Independent Review of Bangladesh's Development (IRBD)

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2022-23

Third Reading

Dhaka: 27 May 2023

Centre for Policy Dialogue — Celebrating 30 (1993-2023)

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The CPD IRBD 2023 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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Section 1. Introduction

Introduction

- The **economy** of Bangladesh has **faced formidable difficulties** recently, owing to:
  - **Exogenous factors**
    - Adverse fallouts of the **COVID-19** pandemic
    - **Russia-Ukraine war** which started in late February 2022
      - ✓ The confluence of these factors have manifested in **high global commodity prices**, **high imported inflation** and **supply chain disruptions**
  - **Endogenous factors**
    - Embedded structural weaknesses
    - Sub-optimal policies
    - Lax policy implementation
    - Lack of good governance
    - Inability to implement required reforms
- In July 2022, CPD had cautioned that **these weaknesses would aggravate the pressure points** in managing the Bangladesh economy

Introduction

- The **macroeconomic stress during FY23** is visible through:
  - **Lower momentum in revenue mobilisation** leading to a **shrinking of the fiscal space**
  - **High reliance** on borrowings from the **central bank** to **finance budget deficits**
  - **Tightened liquidity** of scheduled **banks**
  - **High prices** of **essentials**
  - **Deteriorating external sector balance** and foreign exchange **reserve**
- From stress to IMF loan: in pursuit of macroeconomic stability
  - Extended Credit facility (ECF), Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) are the different ongoing IMF programmes
- The **timeline** of the **IMF programme coincides** with the:
  - Preparatory phase of Bangladesh's LDC graduation
  - Second half of the period to attain the SDGs
  - Final budget of the ruling government as it prepares for the upcoming election.

Introduction

- IMF Conditionalities and macroeconomic stability
  - As experience shows, **restoring macroeconomic stability based on predetermined conditions** requires **making hard choices** and imposes **limitations on policy manoeuvring** (see full report for details)
  - In hindsight, the prescribed **stabilisation packages** of the multilateral agencies to the developing countries had commonalities but revealed **diverging effects** in their outputs
- The **four critical issues** that **demand urgent attention** in policy discourse:
  1. **Maintaining fiscal balance**
  2. **Improving external sector equilibrium**
  3. **Containing inflation**
  4. **Ensuring food security**
  - These have been focused based on their significance in **restoring macroeconomic stability**, **disciplining macroeconomic management** and **identifying development priorities**

Section 2. Fiscal Balance of Bangladesh
Six Key Areas of Policy Interests

Major Observations on the Fiscal Framework during FY2023

Targets of revenue mobilisation for FY2023 will be missed by a large margin

- ❑During Jul-Feb of FY2023, total revenue collection decreased by (-) 0.1%
- ❑NBR revenue collection decreased by (-) 1.3%
- ❑Total revenue shortfall would be approx. Tk. 75,000 crore in FY2023

Full utilisation of the budgetary allocations remains elusive

- ❑During Jul-Feb of FY2023, budget utilisation was 37.6% (38.3% in FY2022)

While the budget deficit widened, the composition of deficit financing has become a more problematic issue

- ❑During Jul-Feb of FY2023, budget deficit was Tk. 21,201 crore (surplus of Tk. 2,937 crore in FY2022)
- ❑Net borrowing from the banking sector, including BB, increased by nearly 70%
- ❑Net foreign financing has declined by (-) 24.8%

NBR will need to identify new sources to mobilise the required revenue

- An **OLS estimation** suggests **tax collection should increase by 13.5% in FY2024** if the likely targets for GDP growth (7.5%), inflation rate (6.0%) and import growth (14.2%) are met
- Considering potential shortfall; the **likely tax revenue target will need to generate around 37-40% growth** – i.e., a natural course of action will not work
- **Without new sources, the revenue shortfall will remain very high and will constrain the fiscal space significantly**
- GoB is planning to, inter alia, raise taxes on cigarettes, introduce some form of a carbon tax, impose a minimum tax on individuals who will file tax returns even if they do not have taxable income, increase capital gains tax, impose VAT on mobile phone at the manufacturing stage etc.
- **More potential sources of revenue collection (property tax, inheritance tax, and taxes on digital economic activities) can be explored, not to mention going for better enforcement to deal with tax avoidance and corruption**

Six Key Areas of Policy Interests

Strategising rationalisation (gradual withdrawal) of tax exemption provisions will need to be objective

- CPD has long been urging the need for rationalisation of prevailing tax exemptions – which may be carried out due to IMF conditionalities
- **All types of tax exemptions should respond to well-defined and clearly articulated policy objectives** – often, this is not the case in reality
- Extent and sequencing should be balanced, considering the needs of supporting domestic industries
- **Next budget should lay out an action plan to this end**
- **The policy related to the rationalisation of tax exemption provisions should not be left to the vested interest groups and should prioritise small and medium businesses and general people**

Six Key Areas of Policy Interests

The guiding principles behind the austerity measures should be clear

- GoB has already taken some austerity measures – following ADP priority categorisation while implementing may not have been followed
- **Prioritise implementation of foreign-funded projects and projects which are closer to completion**
- **Establish an incentive mechanism, following a carrot-and-stick principle**
- Ensure that project costs are not abnormally inflated, citing the devaluation of the Bangladeshi Taka as a reason
- **Austerity measures should be taken in a way that the impact on the social safety net, health and education sectors, agriculture, and small and medium enterprises (SMEs) is less onerous**

Six Key Areas of Policy Interests

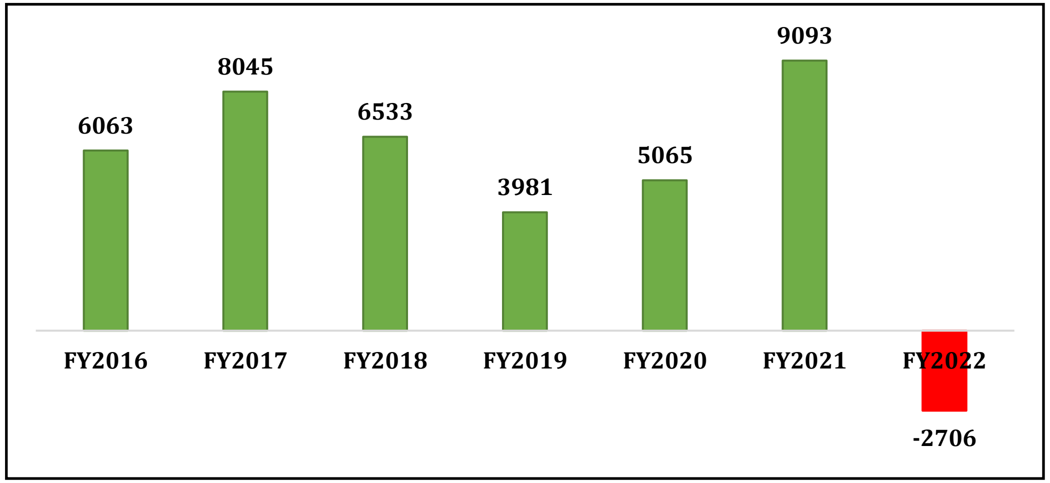
Prioritisation, pacing, and consideration of distributional impacts will be key in case of subsidy management

- Ensure adequate subsidy for agriculture and expanded food distribution programmes
- Maintain subsidy for export and remittances to start with
- Prepare for periodic formula-based price adjustment mechanism for petroleum products - review the tariff and tax structure and conduct an institutional audit of BPC to ensure transparency and accountability
- Currently, **of the retail selling prices** of diesel (Tk. 109/litre) and octane (Tk. 130/litre), the **government collects about 17-18% as CD, VAT, AIT and AT**
- Withdrawal of AT (5%) may not have an impact on retail prices as it is adjusted with VAT
- **BPC is likely to make profits of about Tk. 5 per litre from selling a litre of diesel and about Tk. 13 per litre from selling a litre of octane with the current level of prices**
- **So, there may be an opportunity to reduce petroleum prices between Tk. 5-10/litre**

Six Key Areas of Policy Interests

- **BPC's total profit in the last seven years (FY2016-2022) was about Tk. 43,804 crore**
  - **After paying Tk. 7,727 crore as IT, net profit was Tk. 36,074 crore**
- Being a monopoly and SoE, enjoying windfall gains by penalising the citizens of the country cannot be justified – GoB also collects additional revenues as VAT and IT from higher prices!
- **Pricing mechanism, tax policy, and profits should be analysed publicly, objectively and transparently while determining the formula-based price adjustment mechanism**
- With reduced prices of petroleum products, power sector subsidies demand will also decline
- Subsidy on power cannot be phased out overnight
- **Power sector subsidies should be rationalised not only by the upward revisions of electricity prices but also reducing the burden of capacity payments provided to IPPs and quick rentals**
- **Energy mix for power production and the associated deals in the power and energy sector will have to be scrutinised further**

Net Profit of BPC after tax in the last seven years (crore Tk.)



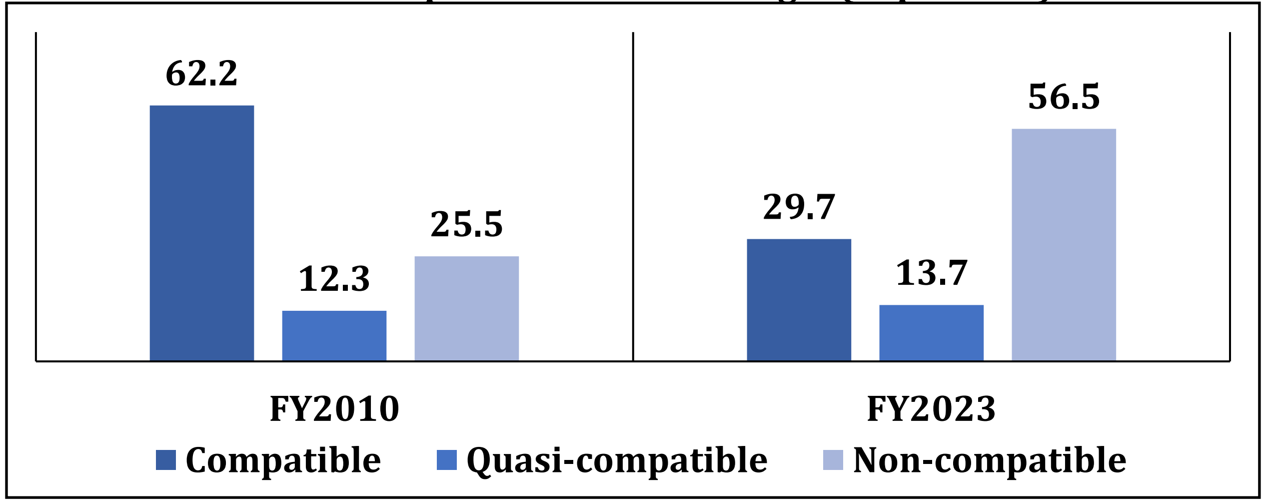
Source: Audit Reports of BPC.

Six Key Areas of Policy Interests

A rethinking regarding the classification of SSNPs is necessary if their expansion, both in terms of coverage and rates, is to be carried out in a transparent and meaningful way

- Over the years, loosely related programmes have been included to inflate the number of SSNPs and budgetary allocations (e.g., pension for retired government officials, agriculture subsidies, various credit programmes, infrastructure projects etc.)
- CPD has classified SSNPs into **three categories** viz. **compatible** (i.e., those that should naturally be included in the SSNP list), **quasi-compatible** (i.e., those that fall somewhere in the 'grey' area), and **non-compatible** (i.e., those that should be excluded from the list)

Composition of SSNP budget (in per cent)



Source: Author's calculation from MoF data.

- **Share of SSNP budget of compatible SSNPs declined from 62.2% in FY10 to 29.7% in FY23 – as a share of GDP, it also declined from 1.6% in FY10 to 0.8% in FY23**

- **Allocate incremental SSNP budget for the compatible programmes in FY2024!**

If the government continues to borrow from the central bank, it will further deteriorate the macroeconomic discipline

- Borrowing from the central bank:
  - **Feb'23: Tk. 54,501 crore** (source: BB)
  - **Apr'23: Tk. 74,393 crore** (source: media citing BB)
- A cross-country literature survey reveals that many countries have put legislative limits
- A comparison with global practice reveals Bangladesh has surpassed all the thresholds by a considerable margin

Government borrowing from Bangladesh Bank (thresholds vs actual)

Threshold criteria	Overshoot in Bangladesh	
	As of Feb 2023	As of Apr 2023
	In per cent	
10% of total revenue in the previous FY	63.0	122.5
20% of total revenue in the previous FY	(-)18.5	11.2
5% of public expenditure	110.4	187.1
12% of monetary base	32.1	80.3

Source: Author's calculation based on MoF and Bangladesh Bank data.

- **May have created about gross new money to the tune of Tk. 383,124 crore**
- Net sales of forex reserves helped to keep the money supply in check – not possible anymore as BB now needs to build up forex reserves and release BDT!
- **Continuing borrowing from the central bank will surely create a higher flow of money supply and hence, create inflationary pressure**
- **Prioritise mobilising foreign-funded budgetary support under negotiation**

Section 3.Taming Inflation: Hard Choices to be Made

Taming Inflation: Hard Choices to be Made

- The persistent inflation crisis remains a major pressure point as far as managing the Bangladesh economy in the current context.
- This is evident through surge in prices observed since June 2020, following the onset of the pandemic.
- Despite minor fluctuations, high inflation has persisted the recent time.
- According to the Bangladesh Bureau of Statistics (BBS) inflation has soared to 9.24% in April 2023, surpassing the government's projected rate of 5.6% for FY2023, as stated in the Budget Speech and Bangladesh Bank's 7.5% as projected in central bank's Monetary Policy Statement for January – June 2023.
- As the surging inflation continues to be a significant pain-point for Bangladesh economy, identifying the sources of inflation is crucial for prudent policymaking.

High Prices are not Fully an External Phenomenon

- The policymakers are attributing high prices to exogenous factors since Bangladesh relies on imports of fuel and a number of other essential commodities.
- However, the increased global prices of these items, coupled with the rising costs of transportation and logistics due to global inflation, also have an impact on locally produced goods.
- Also, this pass-through effect is only observed during price increases, while the consumers are not able to reap the benefits when the global prices experience a decline.
- Importers argue that their current stocks were purchased at higher prices, preventing them from immediately lowering prices in response to a drop in global prices.
- They can only sell products at a lower price once their old stocks are cleared, and new stocks are imported at the new and lower prices.
- If this argument is logical, then the reverse should also hold – when commodities are imported at cheaper prices, these should also be sold at lower prices till old stocks are depleted, even if there is a price hike in the international market.

High Prices are not Fully an External Phenomenon

- When international prices rise, importers immediately raise prices, even for their old stock.
- Currently, importers are attributing the increased cost of imported goods to the expensive USD compared to the BDT.
- Lack of competitive environment, market syndication, absence of necessary monitoring and lax enforcement of existing laws by concerned institutions are key factors in this connection.
- This is related to the presence of an imperfect market mechanism, where market rules fail to operate optimally, has contributed to this inflationary trend.
- The government attempts to periodically reduce duties on particular commodities, but traders argue that this does not help narrow the gap caused by the sharp depreciation of the Taka in recent months.

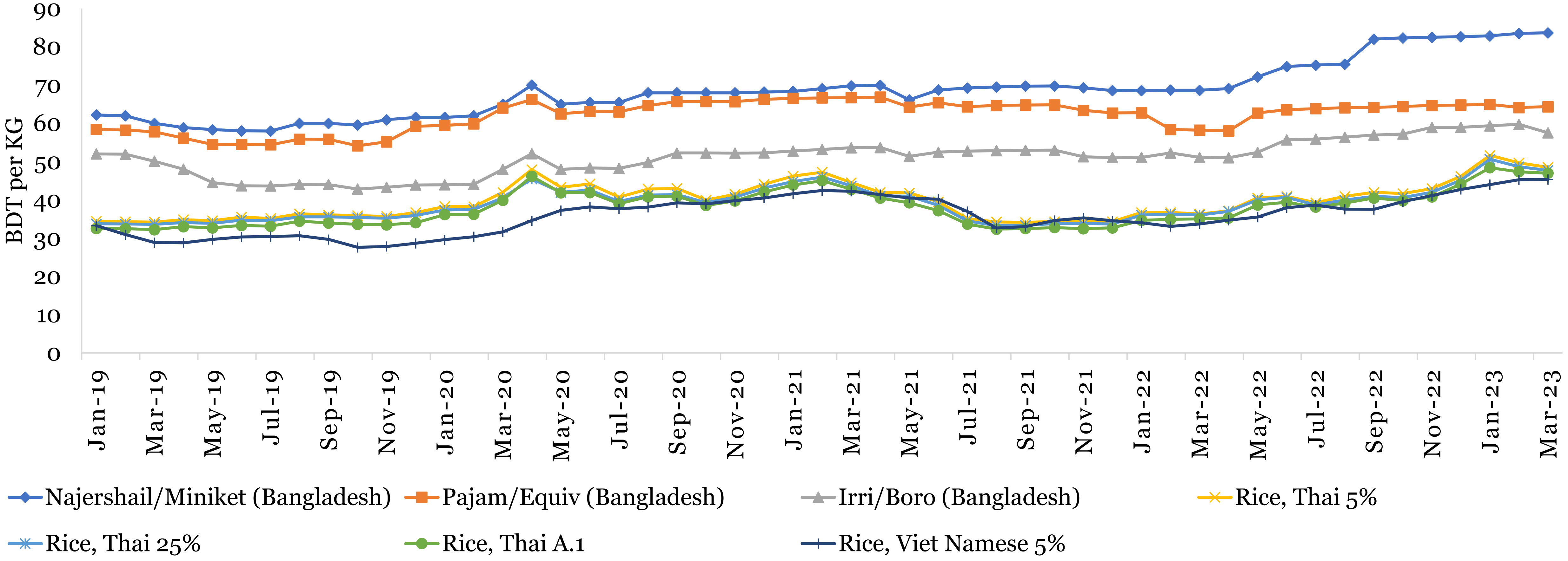
High Prices are not Fully an External Phenomenon

- To better understand the situation, price differences between local and international markets of a few commodities such as rice, soybean oil, sugar and beef have been mentioned below.
- An international comparative analysis reveals that the prices for basic food products in Bangladesh exhibit no decline, despite a decrease in international prices.
- Furthermore, the data indicates that certain essential food items show a persistent tendency to exceed global prices.
- Among these four commodities, rice and beef are primarily domestically produced, while soybean oil and sugar are predominantly imported.
- However, it has been observed that the cost of all these commodities in Bangladesh remains high compared to the global market prices

High Prices are not Fully an External Phenomenon

- The price of three common types of rice have been consistently higher than price of both Thai and Vietnamese rice.

Figure: Price of rice in Bangladesh and international markets



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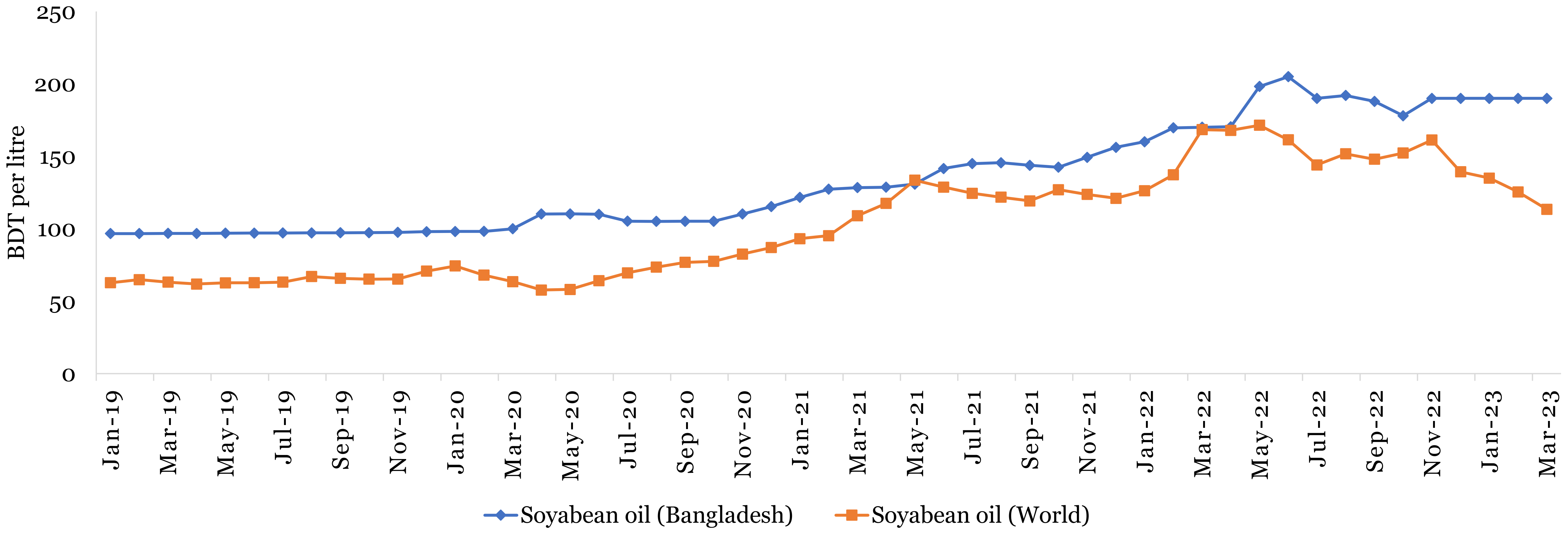
High Prices are not Fully an External Phenomenon

- ❑ The price of soyabean oil has been falling in the international market from November 2022 to March 2023, whereas there has been no decrease in the price of soyabean oil in the local market during the same period .

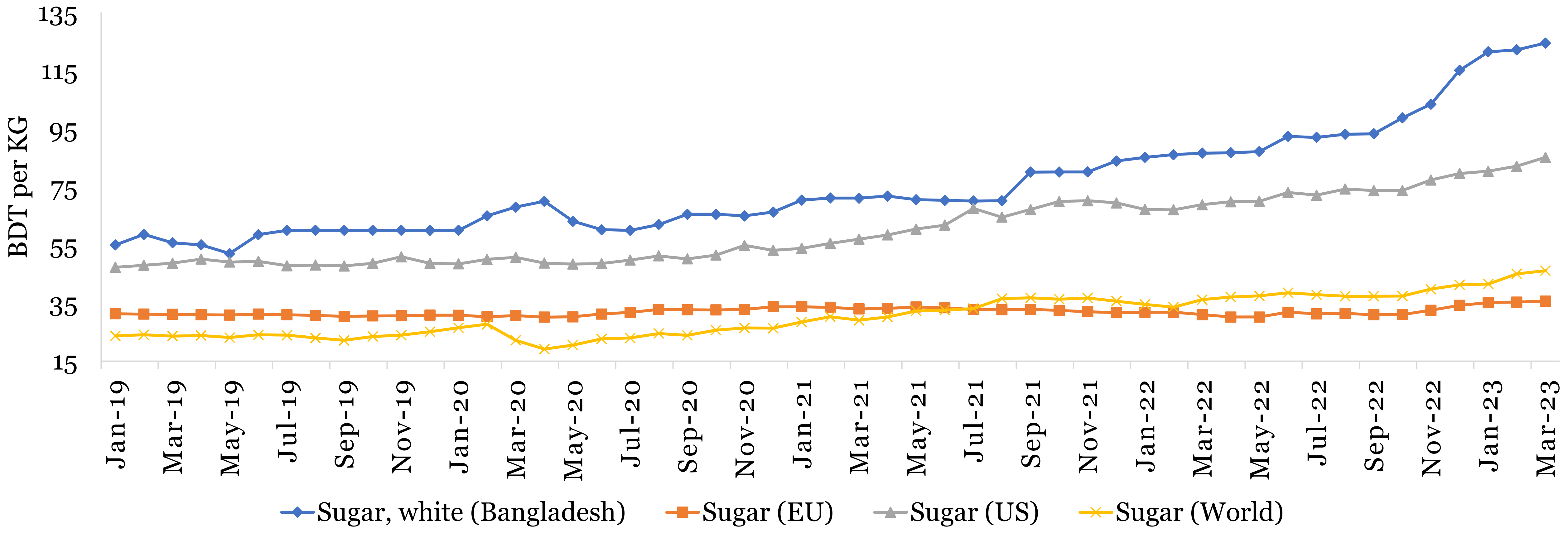
Figure: Price of soyabean oil in Bangladesh and international markets (in BDT per litre)



High Prices are not Fully an External Phenomenon

- The price of sugar in March 2023 was BDT 124 per kilogramme (kg) in Bangladesh, but only BDT 85 per kg in the US market, BDT 46 per kg in the world market, and BDT 36 per kg in EU market.

Figure: Price of sugar in Bangladesh and international markets (in BDT per kg)



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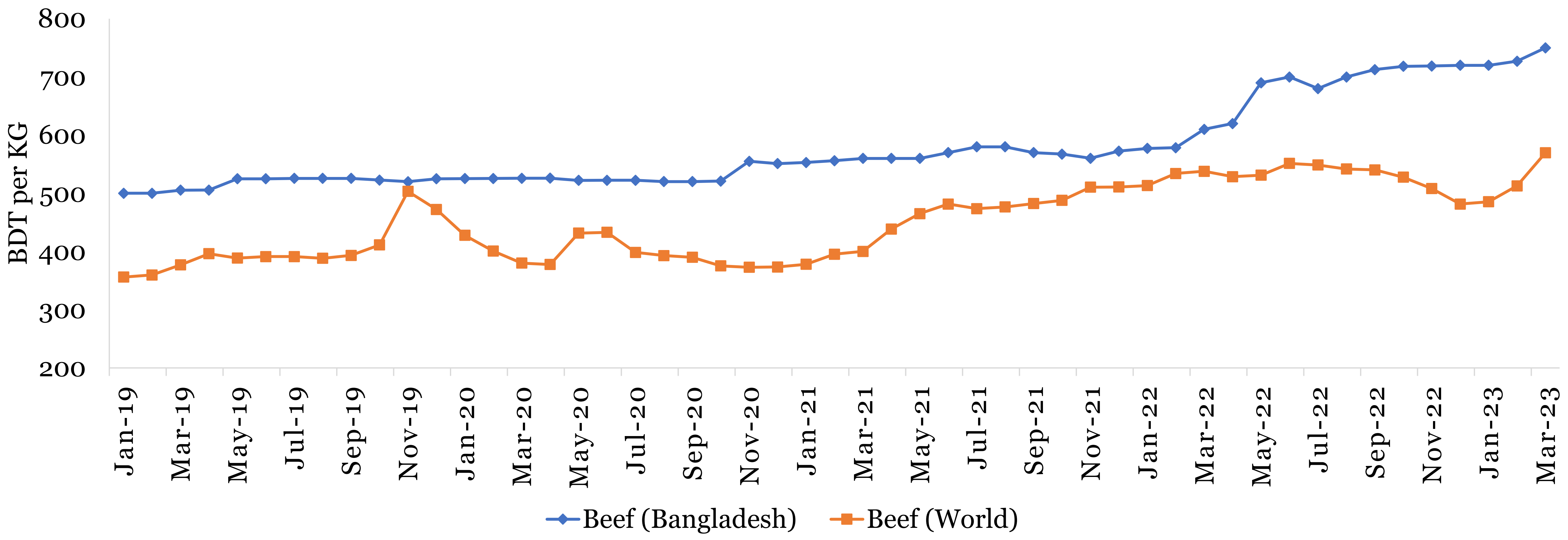
High Prices are not Fully an External Phenomenon

- The international price of beef decreased from July 2022 to December 2022, whereas the price of the item in Bangladesh increased during the same time

Figure: Price of beef in Bangladesh and international markets (in BDT per KG)



Policy shortcomings

Fixed interest rate regime

- The lending rate is fixed at 9% since April 2020. This makes the borrowing rate cheaper as inflation rate is higher than lending rate.
- Recently, the central bank has raised the interest rate on consumer loans from 9% to 12%.
- However, the interest rate cap on other types of loans, has remained unchanged at 9%.
- Regrettably, policymakers face persistent opposition from entrepreneurs whenever interest rates are proposed to be increased.
- Their resistance is further bolstered by recent surge in production costs resulting from higher energy prices, which they argue would undermine their competitiveness.
- However, competitiveness is contingent upon multiple factors, including the business environment, efficacy of institutions and the state of overall good governance.
- These elements are crucial for enhancing productivity and efficiency of the private sector, initiating level playing field, creating competitive environment and in the end facilitating cost reductions.
- By addressing these concerns, the remaining issues can be resolved.

Policy shortcomings

- Unfortunately, economic decisions in Bangladesh are frequently influenced by non-economic factors.
- A lack of significant monetary policy shift has led to an ineffective attempt to curb inflation in Bangladesh.
- The Bangladesh Bank raised its key interest rate - the repurchase agreement (repo) in May 2022 from 4.75 to 5 and then gradually to 5.5, 5.75 and 6 at various points in time till March 2023 - to contain price pressures.
- However, this did not generate the expected impact in terms of reduced inflationary pressure.

Table: Repo, reverse repo, and call money lending and borrowing rate

Period	Repo	Reverse Repo	Weighted average monthly call money lending/borrowing rate
Jan-22	4.75	4	2.43
Feb-22	4.75	4	2.8
Mar-22	4.75	4	2.66
Apr-22	4.75	4	4.58
May-22	5	4	4.73
Jun-22	5.5	4	4.88
Jul-22	5.5	4	5.34
Aug-22	5.5	4	5.49
Sep-22	5.5	4	5.53
Oct-22	5.75	4	5.79
Nov-22	5.75	4	5.80
Dec-22	5.75	4	5.8
Jan-23	6	4.25	6.66
Feb-23	6	4.25	6.15
Mar-23	6	4.25	6.03

Policy shortcomings

- **Second, several imported items face high duties and taxes**.
- The NBR relies on indirect taxes for meeting its target of revenue collection.
- There was hardly any attempt to reduce these duties and taxes albeit for a limited period.

	HS Code	Description	Unit	TTI
1	2012090	Fresh Or Chilled,Other Cuts Of Bovine Meat With Bone In, Nes	KGM	58.60
2	2012010	Fresh Or Chilled,Other Cuts Of Bovine Meat With Bone In, Wrapped/Canned upto 2.5 kg	KGM	89.32
3	2042290	Fresh Or Chilled Other Cuts Of Meat Of Sheep,With Bone In, Nes	KGM	58.60
4	2071410	Frozen Cuts And Offal Of Chicken, Wrapped/Canned upto 2.5 kg	KGM	89.32
5	3021990	Fish...ruhi,katla,......,pangash, karp & alike, excl. wrapped/canned upto 2.5kg Other	KGM	58.60
6	3028919	Hilsha fish (EXCL.wrapped/canned upto 2.5 kg)	KGM	89.32
7	4012010	Milk & Cream Of>1%But<=6%Fat,Not Concentrated Or Sweetened,Wrap./Cann. upto 2.5 kg	KGM	58.60
8	4021010	Milk&Cream In Powder Forms<=1.5%Fat,Con... Or Sweet.,In Reta.Pk.Upto 2.5kg	KGM	89.32
9	4021091	MILK AND CREAM IN SOLID FORMS OF =<1.5% FAT IMPORTED BY VAT REG. MILK AND MILK PRODUC	KGM	37.00
10	4021099	MILK AND CREAM IN POWDER EXCL. POWDER, GRNULES OR OTHER SOLID FROM AND IMPORTED VAT REGG	KGM	37.00

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Policy shortcomings

	HS Code	Description	Unit	TTI
11	7020019	Tomatoes, Fresh, Nes	KGM	58.60
12	7031019	Onions, Fresh Or Chilled, Nes	KGM	10.00
13	7032090	Garlic, Fresh Or Chilled, Nes	KGM	7.00
14	8041019	Dates, Fresh, Nes	KGM	10.00
15	9041190	Pepper, Neither Crushed Nor Ground, Nes	KGM	58.60
16	9083190	Cardamoms :Neither Crushed or ground. EXCL. Wrapped/canned upto 2.5 Kg	KGM	58.60
17	9093190	Seeds of Cumin : Neither crushed or ground EXCL. Wrapped/canned upto 2.5 Kg	KGM	58.60
18	9101190	Ginger : Neither Crushed or ground EXCL. Wrapped/canned upto 2.5 Kg	KGM	10.00
19	9103090	Turmeric(Curcuma), Nes	KGM	10.00
20	10059090	Other Maize, Excluding wrapped/canned upto 2.5 kg	KGM	2.00
21	10062000	Husked (Brown) Rice	KGM	62.50
22	10063011	Semi-Milled Or Wholly Milled Rice	KGM	85.00
23	11081200	Maize (Corn) Starch	KGM	67.00
24	15111010	Crude palm oil imported by VAT registered edible oil refinery industries	KGM	32.00
25	15119090	Palm Oil(Excl.Cude)&Its Fractns....Nes.Incld.Refiend Palm Oil	KGM	20.00
26	15132900	Refined Palm Kernel/Babassu Oil & Fractions,Not Chem.Modifd	KGM	55.00
27	25010020	Salt (other than pure sodium chlo.)...solution ..salt boulder for crushing & salt in bul	KGM	89.32

Policy shortcomings

- The ongoing fiscal year has presented substantial challenges for revenue collection due to diminishing business profits, leading to a decline in direct tax contributions.
- Furthermore, reduced imports have resulted in a decrease in customs tariffs.
- Another source of government funding is investments in national savings certificates which has declined drastically for several reasons including ceiling on NSD purchase by individuals, and reduction of savings by low-income groups due to increased cost of living.
- As a result of consistently low levels of domestic resource mobilisation through taxation, the government is increasingly relying on the central bank to obtain additional funds.
- **The increased borrowing of high-powered money has the potential to fuel inflationary pressure. This may have serious macroeconomic implications**

Policy shortcomings

- **The skyrocketing inflation has been further worsened by frequent energy price hikes in the country.**
- From early November 2021 till recent times, various fuel types have witnessed upward adjustments.
- Even though the global fuel prices are on a downward trend, one does not see this reflection of this low prices in Bangladesh.
- Despite profits made by Bangladesh Petroleum Corporation (BPC) during periods of low global energy prices, particularly between FY 2015 and FY 2022, the common people did not reap the benefits.
- The government controls and determines energy prices in Bangladesh, leaving consumers vulnerable to the decisions of policymakers.
- When global energy prices rise, the government adjusts prices accordingly, but consumers do not enjoy the same benefits when global prices decrease because the government does not lower prices in line with global trends.

Policy shortcomings

- **Structural problems are also responsible for the price hike**.
- Lack of strict enforcement of competition laws gives rise to unfair practices.
- In the absence of a pricing system that is based on transparency and takes strong stance to eliminate the involvement of middlemen in the supply chain, prices cannot be controlled with only monetary and fiscal tools.

Synchronised Measures are Needed

- To mitigate the impact of inflation and provide support to those in need, it is of utmost importance that the government implements a range of measures.
- These should encompass direct cash support for individuals living in poverty including the new poor, augmenting allowances within social safety net programmes, enforcing stronger social protection measures for low-income families, and introducing tailored stimulus packages to aid small businesses during these challenging times
- It is crucial to establish an integrated policy framework that facilitates the coordination of fiscal and monetary policies, thus ensuring their efficacy.
- It is also necessary to address non-economic and distortionary practices in the market to bring down prices.
- This necessitates the implementation of bold and coordinated measures.

Synchronised Measures are Needed

- The Bangladesh Competition Commission should strengthen its role and take proactive measures.
- This includes establishing a comprehensive database, conducting regular surveillance of dominant market players' activities, closely scrutinising market manipulation, and promptly taking necessary actions.
- To effectively address monopolies and promote fair competition, the Competition Act of 2012 needs to be updated with explicit anti-trust provisions and clear penalties for those who violate those.
- Additionally, rigorous monitoring and supervision are essential for efficient market management, ensuring that commodity prices remain under control.

Section 4. External Sector: Managing Risks, Combating Headwinds

Independent Review of iRBD Bangladesh's Development

The Context: An Unprecedented Scenario

- **A significant part of the ongoing macroeconomic challenges facing the Bangladesh economy originates in the formidable difficulties facing the external sector of the country**. Accordingly, the likelihood of success of coming out of the current situation also lie, to a large extent, in whether the policymakers are able to manage the attendant risks and tackle the headwinds confronting the country's external economy and external balances.
- **Bangladesh has been able to maintain strong external sector balances over the recent past years.** Even in years of depressed export performance or low remittance growth, external balances tended to remain stable, allowing policymakers considerable policy flexibility and maneuverability.
- **Regrettably, Bangladesh's policymakers failed to appreciate the likely consequences of the war – induced external shocks on the economy**, and could not adequately anticipate the adverse impacts these could have on the country's overall macroeconomic management.

The Context: An Unprecedented Scenario

- As the fiscal year FY23 moved on, policymakers were compelled to resort to various fire-fighting measures to contain the adverse impacts that afflicted the economy: the taka was allowed to significantly depreciate; imports were selectively curtailed; L/C margins were raised, whilst the central bank supported import of essentials albeit at depreciated but managed exchange rate.
- In the end, Bangladesh had to resort to IMF programme which came with a number of quantitative milestones and qualitative conditionalities.
- The impacts of the external shock, weak resilience capacity to deal with shocks, muted policy response and embedded weaknesses and fault lines in the economy created a vicious cycle which underpins the current challenging macroeconomic scenario.

Export Performance: Reasons to be concerned

➢ **Export sector performance has been rather muted, with adverse implications for net export earnings.**

- Growth of export earnings during July-April, FY23 was 5.4% compared to the corresponding period of FY22; this was indeed 3.5% lower than the strategic target for the corresponding period. It is obvious that the strategic growth target for FY23, set at 11.5% , is not going to be achieved –exports will need to rise by 41.4% in the remaining two months (May and June).
- If over this period (July-April of FY23) RMG export earnings were 9.1% higher, the earnings from non-RMG exports were (-) 11.1% lower than the corresponding period of FY22. The significantly low growth of exports in April at (-) 16.5%, with export of RMG falling by about 16.1%) transmits a truly disturbing signal.

The Current External Sector Trends: Disquieting and Disturbing

- Analysis of price trends of RMG products in key markets of the US and the EU indicates a rise in average prices of apparels: in USA by 23.3% and that the EU by 24.8%, although volume of export has fallen in the USA (July-March of FY23).
- The significant depreciation of the BDT should have enhanced export competitiveness of apparels (as also other items of exports from Bangladesh) in the global market. The rising price should also have helped. It is in this backdrop that the slow growth of RMG exports and the recent fall in export earnings have emerged as a matter of concern.
- The negative growth of non-RMG exports has an adverse implication for net exports and the forex reserves. Since domestic value addition for RMG is about 55-60%, whilst that of non-RMG items varies in the range of between 80 and 95%, the compositional aspect of recent export performance has an adverse impact on growth of net domestic value retention, net export and forex reserves. Policymakers should take note of this.

The Current External Sector Trends: Disquieting and Disturbing

- **There are signs of improvements in terms of trade, but depressed demand in major markets has emerged as a concern.**

  - If the purchasing power of RMG is taken as a reference point, it is seen that Bangladesh's terms of trade has somewhat improved, both in the EU and in the US markets if measured against most of the commodities, excepting for LNG (Table 4.1 and Table 4.2).

The Current External Sector Trends: Disquieting and Disturbing

Improvement in Terms of Trade

Table 4.1: Terms of Trade taking RMG price per 100kg as reference (EU)

Commodities	Units	FY 22 (July-March) Average	FY 23 (July-March) Average
Cotton, A Index	kg	602.96	745.65
Rice, Thai A.1	mt	4.07	4.05
Wheat, US HRW	mt	4.32	4.46
Palm oil	mt	1.20	1.85
Soybean oil	mt	1.05	1.22
Crude oil, avg	bbl	19.38	20.38
LNG, Japan	mmbtu	117.15	88.32

Source: Author's estimation based on The Pink Sheet and Eurostat.

Table 4.2: Terms of Trade taking RMG price per dozen as reference (U.S)

Commodities	Units	FY 22 (July-March) Average	FY 23 (July-March) Average
Cotton, A Index	kg	15.45	21.14
Rice, Thai A.1	mt	0.10	0.11
Wheat, US HRW	mt	0.11	0.13
Palm oil	mt	0.03	0.05
Soybean oil	mt	0.027	0.035
Crude oil, avg	bbl	0.50	0.58
LNG, Japan	mmbtu	3.00	2.50

Source: Author's estimation based on The Pink Sheet and USITC

Import Performance: Global prices are declining but composition-wise import performance augurs concerns for investment

- **Import payments have come down both owing to policy interventions and because of falling global commodity prices, but the bill will likely go up if the economy is to regain growth momentum.**

- In quantitative terms, import payments have declined by about USD 7.6 billion during July-March FY23 compared to the corresponding period of FY22 (the matched figures are USD 61.5 billion and USD 53.9 billion).
- All key components of imports have demonstrated negative trends: intermediate goods (-14.7%); RMG related goods (-19.6%); capital goods (-17.8%) including capital machineries (-11.9%).

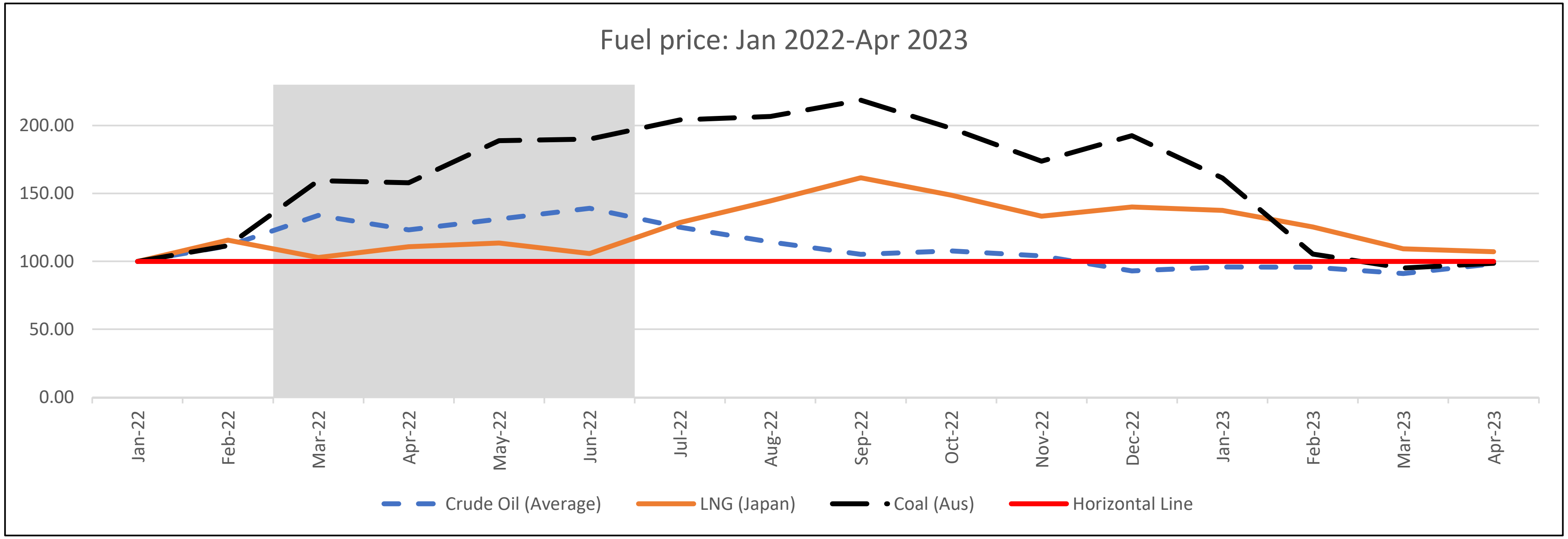
The Current External Sector Trends: Disquieting and Disturbing

- Demand-side factors (depressed demand, in part because of high prices) may have played a role. However, the policy of selective import restrictions, difficulties in accessing foreign currency to open L/Cs and dampening affect of a significantly depreciated taka have played no less an important role in this backdrop. All these had adverse impact on investment and growth.
- If the economy is to regain its growth momentum import payments will go up (IMF projects a 14.2% rise in import in FY24), creating pressure on trade and current account balance if export and remittance earnings do not rise in tandem.

Global Price Trends: Prices are falling from their peak shown through shaded areas

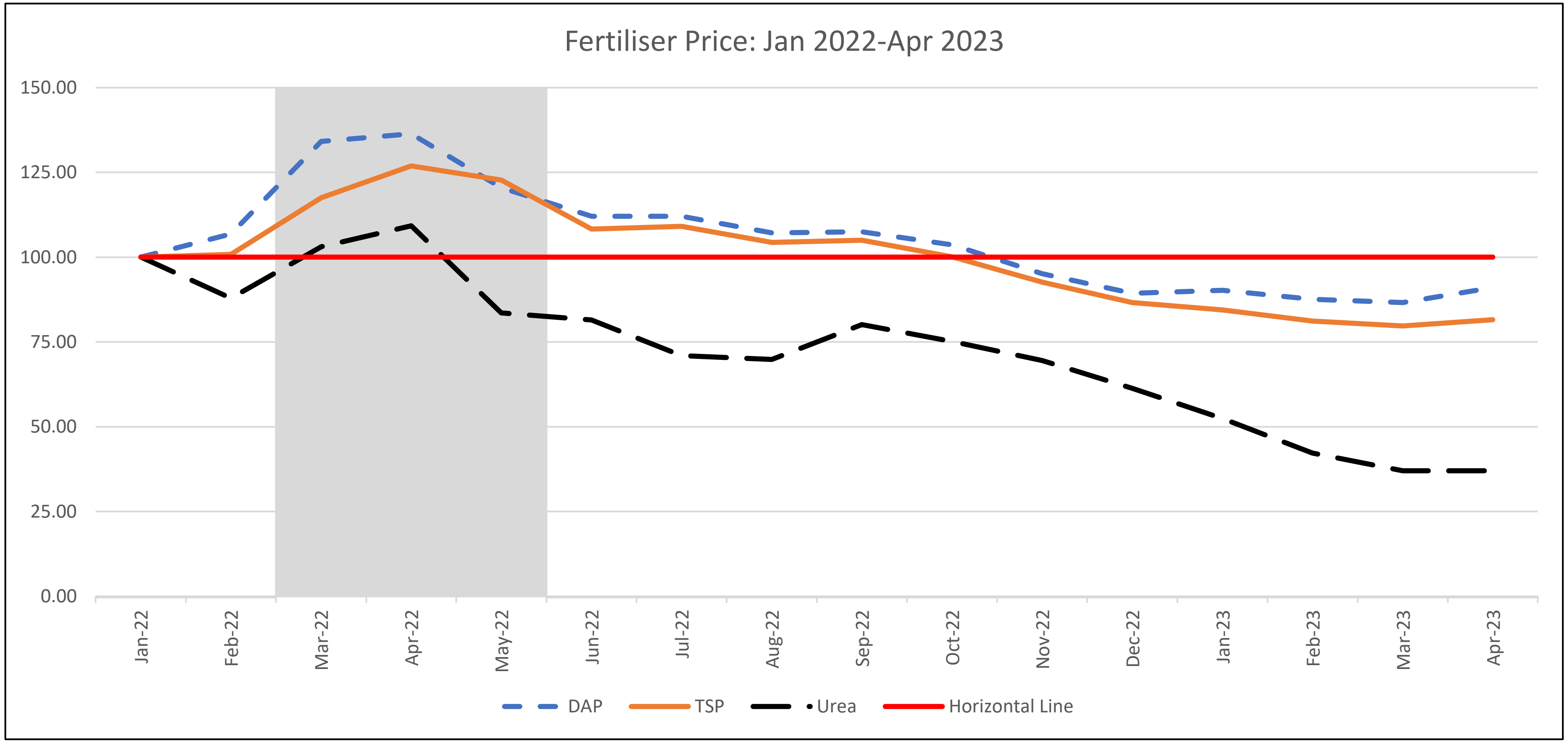
- One comforting development is that global commodity prices are showing downward trend from their peak of April-June 2022; at present prices of majority of the commodities are lower than pre- Ukraine-Russia war levels. The only exceptions are the prices of LNG and wheat.

Figure 4.1: Fuel (Crude Oil, LNG, Coal) price trends since January 2022.



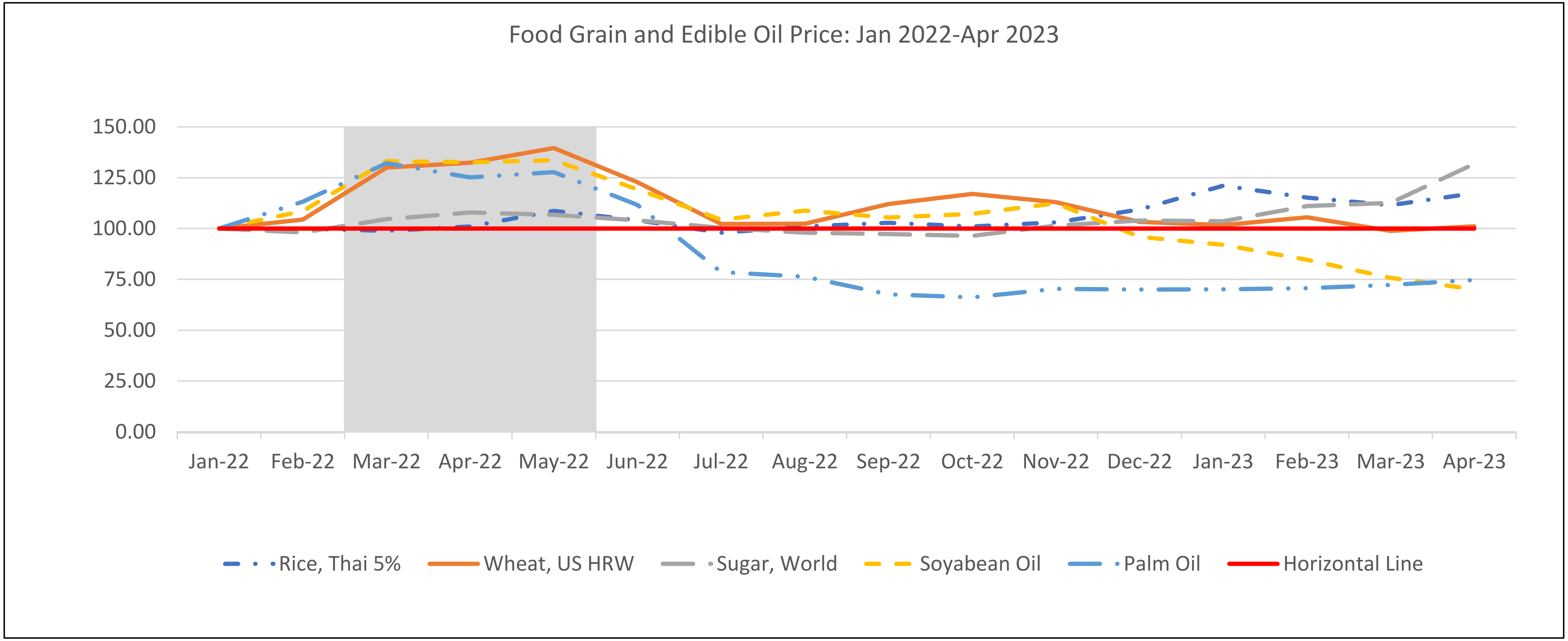
Note. Prices in January 2022 or the base price is assumed to be 100 for the ease of comparison.
Shaded region represents the four months starting from start of Russia-Ukraine war in February 2022.
Source: The Pink Sheet, World Bank (May 2023).

Figure 4.2: Fertiliser (DAP, TSP, Urea) price trends since January 2022.



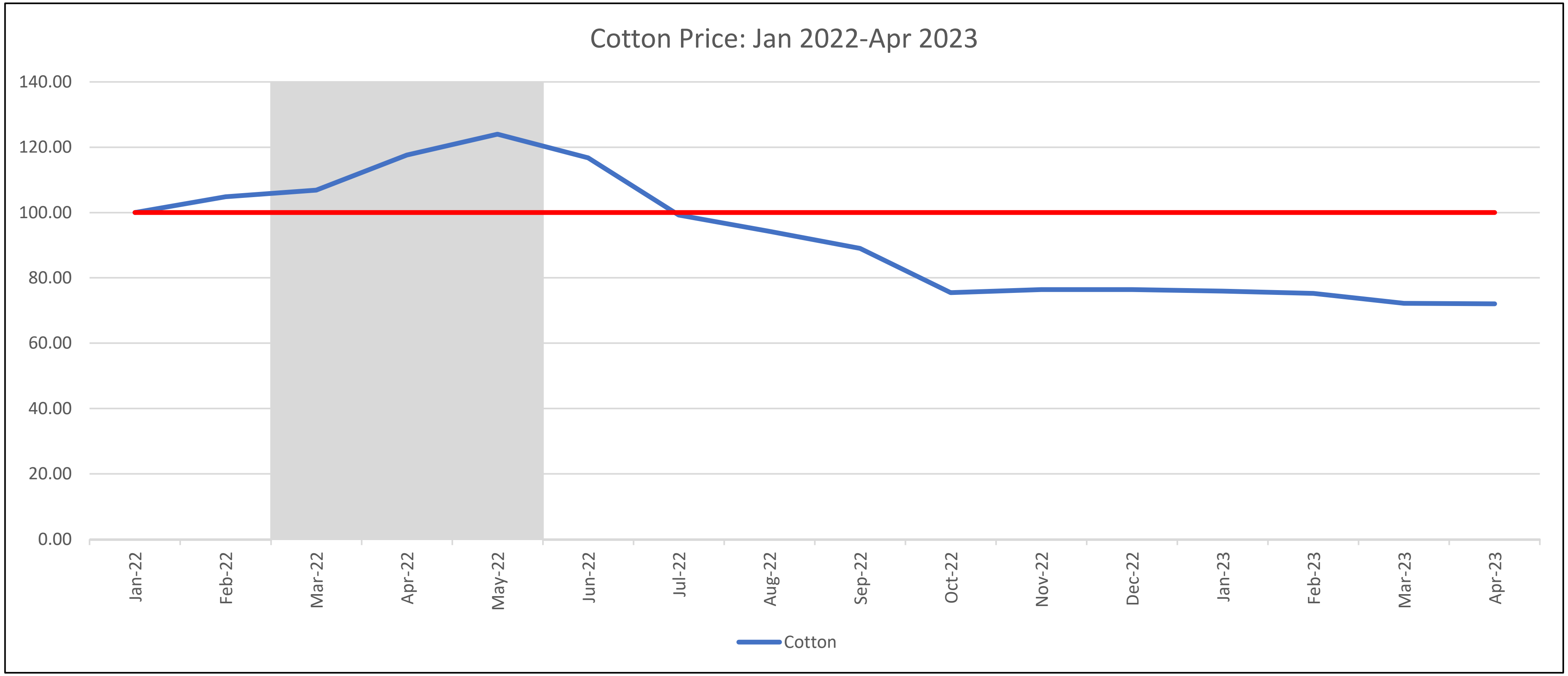
Note. Prices in January 2022 or the base price is assumed to be 100 for the ease of comparison.
Shaded region represents the three months starting from start of Russia-Ukraine war in February 2022.
Source: The Pink Sheet, World Bank (May 2023).

Figure 4.3: Food grains (Rice, Sugar, Wheat) and Edible Oil (Soybean Oil, Palm Oil) price trends since January 2022.



Note. Prices in January 2022 or the base price is assumed to be 100 for the ease of comparison.
Shaded region represents the three months starting from start of Russia-Ukraine war in February 2022.
Source: The Pink Sheet, World Bank (May 2023).

Figure 4.4: Cotton price trends since January 2022.



Note. Prices in January 2022 or the base price is assumed to be 100 for the ease of comparison.
Shaded region represents the three months starting from start of Russia-Ukraine war in February 2022.
Source: The Pink Sheet, World Bank (May 2023).

The Current External Sector Trends: Disquieting and Disturbing

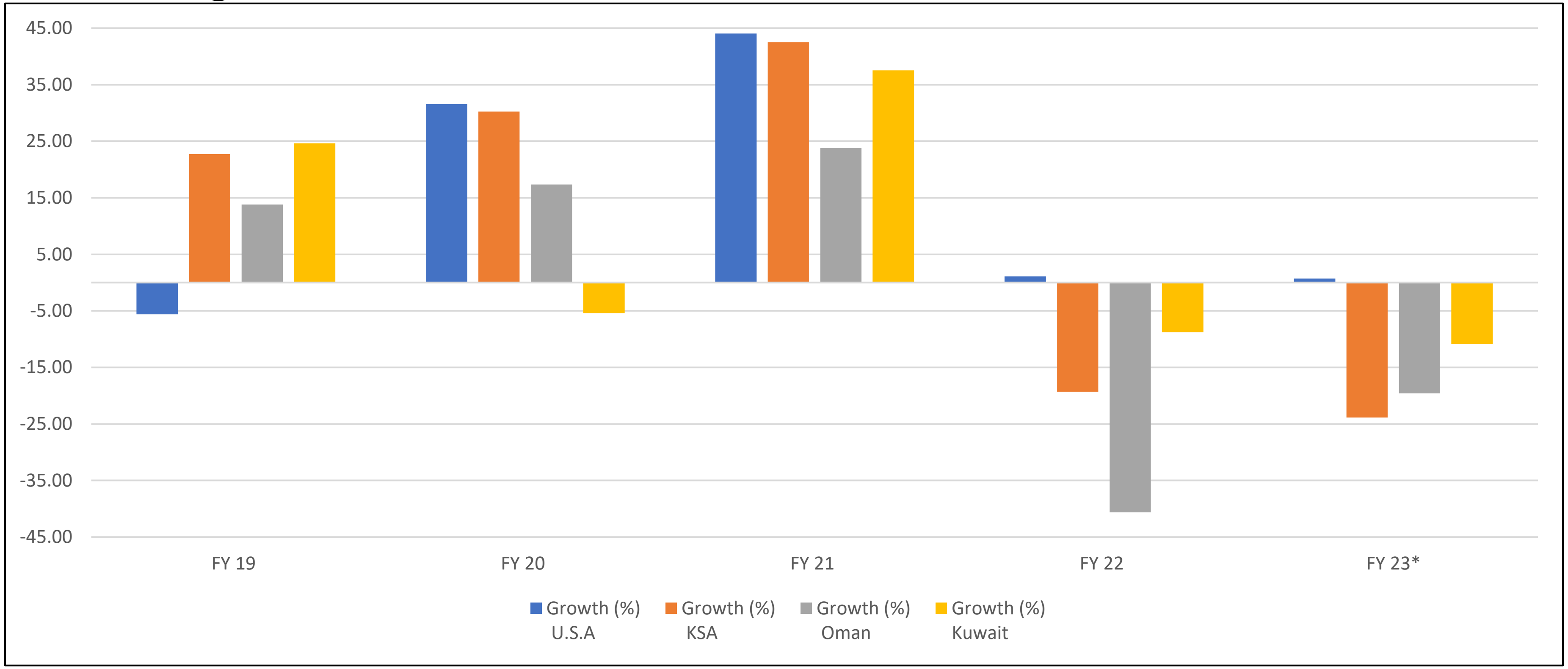
Remittance flows: A surprisingly depressed performance

- The trends in remittance flows do not match the growing number of migrant workers leaving for overseas job markets and consequently the trends in sources of remittance flows raise serious concerns.
- Remittance earnings has risen by only 2.4% during July-April, FY23 compared to the corresponding period of FY22. Even in April of this year (a time of traditionally high flow of remittance on occasion of Eid ul Fitre), remittance flow was 16.3% lower in 2023 compared to the corresponding month of 2022.
- Three factors are to be kept in mind in this context. The number of people going abroad for work during the first 10 months of FY23 was a significantly high 9.22 lac; majority of these people went to the Gulf countries, but the remittance flows from this region did not match this rising number. Secondly, USA has replaced Saudi Arabia as the foremost source of remittance in this period. CPD has drawn attention to this new phenomenon in its previous IRBD. In spite of 12.3 lac people going to Saudi Arabia during January 2021- April 2023 (56.9% of the total of 21.5 lac during this period).

The Current External Sector Trends: Disquieting and Disturbing

- Remittance from Saudi Arabia has come down from 3.86 billion in FY22 (July-April) to 3.04 billion in FY23 (July-April) while that from the U.S.A increased from 2.87 billion to 3.05 billion over the corresponding period.

Figure 4.5: Growth Rate of Remittance from Selected Countries: FY19-FY23



Note. *FY23 figures compare growth rate of remittance flows from selected countries for July-April period of the fiscal year.
Source: Author's estimation based on Bangladesh Bank (May 2023).

The Current External Sector Trends: Disquieting and Disturbing

- The likelihood of transfer through hundi/hawala as also repatriation of money to take advantage of incentives provided for remittance flows and the scope of whitening of black money taken out of the country illegally via the remittance route should come under proper scrutiny by concerned authorities, and appropriate steps ought to be taken to deal with the emergent scenario.

Balance of Payment and Reserves: The falling trends could not be arrested

- **Trade and Current Account Balances are showing some improvement but Financial Account Balance has emerged as the villain of the piece. Consequently, the fall in reserves have persisted.**

- The fall in import payments has helped improve the balance of trade significantly, from (-) USD 25.0 billion in FY22 (July-March) to (-) USD 14.6 billion in FY23 (July-March). The current account balance has also registered some improvement, from USD (-) 14.3 billion to (-) USD 3.6 billion over the corresponding period, a decline of about USD 10.7 billion.
- However, the gross reserves have come down from USD 44.1 billion to USD 31.1 billion between FY22 (March 2022) and FY23 (March 2023), by about USD 13.0 billion. If this trend continues it will lead to a highly risky situation (not to mention that according to the IMF estimates the net reserves were about USD 24.0 billion).
- The villain in the piece as far as forex reserves are concerned appears to be the balance in the Financial account. The major driving force in this regard is the significant deterioration in the balance, from USD (+) 11.9 billion to USD (-) 2.2 billion, a fall of about USD 14.1 billion.

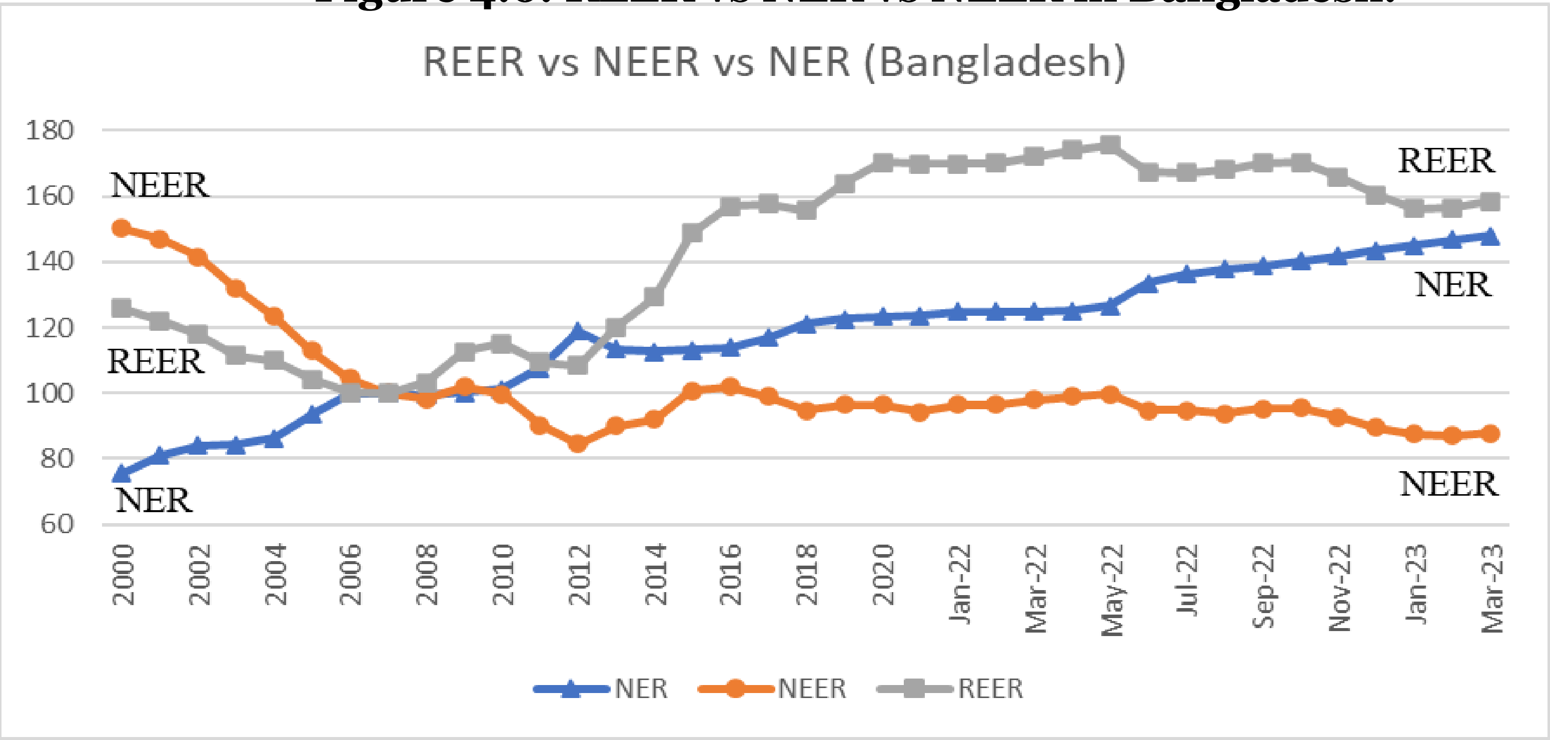
- **Bring transparency in external sector earnings data and deal with illegal transfers. A market-aligned exchange rate will not be enough to deal with hundi/hawla transactions. Both demand side and supply side will need to be tackled through legal and institutional means.**
  - Needed, bilateral treaty; Mutual Legal Assistance Request Agreement is not enough.
  - The IMF has recently raised the question about the mismatch between the amount of what should have been earnings from exports and the earnings that were actually repatriated.
  - There is also a significant difference between the EPB export earnings figures and Bangladesh Bank figures which has been persisting for a long period.
  - The Bangladesh Bank has also unearthed a number of anomalies with regard to under invoicing in exports and both over (for purposes of illicit money transfer) and under invoicing (to avoid customs duties) in case of imports.
  - This needs to be looked into carefully to improve the trade balance and consequently the reserve situation.

Suggested Policy Measures

- **Take steps to improve Finance Account Balance to Improve Overall Balance and reverse the falling forex reserves trend.**
  - The balance of (other) investment component of Finance Balance has emerged as a major concern in view of the disquieting reserves scenario, declining in the first nine months from (+) USD 10.4 billion to (-) USD 3.5 billion, a fall of about USD 13.9 billion.
  - Every effort should be taken to mobilise foreign funds and expedite the disbursement of loans in the pipeline.
  - Foreign funded projects in the ADP and in the aid pipeline should be prioritised for implementation.
  - Why is error and omission, at USD (-) 2596 so high when this was only USD (-) 697.0 million in FY22 needs also to be looked into carefully.
  - Support to exporters, through the newly created credit line and other measures of support must be ensured to deal with the likely shortfall in supply of trade credit against demand, at a time when the Bangladesh is bringing down the EDF exposure of reserves.

- **CPD analysis indicates that, already the significant depreciation of taka is having an impact and the difference between REER and NER has come down quite significantly in recent times (Fig 8).**

Figure 4.6: REER vs NER vs NEER in Bangladesh.



Source: Based on Bruegel (May 2023).

Suggested Policy Measures

- **CPD has carried out an exercise based on a Dynamic OLS model to examine the misalignment between the REER and equilibrium REER (EREER) and estimated what would be the range of the nominal exchange rate (BDT/ USD) if the two were to be aligned.**
- Accordingly, the nominal market-based exchange rate, if an alignment is reached, would be in the range of BDT 105 to 116 per US Dollar (considering 95% confidence interval).
- The estimates are based on 2022 figures; there has been some developments in the forex exchange market since then. However, the indications are that if a move is taken towards a single exchange rate, the forex market is currently in a position to adjust to it without significant disruption.
- The central bank should undertake rigorous analysis and take decisions in this regard based on evidence and data and closely monitor the exchange rate movement.

Suggested Policy Measures

- **Move towards market aligned exchange rate must be carefully monitored and the monetary policy will need to be well-coordinated with fiscal policies to address possible concerns. However, major disruptions in currently prevailing exchange rates is not anticipated as market corrections have already taken place to a significant extent.**

Section 5. Food Security during the Period of Macroeconomic Instability

Introduction

- ❑ Food security in net-food importing countries is likely to be adversely affected during the period of macroeconomic instability
  - ➢ Bangladesh, for having macroeconomic instability during FY22 and FY23, is likely to experience food security-related challenges during this period
- ❑ Food security has two macroeconomic determinants
  - ➢ (a) food supply (i.e., availability) and (b) households' demand for food (i.e., access)
- ❑ The former depends on the abundance of per capita food supplies from domestic production, stocks, and imports (Pescatori, et al., 2021)
  - ➢ Lack of food grain availability negatively and significantly impacts food price inflation in both the short and long run
  - ➢ Increased volatility of commodity prices is likely to weigh on increased volatility in food production and food inflation (IMF, 2023)
- ❑ Small farmers and poor consumers in developing countries get affected due to high inflation as poor people spend a major portion of their income on food consumption (Samal et al., 2022)
  - ➢ The purchasing power of the consumers determines how much food security the consumers would avail during the period of macroeconomic instability
- ❑ This section aims
  - ➢ (a) to review the state of food security in Bangladesh during the period of macroeconomic instability
  - ➢ (b) to identify reasons behind the state of food security
  - ➢ (c) To put forward suggestions on possible way out

State of Food Self-sufficiency

- After the official announcement of food self-sufficiency in 2000 (Bokhtiar & Samsuzzaman, 2023), over the years, the demand for the import of rice and wheat has decelerated (Table 5.1)
- Despite the positive development, the import of rice and wheat did not stop; rather, it has continued intermittently
  - The per capita availability of food is higher than per capita food demand, although it has significantly dropped in FY22 (Table 5.2)
  - Hence the claim of food self-sufficiency still seems to be 'elusive'
  - The Ukraine-Russia war and resultant adversities have made the 'self-sufficiency' claim further weaker
- Hence, the food security challenges need to be handled from the perspective of a 'net food importing country'

Table 5.1: Production and import of rice & wheat (in 000 m. tons) and average growth rate per year

Fiscal Year	Production				Imports			
	Rice (000 m tons)	Δ Rice annual growth	Wheat (000 m tons)	Δ Wheat annual growth	Rice (000 m tons)	Δ Rice annual growth	Wheat (000 m tons)	Δ Wheat annual growth
FY2000	23067	7.4	1840	8.9	433	391.2	1,671	26.4
FY2005	25157	-3.9	976	-22.1	1295	61.7	2078	4.6
FY2010	32257	3	969	14.1	93	-84.6	3364	38.7
FY2015	34710	1.0	1348	3.6	1490	297.3	3784	40.6
FY2019	36391	0.3	1017	-7.4	206	-94.7	5629	-4.3
FY2020	36604	0.6	1029	1.2	4.3	-97.9	6435	14.3
FY2021	39644	8.3	1299	26.2	1359	31507	5343	-17
FY2022	39481	-0.4	1226	-5.6	987	-27.4	892	-83.3

CPD (2023): State of the Bangladesh Economy in FY2022-23 (Third Reading)

Table 5.2: Per capita availability against per capita demand (consumption as a proxy of demand)

Fiscal Year	Per Capita Availability (gram/day)			Per Capita Consumption (gram/day)		
	Total	Rice	Wheat	Total	Rice	Wheat
FY1997	430	384	46	502	447	55
FY2000	522	453	70	591	530	61
FY2005	529	471	57	626	568	58
FY2010	614	535	79	674	598	76
FY2015	634	548	87	709	609	101
FY2020	687	564	123	723	592	131
FY2021	834	718	97	726	592	135
FY2022	653	576	76	709	601	108

Author's calculation based on the FPMU data, IndexMundi

Food Production and Import: Factors Behind the Trend

- The trend in production, import and availability of foodgrains was mixed during the pre-pandemic period (Table 5.3)
  - However, the trend is negative during the post-pandemic period
- The **per capita availability of rice and wheat has significantly decreased during the post-pandemic period**
  - Compared to the pre-pandemic period, wheat's per capita availability is much lower during the post-pandemic period
- A significant drop in wheat imports happened due to high wheat prices owing to interruption in the global supply chain due to the Ukraine-Russia war
  - Less availability of dollars to import the required amount of wheat at higher prices was the main reason behind the low per capita availability of wheat

Table 5.3: State and growth in food production, import and availability

Product	Fiscal year	production		Import		Per capita availability	
		In 000 m. tons	% Changes	In 000 m. tons	% Changes	Gram/ day	% Changes
Rice	FY2019	36391	0.3	206	-94.7	528	-9.7
	FY2020	36604	0.6	4.3	-97.9	564	6.8
	FY2021	39644	8.3	1,359	31507	718	27.3
	FY2022	39481	-0.4	987	-27.4	576	-19.8
Wheat	FY2019	1017	-8.0	5,629	-4.3	106	-5.4
	FY2020	1029	1.2	6,435	14.3	123	16.0
	FY2021	1299	20.8	5,343	-17.0	97	-21.1
	FY2022	1226	-6.0	892	-83.3	76	-21.6

Source: Author's calculation based on FPMU database, (n.d.)

Food Production and Import: Factors Behind the Trend

- A number of factors are found to be responsible for low food availability during the post-pandemic period

(a) High price of wheat in the global market

- During the post-pandemic period, wheat supply has significantly dropped.
  - As discussed, this is mainly due to the Ukraine-Russia war, which consequently shot up the wheat price in the international market– almost double compared to the pre-pandemic level
  - As a result, the local market has confronted shortages of wheat and a rise in the prices of wheat and rice (as complementary food products)

Table 5.4: World price of different agri commodities imported by Bangladesh

Commodity	Unit	2019	2020	2021	2022	Av. yearly % change (2019 and 2022)
Tea, avg 3 auctions	($/kg)	2.6	2.7	2.7	3.1	6.3
Coconut oil	($/mt)	735.7	1010.4	1636.3	1634.6	40.7
Groundnuts	($/mt)	1337.8	1838.7	1555.0	1568.1	5.7
Fish meal	($/mt)	1448.0	1432.7	1480.9	1595.6	3.4
Groundnut oil	($/mt)	1407.4	1697.8	2075.1	2202.6	18.8
Palm oil	($/mt)	601.4	751.8	1130.6	1276.0	37.4
Soybean oil	($/mt)	765.4	837.8	1385.4	1666.8	39.3
Maize	($/mt)	170.1	165.5	259.5	318.8	29.2
Rice, Thai 5%	($/mt)	418.0	496.8	458.3	436.8	1.5
Rice, Thai 25%	($/mt)	410.4	481.8	448.3	429.7	1.6
Rice, Thai A.1	($/mt)	393.5	474.6	436.1	417.7	2.1
Rice, Viet Namese 5%	($/mt)	351.9	428.0	446.3	404.5	5.0
Wheat, US SRW	($/mt)	211.3	227.7	281.7	381.9	26.9
Wheat, US HRW	($/mt)	201.7	231.6	315.2	430.0	37.7
Sugar, world	($/kg)	0.3	0.3	0.4	0.4	15.2

CPD (2023): State of the Bangladesh Economy in FY2022-23 (Third Reading)

Food Production and Import: Factors Behind the Trend

(b) Shortages of supply of fertiliser

- The fertiliser supply has significantly reduced in 2022 and is likely to be less in 2023
  - This is mainly because of less fertilisers imports during the said periods, though production has increased
- Domestic production of fertilisers is likely to be curtailed mainly in 2023 because of less supply of gas to the state–owned fertiliser manufacturing companies
  - Given the limited availability of foreign exchange, there was a constraint in allocating funds to import fertilisers
- To reduce the subsidy burden, the government has revised the fertiliser price – the decision would reduce the subsidy burden by an amount of Tk.7000 crore
  - Such a move would not ensure a rise in fertilisers supply unless the necessary amount of foreign exchange is allocated for meeting the gaps in domestic requirements for fertilisers

Table 5.5: Fertiliser Production and Imports (thousand m. tons)

Year	Production	Import	Total
FY2019	904	4225	5129
FY2020	924	4798	5772
FY2022	1725	3220	4945

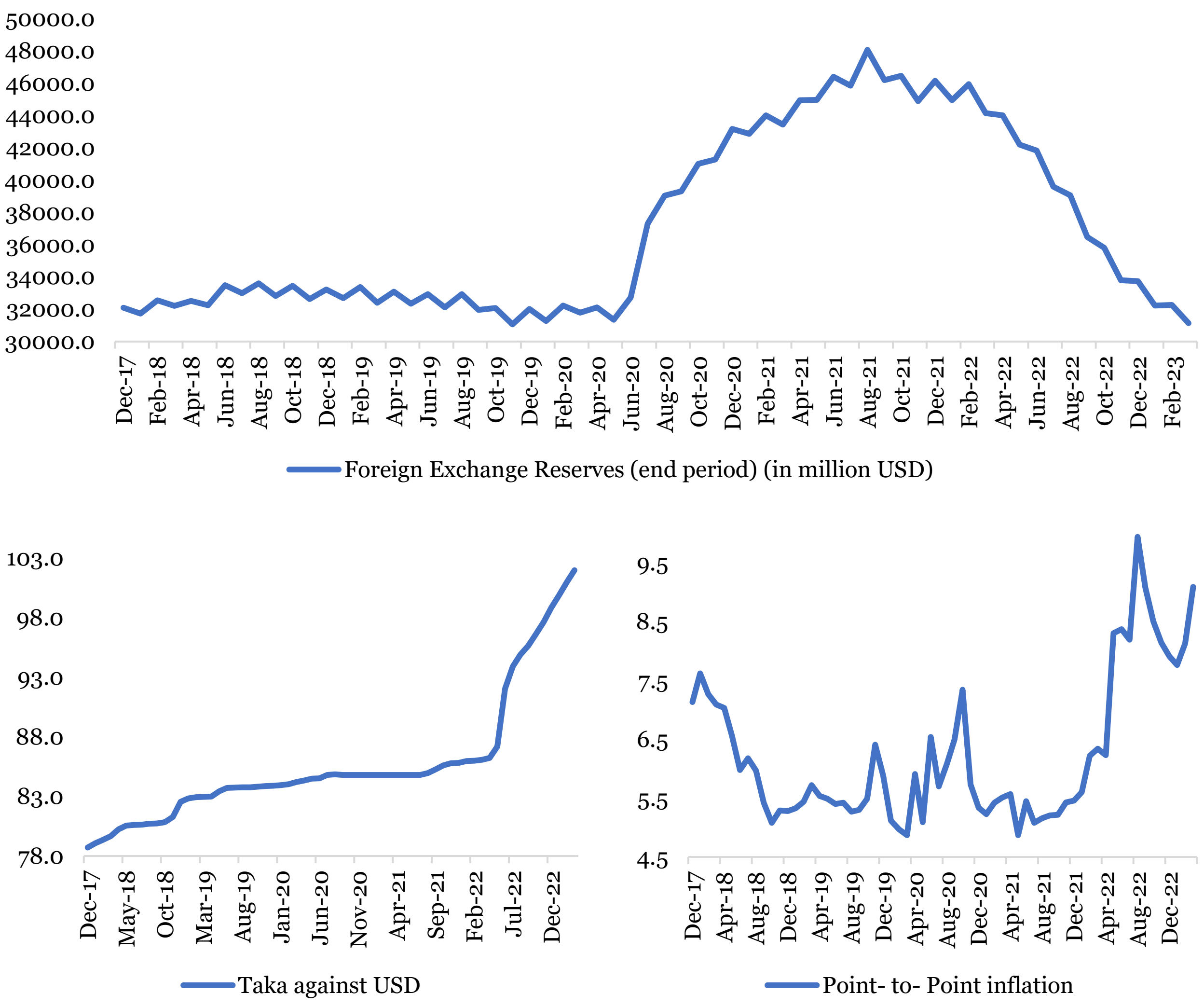
Source: Author's calculation based on FPMU database, (n.d.)

Food Production and Import: Factors Behind the Trend

(c) Depletion of foreign exchange reserve and depreciation of BDT against USD

- ❑The gradual depletion of foreign exchange reserves (Fig. 5.1) reduced the capacity to import essential food items as well as raw materials, including fertilisers, pesticides and other items required for food production
  - ➢ On the other hand, it has further weakened the local currency against major foreign currencies, including the USD (Fig.5.1 (below: left))
- ❑**The import cost for food and food-related materials has increased**
- ❑**Overall, the current exchange rate and inflation spike have made food imports dearer**

Trend of the exchange rate, food inflation and foreign reserve



Source: Author’s analysis based on the Bangladesh Bank, (2023)

Food Production and Import: Factors Behind the Trend

(d) Regression analysis on determinants of food import

- A regression analysis has been carried out in order to identify the relationship between the import of food grains with the import price of rice and wheat, food inflation, exchange rate (BDT/USD) and foreign exchange reserve (Table 5.8)
- The ARDL model was fit to identify the long-run equilibrium among the variables
  - In short run, the coefficient of the foreign reserve is significantly negatively associated with the import of food
- In order to identify the long-run equilibrium among the variables, the bound test has been estimated
- Only the import price of wheat is found to be cointegrated in the long run, whereas in the short run, causality is found with the import of food with the import price of wheat and the foreign reserve
- The lag and difference operator of wheat prices and foreign reserves also cause food import in the short run
- No significant causal relationship is found between import of rice and import price of rice and foreign reserve

Table 5.8: Results of vector error correction model

D. ln imp	Coefficient	P>t
Adjustment parameter (speed of adjustment)		
Ln imp		
L1.	*-1.07*	*0.00*
Long run equation		
Log of import price of rice	0.74	0.37
Log of import price of wheat	*-0.82*	*0.01*
Log of inflation (food)	0.50	0.20
Log of exchange rate	0.34	0.88
Log of foreign reserve	0.69	0.12
Short run equation		
Long of import price of wheat		
D1.	*3.18*	*0.01*
LD.	0.72	0.55
L2D.	-3.69	0.00
Log of exchange rate		
D1.	7.69	0.55
LD.	-21.38	0.11
L2D.	-21.35	0.12
Log of foreign reserve		
D1.	*-7.97*	*0.00*
LD.	*-7.30*	*0.01*
_cons	-3.54	0.63

Food Production and Import: Factors Behind the Trend

(e) Food availability for the target groups: public food stock

- The public food stock has significantly increased during the post-pandemic period, particularly in FY22, which is likely to continue in FY23
- A part of the public food stock was based on domestic procurement of rice and wheat
  - While a major part of the stock was based on direct import by the government

Table 5.9: Year wise (end of June) Closing Public Food Stock

Fiscal Year	Rice	Wheat	Total	Average growth in rice stock	Average growth in wheat stock
	('000 m. tons)				
FY2001	422	445	867	-15.3	-16.8
FY2002	500	444	944		
FY2003	525	146	671		
FY2004	723	116	839		
FY2005	163	146	308		
FY2006	568	167	735	-6.5	-8.5
FY2007	436	168	604		
FY2008	825	174	999		
FY2009	930	216	1145		
FY2010	421	110	531		
FY2011	569	311	880	16.7	2.1
FY2012	939	311	1250		
FY2013	715	306	1021		
FY2014	734	419	1153		
FY2015	949	337	1287		
FY2016	458	397	855	26.9	-4.7
FY2017	123	256	378		
FY2018	963	353	1315		
FY2019	1256	418	1674		
FY2020	838	350	1188		
FY2021	1056	411	1467		
FY2022	1197	286	1483		

Source: Author's calculation based on FPMU database, (n.d.)

Food Production and Import: Factors Behind the Trend

(e) Food availability for the target groups: public food stock

- Because of faulty pricing policy for the public procurement of rice as well as non-transparent procurement process, the domestic procurement of rice could not reach the target (Table 5.10)
  - The target was not achieved in 2022 (in case of Aman rice in 2022)
- Hence, the potential for domestic procurement could not meet the target, which ultimately affects the food security of the targeted population – i.e., poor, vulnerable and other targeted groups

Table 5.10: Domestic Procurement of Rice and Wheat: Target and Actual

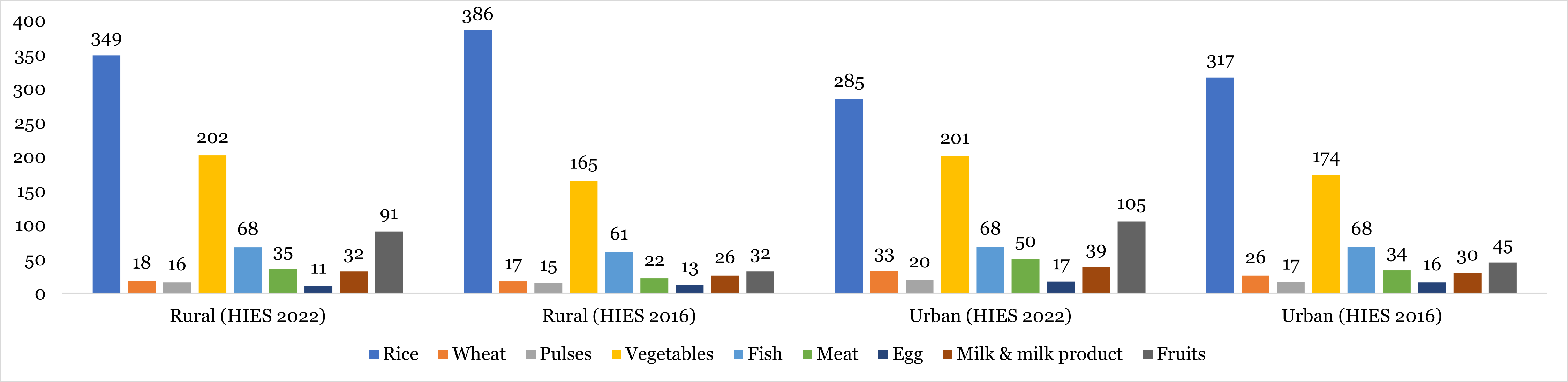
Year	Aman						Boro						Wheat	
	Target '000' metric ton)			Actual '000' metric ton)			Target '000' metric ton)			Actual '000' metric ton)			'000' metric ton	'000' metric ton
	Paddy	Rice	in Rice	Paddy	Rice	in Rice	Paddy	Rice	in Rice	Paddy	Rice	in Rice	Target	Actual
2000	73	200	250	54	199	236	154	500	600	134	513	600	250	211
2005	37	175	200	0	163	163	39	978	1000	20	919	931	50	1
2010	150	200	302	0	14	15	150	1050	1147	9	557	563	50	48
2015		320	320	0	320	320	100	1035	1100	71	1024	1070	250	205
2019		800	800	0	800	800	400	1150	1410	400	1000	150	50	44
2020	600	400	800	241	156	316	800	1000	1670	238	565	720	1000	103
2021	200	650	783	12	75	83	650	1235	1749	362	1060	1319	100	103
2022*	300	500	700	0	12	12								

Source: Author's calculation based on FPMU database, (n.d.)

Household’s Demand for Food during Macroeconomic Instability

- Household demand for food reduces during macroeconomic instability as a rise in inflation causes a reduction in a household’s purchasing capacity
  - Likewise, during the post-pandemic period of macroeconomic instability, the household demand for food is likely to be adversely affected
- As per HIES 2022, households' food and non-food consumption expenditures have increased compared to that in HIES 2016 (Figure 5.2)
  - However, rice consumption has declined in 2022 while wheat consumption has marginally increased
  - Households are likely to have forced to change their consumption pattern— a part of this is due to the push for spending more on non-rice and non-food consumption

Figure 5.2: Comparison of the per capita consumption (gram per day)



CPD (2023): State of the Bangladesh Economy in FY2022-23 (Third Reading)

Household's expenditure for food consumption

- Household's expenditure for food consumption (in real term) has significantly deteriorated during 2022 compared to that in 2016 (Table 5.11)
  - Household's expenditure for food did not rise in commensurate with their rise in real income
- Households are forced to spend a substantial amount of their income on non-food items
  - Out of the incremental rise in real income of Tk.3317 per household per month, less than one-third of that household's income is spent on food consumption and more than two-third is spent for non-food expenditure
- Households seem to be in a state of vulnerability during the post-pandemic period from a food security point of view

Table 5.11: Comparison of the income of the household in nominal and real terms

Year	Income		Food expenditure		Share of food expenditure of total household's income	
	Nominal	Real	Nominal	Real	Nominal	Real
2016	15,988	7272	7,354	3132	45.9	43.1
2022	32,422	10589	14,003	4207	43.2	39.7

Source: Author's calculation based on BBS, (2023) and BBS, (2016)

Household's Demand for Food during Macroeconomic Instability

Social safety net programmes for the target groups during macroeconomic instability

- ❑Given the weak purchasing capacity during the period of high inflation, it is important to continue the SSNPs for the target groups extensively
- ❑At present, different food assistance-related programmes cover around 4.24 crore people (Table 5.12)
  - ➢ Programmes are targeted for vulnerable women, VGF, GR, hill tract people, OMS, food for work, and for different types of relief
  - ➢ The programmes are related to food assistance, where the government provides the food as grants or for work

Table 5.12: PFD allocation for different target groups

Food support Programmes	Beneficiaries (persons in lac)			Budget (in crore Tk)		
	RFY21	RFY22	BFY23	RFY21	RFY22	BFY23
Vulnerable Women Benefit (VWB) Program	10.4	10.4	10.4	1840.1	1838.5	1840.3
Vulnerable Group Feeding (VGF)	200.2	180	180	941.2	962	991.1
Gratuitous Relief (Food)	26.3	32	33	242.6	572.6	589.9
Food Assistance in Ctg-HTA	2.8	2.3	2.9	318.2	347.6	365.3
Food For Work (FFW))	0	9.6	9.8	0	826.4	876.3
Open Market Sales (OMS)	20	54	37.4	949	1943.6	1720.1
Food friendly Program	62.5	62.5	62.5	2891	2816.7	2543.9
Food Subsidy (Others)				1389.3	1584.6	1700.8
Relief Goods	59.1	80.3	82.9	185	185	190
Relief Works (Flood, Drought, Cyclone and Others)	36	4.8	4.8	91	181	81
Ration for Shaheed (Martyred) Family and Honorable Injured Heroic Freedom Fighters	0.3	0.3	0.3	65	70	70

Source: MoF, (2022)

Household's Demand for Food during Macroeconomic Instability

Social safety net programmes for the target groups during macroeconomic instability

- Most vulnerable households who are less resilient during economic crises are covered under OMS, TR, and Food for Work programmes
  - In 2022, the government distributed rice and wheat at subsidised prices among one crore families registered under TCB
  - Most of the programmes did not experience any major changes in coverage during 2022 and 2023; rather, the coverage has declined in few programmes (such as VGF and OMS in 2023)
- The budget allocation has partially increased in some of the programmes
  - This is mainly due to accommodate the higher procurement cost of food
  - Even in few programmes the allocation has decreased (FFP in 2023)
- Besides, there are allegations of lack of efficiency in selecting beneficiaries for the family card programme including problem of 'exclusion-inclusion biases' in the programme beneficiaries (Moazzem & Shibly, 2023)

Household's Demand for Food during Macroeconomic Instability

Coverage of PFDS

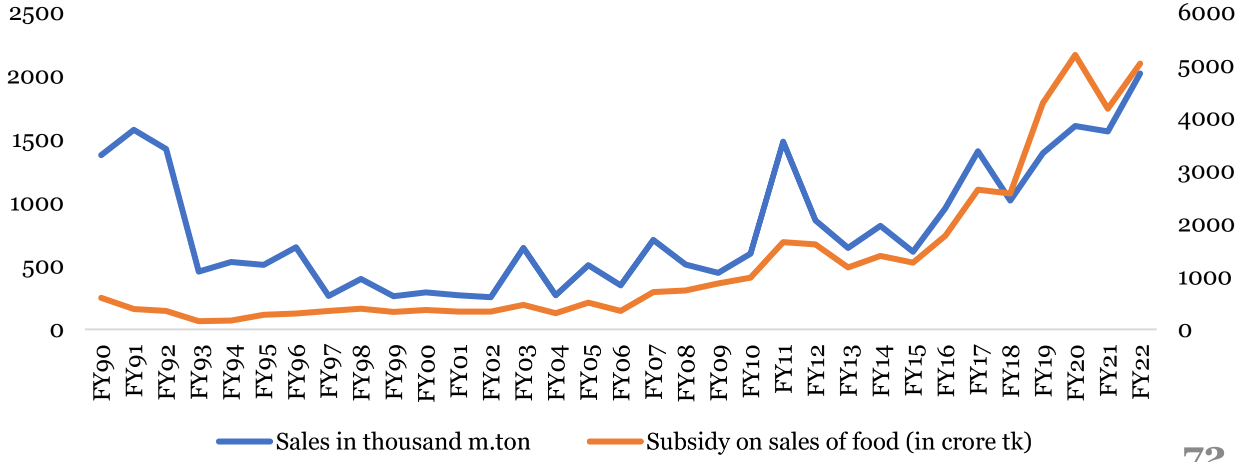
- The distribution of rice and wheat under PFDS, particularly through OMS and FFP and other programmes, has increased during FY22 (Table 5.13)
  - This rise in the distribution of food has partially increased the availability of food for the target groups
  - However, this rise in food distribution does not necessarily mean a rise in access to a large number of potential beneficiaries
- Government capacity to spend more for PFDS is another important issue during the period of fiscal constraints in FY22 and FY23
  - There is already a 20.5% rise in food subsidy from BDT 4172 crore in FY21 to 5026 crore in FY22 (Figure 5.3)
- Without having additional fiscal space, the rise in budget for PFDS to cover more of potential beneficiaries, is difficult

Table 5.13: Public food distribution (in '000 m. tons)

Year	Rice		Wheat	
	Distribution	% changes	Distribution	% changes
FY2015	1220	-3.3	619	-35.4
FY2016	1512	23.9	552	-10.8
FY2017	1610	6.5	631	14.3
FY2018	1702	5.7	408	-35.3
FY2019	2145	26.0	448	9.8
FY2020	2208	2.9	569	27.0
FY2021	1862	-15.7	590	3.7
FY2022	2250	20.8	636	7.8

CPD (2023): State of the Bangladesh Economy in FY2022-23 (Third Reading)

Figure 5.3: Subsidy for sales of foodgrain and distribution amount by sales



Household's Demand for Food during Macroeconomic Instability

Rise in energy prices and its implications on food security

- The rise in energy tariffs at retail level to adjust the energy related subsidy as per the conditionality of IMF, is a faulty step
  - In fact, energy related subsidies could be reduced without raising energy tariffs by revising the pricing arrangements of electricity purchases from independent power producers
  - Because of the faulty step, farmers need to pay higher charges for diesel-based and electricity-based irrigation, which is likely to ultimately rise the harvest price of rice and wheat
- A similar attempt is going to be made by setting a market-based pricing for the retail tariff of electricity, as per IMF conditionality
  - Without proper adjustment of the power purchase agreements, market-based pricing would deprive the consumers, including the farmers

Conclusion: Addressing the Concerns of Food Security

Addressing the concerns of food production

- The government needs to ensure a rise in food production with a view to improve the food security situation
  - Through better food availability and reduce volatility in food prices in the domestic market
- It is important to keep the irrigation cost lower by reducing electricity costs or replacing diesel-based irrigation with solar-based irrigation system
  - Hence, farmers should get subsidised rates for electricity usage for irrigation
- Similarly, subsidies for fertilisers and mechanisation of agriculture need to continue- it is expected that government will not make any attempt to revise the prices of fertilisers and to reduce subsidy on farm machinery
- A necessary allocation needs to be made to procure rice and wheat to cover the increased demand for PFDS
  - In this context, the necessary foreign exchange needs to be allocated for import of essential food items, particularly rice and wheat
- It is found that other South Asian countries have taken different measures to address their food production related concerns (Annex 5.1)

Conclusion: Addressing the Concerns of Food Security

Annex 5.1: Measures taken by Nepal and Cambodia during the pandemic and post-pandemic period

Countries	Issues	Measures were taken after a pandemic
Nepal	SSNPs	Ensuring the uninterrupted supply of essential commodities, supporting smallholder farmers, strengthening market systems, and enhancing social safety nets. Implemented cash transfer programs, including targeted food assistance and provided subsidies to vulnerable households and smallholder farmers affected by the pandemic.
	Stockpiles	Emergency food stockpiles to ensure the availability of essential commodities during crises.
	Localisation	Strengthening local food systems to reduce reliance on external supply chains during the pandemic. This involved promoting local production, facilitating farmers' access to markets, supporting farmer cooperatives, and enhancing storage and processing infrastructure.
Cambodia	COVID-19 Economic Stimulus Package	Measures to support agriculture, such as providing subsidised loans, agricultural inputs, and technical assistance to farmers
	Market Support and Price Stability	Market monitoring and interventions to stabilise food prices and smoothening the supply chains
	Promotion of Urban Agriculture	Encouraging the cultivation of vegetables, herbs, and small livestock within the urban area
	Strengthening Food Processing and Storage	Improvement of post-harvest infrastructure, including food processing and storage facilities
	SSNPs	Cash transfer programmes, subsidised food distribution, and nutritional support have been implemented.

Conclusion: Addressing the Concerns of Food Security

Addressing the concerns of food demand

- Containing food inflation is highly important with a view to reducing the pressure of declining household's real income
  - Stability in the exchange rate (BDT against USD) and maintaining a stable forex reserve could partly help reducing the volatility in the import of food grains
- The SSNP has yet to raise the coverage during the crisis period, although that is highly essential
  - A rise in PFDS could ensure the higher availability of foodgrains for existing beneficiaries, but it cannot ensure higher access to potential beneficiaries
  - In this context, a rise in subsidy allocation for SSNPs, particularly PFDS, targeting higher coverages, is required
  - Better targeting and reducing the leakages and wastages could substantially increase the potentiality to raise access to the beneficiaries
- Bold measures are required in order to ensure transparency and accountability in the SSNPs, particularly OMS operations
  - Despite having fiscal difficulties, the government needs to create fiscal space to ensure universal food security
  - It is expected that the next budget will take measures towards that direction.

Section 6. Conclusions

Conclusions

- In view of the emergent scenario and keeping in perspective the upcoming national budget, there is no doubt that the **primary task before the policymakers is to restore macroeconomic stability**
- The **targets to be set for the macroeconomic (and fiscal) framework for FY2024** will need to **take cognisance of the current realities**
- The **mistakes while preparing the FY2023 budget** – that is, setting the targets for major macroeconomic correlates in an unrealistic manner – **must not be repeated**
- While the fiscal and budgetary measures are expected to be the centre of discussions in the coming days, it is critical that the government and the central bank **ensure the complementarity between fiscal and monetary policies**
- The policy measures must **prioritise the interests of the small and medium entrepreneurs and common citizens while withstanding the pressure of the vested interest groups**

Conclusions

- Keeping the IMF conditionalities in perspective and national interests in mind, **reform measures should be initiated and expedited**
- However, the **pacing, sequencing and phasing** of these **reform measures should be well-planned and transparent**
- Proper **enforcement of laws and regulations against bank loan defaulters** must be ensured
- **Instead of incentivising illicit financial flows and illegally earned money through direct and indirect measures, strict administrative steps and punishment should be imposed as per existing laws**
- The Bangladesh **economy is at a crossroads and passing through the most difficult time** in recent history
- This must be **recognised and addressed by appropriate policy tools**

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