight out of 10 Bangladeshis were poor or vulnerable to falling into poverty prior to the COVID-19 crisis (Genoni et al., 2020).

Table 3.20
Cost of Pensions (as a Percentage of GDP)

Type of programme	Universal	Directed to the poor (National Poverty Line)
Benefit level		
100% of national poverty line	2.18	1.69
75% of national poverty line	1.64	1.27
50% of national poverty line	1.09	0.85
25% of national poverty line	0.55	0.55
100% of minimum salary	4.17	3.24
75% of minimum salary	3.13	2.43
50% of minimum salary	2.09	1.62
25% of minimum salary	1.04	0.81
USD 2 per day at PPP	1.30	1.01
USD 1 per day at PPP	0.65	0.50

Source: Authors' compilation based on Khatun & Saadat (2020).
Note: i) Calculations include only the cost of non-contributory social assistance benefits for the specified population; it does not include social insurance; ii) Social insurance is financed by employers and workers contributions, and delivers higher benefits; iii) Child benefit consists of a cash transfer to families with children of the selected age groups; iv) Administration costs are included for all benefits and 3 per cent administrative costs are assumed for all universal benefits; v) Assuming that total population is 158,512,570, GDP per capita is BDT 78,065, National Poverty Line is BDT 33,230, Minimum salary is BDT 63,600, percentage of children in the population is 29.4 per cent, percentage of orphans among children is 0.0 per cent (rounded to first decimal place), percentage of older persons in the population is 5 per cent, rate of disability is 3.24 per cent, total fertility rate is 2.4, and percentage of fertile age women is 2.1 per cent.

Using ILO's Social Protection Floors Cost Calculator, it can be shown that the cost of providing unemployment support, such as the 100-day Employment Generation Programme, is equal to 100 per cent of the national poverty line for 100 days per year for one person at working age per vulnerable household would be 2.14 per cent of GDP (Table 3.21). On the other hand, providing USD 2 per day PPP for 100 days per year for one person at working age per vulnerable household would cost 1.27 per cent of GDP (Khatun & Saadat, 2020).

Table 3.21
Cost of Unemployment Support (as a Percentage of GDP)

Benefit duration	**100 days**	**200 days**	**300 days**	**365 days**
Benefit level				
100% of national poverty line	2.14	4.28	6.41	7.80
75% of national poverty line	1.60	3.21	4.81	5.85
50% of national poverty line	1.07	2.14	3.21	3.90
25% of national poverty line	0.53	1.07	1.60	1.95
100% of minimum salary	4.09	8.18	12.27	14.93
75% of minimum salary	3.07	6.14	9.21	11.20
50% of minimum salary	2.05	4.09	6.14	7.47
25% of minimum salary	1.02	2.05	3.07	3.73

(Table 3.21 contd.)

(Table 3.21 contd.)

Benefit duration	**100 days**	**200 days**	**300 days**	**365 days**
Benefit level				
USD 2 per day at PPP	1.27	2.54	3.81	4.64
USD 1 per day at PPP	0.64	1.27	1.91	2.32

Source: Authors' compilation based on calculations by Khatun & Saadat, 2020.
Note: i) Calculations include only the cost of non-contributory social assistance benefits for the specified population - it does not include social insurance; ii) Social insurance is financed by employers and workers contributions and delivers higher benefits; iii) Child benefit consists of a cash transfer to families with children of the selected age groups; iv) Administration costs are included for all benefits and 3 per cent administrative costs are assumed for all universal benefits; v) Assuming that total population is 158,512,570, GDP per capita is BDT 78,065, National Poverty Line is BDT 33,230, Minimum salary is BDT 63,600, percentage of children in the population is 29.4 per cent, percentage of orphans among children is 0.0 per cent (rounded to first decimal place), percentage of older persons in the population is 5 per cent, rate of disability is 3.24 per cent, total fertility rate is 2.4, and

3.5.4 Conclusions and Recommendations

The banking sector's fundamental flaws will make it difficult for the government to deliver on the considerable amount of liquidity support it has pledged in response to COVID-19. Furthermore, the delivery of stimulus packages through the banking system has opened up new opportunities for corruption and fraud. In the coming days, repayment of loans supplied through stimulus packages may become a matter of concern. As a result, the long-standing issue of weak banking governance is expected to worsen.

Without an evaluation of the ground realities, liquidity support and fiscal stimulus packages may not be able to meet the requirements of society's most vulnerable individuals. Providing loans to vulnerable persons and small enterprises, in particular, may not provide the desired effects. As a result, the government must reassess liquidity support as the key economic response to COVID-19 and increase fiscal stimulus and direct cash transfers to the needy. Unfortunately, experience with social safety nets has shown that without competent administration, social protection programmes can only be limited in their effectiveness. Exclusion, inclusion, targeting, efficient delivery, and resolution of grievances, among other issues, must be taken seriously.

In light of the findings from the aforementioned analysis, the following recommendations are made:

- New phases of liquidity support packages should not be initiated until the disbursement in the old phases are complete;
- Fiscal stimulus packages and COVID-19 relief support should be gradually be shifted away from targeted approaches to a universal approach, in order to prevent errors in the selection of beneficiaries;
- Loan defaulters should not be allowed to access any of the COVID-19 related liquidity support packages;
- Weak and poorly governed banks should be barred from participating in the COVID-19 related liquidity support packages. Banks that are not fully compliant with BASEL III or the Banking Company Act should be not be allowed to participate in the COVID-19 related liquidity support packages;
- Clear, objective and quantitative criteria should be declared to properly identify "affected" businesses and individuals;

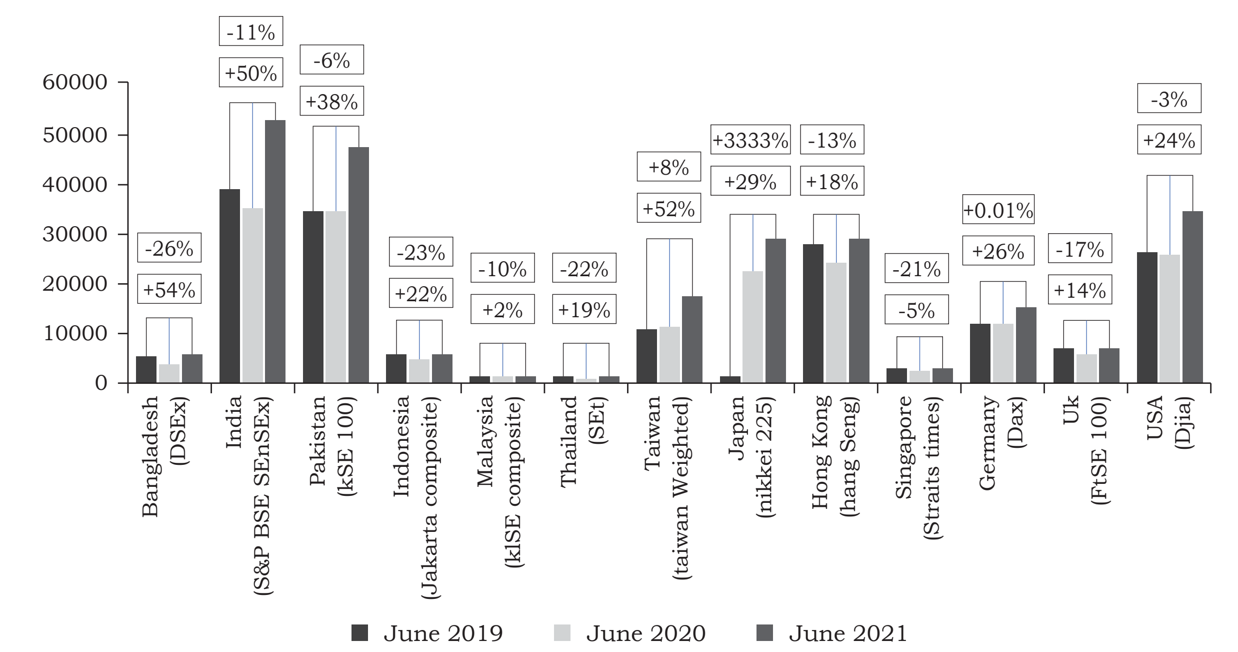
- Transparency and accountability mechanisms should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all liquidity support packages should be published on a monthly basis;
- Disbursement of the government's COVID-19 liquidity support for small businesses, farmers, and low-income professionals should be expedited immediately;
- The government must acknowledge the actual scale of the COVID-19 crisis and then formulate a specific and target-oriented post-COVID recovery plan that aims to build back better. A thorough needs assessment should be conducted to understand the extent of damage done by COVID-19, the amount of support required, and the people who need the support the most;
- Public awareness about the liquidity support and fiscal stimulus packages should be raised through nationwide campaigns so that the general population can clearly understand what kinds of support are being provided by the government, who are eligible for such support, and how to obtain that;
- Liquidity support is inappropriate for small borrowers and new borrowers, as well as those who are the poorest and most vulnerable. Therefore, direct cash support should be provided by the government so that these groups can adjust to the shocks of COVID-19;
- Corruption in targeting and selection of beneficiaries of cash transfer programmes must be addressed immediately;
- A multi-stakeholder taskforce with representatives from various ministries, the central bank, commercial banks, trade bodies, civil society, NGOs, and academia should be formed for monitoring the delivery of the COVID-19 liquidity support and fiscal stimulus packages and assessing their effectiveness.

3.6 RISE OF THE CAPITAL MARKET DURING THE PANDEMIC: HOW TO EXPLAIN IT

3.6.1 Introduction

The global capital market has confronted major setbacks during the pandemic period—an unparalleled degree of economic uncertainty and risk, leading investors to incur substantial losses within a relatively short period. Unlike the earlier crises in 1997 and 2007-8 when the global or regional stock markets collapsed due to structural weaknesses, the dip in the stock market during the COVID-19 pandemic is more related to non-market factors including the level of virus contamination, the level of vaccination, and the level of opening up of economic activities. Most of the markets initially faced a dip, but they got back on their feet with support from appropriate policy measures and institutional interventions. Figure 3.11 presents the changes in market indices in selected major markets from the pre-pandemic (June 2019) to the pandemic period (June 2021). There is a mixed trend observed in the changes in market indices—markets in developed countries such as Japan, USA and Germany, and developing countries such as India, Pakistan, and Taiwan experienced positive changes and crossed the pre-pandemic period. On the other hand, many countries have experienced negative changes, including Malaysia, Thailand, Singapore, and the UK. The share prices in Bangladesh have bounced back in the later phase of the pandemic after a decline in 2020 (54 per cent rise), a big jump. Given the persistent structural weaknesses of Bangladesh's capital market even during the pre-pandemic period, bouncing back from the market requires a necessary explanation. This section examines the structure and composition of changes in the capital market during the pandemic period based on the information and data collected from primary and secondary sources, including Bangladesh Securities and Exchange Commission (BSEC), Dhaka Stock Exchange (DSE), Central Depository Bangladesh Limited (CDBL) and key informant interviews (KIIs) with officials from BSEC, DSE, and academia.

Figure 3.11
Percentage Change in Global Stock Market Indices (between June 2019 and June 2021)



Source: Authors' analysis from web-based data.

3.6.2 Overview of the Performance of the Capital Market

The performance of the stock market can be reviewed in terms of the trend in market indices, trade volume, market capitalisation, and enlistment of Initial public offerings (IPOs) and other securities. Most of the indicators have performed well in the later phase of the pandemic (in 2021) after a weak performance in the early phase of the pandemic (in 2020). The following sub-sections discuss these in detail.

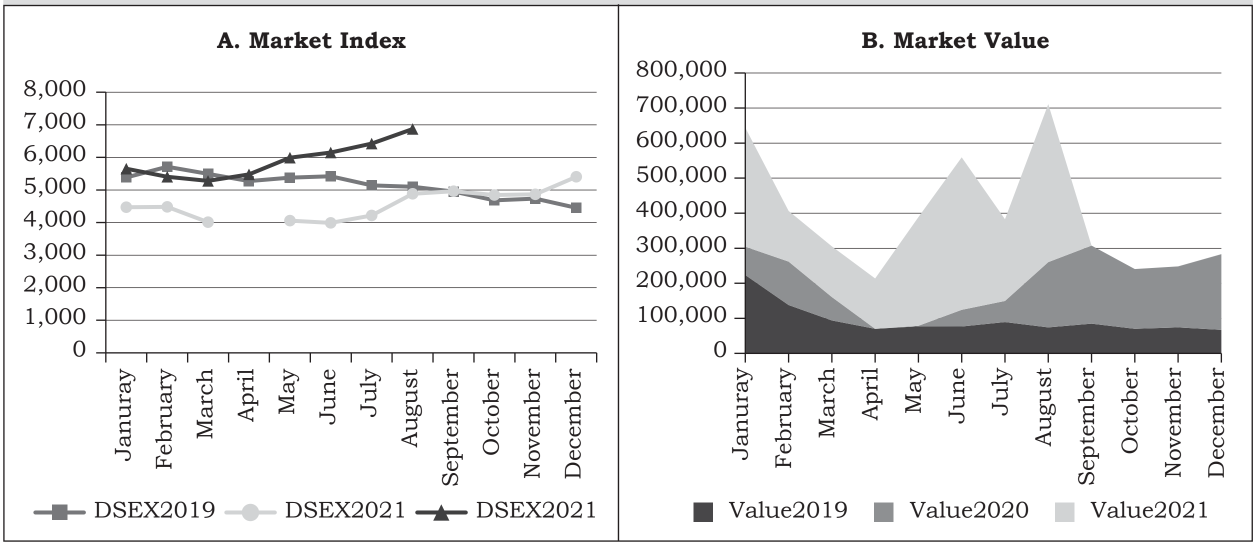
Trends in DSE indices

The trends in market indices in the DSE have maintained three different patterns during the pre, early phase, and later phase of the covid pandemic. In fact, the market indices fell consistently even during the pre-pandemic period owing to various weaknesses of the market. According to CPD (2020b), five specific types of weaknesses were observed in the capital market during the pre-pandemic period—(a) poor quality of IPOs; (b) anomalies in financial reporting; (c) lack of transparency in Beneficiary Owner (BO) accounts; (d) suspicious trading in secondary market; (e) questionable role of institutional investors. The market faced the pandemic with these structural weaknesses—market indices further declined during the early phase of the pandemic, including a period of 66 days when the market was closed down. After a period of slow rise, the market indices have further accelerated during the later phase of the pandemic (till August 2021). Figure 3.12 presents the trends in market indices at the DSE.

Both market value and market volume have significantly increased; most importantly, both the indicators have passed the pre-pandemic level (Figures 3.12 and 3.13). Given the structural weaknesses observed during the pre-pandemic level, this rise in market volume and market value of stocks rather raised the questions of the rationale behind these positive changes during the early

Figure 3.12

Market Indices and Market Value



Source: Illustrated based on DSE data.

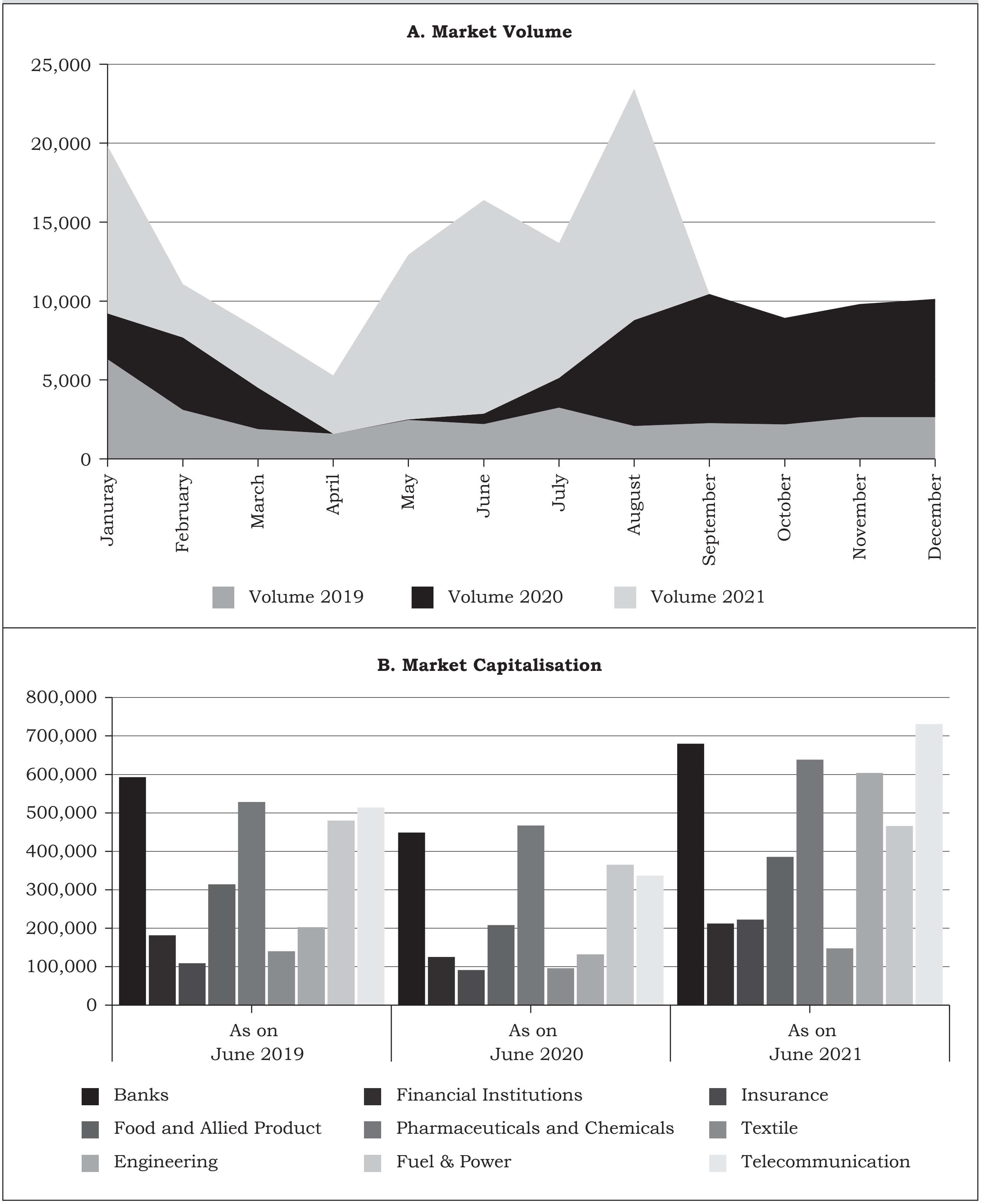
and later phase of pandemic periods. Market capitalisation of all categories of stocks increased significantly in the pandemic period compared to that in the pre-pandemic period. Figure 3.13 presents the market capitalisation under different categories of stocks during 2019, 2020 and 2021. Major share maintained leading positions in terms of market capitalisation during the pandemic period as like those in the pre-pandemic period—banks, pharmaceutical, and telecommunications. However, their positions have changed during the later phase of the pandemic period, where market capitalisation of telecommunications has surpassed the other two leading sectors (banking and pharmaceutical). Interestingly, the market capitalisations of 'engineering' categories of companies have significantly increased; similar is the case of 'food and allied products' categories of companies. During the period of the pandemic with a limited rise in demand for specific categories of products and services, such an increase in market capitalisation of engineering and food-related companies needs close examination.

Newly listed companies

The number of newly listed companies remains at a weak state during the pandemic, as observed in the pre-pandemic period (Table 3.22). The newly listed companies have marginally changed—from 6 in 2019 to 5 in 2020 and 9 in 2021. The total capital generated by these companies portrayed that most of the companies are low-value companies. The average market capitalisation per company was only Tk 57.5 crore in 2019 and Tk 82.7 crore in 2021. However, if the Robi Axiata, a multinational company, was excluded from the list of IPOs in 2021, the average market capitalisation per company was only Tk 27.6 crore. Thus, a large section of companies listed in the market is of SME categories—out of 21 newly listed companies, 14 companies are categorised as SMEs. This indicates increased interest of SMEs to raise capital from the equity market instead of depending only on the debt market. These companies include three banks, five textiles, four insurance, five pharmaceutical and chemicals, one Information and Communication Technology (ICT) and two food and allied companies (Annex Table 3.1). The inclusion of one MNC (multinational company) telecom company in the market is one of the positive developments of the IPO market. In the backdrop of huge surplus funds available in banks and the weak state of insurance companies, such a large number of financial institutions in

Figure 3.13

Market Volume and Market Capitalisation



Source: Author's illustration.

Table 3.22

Newly Listed Companies in Different Years

Year	Number of Company	Amount (BDT Crore)	Per Company Capital (BDT Crore)
2018	10	266	26.6
2019	6	345	57.5
2020	5	730.87	146.2
2021	9	744.36	82.7
2021 (without MNC)	8	220.57	27.6

Source: Illustrated based on DSE data.

the capital market for raising capital raises doubt about the future use of capital. On the contrary, despite having demand for pharmaceutical and ICT services in the country, offloading shares of those companies are rather low. Besides, it is important to examine whether these companies have genuine interests in expanding their businesses by raising capital from the capital market, which requires proper strategies, time plans, and development of corporate governance. In the absence of those, the companies may be used as instruments for market manipulation.

The introduction of 'Sukuk Bond' isan appreciable move during the pandemic period. Sukuk is Bangladesh's first attempt at introducing an Islamic financial instrument.[3] The bond was launched initially by the Government of Bangladesh to finance the safe water supply project for Bangladesh. Banks and individuals placed 39 bids worth Tk 15,153 crore, which is eight times more than the targeted amount of Tk 4,000 crore. The overbidding clearly indicated people's interest in this Shariah-compliant bond. This bond has been picking up the stream for a few reasons.[4] The popularity of Sukuk can also be linked to the excess liquidity in the Islamic bank.[5] Issuance of instruments like Sukuk would help the Government of Bangladesh understand the financing prospects of such Shariah-compliant projects.

Sukuk being the first sovereign instrument in Bangladesh, has allowed the private sector to contribute to this newly introduced instrument. Beximco is the first private company to receive a green signal from the BSEC to issue Tk 3000 crore worth green Sukuk. This collected amount will be used to fund two solar projects with the power division to support the renewable energy sector of Bangladesh. Beximco will also be using this capital to develop its textile division in aid of environmental sustainability.[6] The base rate for this was set as 9 per cent, which means that the investors would be getting a 9 per cent secured annual return.[7] In order to encourage commercial banks to invest in this private-sector

[3]The difference of Sukuk with other regular bond is that it prohibits interest (known as "riba" in Arabic) and this bond generates income in the form of shared profit. Unlike the other bonds Sukuk uses a third party to connect the investor to the borrower. In this case, the borrower or also known as the originator of the project is the Government of Bangladesh. Bangladesh Bank as appointed by the Ministry of Finance (MoF) works as the Special Purpose Vehicle (SPV) to promote the development of country's' financial sector.

[4]Firstly, this bond offers a higher return as compared to the conventional bond especially during the pandemic period. Secondly, Sukuk yields a lower risk than the conventional bond; and thirdly, although investors experienced substantial losses due to significant market, and volatility during this pandemic period this bond was least affected.

[5]As per the Shariah rule, Islamic banks cannot invest in the interest bearing government securities. Thus, this can be a great medium to mop out the excess liquidity from Islamic banks and help the government with the resource mobilisation.

[6]Investment Corporation of Bangladesh is the trustee of this Sukuk, while City Bank Capital Resources Ltd and Agrani Equity and Investment Ltd are jointly the issue managers. This will be the largest private sukuk of Bangladesh.

[7]The government aims to popularise Sukuk bonds. The VATs or value added tax (ranging from 7.5 per cent to 15 per cent in diferent time periods) have been waived. It has also waived gain tax at the rate of 40 per cent on transfer of asset to the SPV.

issued Sukuk, Bangladesh Bank has asked these banks to set up a stock investment fund of Tk 200 crore.[8] It is important to examine whether the issuance of the Sukuk bond follows due process or whether such issuance has taken undue benefit in the issuance process.

It was observed that the general investors had shown more trust in the government's initiated Sukuk as compared to the privately-owned ones. One reason behind this could be the uncertainty of the private initiatives and the certainty of the public initiatives. This should be taken into consideration given the potential of this treasury bond for the growth and diversification of the capital market.

3.6.3 Key Attributes of the Capital Market Performance

The rise of the capital market during an uncertain pandemic period raises a number of questions about the key attributes of the capital market. Based on the scanning of newspaper reports as well as experts' opinion, a number of issues are found to be linked with recent trends in the capital markets. These include: (a) influence of stimulus package targeting the capital market; (b) market operations during the pandemic period; (c) major investments made by the institutional investors including those of banks and other investors; (d) portfolio investment of the foreign companies; (e) weaknesses of IPOs and their issuance process; (f) transaction of junk shares including z category shares; (g) transparency of BO accounts; (h) MPS announced during FY2020–21; (i) key issues announced in the national budget for FY2020–21 and FY2021–22; and (j) roadshows for attracting investment.

Stimulus packages for the SEC

The capital market is specifically supported through several stimulus packages and policy actions. These include—(a) a package for banks that would allow them to borrow money for six months at 6 per cent interest to invest in equities to bolster the capital market[9]; (b) each bank is directed to develop a stabilisation fund of Tk 200 crore to invest in the capital market and draft rules on the formation and execution of capital market stabilisation fund has been prepared[10]; and (c) it is planned to create a BDT 8.5 billion revolving fund for five years to invest it in the capital market and utilise it during any crisis to keep the market stable. The stabilisation fund is developed as per the directives of the central banks under the MPS for FY2020–21, under which 16 banks have invested about Tk 2.64 billion. Hence, the fund has a limited short-term positive impact on market capitalisation and market indices. Since the other two initiatives are still at the preparatory stage, the impact till date on the market is rather negligible.

National budget on stock market

The provision of allowing investment of undisclosed black money in the capital market is a specific initiative made in the national budget for FY2021–22. Such a provision was last allowed in 1998 for two years. Allowing the undisclosed black is partly responsible for the rise in the market indices. While such initiatives have short-term impacts in increasing the market indices but have limited capacity to stabilise the market and thereby create confidence among general and institutional investors.

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[8] Private companies like the RFL doors and Deshbandhu polymer have shown keen interest on investing in Sukuk.

[9] https://www.tbsnews.net/economy/banking/redesigned-2nd-round-stimulus-package-addressing-demand-and-new-employment-creation

[10] According to the directive, any amount of cash or stock dividend remained as unpaid or unclaimed or unsettled, including accrued interest income thereon, within three years from the date of declaration or approval must be transferred to the Capital Market Stabilisation Fund.

Market operations during the pandemic period

The stock market was closed for a consecutive 66 days during the country's first wave of COVID-19 pandemic. Since most of the economic activities were closed or operated at a limited scale, continuation of operation of the secondary market might cause a detrimental effect on overall market performance, which the SEC considers to shut down the market temporarily. However, another group criticised the decision that shutting down the operation caused negative perceptions among market players, which adversely affected the market.

Foreign investment concerns and road shows

Foreign investors took away their investment from the stock markets during 2019–2021 (Table 3.23). This clearly indicates the role of domestic factors to pull market indices during 2020–21. Such a trend in portfolio investment contradicts with the huge investment made by local investors in the secondary market, particularly during the early phase of the pandemic and later phase of the pandemic. Other than the issues concerning the pandemic, foreign investors were not in favour of introducing floor price at a time of crisis as this is likely to hinder reflection of the actual market price of the stocks, particularly those of the low-value poor-quality stocks. Later, the floor price was lifted by the SEC. It is important to explore how the foreign investors would respond to invest in the later phase of pandemic and the post-pandemic periods as and when the economy would start to rebound and recover. In this connection, it is worth mentioning that BSEC undertook efforts to attract foreign investments by organising road shows in different cities during the period (Table 3.24). Unfortunately,

Table 3.23

Portfolio Investment in Bangladesh

Year	Portfolio Investment
2018-2019	1609.2
2019-2020	-124.9
2020-2021	-167.0
2021-2022 (Oct)	-76.0

Source: Based on Bangladesh Bank (2021a).

Table 3.24

Roadshows Organised to Attract Foreign Investment in the Capital Market

Year	Events	Venue
9–12 February 2021	The Rise of Bengal Tiger: Potentials of Bangladesh Capital Market	Dubai
26 July 2021	Investor Summit: Bangladesh Capital Market	New York
28 July 2021	The Rise of Bengal Tiger: Potentials of Bangladesh Capital Market, Stakeholder's meeting	Washington, DC
30 July 2021	Investor Summit: Bangladesh Capital Market	Los Angeles, CA
2 August 2021	US-Bangladesh Tech Investment summit	Silicon Valley, Santa Clara
22 September 2021	Investor Summit: Bangladesh Capital Market	Geneva, Switzerland
20 September 2021	Investor Summit: Bangladesh Capital Market	Zurich, Switzerland

Source: Authors' compilation.

those roadshows did not generate much enthusiasm among foreign investors, although a significant amount of resources have been utilised. In the absence of strong market monitoring and governance, attracting foreign investors at a large scale would be difficult.

Less use of BO accounts

The total number of BO accounts that were in operation during the period of pandemic experienced noticeable changes (Table 3.25). Compared to the pre-pandemic period (January 2019), the use of BO accounts has declined by 27.8 per cent at the later phase of the pandemic (December 2021). The total number of BO accounts operable was 20.33 lac during 20 December 2021. However, the number of BO accounts has further increased since the pre-pandemic period, the number of BO accounts set-up has increased by 10.4 per cent. Total number of such accounts on 20 December 2021 was 76.72 lac. In other words, only 26.5 per cent of setting up BO accounts are in operation. This raises questions about a huge number of BO accounts to be 'dormant', which is about three-fourths of the total accounts. In other words, the transparency of these accounts needs to be taken into account. Given the decision taken by the SEC to distribute the shares of IPOs on a pro-rata basis, the setting up of BO accounts may change in the coming years. In this connection, the CDBL, the responsible agency for managing BO accounts, needs to be reviewed in the context of its overall operation and accountability.

Table 3.25
BO Accounts

Year	Month	BO account set up	BO account operable
2019	Jan-30	6,948,535	2,817,041
	Dec-31	7,062,437	2,578,301
2020	Jan-30	7,066,390	2,578,503
	Dec-31	7,420,355	2,552,168
2021	Jan -30	7,420,355	2,552,168
	Dec-20	7,672,712	2,033,022

Source: Illustrated from CDBL data.

3.6.4 Governance of the Capital Market

Major initiatives undertaken by BSEC under the new leadership

Since the new leadership has taken charge at the BSEC (17 May 2020), a number of initiatives have been undertaken. Major BSEC initiatives include: (a) setting floor price for all stocks which has been lifted later (June 2021); (b) allowing two banks to issue perpetual bonds of BDT 4.0; (c) directed the stock exchanges to immediately launch an integrated online data-gathering, information submission and dissemination platform; (d) revised its recently amended public offer rules to set the minimum share offloading at 10 per cent of the company's total shares; (e) decided to start routine inspections of brokerage houses; (f) asked 61 directors of 22 listed companies to ensure holding of minimum 2 per cent shares in their respective firms in 45 days; (g) planned to make Bangladesh Electronic Funds Transfer Network (BEFTN) mandatory for the listed companies; (h) replaced the lottery system with the pro-rata system for general investors in initial public offering; (i) formulated draft rules on forming and executing capital market stabilisation fund with the unclaimed or unpaid cash or stock dividend; and (j) issued revised public issue rules, setting new IPO quotas for general and other eligible investors (EIs). The majority of these initiatives are targeted to smoothen the daily operation of the stock market and maintain compliances. Given the weaknesses in the primary and secondary markets as discussed earlier, the SEC needs to focus on some issue including ensuring the quality of IPOs, controlling the transactions of Z category shares, transparency of BO accounts, and financial transparency of listed companies.

Table 3.26

Enforcement Action Undertaken by BSEC

	January	February	March	April	May	June	July	August	September	October	November	December
2020	4	5	17			3	30	30	49	22	150	151
2021	20	21	50	13	15	4	11	10	47	65		

Source: Authors' illustration based on SEC data.
Note: Shaded box indicates the month when the new SEC leadership took charge.

As part of regulatory responsibilities, the BSEC has increased its monitoring and enforcement of rules and regulations. This is reflected in the regulatory actions taken by the BSEC (Table 3.26), which has increased in 2021. However, in most cases, the actions are mostly non-compliance warnings. However, BSEC needs to be more proactive in taking measures in order to build confidence among the concerned stakeholders.

Addressing the market related malpractices

Market related malpractices have been exposed during the pandemic period in a number of ways. These are related with—(a) offloading of IPOs; (b) transactions in the secondary market; (c) targeted collusive practices in low-value chares; (d) involvement of institutional investors; (e) involvement of big investors and (f) use of social media for manipulation. The anomalies include embezzlement of placement shares, possible engagement of the brokerage houses in market manipulation, using the BSEC logo on social media to spread wrong and wilful information, inflated price bids in the book-building system using the underwriter and creating fabricated demand of targeted shares, insider trading and distribution of margin loan against junk shares (P/E ratio higher than 40).

A number of measures have been undertaken by BSEC. These include—(a) developing a database of top officials, sponsor directors and auditors of the listed companies; (b) forming a body to stop the manipulation of stocks of small firms; (c) declaring a plan to create a separate intelligence wing at BSEC[11]; (d) directing all concerned to refrain from spreading any prediction or price forecasting or undisclosed information in any form including social media; otherwise, the BSEC will take legal actions as per securities laws and digital security act 2018.[12]

[11]Including accrued interest income thereon, within three years from the date of declaration or approval must be transferred to the Capital Market Stabilisation Fund of the BSEC. Each bank is directed to develop a fund of Tk 200 crore to invest in the capital market.

[12]porate/bsec-for-taking-actions-against-rumour-mongers-under-digital-security-act-1599061607.

Coordination between BSEC and Bangladesh Bank

Since the initial period of the pandemic, Bangladesh Bank and the BSEC undertook a set of decisions considering the operation of the market. These include: (a) strengthening their mutual coordination for further development of both the money market and the capital market; (b) disbursement of the listed banks' cash dividends only among small investors, considering their woes during the ongoing lockdown[13]; (c) the central bank agreed to inspire banks to accelerate the formation of the special funds worth BDT 2.0 billion, announced earlier to support the ailing capital market.[14] The central bank

has recommended the MoF not to impose the proposed source tax on government securities, whose trading is set to start in the stock market within a couple of months.[15]

During the later phase of the pandemic, disagreement between Bangladesh Bank and BSEC became visible in the context of some recent stock market related decisions making that deepened further following a recent stock market regulator move that curtails banks' power to cancel payments to bondholders. The central bank has written to several banks after finding out that the BSEC's condition on approving the issuance of perpetual bonds contradicts a Bangladesh Bank guideline.[16] Though Bangladesh Bank and BSEC have discussed the issue; however, the difference in opinion still prevails.

3.6.5 Factors Responsible for Market Trend

The capital market has experienced an unexpected rise during the pandemic apart from the decline at the beginning of the pandemic. This bubble-like change in the stock price index is influenced by a number of institutional, operational and non-compliance factors.

Market stabilisation fund

The introduction of the Capital Market Stabilisation Fund contributed to building confidence among market players during a period of uncertainty. During July 2021, BSEC sent a letter to listed businesses instructing them to transfer all qualifying cash and share assets to the fund by the end of the month, which did not provide the companies the required 30 days to comply with the BSEC Market Stabilisation Fund Rules 2021. The regulator disclosed Tk 21,000 crore of undistributed and unclaimed dividends by the listed companies, which it now plans to safeguard the capital market and its general investors. The fund is governed by the 10-member board of governors headed by the chairman for a three-year tenure.

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[13] As per the meeting's decision of Bangladesh Bank and BSEC, the banks' cash dividends, payment of which was restricted until September, will be disbursed only among small investors.

[14] The Bangladesh Bank issued a circular in February 2020, allowing all the scheduled banks to create BDT 2.0 billion special fund each for a period of five years for investment in the market [The Daily Star, 2020].

[15] In its Finance Bill 2020, the government has announced imposing a 5.0 per cent source tax on profit of investment in the government securities, covering both treasury bills (T-bills) and bonds, from the upcoming FY2020–21 [The Financial Express, 2020].

[16] https://www.thedailystar.net/business/economy/stock/news/bb-bsec-tussle-takes-new-twist-2917871

Stimulus funds

Stimulus funds appear to be the key influencing factors. The stimulus package initiative can be seen from two perspectives. One is the incentive that was directly for improving the stock market. The other is the indirect influence of the stimulus packages which was given for helping the financial recovery of different sectors. In September 2021, the central bank unveiled a package for banks that would allow them to borrow money for six months at 6 per cent interest to invest in equities to bolster the capital market.[17]

Floor price

The BSEC introduced a floor pricing mechanism on 19 March 2020, to prevent listed company share prices from dropping below a specific threshold during the COVID-19 epidemic.[18] However, the majority of the equities failed to find buyers once the floor price was set. The shutdown also means that no one can sell the stock, even if they desperately need to. Because of non-market measures with criticism from different stakeholders, including foreign investors, the BSEC lifted the floor price system in June 2021.

Margin loan correction

The market came across several margin loan corrections attempts during the pandemic considering an increasing flow of funds. BSEC revised the margin loan ratio in September at a 1:1 ratio if the broad index exists up to the 4,000 thresholds. If the DSE broad index is between 4,001 and 5,000 points- the margin borrowing ratio fixed at 1:0.75; index between 5,001 and 6,000 points- the ratio to be 1:0.50; and if the index rises beyond 6,000 points, the ratio determined at 1:0.25. There were further adjustments and changes in November 2021.

Deposit rate

The low deposit rate has contributed to the high trading volume in the country's stock market. During the pandemic, the low return on bank deposits drove people away from the banking sector towards the capital market. With an already prevailing uncertain market condition investing in the stock market was a feasible and profitable option for ordinary people.

Low credit demand and high liquidity

Lack of credit demand and high banks' liquidity came up as a key factor for the stock market bubble during the pandemic. Such logic is irrational as both money and capital market are supposed to be influenced by similar sets of real economy related factors. It is found that the banking surplus liquidity stood at Tk 204,070 crore as of January 2021, a year-on-year surge of 97 per cent. The amount stood at Tk 103,358 crore in the same month a year ago. The contribution of investment income rose to a greater extent in 2020 because of banks' high investment in treasury bills, bonds, and the stock market. Banks' investment in bonds and other securities rose 8.84 per cent to Tk 314,747 crore in

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[17]ttps://www.tbsnews.net/economy/banking/redesigned-2nd-round-stimulus-package-addressing-demand-and-new-employment-creation

[18]To avoid a drop-in stock prices before the closure, the stock market regulator set a floor price for all equities by calculating average prices preceding five days.

the second quarter of last year. Investment income surged Tk 842 crore, or 49 per cent, to Tk 2,546 crore in the quarter.[19]

Some banks exceeded the regulatory limit of investing in stock exchanges and were fined during the bubble period of the stock indices. There was also apparent evidence of using scarce stimulus funds to buy stocks by the beneficiaries/borrowers of the stimulus packages which was clearly undesirable. Bangladesh Bank also expressed concerns regarding the issue. In July 2021, Bangladesh Bank directed the country's lenders to monitor how loans from the stimulus packages were being used as it found some cheap funds being channelled into undesirable sectors.[20]

Market manipulating practices

As discussed earlier, a number of market manipulating practices or non-compliant business practices during the pandemic period have influenced rising share prices. In the backdrop of a weak monitoring system, such practices have been continuing and created an artificial rise of the market price.

New leadership in the SEC

The role of the new leadership has been positively acknowledged by the stock market experts. The new team has undertaken a number of visible measures which partly built confidence among the market players. While a number of measures are taken by the new SEC team related to operational strengthening, the market is still suffering in weaknesses in ensuring corporate governance, transparency and accountability of major stakeholders and controlling market manipulating behaviour and safeguarding the interests of small shareholders.

3.6.6 Conclusions and Recommendations

The sudden rise in the capital market indices during the period of uncertainty and risks in the real economy raises doubt about the sustainability of the stock market. Given the inherent weaknesses in the market, such a rise in the stock prices needs close examination. This subsection attempts to contribute to this end. Overall, the bubble-like behaviour of the market is being contributed by a number of artificial short-term stabilising measures. However, such measures would hardly ensure long term stability in the market and thereby would hardly develop confidence among the market players. The new leadership in the SEC has taken some visible measures to influence the market; however, those are still found to be less effective in creating an enabling market environment.

(a) The market regulatory bodies should reflect more concern about the quality of stocks rather than indices. This is crucial for the sustainability of the market. The quality stock would ensure that the product base is more diversified, and the people have more options to choose from;
(b) BSEC and Bangladesh Bank should not encourage banks to invest in the market for short term market gain, which would cause long-term damage for the investors, particularly to the general investors;
(c) Banks and institutional investors should follow the corporate governance principles in taking decisions with regard to their investment in the capital market;

[19]https://www.thedailystar.net/business/news/another-tk-1863cr-bank-fund-stock-market-2060745.

[20]https://www.tbsnews.net/economy/bb-sees-risk-stimulus-loans-diverting-stocks-278554 [25 July 2021].

(d) BSEC should monitor and review whether institutional investors follow the corporate governance code/guidelines and provide necessary directives in this regard;
(e) Ensuring corporate governance is a must which is connected with ensuring accountability. In many cases, the listed companies are controlled by family owners, and they tend to exploit the market for their benefits, so the improvement of the board formation could bring about a change. They should be bought under enhanced accountability.
(f) Transparency of the BO accounts needs to be ensured in order to properly monitor, track and trace transaction practices and transaction behaviour of the investors.
(g) SEC should make it mandatory to tag tax identification number (TIN number) and bank account numbers with all BO accounts (existing and new) with a view to ensuring transparency in the financial transactions in the capital market and their reporting with income tax statements;
(h) Market related manipulation needs to be addressed by the SEC immediately with proper and visible punitive actions to provide signals to the market players;
(i) SEC should work with the law enforcement agencies who regularly monitor social media with a view to reducing the rumours on the market using the social media;
(j) DSE should be made accountable for its due diligence in case of assessing the quality of IPOs and other stocks and shares;
(k) The financial reporting commission needs to play a strong role in reducing the anomaly in financial reports of the listed companies;
(l) SEC's initiative to regular monitoring of the brokerage houses is an important initiative. It should regularly make public the outcome of the monitoring of the brokerage houses;
(m) To attract big companies and more foreign investment, it is more important to strengthen the monitoring and inspection mechanism of the SEC and transparency and accountability of the market players include DSE, CSE, CDBL, institutional investors and other agents; and
(n) More reforms in the capital market listing should be ensured, particularly more big corporates and SMEs need to be brought to the market. However, ensuring proper governance or management of enterprises, mainly SMEs, is a critical issue to address.

3.7 CONCLUDING REMARKS

The trends of key macroeconomic correlates during the early months of FY2021–22 evince that many of these are in a recovery trajectory, led by export-oriented sectors. However, as has been discussed, macroeconomic stability is not in a comfortable state anymore. Uncertainty is looming large at the global level as well. Consequently, the policy space for tackling the prevailing and emerging challenges has become comparatively limited.

In this backdrop, trends in recovery, emergent risks and the available policy space should receive due cognisance while designing and implementing policy responses. The government needs to opt for a focused and targeted expansionary fiscal policy reinforced by accommodative monetary policy. Given the current context, a targeted flow of fiscal resources towards the more vulnerable households alongside the relatively small (and informal) enterprises will generate more 'aggregate domestic demand augmenting' effect and offer some protection to the marginalised groups. This becomes even more important given the upward creeping inflation induced by both domestic and external factors. One of the critical measures to be pursued by the government should be a downward adjustment of diesel price in order to decrease tillage, irrigation and transportation costs so that production cost is reduced.

Within the external sector, robust growth in export earnings and import payments, as well as the rise in overseas migration, depict clear signs of recovery. Although remittance inflow is exhibiting negative growth in comparison to the very high benchmark of the preceding year, it is still higher than the corresponding period of the pre-pandemic year. However, a number of disquieting trends can be simultaneously observed within the external sector. These are manifested in the volume-driven nature of export growth, the weakening of the BOP position and further weakening of taka at a time of rising commodity prices. If the policy primarily focuses on holding the exchange rate steady at around the current level, energetic steps to reduce the cost of doing business and proper incentivisation of exports will be necessary. The 2 per cent cash incentive on inward remittance should be continued, and investment in wage earners' bonds should be encouraged to dissuade the transfer of money through informal channels given the widening gap between official exchange rate and curb market rate.

The government may need to gradually discontinue some of the prevailing support measures while carefully observing the evolving pandemic scenario. Since the pandemic is still not over and the resultant fallouts are still vivid, the Bangladesh economy will require a recovery package 2.0. Taking cognisance of the limitations of the current packages, the new one will have to be based on distributive justice, which will support the marginalised and the vulnerable people at a time of rising prices of daily necessities and by taking into account their hardships during the pandemic with consequent loss of income and savings, and increased debt. The increased cost of investment induced by rising inflation needs to be accounted for in this new recovery package. Execution of unfinished support agendas such as loans to smaller entrepreneurs and fuller implementation of programmed social protection programmes (including cash transfer) must be ensured by the government.

The experience during the pandemic times spotlight that perhaps the ability to effectively and efficiently carry out expanded public expenditure programmes, including any additional stimulus packages in quantitative and qualitative terms, is the foremost binding constraint. Moreover, effective design, implementation and monitoring of the required policy packages demand real-time and updated data on key macro-fiscal indicators such as poverty, employment, inequality, and budget execution. Last but not least, the lost reform and good governance agendas must be revitalised in order to address the newly emerging challenges.

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ANNEX

Annex Table 3.1
Companies Listed in 2020 and 2021

Name of the Company	Sub. Open Date	Amount (BDT Crore)
BD Thai Food and Beverage Ltd.	23 Dec 2021	15
eGeneration Limited	12 Jan 2021	15
Associated Oxygen Limited	10 Sep 2020	15
SEA Pearl Beach Resort & SPA Ltd	22 Apr 2019	15
Sena Kalyan Insurance Company Ltd.	3 Oct 2021	16
Desh General Insurance Company Limited	14 Feb 2021	16
Crystal Insurance Company Limited	10 Nov 2020	16
Union Insurance Co. Ltd.	15 Dec 2021	19
Coppertech Industries Ltd.	31 Mar 2019	20
Express Insurance Limited	13 Apr 2020	26
ACME Pesticide Limited	12 Oct 2021	30
Taufika Foods and Agro Industries Limited	3 Jan 2021	30
Silco Pharmaceuticals Limited	7 Mar 2019	30
New Line Clothings Limited	18 Feb 2019	30
South Bangla Agriculture & Commerce Bank Ltd	5 Jul 2021	100
Ashuganj Power Station Company Ltd.	23 Sep 2019	100
NRB Commercial Bank Limited	3 Feb 2021	120
Energypac Power Generation Limited	7 Dec 2020	150
Ring Shine Textiles Ltd.	25 Aug 2019	150
Union Bank Ltd.	26 Dec 2021	428
Robi Axiata Limited	17 Nov 2020	524

Source: Authors' calculation based on DEC data.

Independent Review of

iRBD

Bangladesh's Development

Under its Independent Review of Bangladesh's Development (IRBD) programme, the Centre for Policy Dialogue (CPD) has been preparing analyses of the major macroeconomic performance indicators of Bangladesh economy, on an ongoing basis, for two decades now. Following is a list of publications that have been brought out by the CPD under the CPD-IRBD programme:

- Bangladesh Economy in FY2020–21: Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy and National Elections 2018: Priorities for Electoral Debates
- Bangladesh Economy in FY2017–18: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2016–17: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2015–16: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2014–15: Third Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2013–14: Third Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2012–13: Second Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2011–12 and Outlook for FY2012–13
- Bangladesh Economy in FY2011–12: Third Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2010–11 and Outlook for FY2011–12
- Bangladesh Economy in FY2010–11: Second Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in 2009–10 and Outlook for 2010–11
- বাংলাদেশের অর্থনীতি পর্যালোচনা ২০০৮–০৯
- Bangladesh Economy in FY2009–10: An Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2008–09 and Outlook for FY2009–10
- Development of Bangladesh with Equity and Justice: Immediate Tasks for the New Government
- Bangladesh Economy in FY2008–09: An Interim Review of Macroeconomic Performance
- বাংলাদেশের অর্থনীতি: বিশ্লেষণ ২০০৭–০৮ এবং অন্তর্বর্তীকালীন পর্যালোচনা ২০০৮–০৯
- State of the Bangladesh Economy in FY2007–08 and Outlook for FY2008–09
- Recent Inflation in Bangladesh: Trends, Determinants and Impact on Poverty

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