



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2023-24

First Reading

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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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1. Introduction

- ❑ The **economy of Bangladesh** is currently **navigating through a host of challenges** originating both from the domestic and the global fronts
 - Economic recovery from the COVID-19 pandemic was disrupted due to the Russia-Ukraine war. High global commodity prices, supply chain disruptions, and synchronous global monetary policy tightening created considerable pressure from the external fronts
 - Besides these exogeneous factors, longstanding structural weaknesses, sub-optimal policies, lax policy implementation, and inability to implement the required reforms in the domestic arena have added to the pressure
- ❑ The **pressure points** became expressly visible through, inter alia, **slow pace of revenue mobilisation, high prices of essentials, tightened liquidity situation of scheduled banks, high volume of non-performing loans, deteriorating external sector balance, and fast depleting foreign exchange reserve**
- ❑ While the **required steps** have been **identified**, and at the **forefront of policy discourse**, **many have been put on hold** citing the upcoming **national elections** as the key reason

- ❑ **The revision of the minimum wage of RMG workers** took place **amid the disquieting trends** within the macroeconomy
 - This was followed by considerable worker unrest, and violence towards workers
 - **The global community took a strong position against this and has been maintaining a keen interest ever since**
- ❑ In this backdrop, the present report identified **five areas which merit heightened attention** in the current policy discourse, particularly from the viewpoint of macroeconomic management. These are:
 - 1) Public finance
 - 2) Inflation
 - 3) Banking sector
 - 4) External sector and debt sustainability
 - 5) Labour rights issues

2. Public Finance

Brief overview of public finance scenario in FY2023

Major elements of public finance as a share of GDP and their implementation rate

| Elements | Share of GDP (%) | | | | Implementation rate (%) | |
|---|------------------|-------------|-------------|-------------|-------------------------|-------------|
| | BFY22 | AFY22 | BFY23 | AFY23 | AFY22 | AFY23 |
| A. Total revenue | 9.8 | 8.4 | 9.8 | 8.2 | 86.2 | 84.5 |
| A.1 Tax revenue | 8.7 | 7.5 | 8.7 | 7.4 | 86.6 | 84.5 |
| A.1.1 NBR tax | 8.3 | 7.4 | 8.3 | 7.2 | 88.8 | 86.4 |
| A.1.2 Non-NBR tax | 0.4 | 0.2 | 0.4 | 0.2 | 41.9 | 44.3 |
| A.2 Non-tax revenue | 1.1 | 0.9 | 1.0 | 0.9 | 82.8 | 84.9 |
| B. Total expenditure | 15.2 | 13.1 | 15.3 | 12.7 | 86.0 | 83.2 |
| B.1 ADP | 5.7 | 4.7 | 5.5 | 4.3 | 82.6 | 77.5 |
| B.2 Non-ADP | 9.5 | 8.4 | 9.7 | 8.4 | 88.0 | 86.4 |
| C. Budget deficit excl. grants (A-B) | -5.4 | -4.6 | -5.5 | -4.5 | 85.8 | 80.8 |
| D. Total financing | 5.3 | 4.6 | 5.4 | 4.4 | 85.6 | 80.4 |
| D.1 Net foreign borrowing | 2.5 | 1.6 | 2.2 | 1.7 | 66.6 | 79.9 |
| D.2 Net domestic borrowing | 2.9 | 2.9 | 3.3 | 2.7 | 102.0 | 80.7 |
| D.2.1 Net bank borrowing | 1.9 | 1.9 | 2.4 | 2.7 | 98.8 | 111.0 |
| D.2.2 Net non-bank borrowing | 0.9 | 1.0 | 0.9 | 0.0 | 108.6 | 0.3 |
| D.2.2.1 National savings schemes (net) | 0.8 | 0.5 | 0.8 | -0.1 | 63.3 | -9.6 |
| D.2.2.2 Others | 0.1 | 0.5 | 0.1 | 0.1 | 398.7 | 69.1 |

Source: Author's calculation from MoF and Bangladesh Bureau of Statistics (BBS) data.

Note: 1. 'B' denotes budgetary targets, 'A' denotes actual attainment. 2. Actual GDP of FY2022 and provisional GDP of FY2023 were used to calculate the shares.

- ❑ **As a share of GDP, major public finance correlates were lower than the previous year**
 - Both revenue-GDP ratio and public expenditure ratio declined further
 - Budget deficit could be kept below the 5% threshold and well below the programmed level of 5.5%
- ❑ **Budget implementation slowed down**
 - Headline components (revenue, public expenditure and budget deficit) remained within the 80-85% range
- ❑ **Some compositional shifts were observed within the domains of public finance**
 - Share of NBR in total revenue declined
 - Share of ADP in total public expenditure fell
 - Bank borrowing ballooned in the absence of financing from net NSC sales

- ❑ Timely **availability of data** has been a major impediment, as MoF data is unavailable
- ❑ **NBR tax collection** increased by 14.4% during Jul-Oct FY24 (14.2% in Jul-Oct FY23)
 - Improved performances in the areas of indirect taxes at the local level and direct tax
 - Underwhelming performance of indirect taxes at the import level due to regulation-induced import compression despite a considerable depreciation of BDT
- ❑ **ADP Implementation rate** was 17.2% in Jul-Nov FY24
 - Sluggish utilisation of ADP that is financed by domestic resources – perhaps due to the government's cost-cutting efforts
 - Improved project aid utilisation - praiseworthy given the ongoing foreign currency crisis
 - Performance of education and health agencies continued to be lacklustre
- ❑ **Budget deficit financing** was overwhelmingly dependent on non-bank borrowing in Jul-Oct FY24 despite the net sale of NSCs continued to be negative while net foreign financing declined

- ❑ Revenue collection target for FY23 is unlikely to be met
- ❑ IMF has already slashed the 'indicative target' for tax collection for FY24 by more than Tk. 55,000 crore
- ❑ Public expenditure will need to be restrained to keep the budget deficit in check
- ❑ Non-bank borrowing is likely to be well below target as NSD sales may continue to be sub-par
- ❑ Bank borrowing will be under pressure to service the budget deficit
- ❑ In view of the liquidity pressure with the commercial banks and the government's commitment not to opt for borrowing from the central bank, the fiscal space available for the government is somewhat limited
- ❑ The government may need to continue a restrained fiscal approach to maintain discipline in the macroeconomic management

- ❑ Among IMF conditionalities on public finance, the majority of the structural benchmarks are related to strategy/plan documents and policy notes, which are ‘relatively easy to meet’
- ❑ IMF (Article IV) document does not adequately specify the qualitative aspects of these documents
- ❑ Indicative target on tax revenue mobilisation is likely to be missed by the end of FY24
- ❑ Might have a negative impact on maintaining the performance criterion on the primary balance unless public expenditure is adequately downsized
- ❑ Might also adversely affect the indicative targets on priority social spending and capital investment
- ❑ Some of the conditionalities will require further detailing regarding their methodology (e.g., price adjustment mechanism for petroleum products) and stakeholder engagement plan in the coming days
- ❑ Regrettably, the IMF conditionalities do not mention anything regarding ensuring value for money for public investment as part of the programme

IMF conditionalities concerning public finance relevant for FY2024

| Conditionalities | Comments |
|---|--|
| Floor on primary balance (PC) <i>As of December 2023: Tk. (-) 905.2 billion</i> <i>As of June 2024: Tk. (-) 1,383.6 billion</i> | The December 2023 target of Tk. (-) 1,141.1 billion has been adjusted in view of the revised economic outlook, and policy measures have already been taken. |
| Floor on tax revenue (IT) <i>As of December 2023: Tk. 1,436.4 billion</i> <i>As of June 2024: Tk. 3,945.3 billion</i> | If the June 2024 target is to be met, then tax revenue collection will need to increase by 20.4%. For this to happen, tax collected by NBR will need to grow by 22.6% during the November-June period of FY24 (according to NBR data) - a feat highly unlikely to be achieved. |
| Floor on priority social spending of the Government of Bangladesh (IT) <i>As of December 2023: Tk. 309.9 billion</i> <i>As of June 2024: Tk. 1,449.5 billion</i> | Priority social spending (domestically financed) will need to increase by 15.9% if the June 2024 target is to be met. |
| Floor on capital investment undertaken by the Government of Bangladesh (IT) <i>As of December 2023: Tk. 222.8 billion</i> <i>As of June 2024: Tk. 1,445.4 billion</i> | Capital investment (domestically financed) will need to increase by 16.9% if the June 2024 target is to be achieved. |

IMF conditionalities concerning public finance relevant for FY2024 (Continued)

| Conditionalities | Comments |
|---|--|
| NBR staffs Compliance Risk Management Units (CRMUs) in the customs and VAT wings (SB) <i>By December 2023</i> | A CRMU has been staffed by NBR's customs wing, and another is being established in the Audit and Intelligence Directorate of the VAT wing. |
| MoF reports tax expenditures for PIT, CIT and VAT as part of the FY25 budget (SB) <i>By June 2024</i> | With technical assistance from the IMF, the government will analyse existing tax expenditures in CIT, PIT and VAT and publish the analysis as part of the FY2025 budget. It will be utilised to identify measures to rationalise tax expenditures, which will be adopted in the FY2025 and FY2026 budgets. The prevailing data constraint hinders a comprehensive analysis, which might adversely impact the design of the measures. |
| NBR adopts a tax compliance improvement plan covering VAT and IT (SB) <i>By June 2024</i> | Income tax and VAT wings will work together to develop and gradually implement a comprehensive compliance improvement plan. |
| MoF develops a plan to reduce net NSC issuance to below 1/4 of total net domestic financing by FY26 (SB) <i>By December 2023</i> | Net NSC issuance entered the negative terrain in FY23 due to regulatory measures and a cost-of-living squeeze. The government has developed a formal plan regarding how to sustainably keep net NSC issuance below one-fourth of net domestic financing by FY2026. |

IMF conditionalities concerning public finance relevant for FY2024 (Continued)

| Conditionalities | Comments |
|--|--|
| Government to adopt a periodic formula-based price adjustment mechanism for petroleum products (SB) <i>By December 2023</i> | The government plans to submit the selected mechanism for approval before the end of 2023 and implement it by March 2024. Stakeholder consultation is critically important before adopting the mechanism. At the same time, an institutional audit of Bangladesh Petroleum Corporation (BPC) is essential to ensure a fair price adjustment mechanism. |
| MoF develops a policy note to guide decisions on integrating bank accounts still remaining outside the TSA and on the sequencing of TSA enhancements (SB) <i>By December 2023</i> | MoF is currently conducting a census of all bank accounts held by institutional units of the central government remaining outside the TSA and will develop a policy note to guide decisions on their integration and sequencing of TSA enhancements. |
| MoF publishes an updated Medium Term Debt Management Strategy covering FY25-FY27 (SB) <i>By June 2024</i> | With technical assistance from the IMF, the government will update the Medium Term Debt Strategy (MTDS) on an annual basis, starting with a third MTDS covering FY2025 to FY2027, and complement it with a quarterly debt bulletin and eventually an annual borrowing plan. |

IMF conditionalities concerning public finance relevant for FY2024 (Continued)

| Conditionalities | Comments |
|--|---|
| Government to adopt a national disaster risk financing strategy while integrating social assistance measures (RM) <i>By June 2024</i> | The government will develop a National Disaster Risk Financing strategy that integrates social assistance measures. |
| Adoption of Medium-Term Revenue Strategy | In consultation with international development partners, NBR is formulating a Medium and Long-Term Revenue Strategy (MLTRS) that will provide a comprehensive framework to improve revenue collection over the next 4-6 years. |
| Expand coverage and benefit level of social safety net programs and enhance delivery efficiency | The government will continue to follow the Action Plan to Implement Bangladesh's National Social Security Strategy, which covers the period FY2021-2026. Also, the Universal Pension Scheme (UPS) was officially launched on August 17, 2023. |
| Publish fiscal risk statement, covering major risks from SOEs, guarantees and Public Private Partnerships (PPP) as part of FY2025 budget documentation | The Medium-Term Macroeconomic Policy Statement (MTMPS) for FY2025-2027 will cover major risks from selected SOEs, guarantees and PPP, as well as quantitative analysis of macro-fiscal risks related to climate change and natural disasters. |

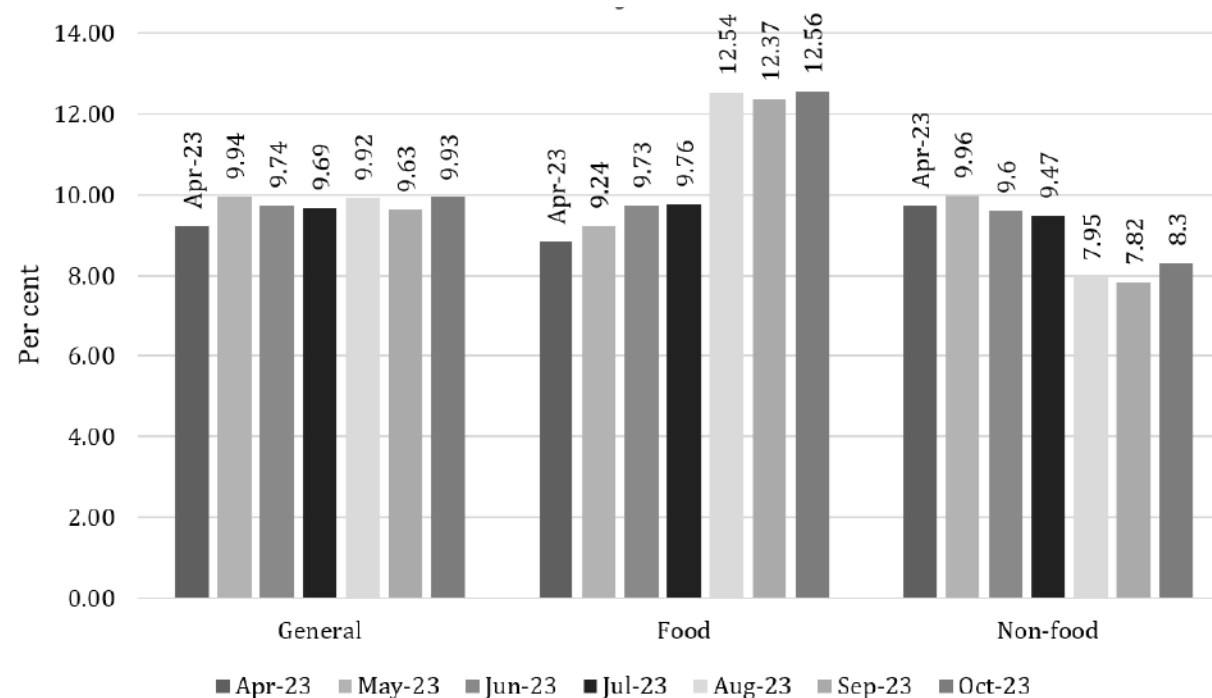
- ❑ Recommendations for **medium and long term revenue strategy (MLTRS)** - currently being developed and to be adopted by June 2024
 - *Prioritise the unfinished agenda*
 - *Recognise the frontier issues of taxation, such as meaningfully taxing property and wealth and the expanding digital economy*
 - *Improving the data ecosystem*
 - *Uphold the curbing illicit financial flow (IFF) agenda*
 - *Emphasise digitalisation of the entire revenue system*
 - *Define the scope of MLTRS beyond the remit of NBR tax*
 - *Assess economy-wide implications and equity concerns of MLTRS and learn from the past experience of implementing similar strategies*
 - *Ensure openness, transparency and stakeholder participation*
- ❑ Adoption of MLTRS will indeed require political buy-in not only from high-level policymaking but also from the operational level
- ❑ Review public expenditure and formulate a strategy to ensure value for public money

3. High Prices: The Cause of Sorrow and Suffering

- ❑ A major problem Bangladesh's economy has been facing lately is that prices for basic things are going up.
- ❑ The ongoing price increase has been influenced by domestic factors, including market distortion caused by a small number of dominant businesses and inadequate monitoring mechanisms.
- ❑ Costs of goods and services are increasing, making it harder for low-income families to meet their financial responsibilities.
- ❑ A lot of families, including those with people who work in different fields and make minimum wage, have a hard time getting their finances in order.
- ❑ This section presents an overview of the recent trends in inflation in the country and proposes a few policy recommendations to rectify the situation.

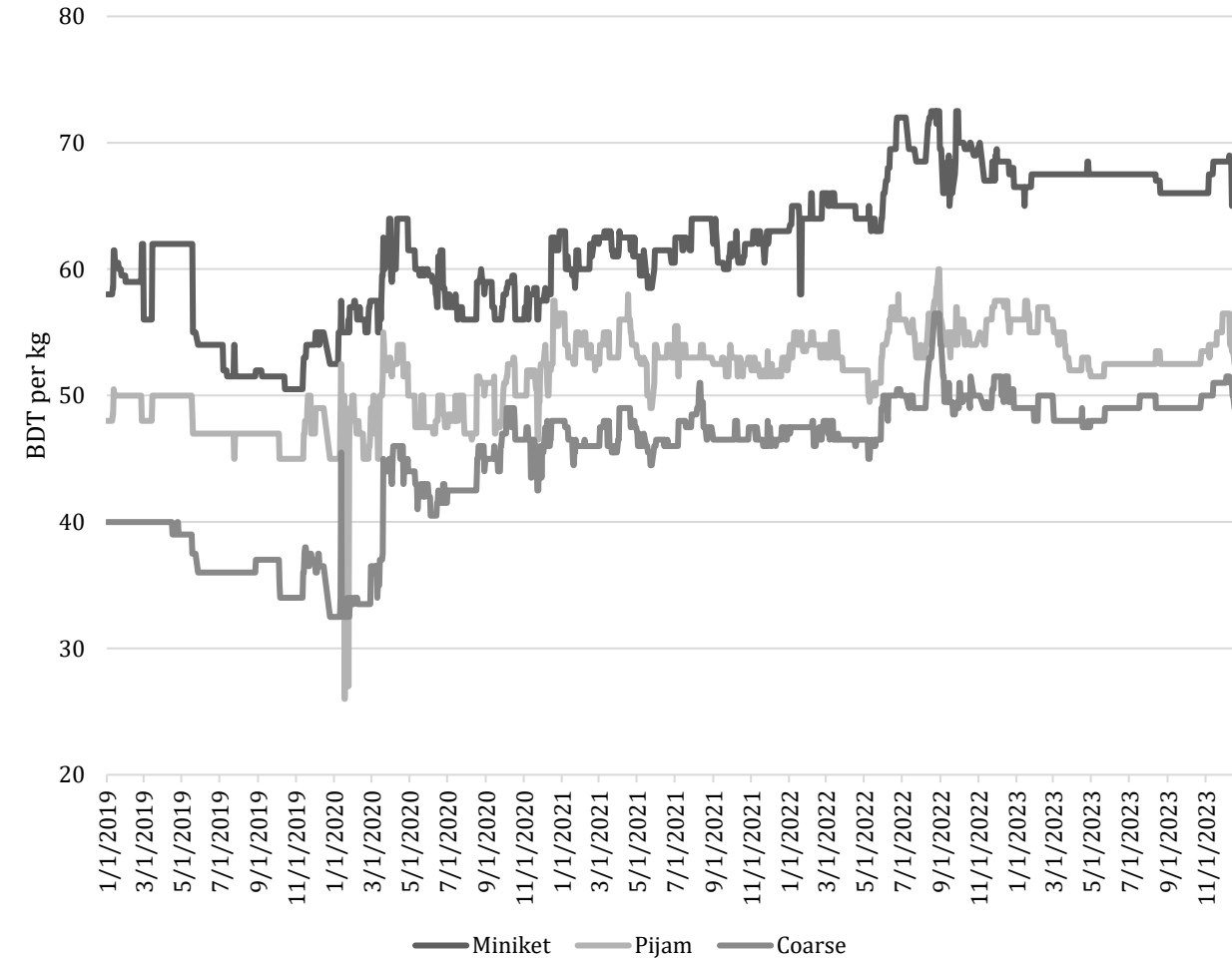
- ❑ **High inflation rates hovering around the 10% mark** have significantly increased the cost of living and decreased consumer purchasing power.
- ❑ Nevertheless, an analysis of the prices of several items shows that the **new CPI base tends to hide the actual extent of inflation prevailing in the market.**

Figure 3.1: Point-to-point inflation rate (Base Index 2021-22=100)



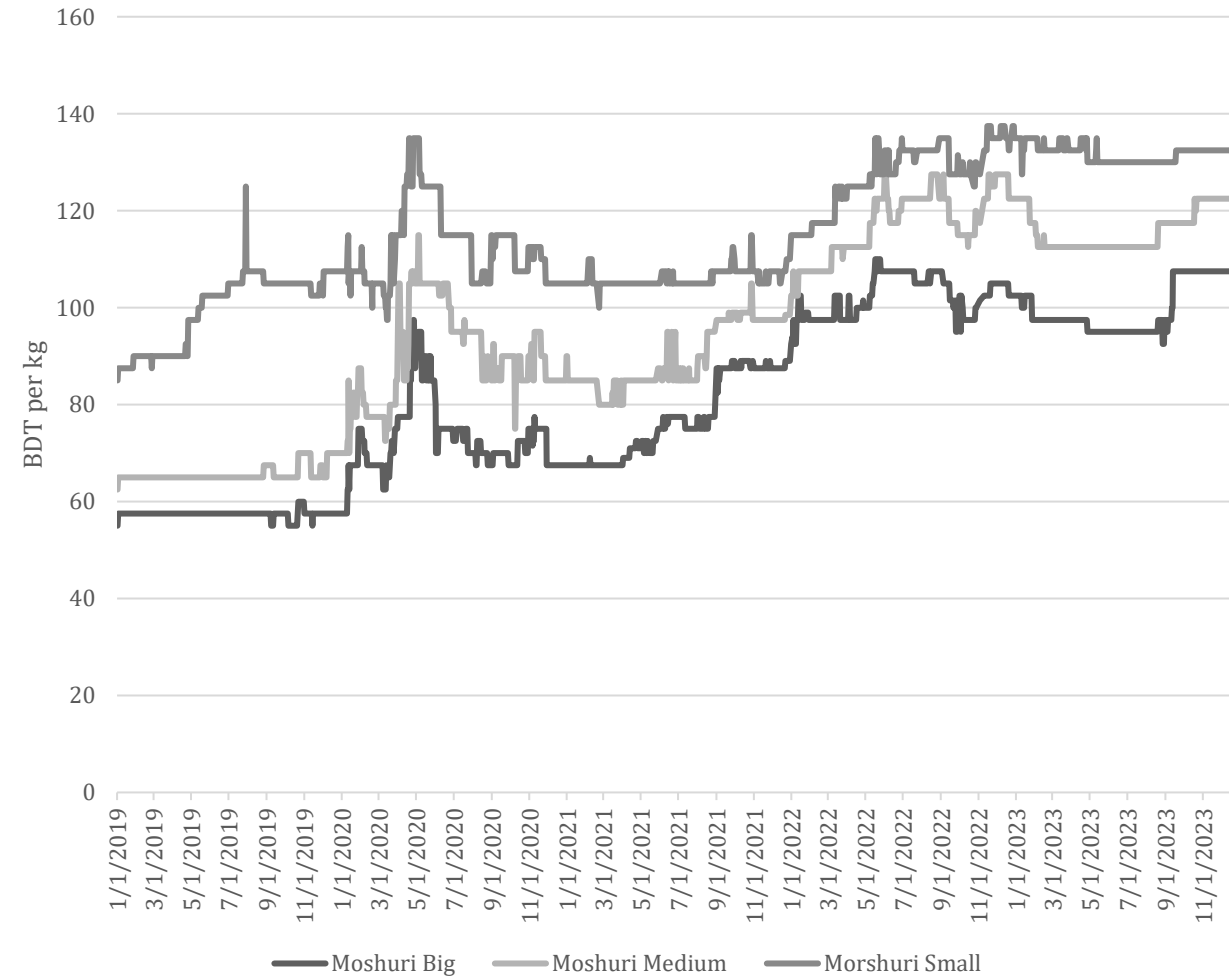
□ The average price of **Miniket** rice increased by **12%** from BDT 58 per kg to BDT 65 per kg, the average price of **Pijam** rice increased by **9%** from BDT 48 per kg to BDT 53 per kg, and the average price of **Coarse** rice increased by **23%** from BDT 40 per kg to BDT 49 per kg, between 1 January 2019 and 20 December 2023.

Figure 3.2: Average daily price of rice in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



□ The average price of **Moshuri dal (big)** increased by **95%** from BDT 55 to BDT 108, the average price of **Moshuri dal (medium)** increased by **96%** from BDT 63 to BDT 123, and the average price of **Moshuri dal (small)** increased by **56%** from BDT 85 to BDT 133 from 1 January 2019 to 20 December 2023.

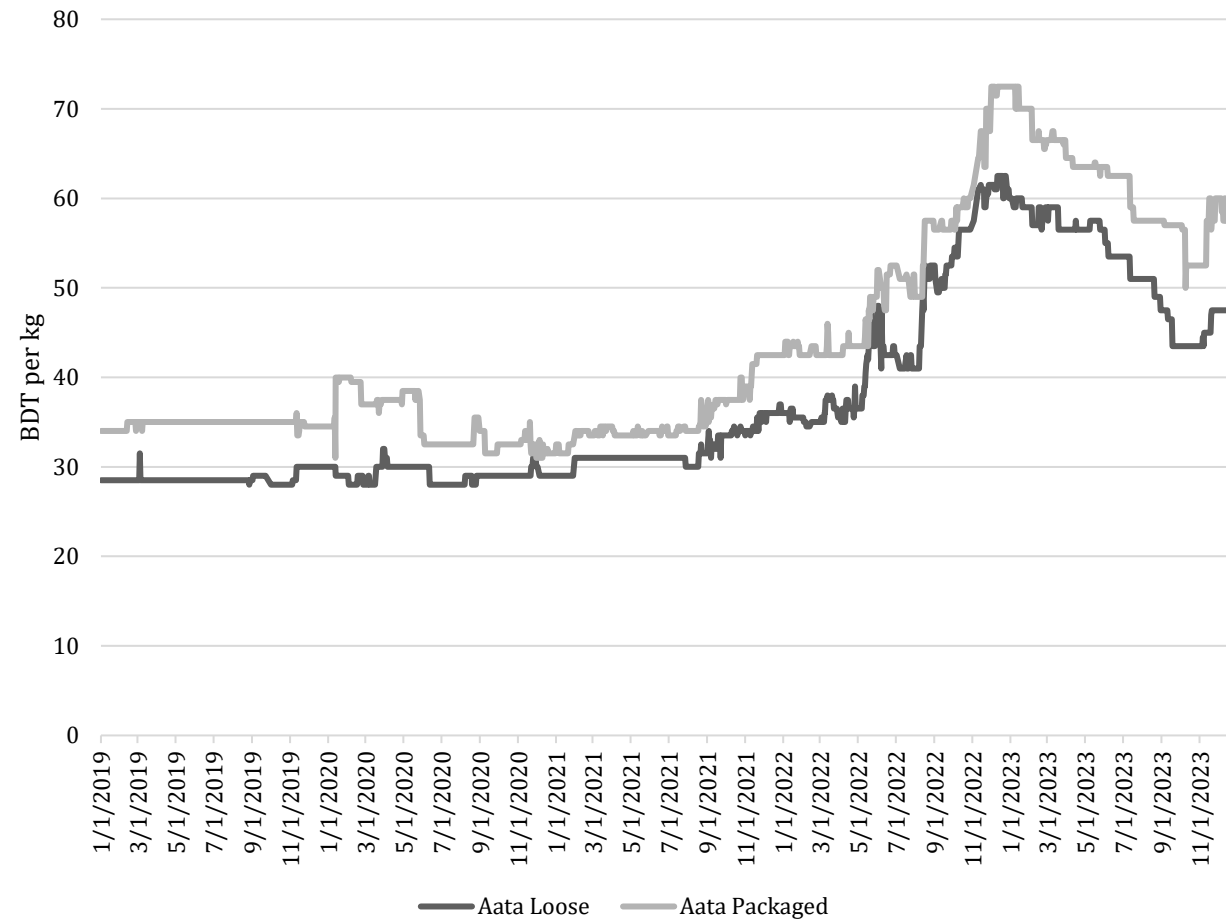
Figure 3.3: Average daily price of dal (lentils) in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



Price of unprocessed flour (aata)

□ The average price of **loose unprocessed flour (Aata)** increased by **67%** from BDT 29 per kg to BDT 48 per kg, and the average price of **packaged unprocessed flour (Aata)** increased by **76%** from BDT 34 per kg to BDT 60 per kg, from 1 January 2019 to 20 December 2023.

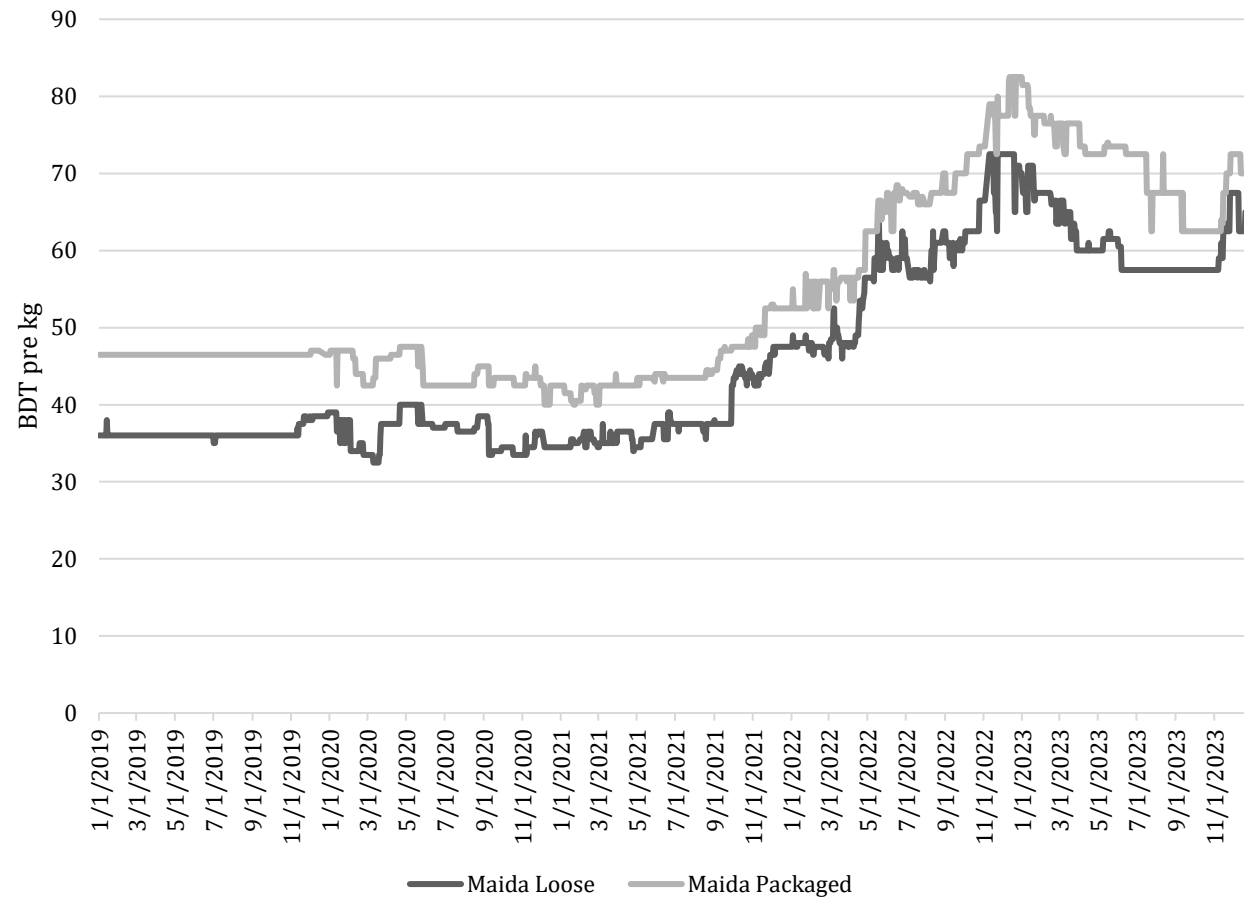
Figure 3.4: Average daily price of unprocessed flour (Aata) in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



Price of processed flour (maida)

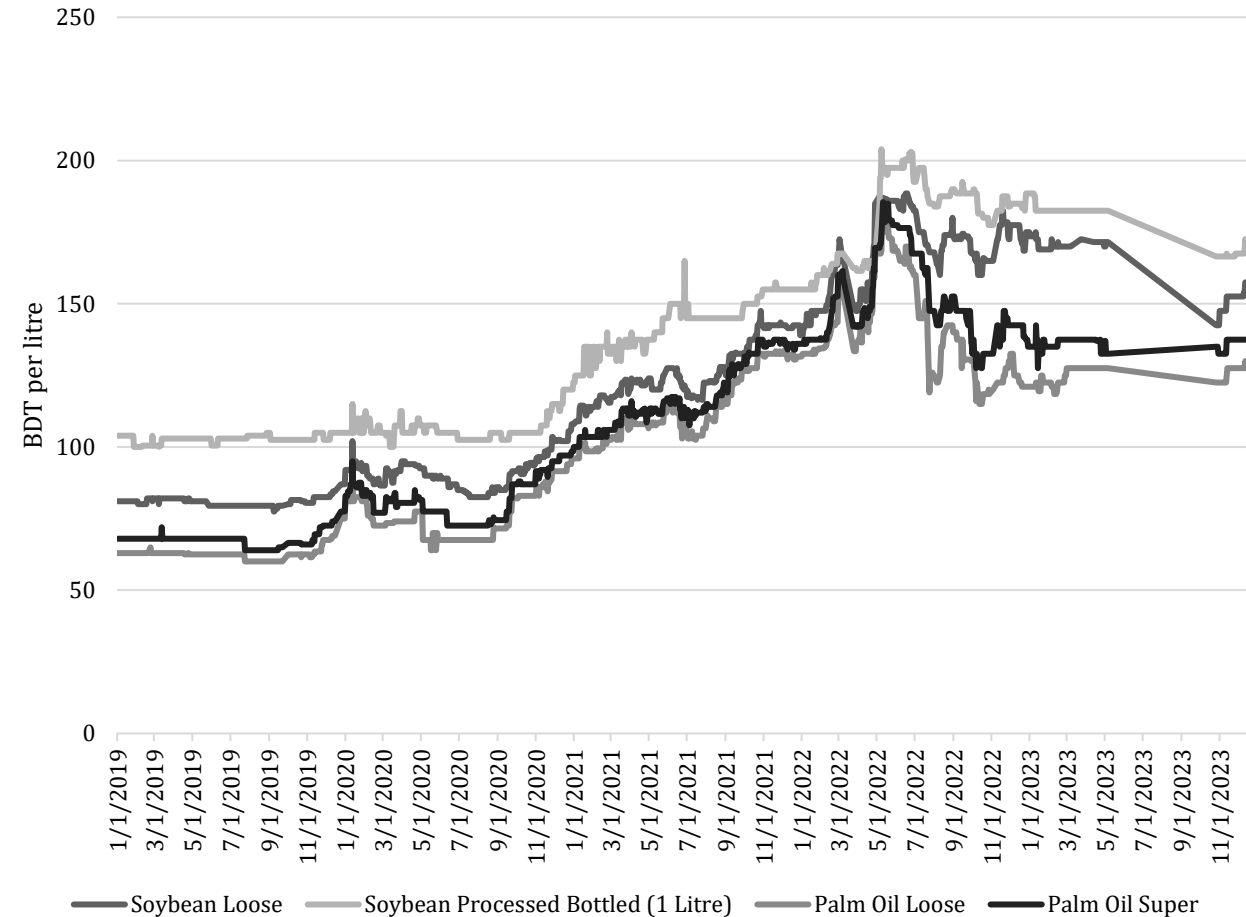
□ The average price of **loose processed flour (Maida)** increased by **81%** from BDT 36 per kg to BDT 65 per kg, and the average price of **packaged processed flour (Maida)** increased by **51%** from BDT 47 per kg to BDT 70 per kg, from 1 January 2019 to 20 December 2023.

Figure 3.5: Average daily price of processed flour (Maida) in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



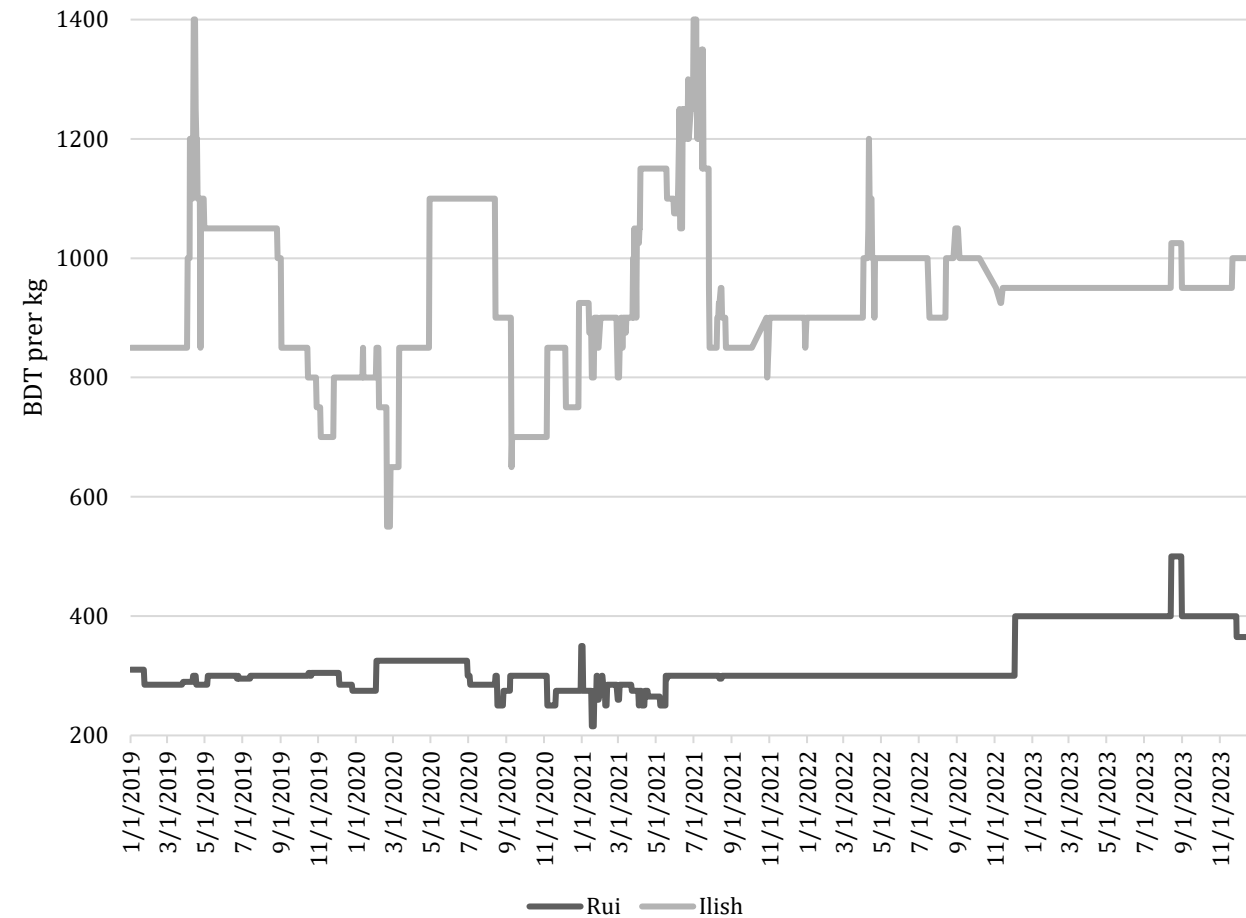
- ❑ The average price of **loose soyabean oil** increased by **94%** from BDT 81 per litre to BDT 158 per litre, and the average price of **bottled soyabean oil** increased by **65%** from BDT 104 per litre to BDT 172 per litre from 1 January 2019 to 20 December 2023.
- ❑ On the other hand, the average price of **loose palm oil** increased by **102%** from BDT 63 per litre to BDT 128 per litre, and the average price of **palm oil super** increased by **102%** from BDT 68 per litre to BDT 138 per litre, from 1 January 2019 to 20 December 2023.
- ❑ As of October 2023, the **price of soyabean oil in the world market was BDT 125 per litre**, which was lower than the prevailing price in the Bangladesh market at the same time.

Figure 3.6: Average daily price of edible oil in Dhaka between 1 January 2019 and 20 December 2023 (BDT per litre)



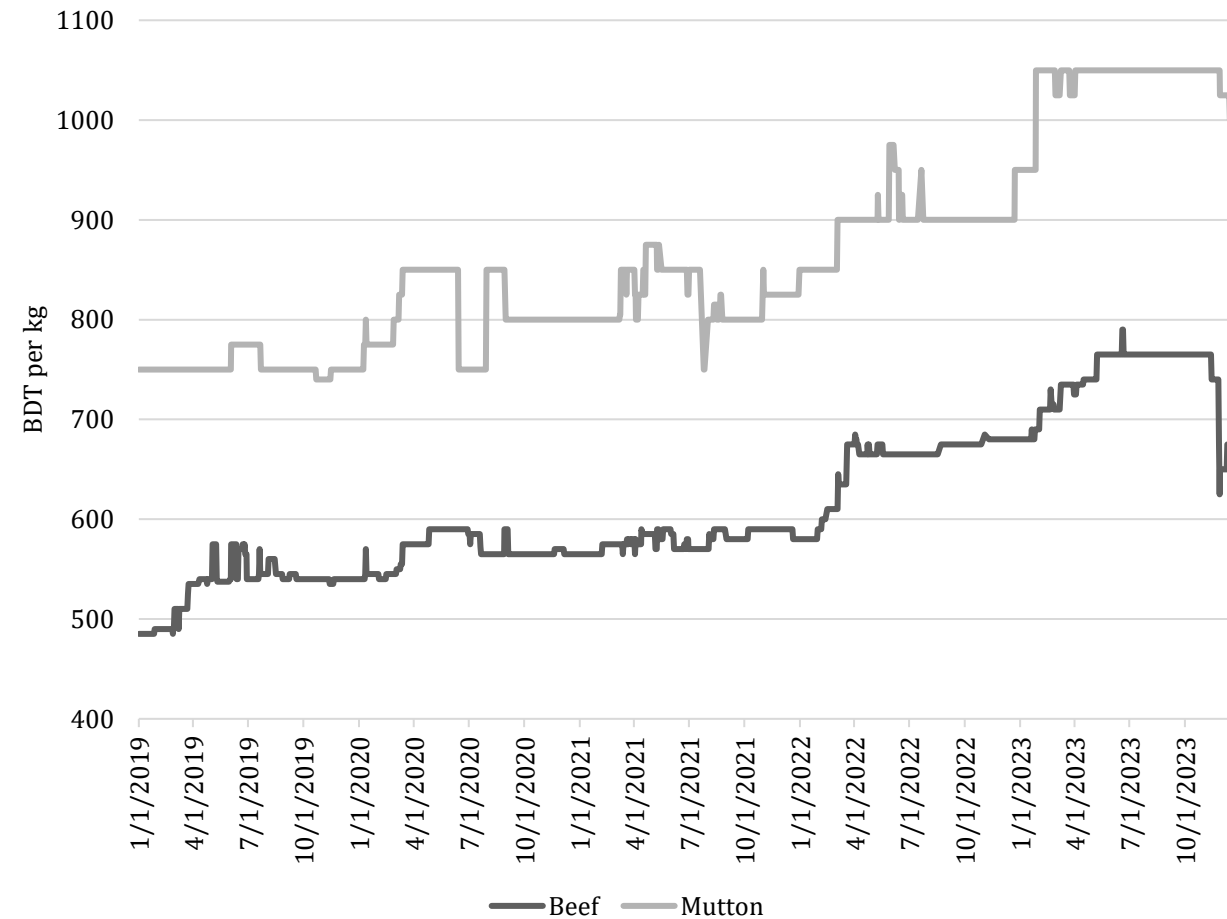
□ The average price of **Rui fish** increased by **18%** from BDT 310 per kg to BDT 365 per kg, and the average price of **Ilish (Hilsha) fish** increased by **18%** from BDT 850 per kg to BDT 1000 per kg from 1 January 2019 to 20 December 2023.

Figure 3.7: Average daily price of fish in Dhaka between 1 January 2019 and 20 December 2023 (BDT per kg)



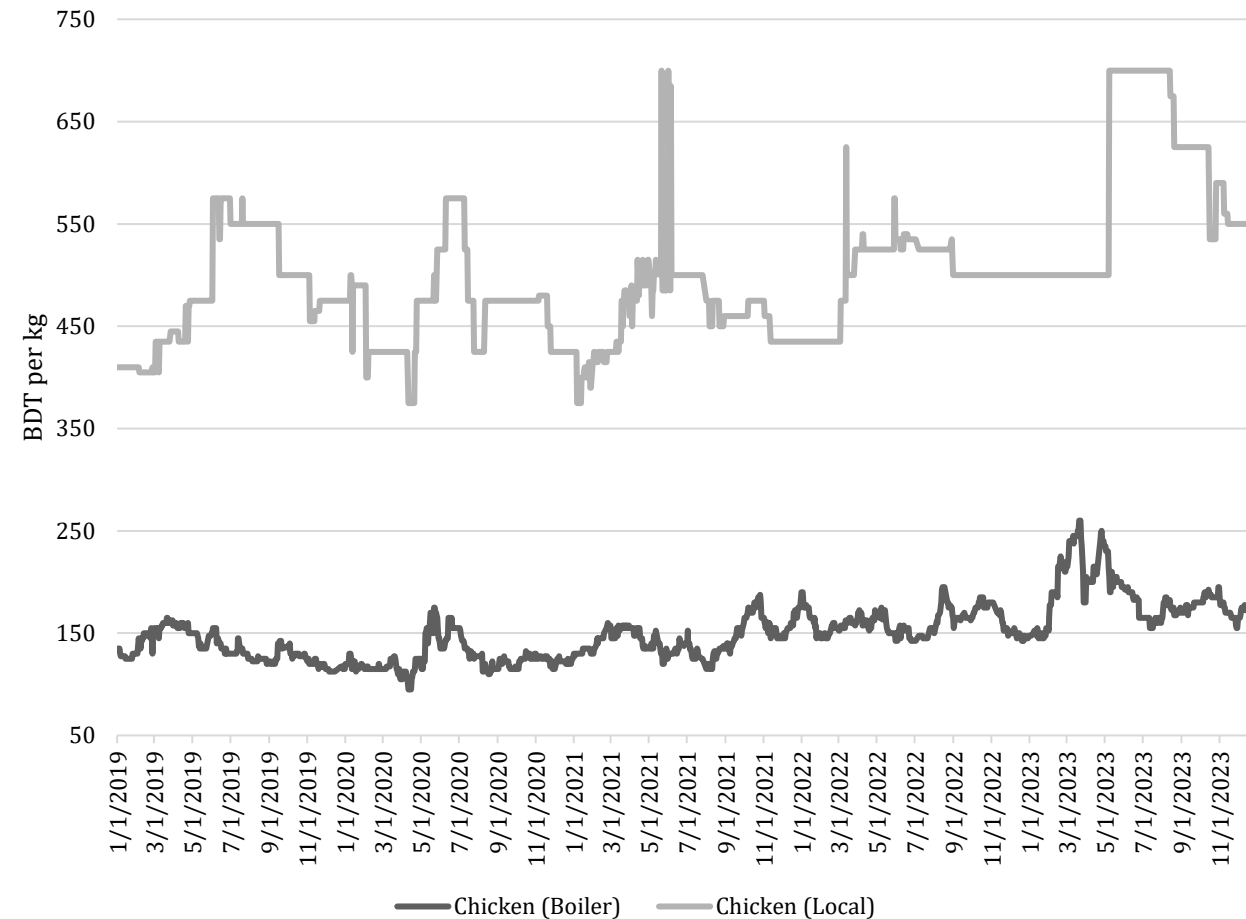
- ❑ The average price of **beef** increased by **34%** from BDT 485 per kg to BDT 650 per kg, and the average price of **mutton** increased by **27%** from BDT 750 per kg to BDT 950 per kg from 1 January 2019 to 20 December 2023.
- ❑ As of October 2023, the **price of beef in the world market was BDT 550 per kg**, which was lower than the prevailing price in the Bangladesh market at the same time.

Figure 3.8: Average daily price of beef and mutton in Dhaka between 1 January 2019 and 20 December 2023 (BDT per kg)



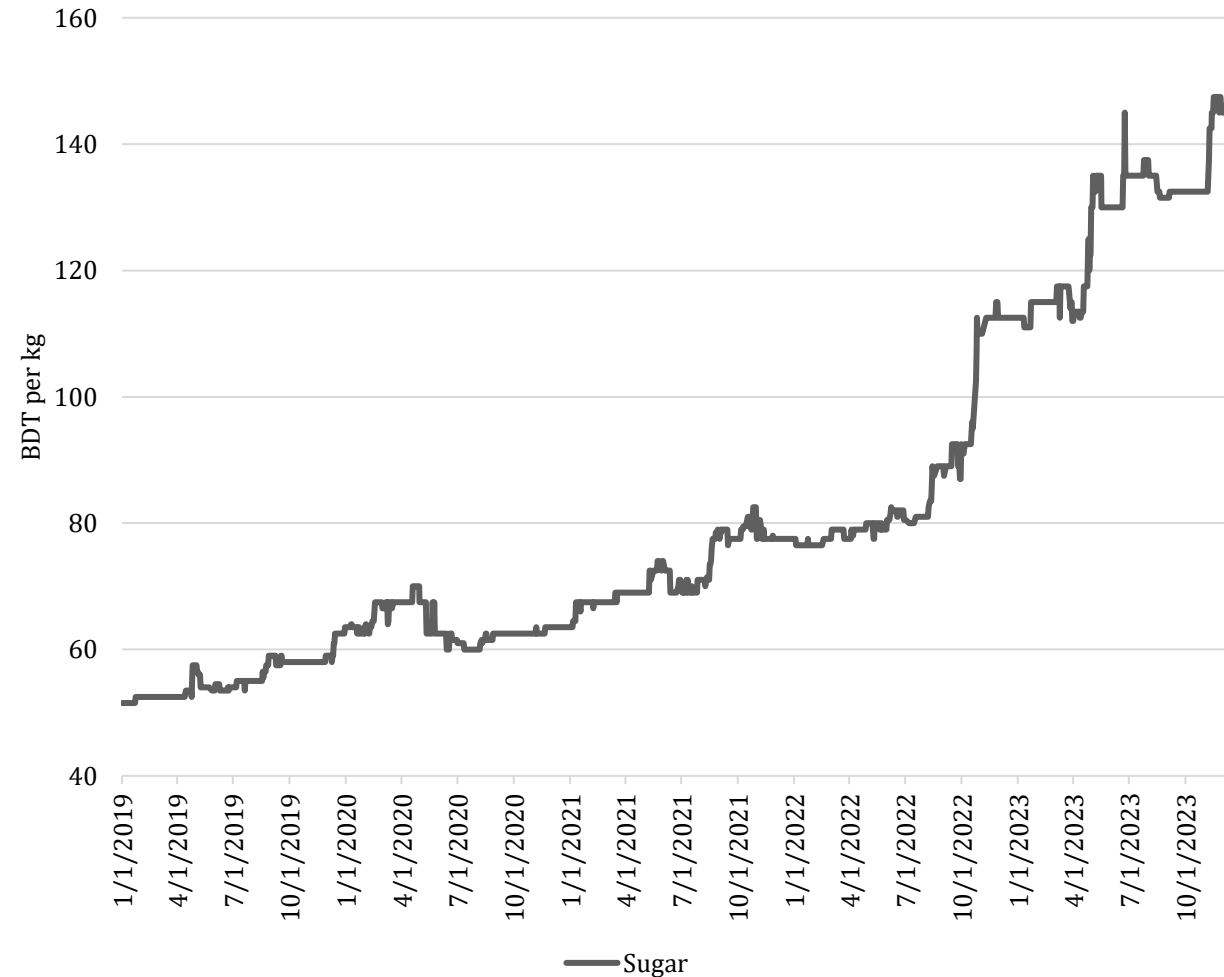
□ The average price of **broiler chicken** has risen by **33%** from BDT 135 to BDT 180, and the average price of **local chicken** has increased by **34%** from BDT 410 to BDT 550 from 1 January 2019 to 20 December 2023.

Figure 3.9: Average daily price of chicken in Dhaka between 1 January 2019 and 20 December 2023 (BDT per kg)



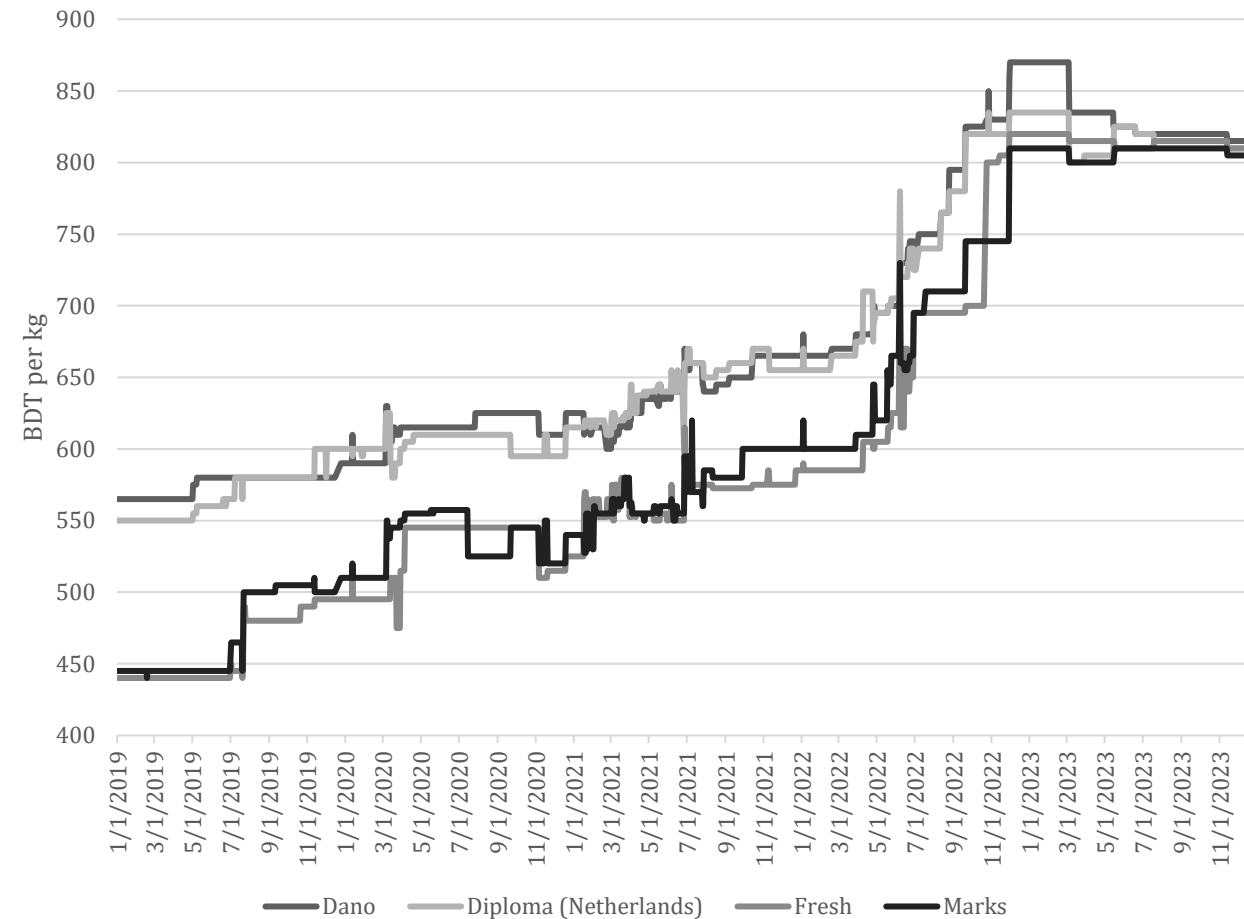
- ❑ The average price of **sugar** increased by **177%** from **BDT 52 per kg** to **BDT 143 per kg** from 1 January 2019 to 20 December 2023.
- ❑ As of October 2023, the price of sugar in the **EU market was BDT 38 per kg**, the price of sugar in the **US market was BDT 108 per kg**, and the price of sugar in the **world market was BDT 63 per kg**, all of which were lower than the prevailing price in the Bangladesh market at the same time.

Figure 3.10: Average daily price of sugar in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



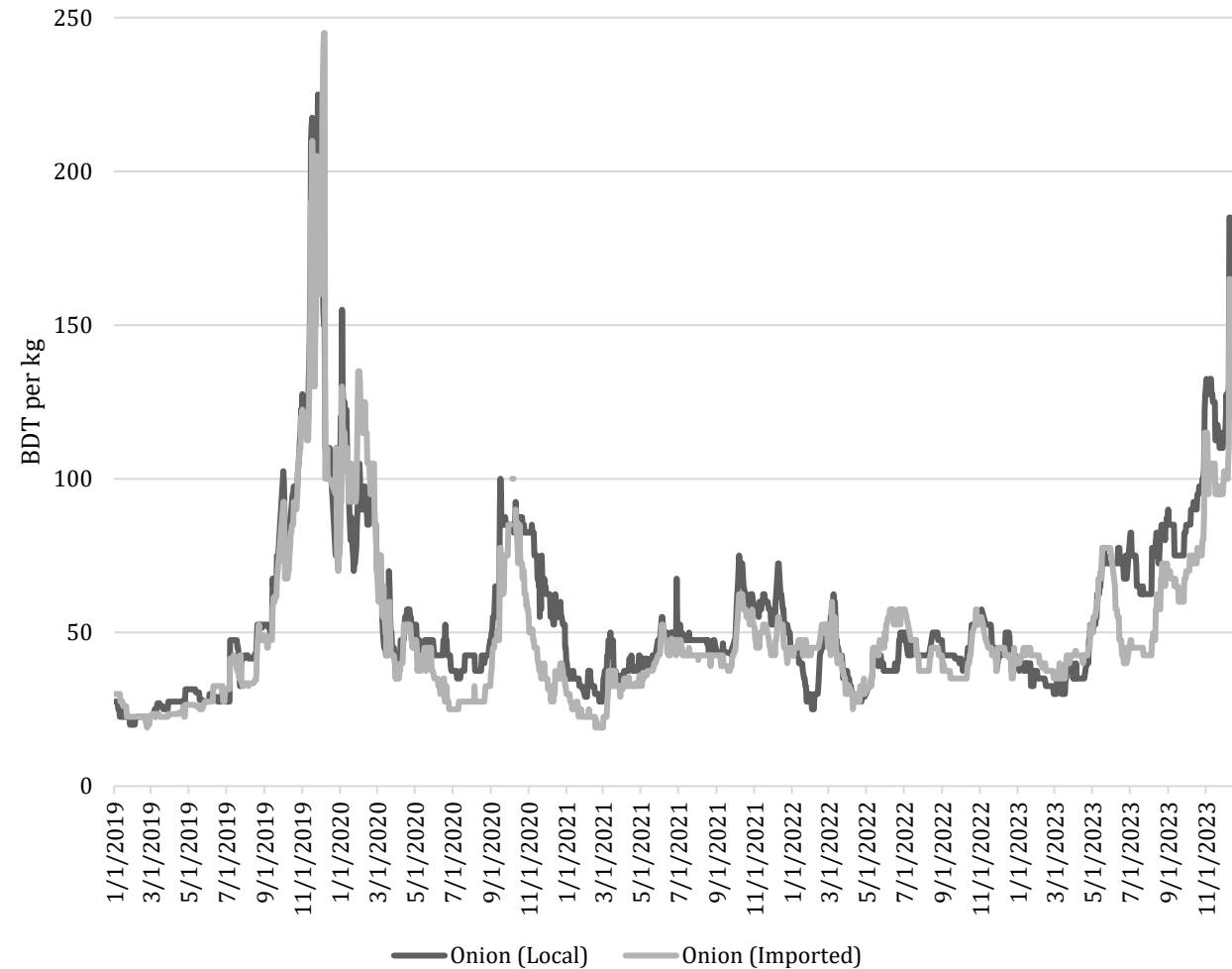
□ The average price of **Dano** brand powdered milk increased by **44%** from BDT 565 per kg to BDT 815 per kg, the average price of **Diploma** brand powdered milk increased by **47%** from BDT 550 per kg to BDT 810 per kg, the average price of **Fresh** brand powdered milk increased by **84%** from BDT 440 per kg to BDT 810 per kg, and the average price of **Marks** brand powdered milk increased by **81%** from BDT 445 per kg to BDT 805 per kg from 1 January 2019 to 20 December 2023.

Figure 3.11: Average daily price of four brands of powdered milk in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



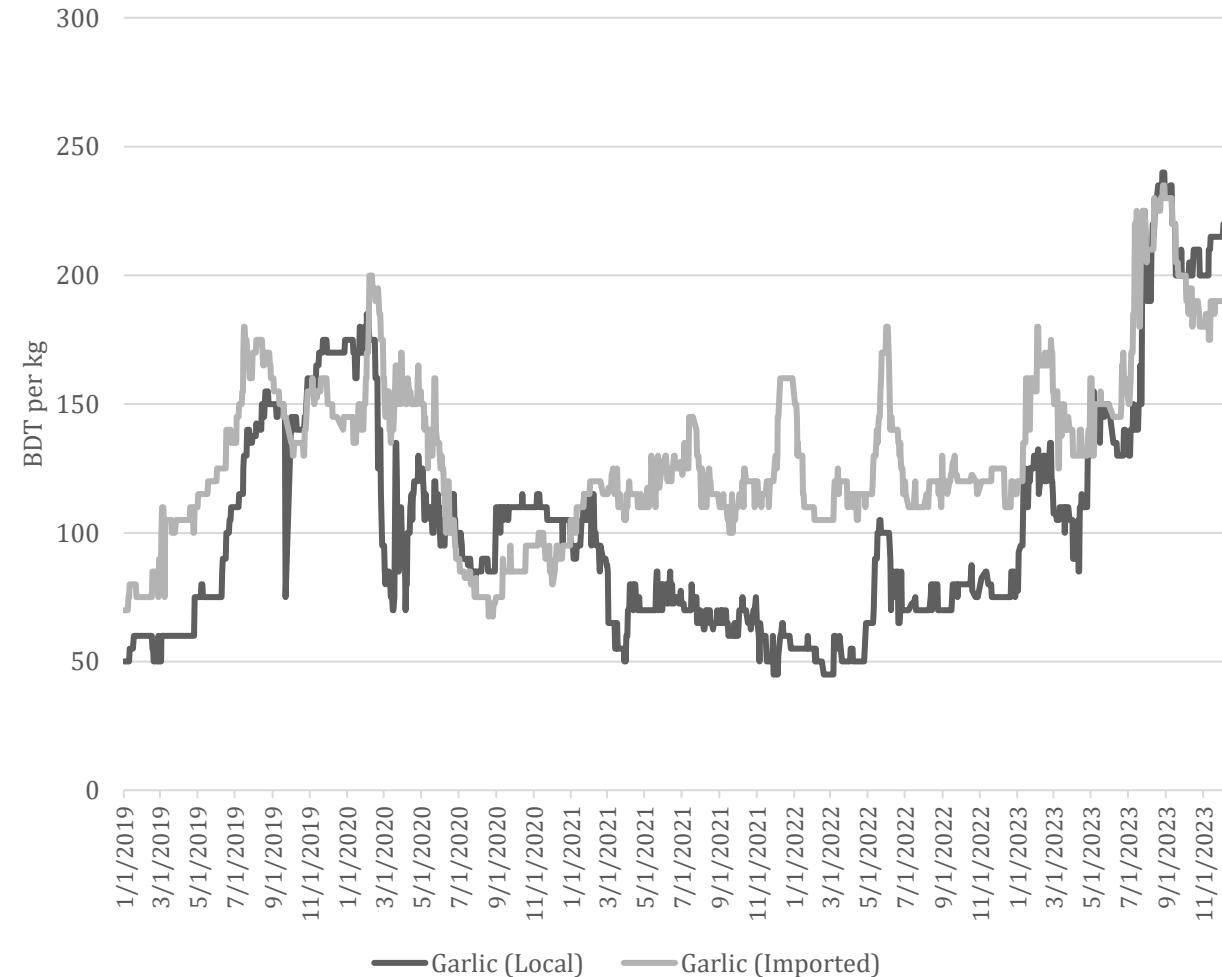
□ The average price of **local onions** increased by **282%** from BDT 28 per kg to BDT 105 per kg, the average price of **imported onions** increased by **333%** from BDT 30 per kg to 130 per kg from 1 January 2019 to 20 December 2023.

Figure 3.12: Average daily price of onions in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



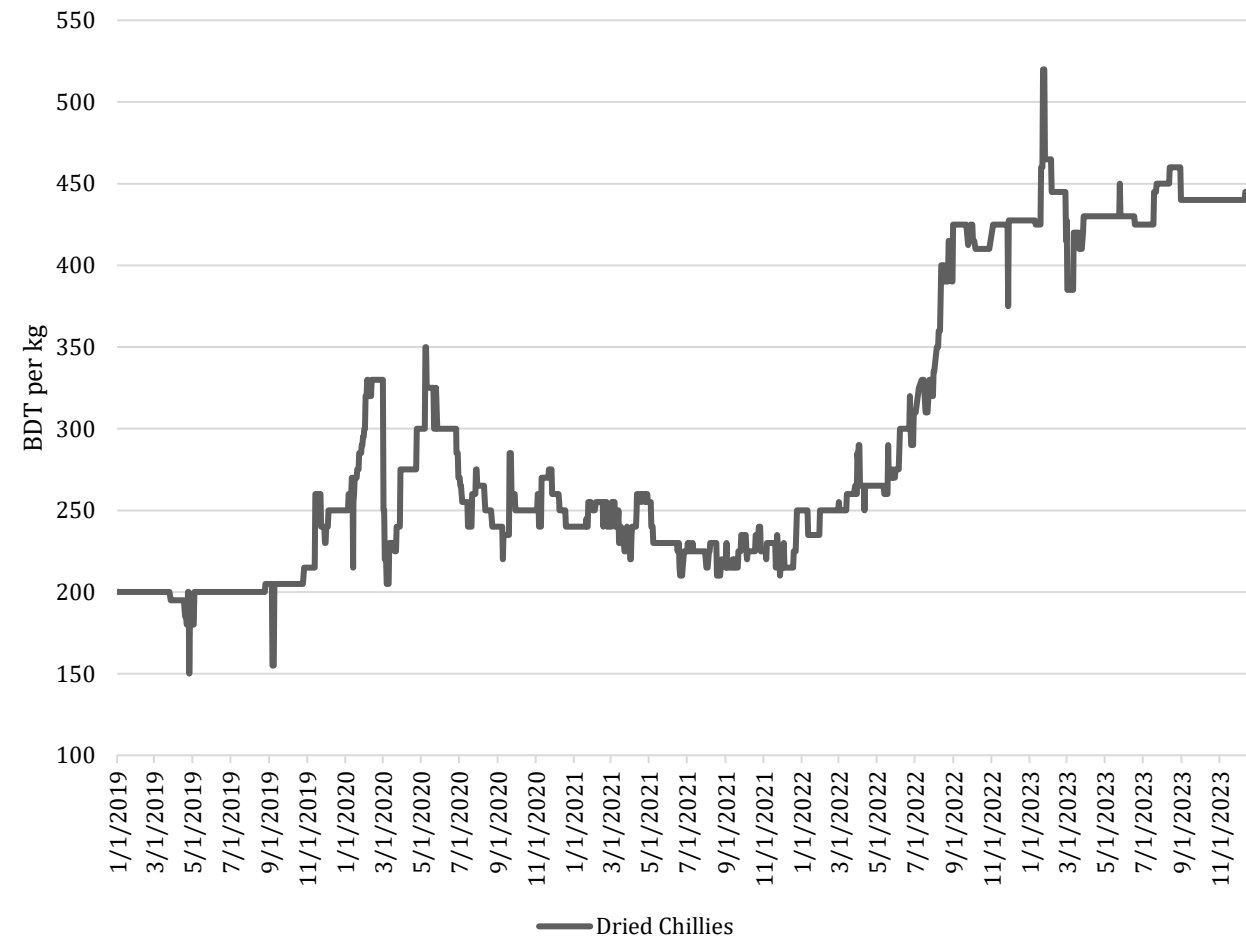
□ The average price of **local garlic** increased by **400%** from BDT 40 per kg to BDT 250 per kg, and the average price of **imported garlic** increased by **214%** from BDT 70 per kg to BDT 220 per kg from 1 January 2019 to 20 December 2023.

Figure 3.13: Average daily price of garlic in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



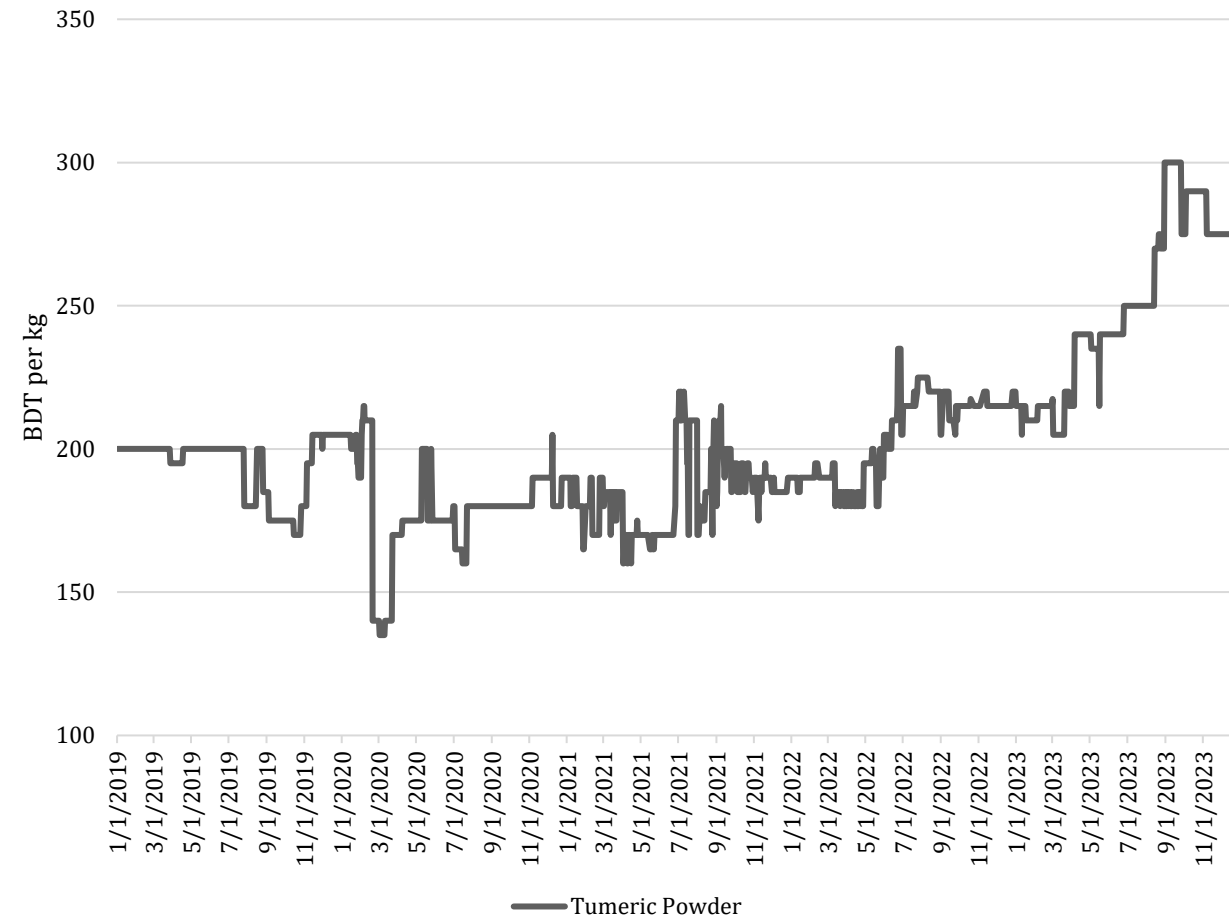
□ The average price of **dried chillies** increased by **123%** from BDT 200 per kg to BDT 445 per kg from 1 January 2019 to 20 December 2023.

Figure 3.14: Average daily price of dried chillies in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



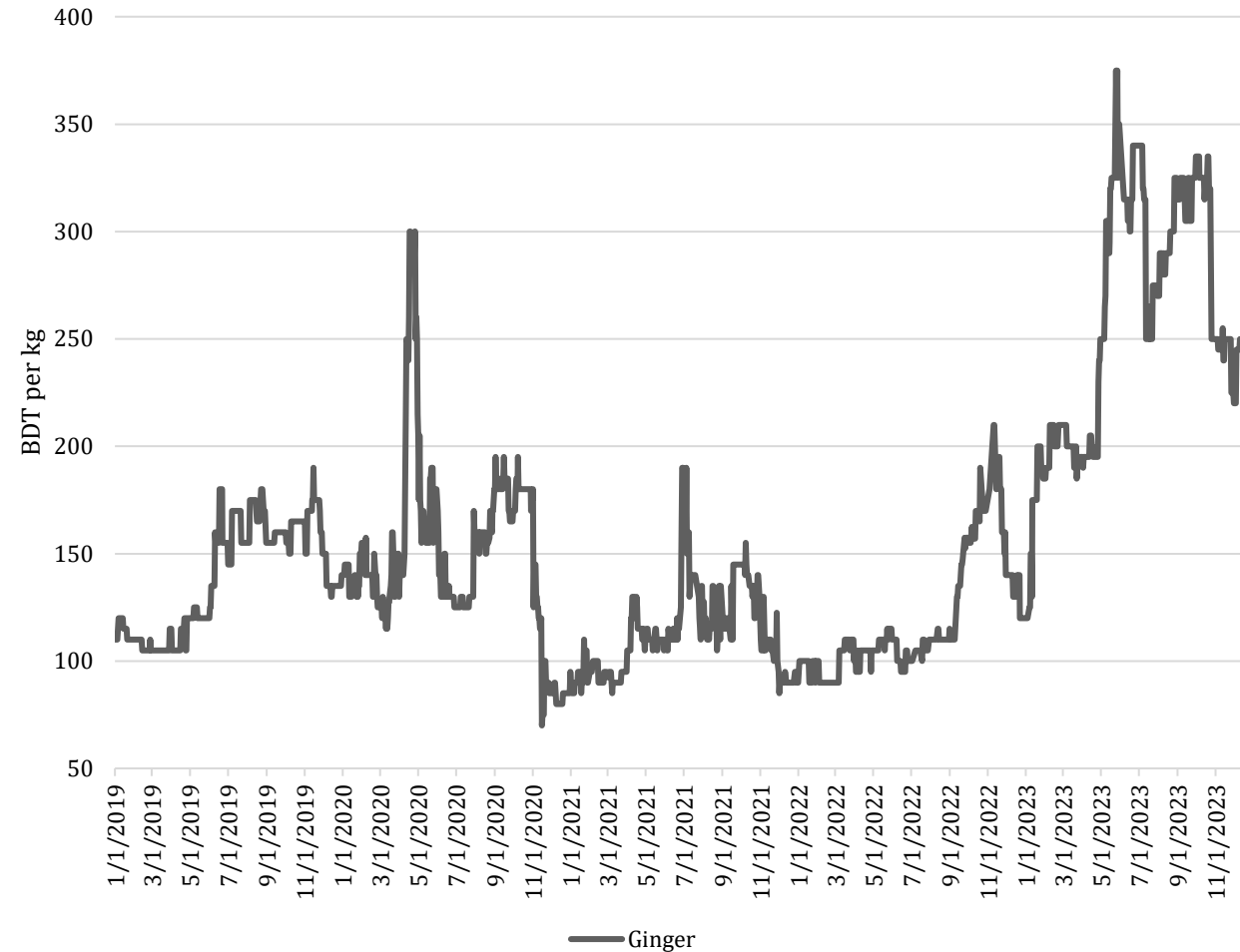
□ The average price of **turmeric powder** increased by **38%** from BDT 200 per kg to BDT 275 per kg from 1 January 2019 to 20 December 2023.

Figure 3.15: Average daily price of turmeric powder in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



□ The average price of **ginger** increased by **118%** from BDT 110 per kg to BDT 240 per kg from 1 January 2019 to 20 December 2023 .

Figure 3.16: Average daily price of ginger in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



Increase in price of essential food items from 1 January 2019 to 20 December 2023

Table 3.1: Increase in price of essential food items from 1 January 2019 to 20 December 2023

| Sl. | Food Items | Price on 1 Jan 2019 | Price on 20 Dec 2023 | Absolute change in BDT | Percentage change |
|-----|--|---------------------|----------------------|------------------------|-------------------|
| 1 | Miniket rice (1 kg) | 58 | 65 | 7 | 12 |
| 2 | Pijam rice (1 kg) | 48 | 53 | 5 | 9 |
| 3 | Coarse rice (1 kg) | 40 | 49 | 9 | 23 |
| 4 | Aata (unprocessed flour) loose (1 kg) | 29 | 48 | 19 | 67 |
| 5 | Aata (unprocessed flour) packaged (1 kg) | 34 | 60 | 26 | 76 |
| 6 | Maida (processed flour) loose (1 kg) | 36 | 65 | 29 | 81 |
| 7 | Maida (processed flour) packaged (1 kg) | 47 | 70 | 24 | 51 |
| 8 | Soybean oil loose (1 litre) | 81 | 158 | 77 | 94 |
| 9 | Soybean oil processed bottled (1 litre) | 104 | 172 | 68 | 65 |
| 10 | Palm oil loose (1 litre) | 63 | 128 | 65 | 102 |
| 11 | Palm oil super (1 litre) | 68 | 138 | 70 | 102 |
| 12 | Moshuri dal (lentil) big (1 litre) | 55 | 108 | 53 | 95 |
| 13 | Moshuri dal (lentil) medium (1 kg) | 63 | 123 | 60 | 96 |
| 14 | Morshuri dal (lentil) small (1 kg) | 85 | 133 | 48 | 56 |
| 15 | Onion (local) (1 kg) | 27.5 | 105 | 78 | 282 |
| 16 | Onion (imported) (1 kg) | 30 | 130 | 100 | 333 |

Increase in price of essential food items from 1 January 2019 to 20 December 2023

Table 3.1: Increase in price of essential food items from 1 January 2019 to 20 December 2023

| Sl. | Food Items | Price on 1 Jan 2019 | Price on 20 Dec 2023 | Absolute change in BDT | Percentage change |
|-----|--|---------------------|----------------------|---------------------------|----------------------|
| 17 | Garlic (local) (1 kg) | 50 | 250 | 200 | 400 |
| 18 | Garlic (imported) (1 kg) | 70 | 220 | 150 | 214 |
| 19 | Dried chillies (1 kg) | 200 | 445 | 245 | 123 |
| 20 | Turmeric powder (1 kg) | 200 | 275 | 75 | 38 |
| 21 | Ginger (1 kg) | 110 | 240 | 130 | 118 |
| 22 | Rui fish (1 kg) | 310 | 365 | 55 | 18 |
| 23 | Ilish (Hilsha) fish (1kg) | 850 | 1000 | 150 | 18 |
| 24 | Beef (1 kg) | 485 | 650 | 165 | 34 |
| 25 | Mutton (1 kg) | 750 | 950 | 200 | 27 |
| 26 | Chicken (broiler) (1 kg) | 135 | 180 | 45 | 33 |
| 27 | Chicken (local) (1 kg) | 410 | 550 | 140 | 34 |
| 28 | Dano powder milk (1 kg) | 565 | 815 | 250 | 44 |
| 29 | Diploma powder milk (Netherlands) (1 kg) | 550 | 810 | 260 | 47 |
| 30 | Fresh powdered milk (1 kg) | 440 | 810 | 370 | 84 |
| 31 | Marks powder milk (1 kg) | 445 | 805 | 360 | 81 |
| 32 | Sugar (1 kg) | 52 | 143 | 91 | 177 |
| 33 | Salt (1 kg) | 32 | 41 | 10 | 30 |
| 34 | Eggs (20 eggs) | 34 | 44 | 10 | 29 |

- ❑ The role of the **Bangladesh Competition Commission** needs to be strengthened, particularly in the case of the essential consumer goods market.
- ❑ The Commission should develop a database, regularly **monitor the dominant market players'** operations, examine the market control and manipulation (if any), and take proper measures.
- ❑ The Bangladesh Competition Commission should **adopt a strong stance against cartels and a zero-tolerance policy towards collusive practices.**
- ❑ The **Competition Act 2012** should be revised to address monopolies and include specific anti-trust clauses and concrete penalties for violators.
- ❑ The **Minimum Wage Board** should consider **increasing the minimum wages in all industries** so that workers earning minimum wages may at least afford basic food.
- ❑ Distribution of essential commodities sold through the **open market system (OMS)** must be managed effectively and without corruption so eligible people can access these items at low prices.
- ❑ The government should provide **direct cash support** to people experiencing poverty, enhance social protection for low-income families, and extend stimulus to small businesses for survival during challenging times.

4. Hope for a Sound Banking Sector Fading Away Fast

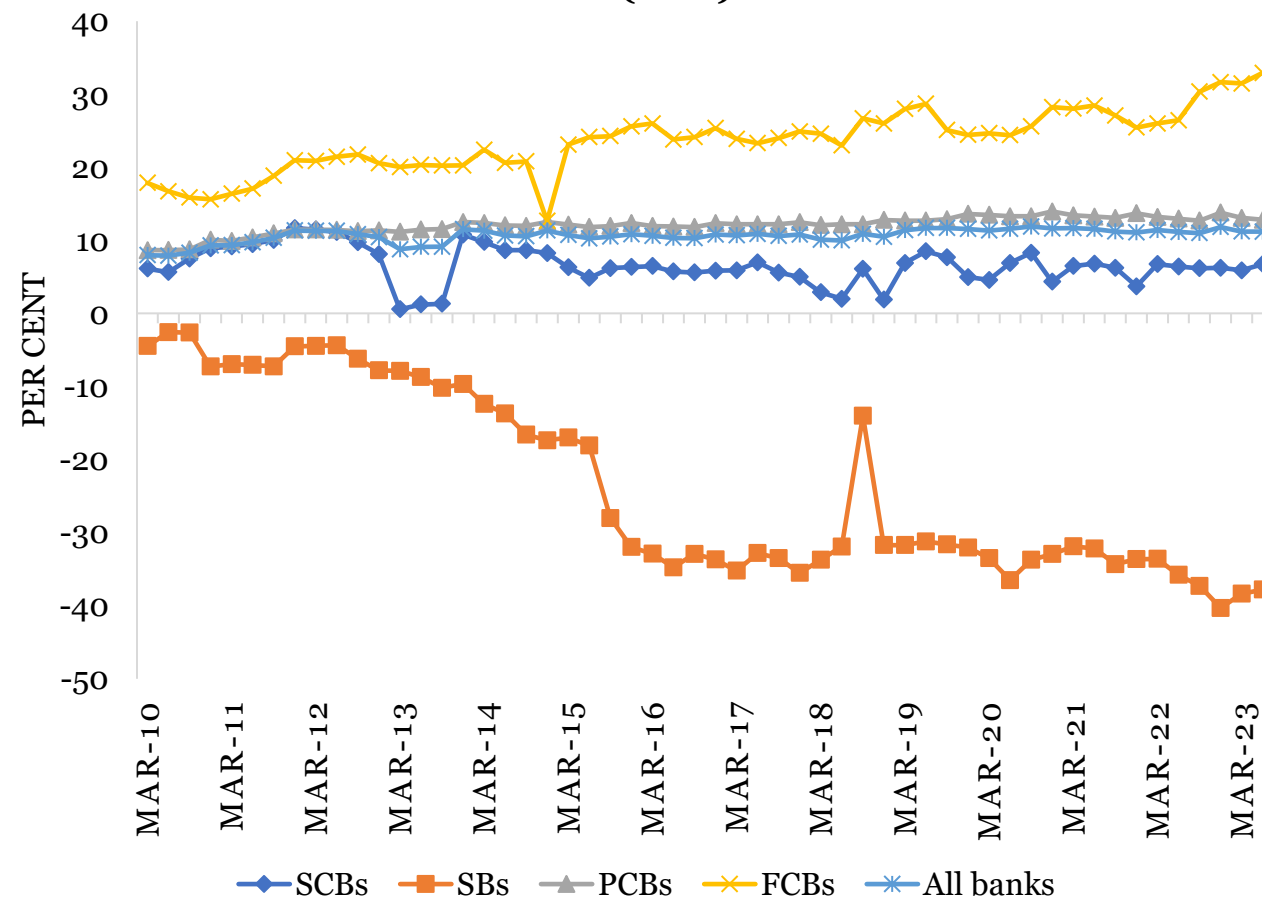
- ❑ Bangladesh's banking sector has consistently demonstrated vulnerability, primarily because of a lack of good governance and a dearth of reforms.
- ❑ **Its weaknesses have been consistently exposed through high loan default rates and sub-par performance across various indicators.**
- ❑ **This inherent fragility presents significant risks to the overall economy.**
- ❑ Regrettably, the government's commitments to safeguard the banking sector remain unmet.
- ❑ **Considering recurrent instances of fraudulent activities and irregularities, the actions implemented by the government have been insufficient.**
- ❑ Non-performing loans (NPLs) remain unchecked, threatening the health of the country's financial system.
- ❑ Crony capitalists have used banks as vehicles for reaching their goal of financial oligarchy.
- ❑ This section briefly presents the performance of some key indicators in recent periods and makes a few recommendations to overcome the challenges.

□ Bangladesh Bank's Guidelines on Risk Based Capital Adequacy state that banks must maintain a minimum total capital ratio of 10% (or minimum total capital plus capital conservation buffer of 12.5%) by 2019, in line with BASEL III.

- However, the SCBs have failed to maintain minimum requirements of capital adequacy.
- On the other hand, the SBs have remained critically under-capitalised.

□ **Without reducing NPLs, capital adequacy cannot be improved** since higher levels of NPLs lead to increased provisioning requirements, which results in capital shortfall.

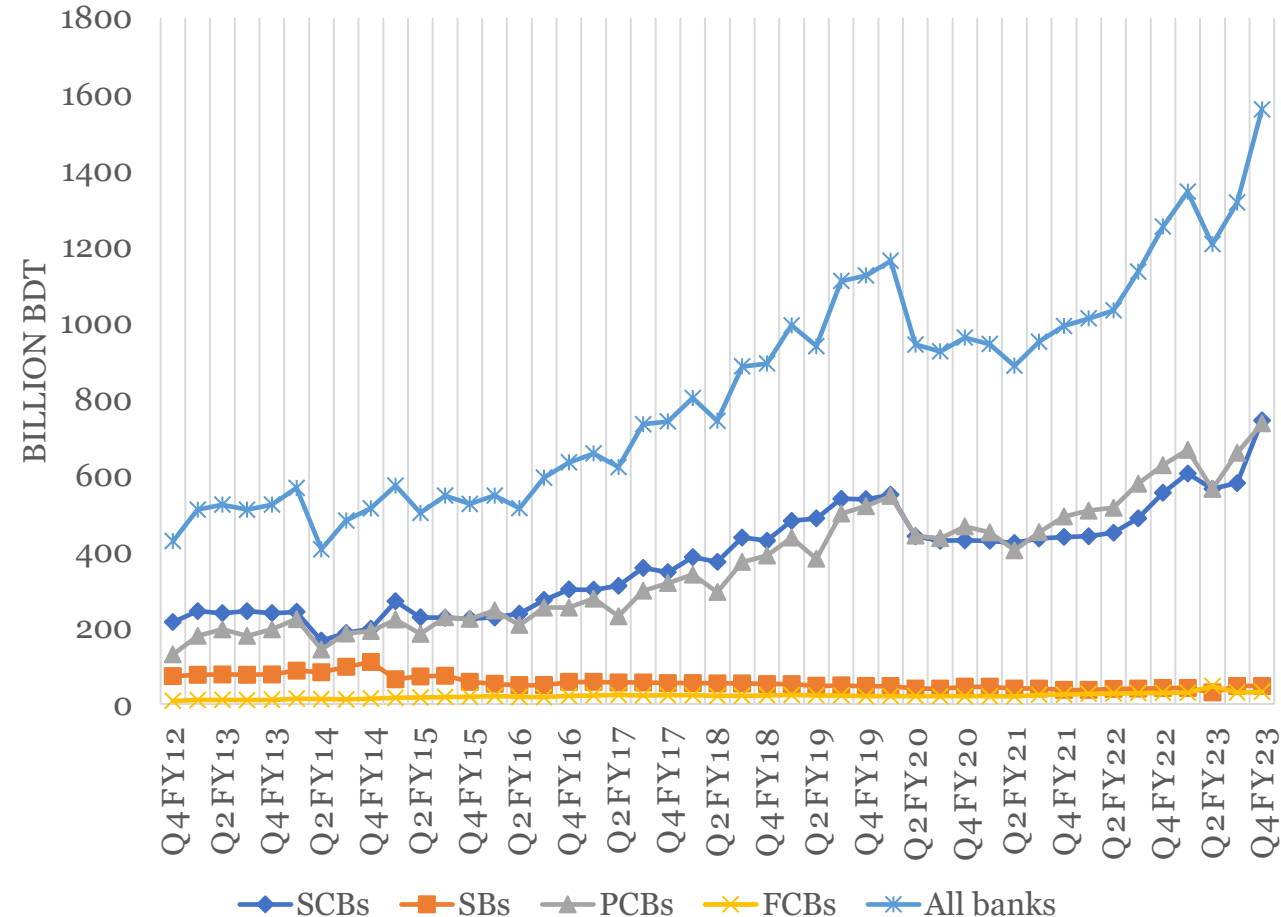
Figure: Capital to risk weighted asset ratios (in %)



High volume of Non-performing Loans (NPLs)

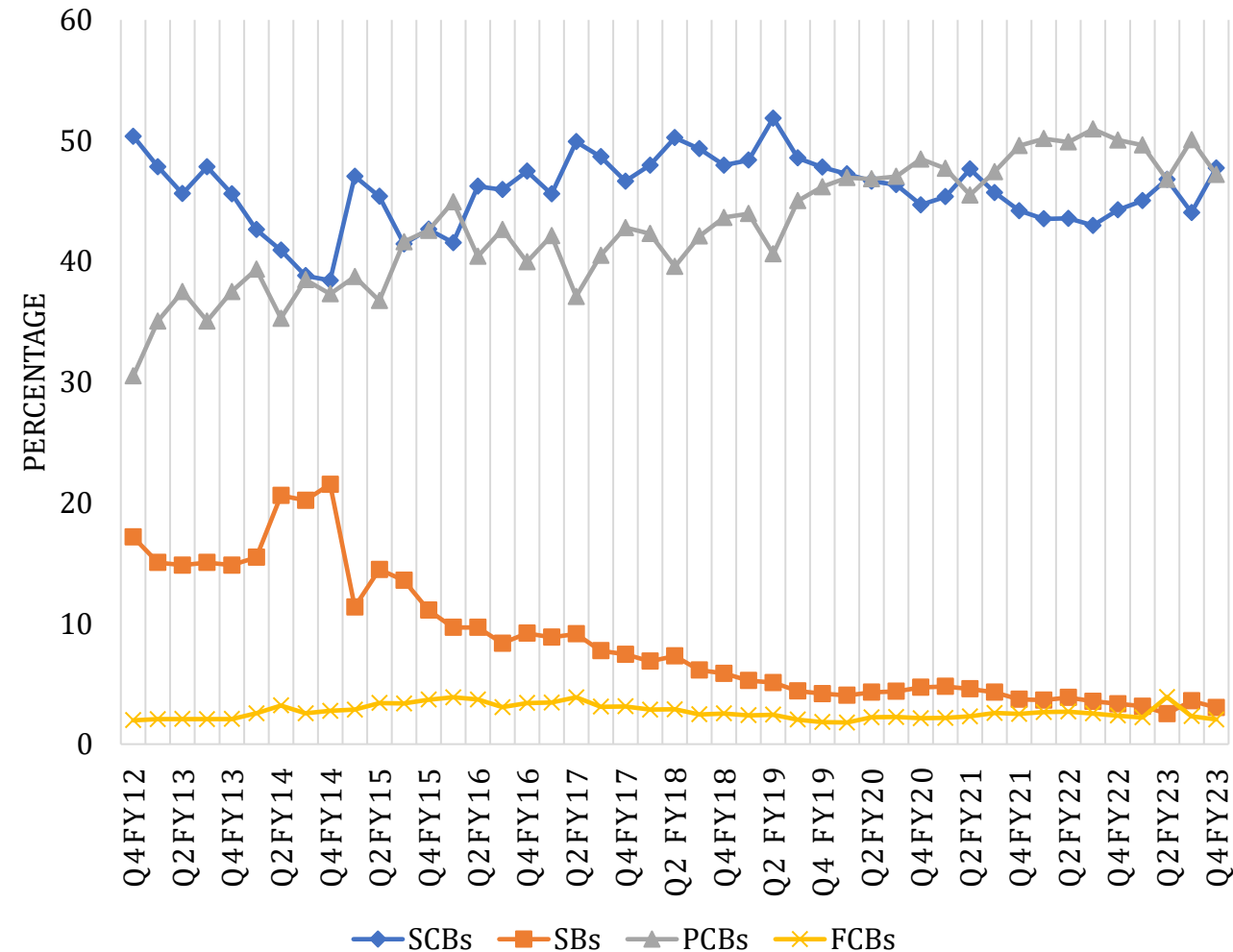
- The total volume of NPL has **increased by more than three times in the last ten years, from BDT 427.25 billion in Q4FY12 to BDT 1560.4 billion in Q4FY23**
- However, actual NPL will be much higher if **loans in special mention accounts, loans with court injunctions, and rescheduled loans** are included

Figure: Total classified loans (in billion BDT)



- The volume of NPLs in the PCBs as a percentage of the total NPLs in the banking sector increased from 31% in Q4F12 to 47% in Q4FY23
- **Such a high concentration of NPLs in the PCBs reveals that NPL is not only a problem affecting the SCBs.**
- Furthermore, the increase in the share of NPLs in PCBs shows that the performance of the PCBs has worsened substantially over time

Figure: Distribution of NPL by type of bank (as a percentage of total NPL in the banking sector)



Reasons behind high volume of Non-performing Loans (NPLs) in Bangladesh

Institutional

- Appointments of bank directors, often based on political connections
- Loans sanctioned on political grounds
- Rescheduling of loans despite poor record of repayment
- Writing off loans to reduce tax burden and clean balance sheets of banks
- Weak internal control and compliance risk management of banks
- Inability of some banks to comply with BASEL III requirements

Regulatory

- Lack of independence of the Central Bank
- Dual regulation by the Financial Institutions Division and the Central Bank
- Flexibilities given to defaulters by the Central Bank
- Bank licenses given arbitrarily to crony capitalists
- Recapitalisation of banks by the government
- Quasi-monopolistic power of few bank oligarchs

Legal

- Amendments of Banking Company Act to favour vested interests
- Weaknesses in Financial Loan Court Act
- Loopholes in Bankruptcy Act
- Delays in judicial process and long backlog of cases
- Insufficient number of judges dealing with loan cases
- Lenient legal stance against willful defaulters

Data and information-related

- Limited access to timely data
- Apprehensions regarding quality of data
- Absence of disaggregated data
- Low reflection of data use in decision-making and policy measures
- Lack of transparency about use of data in decision-making process
- False information, forged documents and fake companies used for obtaining loans

- ❑ On a bank's balance sheet, provisions are assets which are put aside to cover losses that are expected to occur in the future.
- ❑ As of Q4FY23, required loan loss provisioning was BDT 1010.3 billion whereas the actual loan loss provisioning maintained was only BDT 795.7 billion.
- ❑ **In Q4FY23, there was a BDT 214.6 billion shortfall in loan loss provisioning in the banking sector, including BDT 106.2 billion shortfall in SCBs and BDT 112.7 billion shortfall in PCBs.**

Figure: Loan loss provisioning, required Vs. actual (in billion BDT)

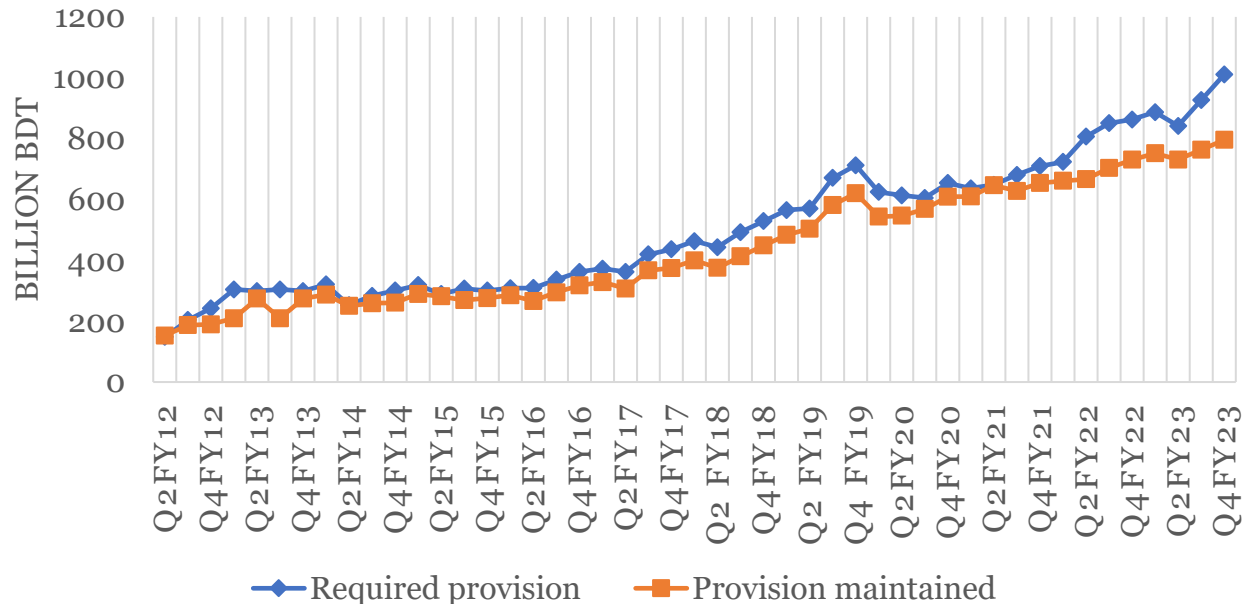
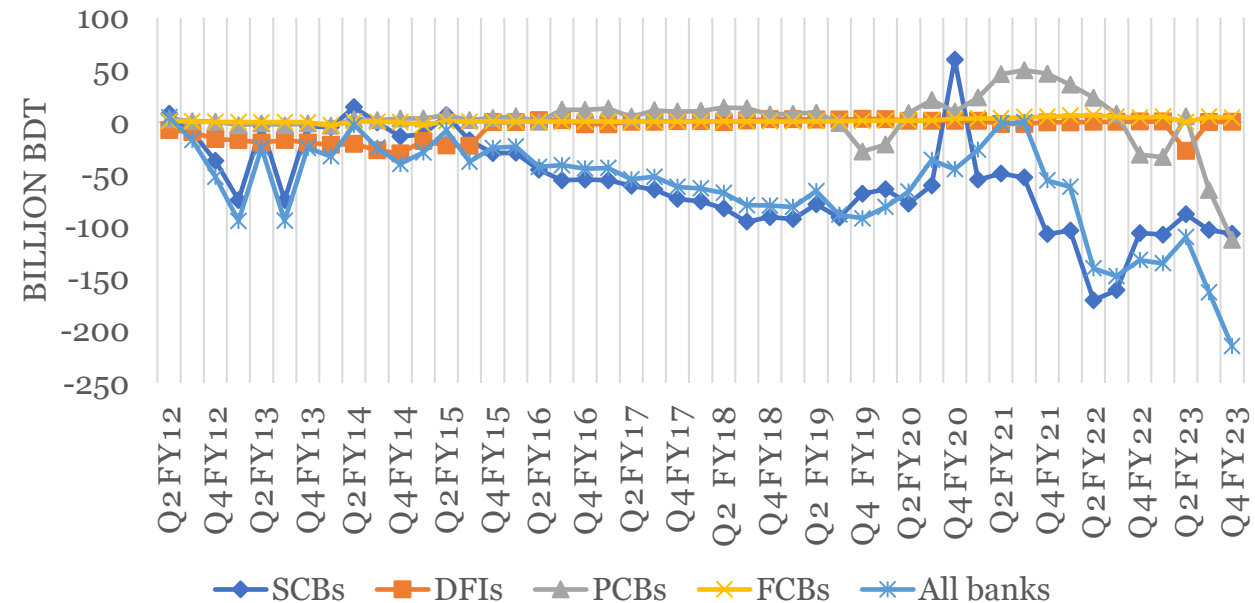
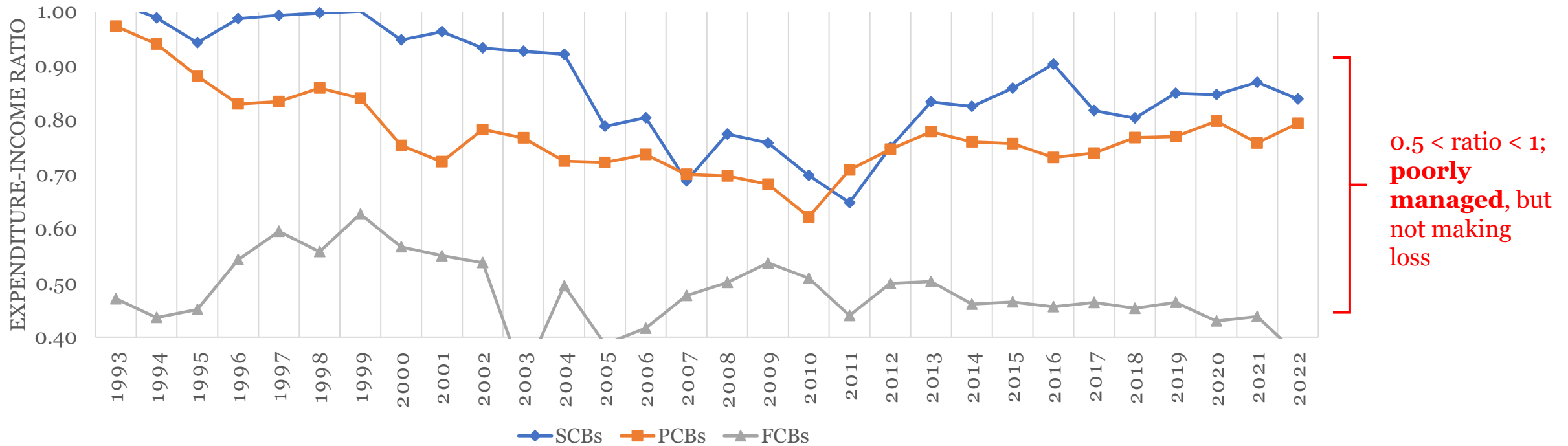


Figure: Excess or shortfall in loan loss provisioning (in billion BDT)



- ❑ From 2008 to 2022, the average expenditure-income ratio was 0.81 in SCBs and 0.74 in PCBs.
- ❑ This reveals poor management effectiveness of both SCBs and PCBs, even prior to the start of the pandemic.

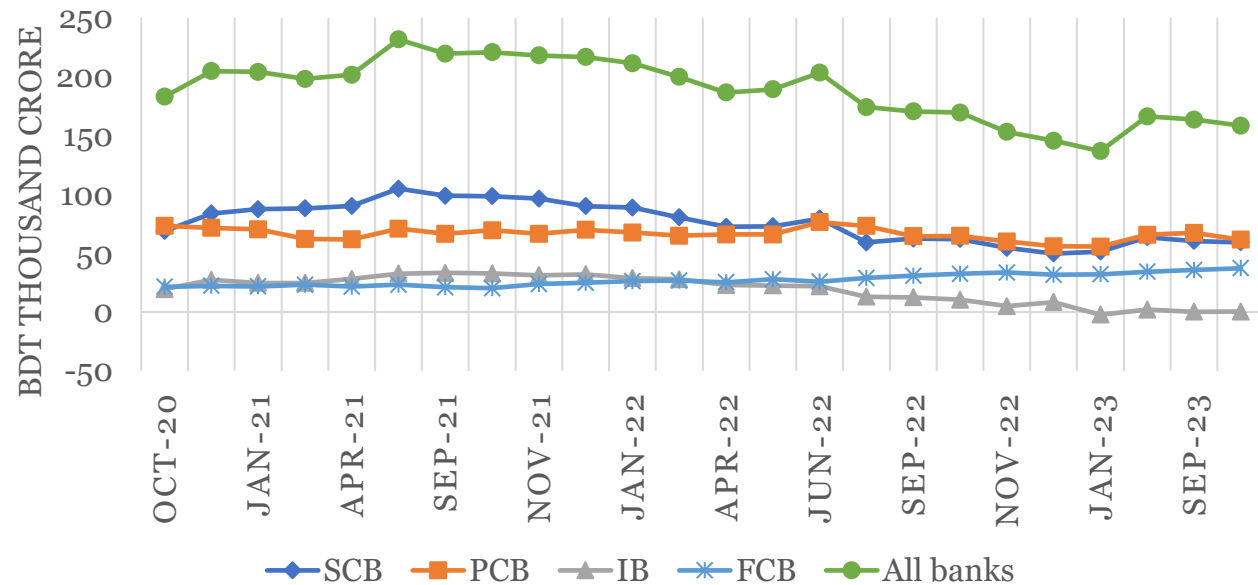
Figure: Expenditure –Income ratio (%)



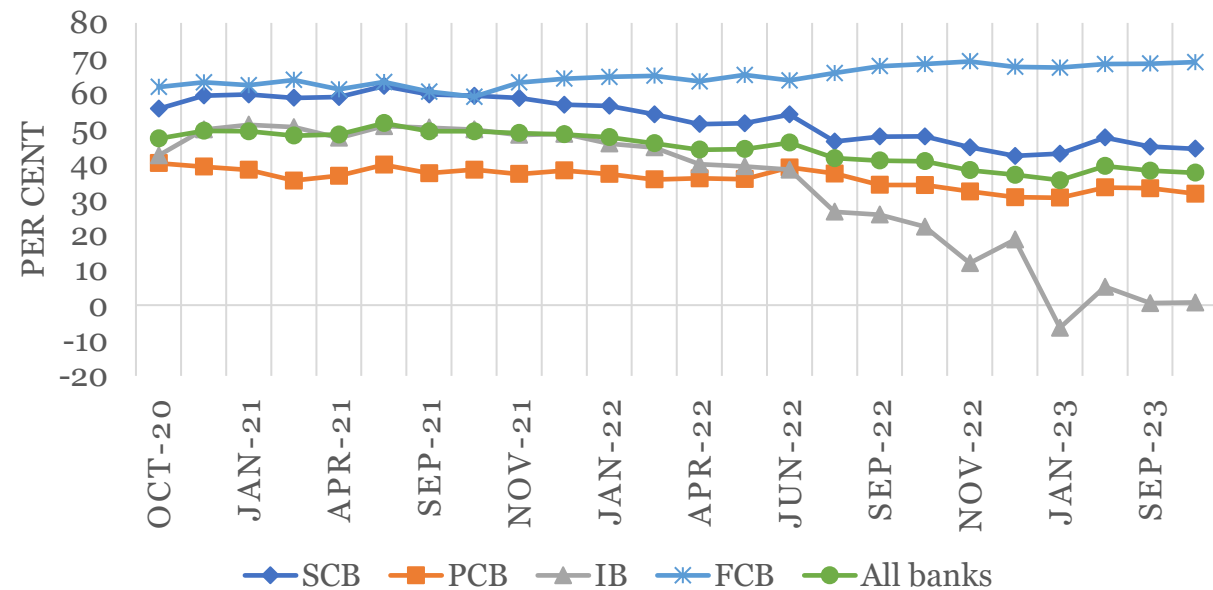
❑ Excess liquidity in the banking sector has declined from BDT 169,556 crore in Oct 2022 to BDT 158,432 crore in Oct 2023.

❑ Excess liquidity as a share of the total liquid assets of the banking sector declined from 41% in Oct 2022 to 38% in Oct 2023.

Excess liquidity (BDT in thousand crore)

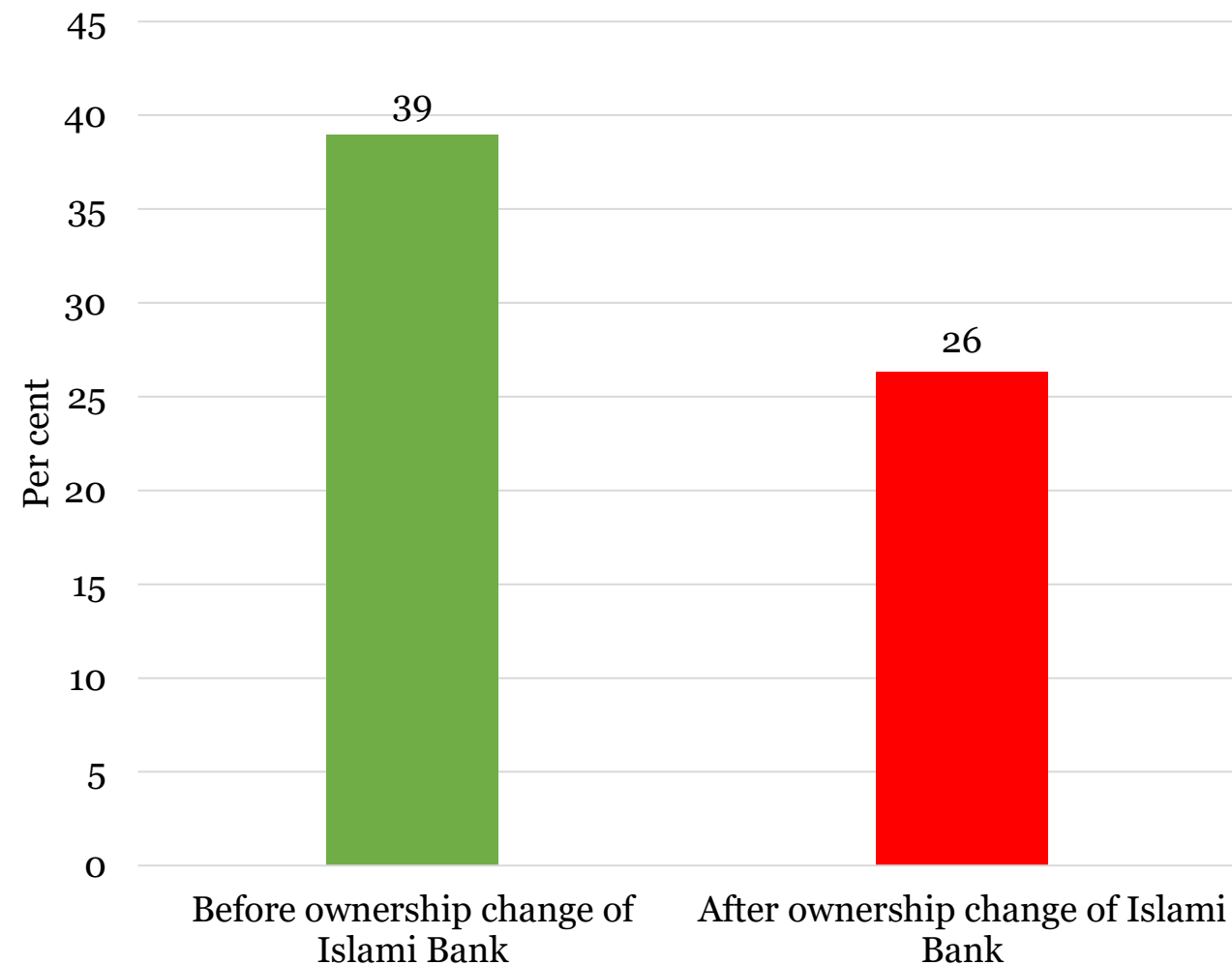


Excess liquidity (as % of total liquid assets)



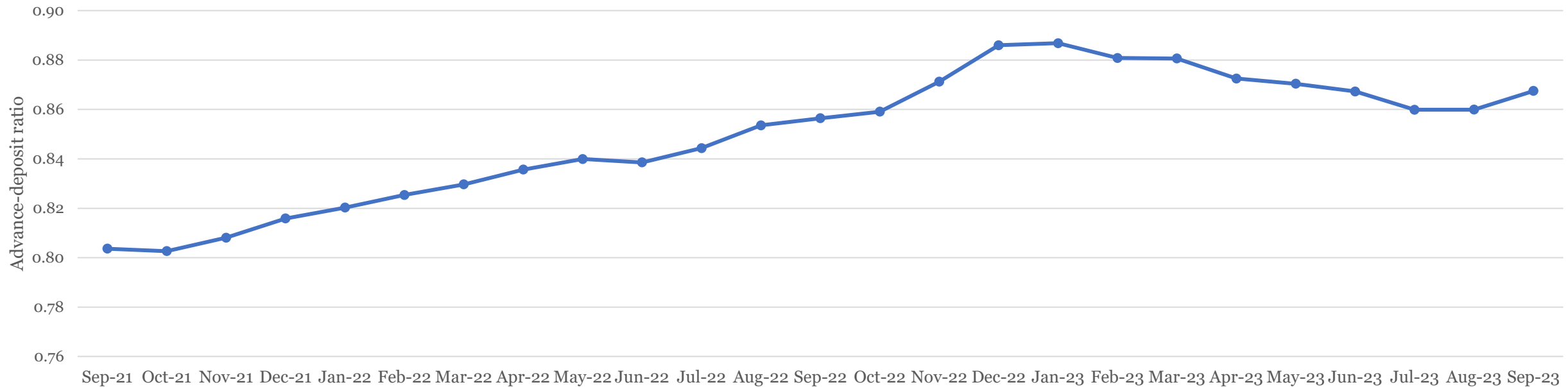
- This fall in excess liquidity has been mainly driven by the liquidity crisis in five of ten Islamic Shariah-based PCBs, plagued by poor governance since the ownership change of the banks.
- Analysis of the data shows that the average excess liquidity as a share of total liquid assets in IBs from January 2011 to December 2016 was 39% but fell to 26% between March 2017 and October 2023 after Islami Bank's ownership change in January 2017.
- Before the ownership change of Islami Bank, IBs had excess liquidity of BDT 10112.63 crore in December 2016.
- However, after the ownership change of Islami Bank, IBs suffered a liquidity shortfall of BDT 2218.23 crore in January 2023

Figure: Average excess liquidity as a share of total liquid assets in IBs



- ❑ Banks are experiencing pressure on their liquidity positions
- ❑ Since cost of living has increased, many people are forced to use their savings to make ends meet.
- ❑ The advance-deposit ratio (ADR) has increased from 0.86 in September 2022 to 0.87 in September 2023.

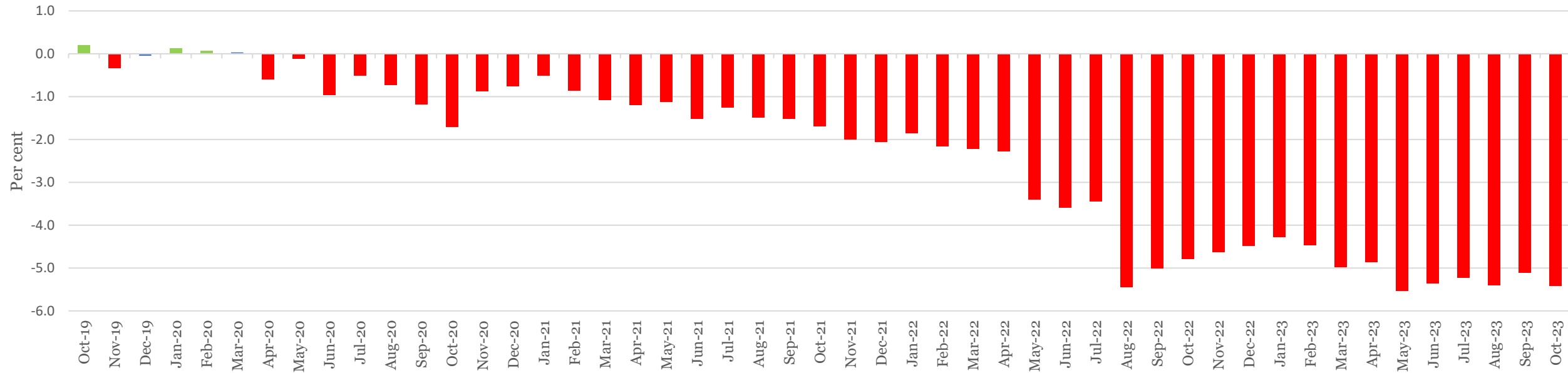
Advance-deposit ratio



❑ 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 consumer price index inflation, **fell from 0.03% in March 2020 to -5.41% in September 2023**

❑ The negative real interest rate on bank deposits means that **a depositor comes out as a net loser by keeping money in the bank.**

Figure: Real deposit rate in banks (in %)



Instances of reported irregularities in banks

- ❑ Compilation of published news reports outlines 24 major irregularities in the banking sector between 2008 and 2023, amounting to over BDT 922.61 billion or more than BDT 92,261 crore which is equivalent to 2% of GDP FY23 and 12% of national budget FY24.
- ❑ **Please see Annex Table 4.1 in the main IRBD report of CPD for details of these incidences where dates of incidences, banks/institutions where those incidences took place, measures taken and why these are considered irregularity are presented.**

Table: News compilation of major irregularities in banks during 2008-2023

| Serial no. | Irregular activities | Amount of money lost |
|------------|---|----------------------|
| 1 | Proprietor of Fahim Attire Limited borrowed BDT. 5.89 crores with forged land documents | 58900000.00 |
| 2 | Embezzlement of BDT. 4,500 crores through fake companies and dubious accounts | 45000000000.00 |
| 3 | Hallmark Group Managing Director Tanvir Mahmud and 26 others were accused of misappropriating around BDT 4,357crore from state-owned Sonali Bank through various means, including fraud and deception | 43570000000.00 |
| 4 | Fraudulence by Crescent and AnonTex involving BDT 10,000 crores. | 100000000000.00 |
| 5 | Embezzlement and laundering of BDT 1,174.46 by Bismillah Group and its fake sister concerns worth crores. | 11744600000.00 |

Instances of reported irregularities in banks

Table: News compilation of major irregularities in banks during 2008-2023

| Serial no. | Irregular activities | Amount of money lost |
|-------------------|---|-----------------------------|
| 6 | Money laundering of BDT 165 crores | 1650000000.00 |
| 7 | Miscreants decamped with at least BDT 16 crore in cash from Sonali Bank's main branch in Kishoreganj | 160000000.00 |
| 8 | Money laundering, to the tune of about BDT 236 crore, by using its offshore banking service | 2360000000.00 |
| 9 | Gross irregularities over disbursing loans of BDT 701 crores | 7010000000.00 |
| 10 | Regent Hospital Chairman Mohammad Shahed and three others misappropriated of about BDT 1.51 crore between November 2014 and January 2018 | 15100000.00 |
| 11 | Thermax Group received LC benefits worth BDT 816 crores | 8160000000.00 |
| 12 | Fund embezzlement of by 11 companies eg: NAR Sweaters Ltd, Advanced Development Technologies etc. involving BDT 500 crores. | 5000000000.00 |
| 13 | Regent Hospital Chairman Mohammad Shahed as well as former chairman of Farmers Bank audit committee Mahbubul Haque Chisty and two others, misappropriated about BDT 2.71 crore in 2015. | 27100000.00 |
| 14 | Heist of BDT 679.6 crores by international cyber hackers from treasury account of Bangladesh Bank with the New York's US Federal Reserve Bank. | 6796000000.00 |

Instances of reported irregularities in banks

Table: News compilation of major irregularities in banks during 2008-2023

| Serial no. | Irregular activities | Amount of money lost |
|-------------------|---|-----------------------------|
| 15 | SB Exim allegedly swindled BDT 200 crore by using forged documents in the name of exporting terracotta tiles in 2018. The owner Shahjahan Bablu was also nominated by the bank for Bangladesh Bank Remittance Award 2018 and later awarded on 7 October 2018 despite being a loan defaulter | 2000000000.00 |
| 16 | A loan officer of Dhaka bank embezzled BDT 7.8 crore from accounts of around 38 clients between 2018 and March 2019. | 78000000.00 |
| 17 | The manager at the privilege center of MTB embezzled about BDT 4.97 crore from a client's account by forging her signature | 49700000.00 |
| 18 | Extended credit beyond the permissible amount of about BDT 1,248.3 crore to S Alam Refined Sugar Industries, a subsidiary of the controversial S Alam Group, and BDT 1,070.7 crore to Global Trading Limited. | 12483000000.00 |
| 19 | Former managing director of NRB Global Bank Proshanta Kumar Halder aka PK Halder misappropriated of more than BDT 3,000 crore from three financial institutions. | 110000000000.00 |
| 20 | Four bank officials embezzled money over BDT 0.023 crore from the Islami Bank's Shibganj branch in Chapainawabganj | 230000.00 |
| 21 | SIBL allowed Sharp Knitting and Dyeing of Gazipur to import goods worth over BDT 17079.15 crore by using 889 back-to-back LCs, even though the company did not renew the license for its bonded warehouse, which is a must to avail such facilities. | 170791500000.00 |
| 22 | The Chattogram-based S Alam Group has taken out about BDT 30,000 crore in loans form, which is way beyond they are entitled to, BDT 215 crore | 300000000000.00 |

Instances of reported irregularities in banks

Table: News compilation of major irregularities in banks during 2008-2023

| Serial no. | Irregular activities | Amount of money lost |
|--|---|-----------------------------|
| 23 | BDT 7,246 crore loans to 9 firms: BB probing 'breach of rules' at Islami Bank | 72460000000.00 |
| 24 | The ghost companies availed another BDT 2,320 crore loans | 23200000000.00 |
| Total | | 922614130000.00 |
| Total amount in billion BDT | | 922.61 |
| Total amount in crore BDT | | 92,261 |
| Total amount as a share of GDP FY23 (%) | | 2 |
| Total amount as a share of National Budget FY24 (%) | | 12 |

Source: Compilation based on published news reports cited in the main IRBD report of CPD.

Commercial banks need to be strengthened

- ❑ Appointment of board members of banks should be depoliticised and based only on qualifications and experiences
- ❑ Loans should be sanctioned based on the Central Bank's "Guidelines on Internal Credit Risk Rating System for Banks"
- ❑ Single borrower exposure limit for commercial banks should be strictly enforced
- ❑ Repeated rescheduling and writing-offs of NPLs should be stopped permanently
- ❑ Internal Control and Compliance Departments of commercial banks should be revitalised, and effective internal audits should be ensured
- ❑ The Central Bank should appoint firm administrators to oversee the operation of troubled banks which cannot comply with BASEL III requirements

Central Bank should be empowered to act in the best interest of the depositors

- ❑ The autonomy of the Central Bank should be upheld in line with the Bangladesh Bank Amendment Bill 2003
- ❑ Recapitalisation of poorly governed commercial banks with public money should be stopped
- ❑ An exit policy for troubled banks should be formulated by protecting depositors' money in those banks
- ❑ The need for new banks should be assessed pragmatically before issuing licenses for new banks
- ❑ Acquisitions of commercial banks should be probed for anti-competitive practices
- ❑ A single individual or group of individuals should not be allowed to obtain majority ownership of more than one commercial bank

A conducive legal and judicial environment should be created

- ❑ The Banking Companies Act should be amended to reduce both the number of family members on the board of directors and the tenure of each director to enhance transparency and accountability
- ❑ The number of judges dealing with the Financial Loan Court Act 2003 and Bankruptcy Act 1997 should be increased to ensure speedy disposal of loan default cases and to reduce the backlog
- ❑ The Bankruptcy Act should be amended to remove mortgage-related loopholes that cause delays in settling cases
- ❑ Efforts should be made to recover NPLs through out-of-court procedures such as Alternate Dispute Resolution

Availability, access, and integrity of timely data should be ensured

- ❑ The report on banks and financial institutions should be published regularly and made publicly available
- ❑ All commercial banks should be obliged to make their mandatory disclosures under BASEL III in a timely fashion
- ❑ Loans should be classified by international standards, such as those outlined by the International Monetary Fund's Financial Soundness Indicators guide
- ❑ A comprehensive risk management policy should be implemented in all commercial banks to detect and deter fraud, forgery, fake companies, false identities, and other malpractices

Broadly, two types of actions are needed for the banking sector of Bangladesh

1. Comprehensive reforms of the banking sector are needed that will strengthen commercial banks, empower the central bank, create a conducive legal environment, and ensure availability of data
2. A goal-specific, time-bound, inclusive, transparent, unbiased and independent Citizen's Commission on Banking should be set up to bring transparency in the prevailing situation, identify the root causes of the manifest problems, and suggest credible measures for improving the situation sustainably.

5. External Sector Performance: Continuing Vulnerabilities Amid Growing Uncertainties

- ❑ It was pointed out in CPD's IRBD Third Reading (May 2023) that a large part of Bangladesh's ongoing macroeconomic challenges originated in external sector performance and the external balance and that a recovery will need to be triggered where the problems are manifested in the first place- the external sector and external balances.
- ❑ Regrettably, the hoped for stabilisation of the external balance is yet to be visible. Although over the past several months, key policy-makers engaged with external sector management have been trying to project a bullish stance, with projections of getting out of the current situation in continuing phases of 2-3 months, the situation has continued to remain disquieting over the past several months.
- ❑ Key external sector performance correlates such as the state of exchange rate stability, amount of forex reserves, export performance, availability of forex for L/C openings, remittance flows and other indicators all suggest that the worrisome developments experienced in FY23 have continued to inform the external sector performance during the early months of FY24 as well.

- ❑ True, the Bangladesh Bank has taken a number of initiatives to address the emergent challenges. While commendable and necessary, these have not gone far enough or all encompassing enough, and at times the signals transmitted were rather contradictory.
- ❑ Whilst the trade and current account balances have posted some improvements in the early months of FY24, this has been primarily driven by drastic shortfalls in imports; in the backdrop of a dearth in availability of foreign exchange, Bangladesh Bank's conscious and cautious policies to discourage certain types of imports, and the high price of USD having negative impact on the demand side.
- ❑ The improvement in trade and current account balances is coming at a cost though. The fall in imports is likely to have a knock-on adverse impact on investment, employment, production and GDP growth over the near to medium term future.
- ❑ A number of targets set out in the USD 4.7 billion IMF support programme, including the amount of gross (BPM6) and net forex reserves and move to a market-aligned exchange rate management, are yet to be attained.

- ❑ Energetic steps to forestall capital flight have been missing, with telltale signs of persistent outflow of resources through informal channels and hundi/hawala routes at the cost of inflow of forex resources.
- ❑ Reliability of external sector-related data has emerged as a concern in the backdrop of contradictory and conflicting data.
- ❑ While Bangladesh's external debt situation is within the IMF-World Bank parameters of sustainability, over the near and mid term future the debt servicing liabilities are likely to rise significantly in the backdrop of higher interest costs, larger share of non-concessional loans, and stringent terms of borrowings. The rising debt servicing liabilities are likely to put further pressure on falling forex reserves.
- ❑ Unless external balances are stabilised and external sector performance is put on the rails of historical trends, it will not be possible to arrest and reverse the sharp drawdown of forex reserves. Consequently, macroeconomic management will continue to be challenging, and the economy will be confronted with further uncertainties and face risks.

Balance of Payments: A reversal is yet to be seen

- ❑ The B.O.P scenario has continued to face serious difficulties during July-October, FY24.
- ❑ The improvement in the current account was driven primarily by sharp (20.5%) decline in imports.
- **Falling imports will have adverse consequences for key macroeconomic performance indicators and growth of the GDP.**
- ❑ In view of low FDI and portfolio flows and higher payment of trade credit, the financial account has fallen into negative territory (a decline by USD 5.2 billion between October 2022 and October 2023).

Table 5.1: Balance of Payments FY23 VS FY24 (July-October)

(million USD)

| | July-October | |
|---------------------------------------|--------------|----------|
| | FY23 | FY24 |
| Trade Balance | -9624.0 | -3809.0 |
| • Exports | 15,886.0 | 16,460.0 |
| • Imports | 25,510.0 | 20,269.0 |
| Remittances | 7,158.0 | 6845.0 |
| Current Account Balance | -4489.0 | 233.0 |
| Financial Account Balance | 1276.0 | -3965.0 |
| Overall Balance | -4706.0 | -3829.0 |
| Gross Official Reserves (BPM6) | 27,534.0 | 20,710.0 |

Source: Extracted from BB (2023)

Balance of Payments: A reversal is yet to be seen

- **The negative financial account balance has contributed primarily to the falling forex reserves which will need to be reversed by attracting FDI and speedy disbursement of the large amount of foreign loans in the pipeline.**
- ❑ Overall forex reserves (BPM6) have come down by about USD 7.4 billion in October, 2023, compared to October 2022. The net reserves are estimated to be about USD 16.0 billion at present.
- ❑ *Forex reserves are worth 5.1 months of imports at current pace, whereas at the rate of average monthly imports in FY23, this would be only worth 3.5 months. If net reserves are considered, the import capacity would be much lower.*

Table 5.1: Balance of Payments FY23 VS FY24 (July-October)

(million USD)

| | July-October | |
|---------------------------------------|--------------|----------|
| | FY23 | FY24 |
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| Overall Balance | -4706.0 | -3829.0 |
| Gross Official Reserves (BPM6) | 27,534.0 | 20,710.0 |

Source: Extracted from BB (2023)

Table 5.2: RMG, Non-RMG and overall performance
 (in billion USD)

| Export Items | July-November | | | |
|-------------------------|---------------|---------|----------|---------|
| | FY21 | FY22 | FY23 | FY24 |
| RMG | 12.9 | 15.9 | 18.8 | 18.3 |
| (Knit and Woven) | (-1.5%) | (23.0%) | (18.8%) | (-2.7%) |
| Non-RMG | 3.0 | 3.9 | 3.1 | 3.9 |
| | (12.7%) | (29.9%) | (-20.9%) | (25.4%) |
| Overall | 15.9 | 19.8 | 21.9 | 22.2 |
| | (0.9%) | (24.3%) | (10.9%) | (1.3%) |

Note. Figures in parentheses show growth rates for the corresponding period.

Source: Authors' estimation based on Export Promotion Bureau (2023).

- ❑ Exports are exhibiting quite erratic behaviour. If in FY23, export growth was primarily driven by the RMG sector (18.8%) growth, in FY24 (July-November), there has been a significant deceleration in the growth of RMG (-2.7%). This has resulted in a very low growth of overall export earnings during the first five months of FY24 (1.3%) compared to the corresponding figure of FY23.
- **At a time of falling forex reserves, this trend is highly disquieting.**

□ The terms of trade (defined in Table 5.3 as the import earning capacity of the average export price of 1 dozen RMG in the USA in terms of average relative prices of selected items in the global market) evince a mixed picture. The data reinforces the need for moving into the higher value segment of the RMG market through intra-RMG diversification (MMF, Synthetic and polyester based items) as also market and product diversification of Bangladesh's export basket.

➤ **Attracting investment (both local and FDI) to the SEZs should be the way forward by taking advantage of the triangulation of investment, multi-modal transport, and trade connectivity.**

Table 5.3: Terms of Trade for selected commodities taking RMG price per dozen (July-October) in the U.S.A as reference

| Commodities | Units | FY22 | FY23 | FY24 |
|--------------------|------------|-------|-------|---------|
| Crude oil, average | (\$/bbl) | 2.18 | 1.40 | ↑ 1.77 |
| Palm oil | (\$/mt) | 22.33 | 22.09 | ↓ 17.29 |
| Soybean oil | (\$/mt) | 36.00 | 27.20 | ↓ 23.11 |
| Rice, Thai A.1 | (\$/mt) | 9.51 | 7.25 | ↑ 12.02 |
| Wheat, US HRW | (\$/mt) | 9.34 | 6.17 | ↑ 6.53 |
| Cotton, A Index | (\$/kg) | 0.06 | 0.04 | ↔ 0.04 |
| LNG, Japan | (\$/mmbtu) | 0.49 | 0.21 | ↑ 0.26 |

Source: Authors' Estimation based on USITC (2023) and The Pink Sheet (2023).

Table 5.4: Changes in trade values, quantity and price/unit of export of RMG items by Bangladesh to the U.S and E.U: FY24 VS FY23 (July-October)

| Year | Overall RMG Exports to U.S (RMG Price/Dozen) | | | Overall RMG Exports to E.U (RMG Price/Kg) | | |
|-------------|---|-------------------------|-----------------------|--|-------------------------|-----------------------|
| | Changes in Values (%) | Changes in Quantity (%) | Changes in Prices (%) | Changes in Values (%) | Changes in Quantity (%) | Changes in Prices (%) |
| FY21 | 2.1 | 16.5 | -12.4 | -12.4 | -7.5 | -5.2 |
| FY22 | 23.4 | 20.0 | 2.8 | 9.0 | 7.9 | 1.0 |
| FY23 | 28.3 | 4.9 | 22.4 | 64.3 | 26.4 | 29.9 |
| FY24 | -22.5 | -15.5 | -8.3 | -29.6 | -18.0 | -14.1 |

Source: Authors' Estimation based on USITC (2023) and Eurostat (2023).

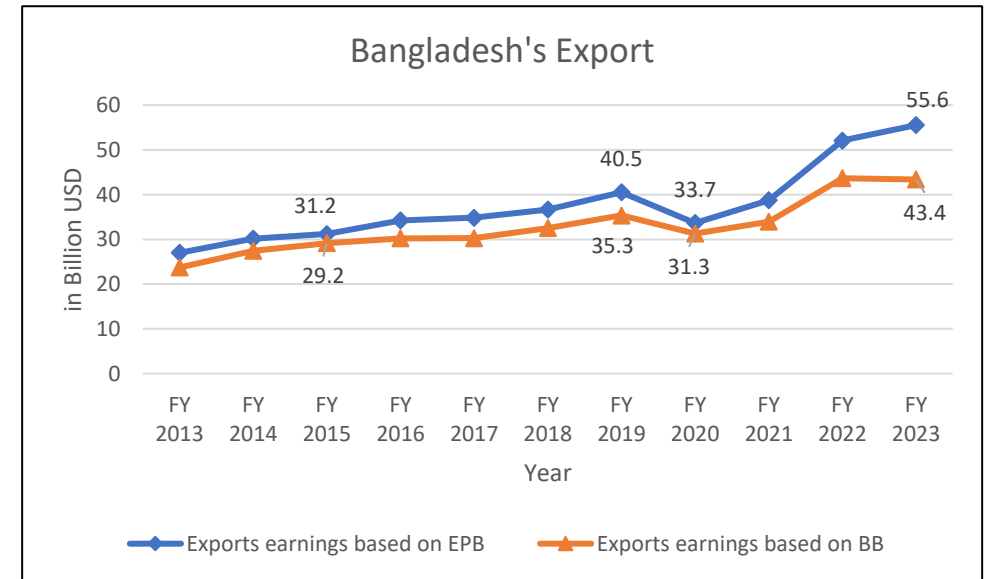
- ❑ The information in Table 5.4 indicates that both in the USA and the EU, Bangladesh's export growth is primarily coming from a rise in volume rather than price.
- **Moving up-market, both within and beyond RMG, will be called for to ensure price-driven growth of exports.**

- ❑ EPB Figures for the first four months of FY24 show a negative growth of 3.1% in RMG earnings in the U.S compared to the corresponding period of FY23. In contrast, U.S import figures show a significant decline of (-) 22.5%!
- ❑ EPB figures for the first four months of FY24 show an increase of 3.1% in RMG earnings from the E.U compared to the corresponding period of FY23. In contrast, the E.U import figure shows a decline of (-) 29.6%!
- **The difference in the volume of export earnings arising from the conceptual distinction between FoB value and CIF value does not explain this large discrepancy between the two sources.**
- **The anomalies in export earnings figures provided by the two sources ought to be examined very closely.**

Export performance scenario: A growing data discrepancy

- ❑ The gap between EPB data and Bangladesh Bank figure for flow of export earnings is increasing in recent past: from USD 2.1 billion in FY15 to USD 12.1 billion in FY23.
- ❑ This high variance cannot be explained by discounts or cancellations of orders by the buyers.
- ❑ The increasingly widening gap is alarming.
- **Is repatriation of export earnings to Bangladesh being deferred because of anticipated further currency depreciation?**
- **Is it a reflection of the capital flight through trading channels and export mispricing and underinvoicing?**

Figure 5.1: Export of Bangladesh according to EPB and Bangladesh Bank



Source: Extracted from EPB (2023) and Bangladesh Bank (2023).

- ❑ In the backdrop of Bangladesh's Middle-income graduation, interest rates on its foreign borrowings are on the rise.
- ❑ **Share of grants and concessional loans in the loan portfolio has been on the decline.**
- ❑ **More stringent terms of borrowings (grace period and maturity period are coming down; loans with surcharges and service charges going up).**
- ❑ Principal plus interest payments on long term loans was USD 5.3 billion in 2021, which rose to USD 6.2 billion in 2022 (16.9% growth). The corresponding figure was only USD 3.7 billion in 2020.
- **Some of the foreign borrowings of Bangladesh have been incurred at flexible LIBOR/SOFR rates (e.g. loans from Islamic Trade Finance Corporations (ITFC) at SOFR+2% interest rate to ensure energy security).**
- **Debt servicing liabilities will rise significantly in the near and medium term future.**

Table 5.5: Movement of LIBOR, SOFR, and EURIBOR rates

(in percentage)

| Year | LIBOR 12 Months | SOFR | EURIBOR 6 months |
|------|--------------------|------|---------------------|
| 2016 | 1.38 | | -0.17 |
| 2017 | 1.79 | | -0.26 |
| 2018 | 2.76 | 1.98 | -0.27 |
| 2019 | 2.37 | 2.20 | -0.30 |
| 2020 | 0.77 | 0.36 | -0.37 |
| 2021 | 0.30 | 0.04 | -0.52 |
| 2022 | 3.40 | 1.64 | 0.68 |
| 2023 | 5.47 | 4.96 | 3.66 |

Source: Extracted from Global Rates (2023).

Table 5.6: Bangladesh's credit ratings by major rating agencies have been downgraded

| Agency | Previous Rating | When changed | New Rating | Reasons |
|----------------|-----------------|--------------|--------------|--|
| Moody's | Ba3 | 30-May-23 | B1 | Moody's assessment is that Bangladesh's heightened external vulnerability and liquidity risks are persistent, and that, in the backdrop of institutional weaknesses, the situation could deteriorate over the near term. |
| S&P | BB- Stable | 24-Jul-23 | BB- Negative | The downgrade stems from growing concerns that the country's external liquidity position might worsen over the next year, and its foreign exchange reserves may remain under pressure. |
| Fitch | BB- Stable | 25-Sep-23 | BB- Negative | This decision is attributed to the country's dwindling reserves and tightening dollar liquidity which have heightened its susceptibility to economic shocks |

Source: Extracted from Trading Economics (2023).

- ❑ Key credit rating agencies have downgraded credit rating for Bangladesh in the recent past.
- **Going forward, this could lead to higher borrowing costs, both for public sector borrowings, for raising funds through issuance of sovereign borrowings as also for private sector borrowings from the international financial market.**

Table 5.7: Country-wise overseas employment (January 2019- November 2023) and remittance inflows (July-November)

- The discrepancy between the number of migrant workers going abroad and flow of remittances is a reason for concern.

| Country | Overseas Employment (lac) (Jan 2019- Nov 2023) | July to November | | | |
|----------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | | FY21 (million USD) | FY22 (million USD) | FY23 (million USD) | FY24 (million USD) |
| Kuwait | 0.71 | 779.2 | 700.1 | 662.0 | 592.8 |
| Oman | 4.54 | 770.5 | 419.1 | 269.3 | 368.6 |
| Qatar | 1.40 | 561.8 | 569.0 | 615.2 | 443.2 |
| K. S.A. | 20.82 | 2585.3 | 2065.0 | 1602.5 | 1262.3 |
| U.A.E. | 2.25 | 1180.1 | 694.8 | 1143.5 | 1542.3 |
| Italy | 0.26 | 351.0 | 415.7 | 515.8 | 644.7 |
| Malaysia | 3.80 | 983.6 | 444.9 | 464.7 | 531.6 |
| Singapore | 2.02 | 293.5 | 132.6 | 146.0 | 181.1 |
| U.K. | 0.11 | 866.8 | 734.0 | 760.4 | 1087.2 |
| U.S.A | 0.00 | 1369.0 | 1423.8 | 1538.3 | 915.1 |
| Others | 0.81 | 678.3 | 593.3 | 666.1 | 900.8 |
| Total | 38.81 | 10904.4 | 8608.9 | 8792.9 | 8823.9 |
| (growth rate) | | (29.2%) | (-21.1%) | (2.1%) | (0.4%) |

Note. Growth rate in parentheses.

Source: Extracted from BMET (2023) and Bangladesh Bank (2023).

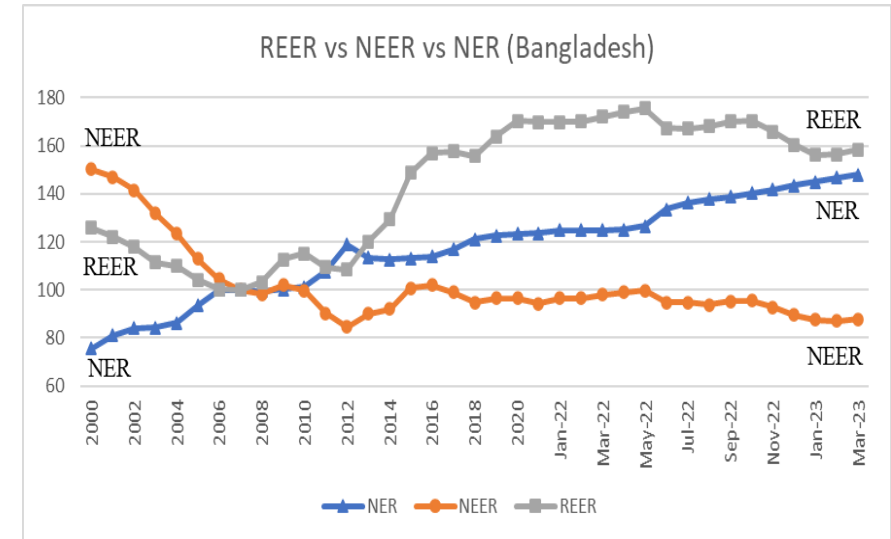
- ❑ Remittance inflows could have been the low hanging fruit of salvation for Bangladesh in view of the falling forex reserves.
- **However, inspite of about 3.9 million people leaving the country since January 2019 (till November 2023), remittance inflows to the country fails to reflect this. Over the first five months of FY24, remittance growth was only to the tune of 1.1%. This was more than USD 2.0 billion compared to the corresponding period of FY21.**
- ❑ **It is true that an increasingly large number of recent migrant workers are being issued outpass or facing extradition. However, this does not explain the anomaly in remittance inflow figures.**
- ❑ Although more than 2.0 million migrant workers went to KSA as shown in Table 5.7, remittance flows from the country have come down from USD 2.6 billion in FY21 (January-November) to USD 1.26 billion in FY24 (January-November). Similar pattern holds for Kuwait and Qatar and, to some extent, Malaysia.
- **There are clear indications of leakage of remittance flows through the informal channels.**

- ❑ Evidently, the significantly high difference between Bangladesh Bank-determined rates and the rates offered in the informal channels has created incentives for a large move from formal to informal channels. Trend suggests that remittance flows are quite sensitive to the exchange rate. This is also reinforced by the fact that when, in October 2023, an additional 2.5% incentive for remittances was introduced, there was an immediate rise in remittance flows through formal channels during the months of October and November of 2023.
- **The hundi/hawala syndicate must be broken.**
- **Sending of remittances through formal channels must be facilitated (through the introduction of credit cards for visiting workers, a savings scheme, facilitation of the transfer of remitted money, reduction of administrative hassles, speedy transfer, lower cost of sending money, recognition of services of remitters).**

Move toward market aligned exchange rate

- ❑ CPD's May 2023 analysis indicated that there was a significant gap between the prevailing exchange rate (of USD 1 = BDT 104.0) and the equilibrium (high bound) rate, which would require a further depreciation of the BDT in the range of 15%. Since then, BDT has been depreciated by about 8.0%.
- ❑ The Bangladesh Bank has been gradually depreciating the BDT and the difference between NER and REER has come down significantly. There appears to be space for further depreciation as indicated by the prevailing difference between the multiple official formal as also these and the kerb market rates.

Figure 5.2: REER vs NER vs NEER in Bangladesh



Source: Extracted from Bruegel (2023) and World Bank (2023).

- **Our more recent analysis, following our previous estimation method, indicates that there is further scope for depreciation of the BDT, to the tune of about 7.0%, for the exchange rate to reach an optimum level.**
- **One understands why the Bangladesh Bank is pursuing a cautious policy in view of the depreciation of BDT (imported inflation). However, depreciation should incentivise remitters and raise the competitiveness of exporters. The trade-offs will need to be carefully weighed. BDT exchange rate will need to approximate a market-determined rate, possibly within a corridor supported by Bangladesh Bank intervention.**

- ❑ Streamline discrepancies in the data concerning external sector-related correlates, particularly with respect to export earnings. Investigate the underlying reasons behind the increasing gap. Take appropriate remedial measures. Make the external sector data more transparent.
- ❑ The prevailing multiple exchange rates are not only creating confusion among market players, but also proving to be difficult to implement. Incentivisation of the remittance flows through markups is creating an increasing fiscal burden for the government, as also resulting in additional costs to the banks.
- ❑ The move towards a market-aligned exchange rate of BDT should be expedited, even if within a band. This will incentivise forex flows and also help bring down demand for foreign exchange via market signals rather than by way of administrative measures. Monetary policy will need to be well-coordinated with the fiscal policy towards sound exchange rate management.
- ❑ Apparel exports are becoming increasingly volume-driven. In this backdrop, the need for moving upmarket has emerged as a necessity. Incentives need to be recalibrated to encourage intra-RMG diversification and also to encourage the move towards the growing market for non cotton-based exports.

- ❑ Sustainable debt servicing is likely to emerge as a key challenge over the near and medium term period, particularly in view of the ongoing drawdown on forex reserves. Government should pursue a cautious policy as regards foreign borrowings: by curtailing hard term credit, through proper prioritisation, by putting a moratorium on new mega projects, by ensuring good governance in the implementation of foreign-funded public sector projects. Negotiating capacity in relevant areas must be strengthened. A well-thought out strategy as regards external borrowings and payment of debt servicing liabilities must be crafted to avoid any future problems. Bangladesh must avoid falling into a debt trap.
- ❑ Any disruption in market access for exports will have serious implications for export sector performance and, consequently, the economy. Bangladesh should take necessary steps in view of the concerns voiced by key export destination countries in areas of labour rights, minimum wages, environment and CO₂ emission standards, governance and management of production processes.
- ❑ A concerted effort on the part of RMG business associations will be required to be able to negotiate higher prices with global brands and buyers for Bangladesh's apparel products. Workable partnerships with global initiatives such as Fair Trade Movement will need to be established.
- ❑ The government will need to pursue evidence-based policies to pull the external sector out of the current conundrum and listen to advice and suggestions offered by experts and professionals.

6. Labour Rights in Bangladesh- Commitments and Concerns

Labour rights in Bangladesh-Commitments and concerns

6.1 Background

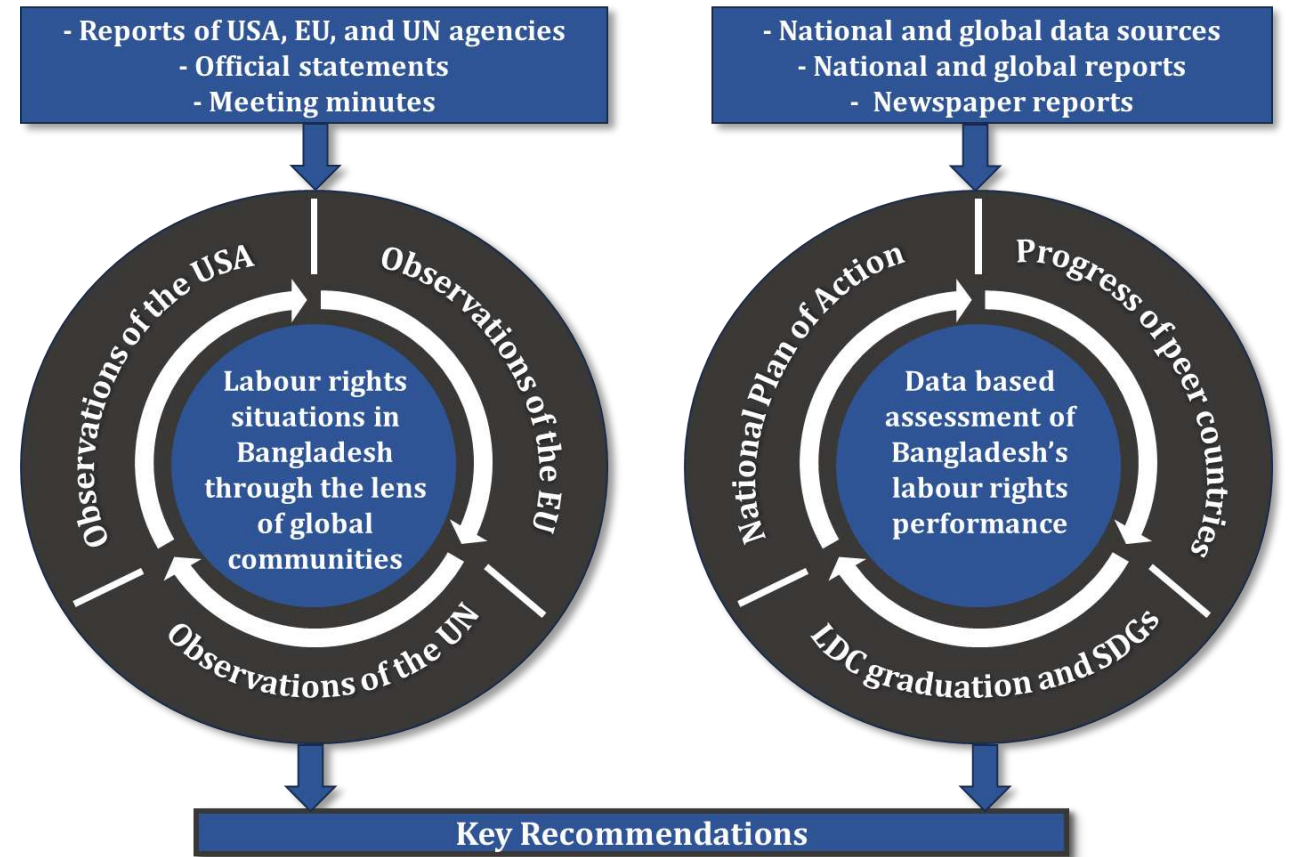
- ❑ Labour rights violations have been **a persistent concern** for Bangladesh
 - Despite efforts from the government, **the struggle to ensure decent work** is reflected in different reports and studies
- ❑ The labour rights issue of Bangladesh, however, has regained fresh attention lately as its major trade partners, (the US and the EU) **continue to adopt trade policies incorporating labour rights compliance** as a key conditionality for trading and associated trade preferences
 - On 16 November 2023, the US President signed a memorandum directing his administration to adopt a comprehensive government-wide strategy **in advancing workers' rights worldwide** (The White House, 2023)
 - In November 2023, the Council of EU Member States and the European Parliament signed an amendment to **extend the existing GSP regulation** for the period 2024-2027 (European Commission, 2023)
- ❑ The issue of labour rights violations **has drawn significant attention** domestically as well
 - The protest of garment workers for wage payment and increase resulted in the **killing and injuries of workers, closing of RMG factories, ceasing of new worker recruitments, filing of around 34 lawsuits against 16,000 protesters**
- ❑ At this time, Bangladesh was supposed to target **meeting the eligibility criteria for trade preferences** (such as GSP plus of EU) for developing countries as the country is set to graduate from the LDCs in 2026
- ❑ Bangladesh is also getting closer to the timeline of fulfilling its national and international commitments in the area of labour rights including the **incumbent government's electoral commitment** to protecting workers' rights by 2023, **implementation of the NAP on the Labour Sector by 2026, SDG 8 of ensuring decent work 2030**, etc.
- ❑ Against this backdrop, this chapter of the report highlights the most recent **status of labour rights compliance** in Bangladesh

Labour rights in Bangladesh-Commitments and concerns

6.2 Analytical structure

- ❑ In order to analyse, this chapter employs a customised **two-circle framework** (Figure 6.1)
- ❑ In accordance with this framework, the chapter compiled **concerns raised by the USA, EU, and UN** regarding the labour rights situation in Bangladesh
- ❑ These **concerns were drawn from various sources**, including their official statements, reports focusing on Bangladesh, and minutes of meetings with different agencies in Bangladesh
- ❑ Furthermore, the chapter conducted a **data-based evaluation of Bangladesh's compliance with labour rights, specifically assessing its progress against the (NAP) (2021-2026); targets to be met before graduating from LDCs; SDGs 2030 targets**
- ❑ Additionally, the chapter compared this progress with that of other peer **developing countries, namely India, China, Vietnam, and Sri Lanka**
- ❑ Finally, drawing from the findings gained through the analysis, **several recommendations have been put forth**

Figure 6.1: Two-circle-framework for the analysis of this chapter

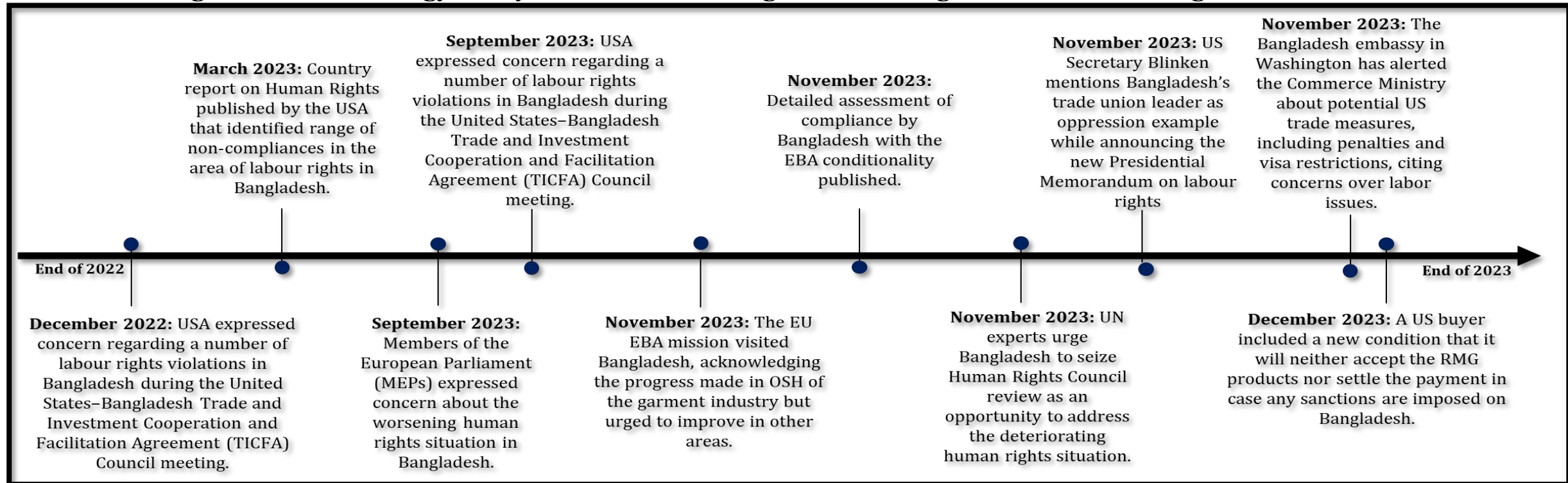


Source: Authors' illustration

6.3 Bangladesh's labour rights situation: through the lens of global partners

- ❑ The issue of labour rights compliance came into the major discussion again in **view of a sequence of events** that took place within a short period (Figure 6.2)
- ❑ These events **surrounded expressing concerns and publishing reports** from the US, the EU, and the UN regarding the labour rights situation in Bangladesh

Figure 6.2: Chronology of key events surrounding the labour rights situation in Bangladesh



Source: Authors' illustration based on different newspapers

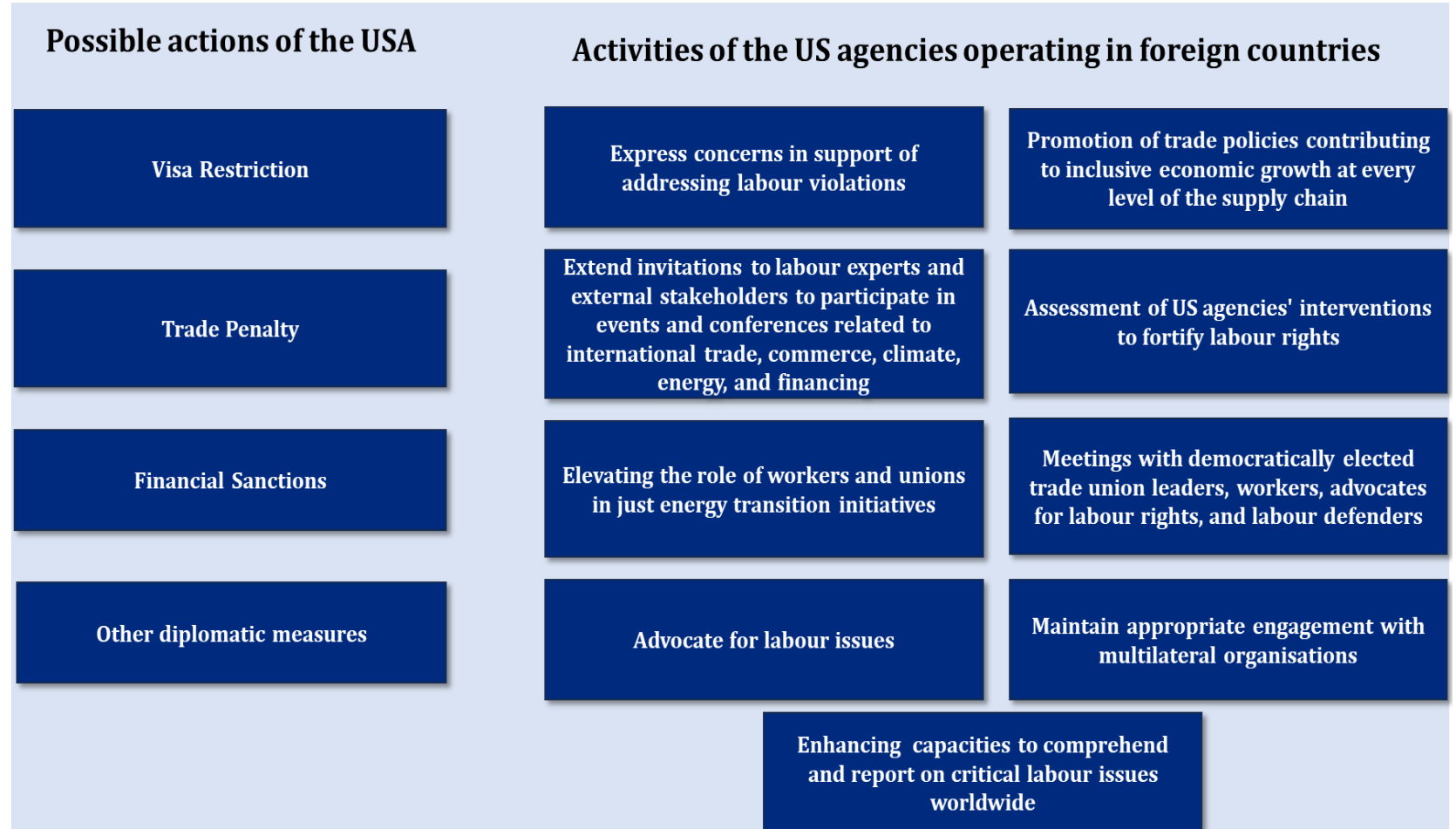
6.3.1 Perspectives of the USA

□ According to the memorandum, the United States will consider the use of a comprehensive array of diplomatic measures and activities for promoting labour rights globally (Figure 6.3)

□ This section identifies relevant concerns from the USA mainly based on

- a) Department of State's Trafficking in Persons Report;
- b) Human Rights Country Report 2022;
- c) United States–Bangladesh TICFA Council meeting minutes;
- d) Child Labour and Forced Labour Reports of DoL USA

Figure 6.3: Activities of the USA emphasised in the newly issued memorandum in promoting labour rights



Source: Authors' compilation based on The White House (2023).

❑ The USA raised concern in the area of:

- Freedom of association and the effective recognition of the right to collective bargaining;
- The elimination of all forms of forced or compulsory labour;
- The effective abolition of child labour;
- Prohibition on the worst forms of child labour and other labour protections for children and minor;
- The elimination of discrimination with respect to employment and occupation;
- Acceptable working conditions of work with respect to minimum wages;
- Acceptable working conditions of work with respect to hours of work;
- Acceptable working conditions of work with respect to occupational safety and health.

6.3.2 Perspectives of the EU

- ❑ The EU raised concerns in the areas of:
 - Alignment with International Standards
 - Right to establish trade unions, and freely organise union activities
 - Absence of trade unions in EPZs
 - Occupational Safety and Health Standards
 - Anti-Union Discrimination
 - Labour Inspectorate Capacity
 - Child and Forced Labour

6.3.3 Perspectives of the UN

- ❑ The UN raised concerns in the areas of:
 - Ratification of Conventions
 - Prohibition of Slavery and Trafficking
 - Right to Work and Just Conditions of Work
 - Prohibition of Forced Labour and Improvement of Working Conditions
 - Gender Equality and Empowerment
 - Implementation of Gender-Responsive Legislation
 - Minimum Age of Employment and Education

Table 6.1: A comparison of concerns raised by the USA and the EU

| Area | Issue | USA Concerns | EU Concerns |
|--|--|--------------|-------------|
| Child labour | - Presence of worst forms of child labour | ✓ | ✓ |
| | - Presence of child labour | ✓ | ✓ |
| | - Limited penalty | ✓ | ✓ |
| | - Delayed justice | ✓ | × |
| | - Limited sector coverage | ✓ | ✓ |
| | - Not criminalising certain activities | ✓ | × |
| | - Limited education access of Rohingya children | ✓ | × |
| Compliance of labour law | - Ratification of ILO conventions | × | ✓ |
| Freedom of speech and collective bargaining | - Obstacle for trade union establishments | ✓ | ✓ |
| | - Presence of discrimination against unions | × | ✓ |
| | - No scope of trade union in informal sector | ✓ | × |
| | - Unions are prohibited for certain sectors and managerial employees | ✓ | × |
| | - Legal obstacle for striking | ✓ | × |
| | - Low penalty for anti-union discrimination | ✓ | × |
| | - Police intimidation | ✓ | ✓ |
| Forced labour | - Presence of forced labour | ✓ | ✓ |
| | - Lack of government support | ✓ | × |
| | - Vulnerability of the Rohingyas in forced labour and exploitation | ✓ | × |

Table 6.1: A comparison of concerns raised by the USA and the EU (contd.)

| Area | Issue | USA Concerns | EU Concerns |
|------------------------------|---|--------------|-------------|
| Decent wage | - Limited minimum wage sector coverage | ✓ | × |
| | - No/delayed updating of minimum wage for certain sectors | ✓ | × |
| | - Presence of overwork | ✓ | × |
| Workplace discrimination | - No penalty for workplace discrimination | ✓ | × |
| | - Presence of gender wage gap | ✓ | × |
| | - Limited opportunity for third gender persons | ✓ | × |
| Labour inspectorate capacity | - Limited capacity of the labour inspectorate | ✓ | ✓ |
| EPZ related | - Not allowing trade union and collective bargaining | ✓ | ✓ |
| | - Not allowing DIFE inspection | ✓ | ✓ |
| OSH | - Strengthening the OSH regulatory framework | × | ✓ |
| | - Non-RMG safety weaknesses | ✓ | ✓ |
| Informal sector | - Limited attention to the informal sector | ✓ | × |

Source: Authors' compilation based on the chapter's findings.

Note: This table has been compiled using the latest specific concerns raised by these two entities. It's worth noting that there might be areas where the EU has concerns that are not included here, possibly due to a lack of detailed specifications.

- ❑ The comparison between the concerns raised by the USA and the EU shows some of the **overlapping and distinct** areas (Table 6.1)

6.4 Bangladesh's Labour Rights Performance: Reflection in Data and Reports

□ In recent years, the **government has implemented various initiatives**, especially to improve the labour rights situation in the country

➤ Despite these efforts, **substantial improvements are not yet evident**, particularly in data, rankings, and reports by various national and international entities

□ Since 2017, ITUC has produced **the Global Rights Index**, offering country-specific insights into labour rights situations

➤ Unfortunately, the index consistently identifies **Bangladesh among the ten worst countries** for workers' rights in all of its reports (Table 6.2)

➤ Furthermore, the index composition reveals that several longstanding issues, persisting over the past 7 to 8 years, such as **violence against workers, arrests and detentions, dismissals, anti-union discrimination, threats, and prosecutions, remain unresolved**

➤ Additionally, new concerns have surfaced in recent years, including **state attacks on peaceful protests and the introduction of regressive laws** (Table 6.2)

CPD (2023): State of the Bangladesh Economy in FY2023-24 (First Reading)

Table 6.2: Performance of Bangladesh over the years in ITUC Global Rights Index

| Labour Rights Issues ↓ | 2017 Report | 2018 Report | 2019 Report | 2020 Report | 2021 Report | 2022 Report | 2023 Report |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Presence of violence and brutality against workers | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Presence of arrest and detention of workers | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Presence of state attack on peaceful protests | ✓ | ✓ | X | X | ✓ | ✓ | ✓ |
| Presence of dismissal and other anti-union discrimination | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Presence of threats and prosecution | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Presence of union-busting | ✓ | ✓ | ✓ | ✓ | ✓ | X | ✓ |
| Presence of repression of strike action | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Presence of regressive laws | X | X | X | ✓ | ✓ | ✓ | ✓ |
| Presence of case of arrest of union workers and leaders | ✓ | ✓ | ✓ | ✓ | X | ✓ | ✓ |
| Presence of trade union worker killing | ✓ | X | ✓ | X | X | ✓ | X |
| Presence of workers has no guarantee of rights | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Amongst the top 10 worst countries for worker rights | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Source: ITUC (2017); (2018); (2019); (2020); (2021); (2022);(2023).

- ❑ Bangladesh's struggle to uphold labour rights is **also evident in the data provided by various NGOs** that work for labour rights in the country
- ❑ The number of workers' unrest in Bangladesh **was 431 in 2021, dropping to 196 in 2022** (Table 6.3)
 - Nevertheless, with the ongoing protests of workers surrounding the recently adopted minimum wage in the RMG industry, **this figure may significantly rise in 2023**
 - On the other hand, while Bangladesh has made notable progress in enhancing workplace safety, particularly in the RMG industry, the overall **workplace situation in the country remains bleak, especially in non-RMG sectors**
 - In 2021 and 2022, **a total of 1053 and 1034 workers, respectively, lost their lives** due to workplace accidents in Bangladesh (Table 6.3)
 - Additionally, data indicates a concerning **trend of over 130 workers annually succumbing to oppression and violence in the workplace** during both 2021 and 2022 (Table 6.3)
 - However, the peril extends beyond the workplace, **with 213 workers losing their lives in 2022** due to oppression and violence outside of workplaces (Table 6.3)

Table 6.3: Status of Selected Labour Rights-related Indicators

| Category ↓ | In 2021 | In 2022 |
|--|---------|---------|
| Number of workers died inside workplace accidents | 1053 | 1034 |
| Number of workers died from workplace oppression | 147 | 135 |
| Number of workers died from outside workplace oppression | 191 | 213 |
| Number of workers' resentments | 431 | 196 |

Source: BILS (2023).

Labour rights in Bangladesh-Commitments and concerns

❑ On a different note, surveys conducted by the Bangladesh Bureau of Statistics present **a mixed picture regarding progress in eliminating child labour**

- Their findings reveal **a 4.7% increase in the number of children engaged in child labour** in 2022 compared to 2013
- However, there is some positive side as well, with a noticeable **reduction of 16.4% in the involvement of children in hazardous work** over the past decade (2013-2022) (Table 6.4)

❑ Comparing Bangladesh's responsible and inspection authority for labour rights with their counterparts in other countries reveals that **both in terms of budget and authority power, Bangladesh lags behind these nations**

- The data shows the Ministry of Labour and Employment of Bangladesh **received the lowest budgetary allocation in FY24** compared to India and Sri Lanka (Table 6.5)
- More importantly, unlike many other countries, DIFE, the authoritative body for labour rights in Bangladesh, **only possesses the power to file a case in court** (Table 6.5)

Table 6.4: Most Recent Child Labour Scenario in Bangladesh

| Category ↓ | In 2013 | In 2022 |
|--|--|--|
| Total number of children (Age 5 – 17) | 39.65 million | 39.96 million |
| Total number of children engaged in child labour | 1.70 million (4.3 % of total children) | 1.78 million (4.4% of total children) |
| Total number of children engaged in hazardous work | 1.28 million (75.4 % of total child workers) | 1.07 million (60 % of total child workers) |

Source: ILO (2023) based on BBS survey.

Labour rights in Bangladesh-Commitments and concerns

Table 6.5: Comparing Bangladesh's Labour Rights Oversight with Other Countries' Authorities

| Category ↓ | Bangladesh | Vietnam | Indonesia | India | Sri Lanka |
|--|---|---|--|---|---|
| Responsible authority | Ministry of Labour and Employment | Ministry of Labour, Invalids and Social Affairs | Ministry of Manpower and Transmigration | Ministry of Labour and Employment | Ministry of Labour and Labour Relations |
| Allocation in latest FY (% of total budget) | 0.05% (FY24) | N/A | N/A | 0.29% (FY24) | 0.09% (FY24) |
| Inspection authority | Department of Inspection for Factories and Establishments | Ministry of Labour, Invalids and Social Affairs | Ministry of Manpower and Transmigration | Directorate General, Factory Advice Service and Labour Institutes | Department of Labour |
| Sanction capability | Labour inspectors lack administrative sanctioning authority and cannot directly impose fines. Nevertheless, they have the option to file a case in the labour court, but the resolution remains subject to the court's decision | Labour inspectors can adopt various measures including advice, warnings, fines, work stoppages, license withdrawals, closure, and mandatory training. Inspectors can promptly intervene if there's an imminent danger to workers' health or safety, temporarily suspending operations if necessary. | Penalties for labour law violations encompass written warnings, fines, work stoppages, and license withdrawals. Labour inspectors issue orders to employers, escalating to court cases if non-compliance persists. | Inspectors' powers are limited to filing court complaints for labour law violations, with potential fines and/or imprisonment. Inspectors can issue warnings related to safety, health, or welfare. Inspectors can also issue prohibition orders in hazardous conditions until corrective measures are taken. Director General of Inspection serves as quasi-judicial authority, can impose fines on offending employers. | Violating any provision may lead to prosecution, with potential fines and, in some cases, imprisonment. However, prosecution requires written approval from the Commissioner General of Labour. |

Source: ILO (2023a) Ministry of Finances' website for these countries.

Labour rights in Bangladesh-Commitments and concerns

❑ In addition to the inspection body's limited authoritative power, **Bangladesh's legal framework still falls short of international standards**

➤ According to the 2022 Labour Rights Index published assessing the legal framework for ensuring labour rights of countries, **Bangladesh has the second-lowest score among its peer developing countries**, with only Sri Lanka scoring lower

➤ The index highlights that **Bangladesh's legal framework is particularly weak in ensuring fair wages, family responsibilities, maternity at work, social security, and fair treatment** (Table 6.6)

Table 6.6: Labour Right Index 2022: legal frameworks for labour rights in Bangladesh and other nations (out of 100 where 100 means the best compliance)

| Category ↓ | Bangladesh | India | China | Vietnam | Sri Lanka | Indonesia |
|-------------------------|----------------------------------|--------------------------------------|---|---|----------------------------------|--------------------------------------|
| Fair Wage | 60 | 80 | 80 | 80 | 60 | 60 |
| Decent Working Hours | 100 | 100 | 80 | 80 | 60 | 80 |
| Employment Security | 60 | 40 | 60 | 60 | 60 | 80 |
| Family Responsibilities | 0 | 50 | 50 | 50 | 25 | 25 |
| Maternity at Work | 40 | 80 | 100 | 100 | 40 | 40 |
| Safe Work | 75 | 75 | 100 | 100 | 50 | 100 |
| Social Security | 0 | 80 | 100 | 80 | 60 | 60 |
| Fair Treatment | 20 | 20 | 40 | 100 | 40 | 60 |
| Child & Forced Labour | 100 | 100 | 100 | 75 | 75 | 100 |
| Trade Union | 25 | 25 | 0 | 25 | 0 | 0 |
| Total Score | 48 | 65 | 71 | 66.5 | 47 | 60.5 |
| Overall Rating | Total Lack of Decent Work | Limited Access to Decent Work | Reasonable Access to Decent Work | Reasonable Access to Decent Work | Total Lack of Decent Work | Limited Access to Decent Work |

Source: Centre for Labour Research (2023).

6.5 Recommendations

- ❑ Over the years, Bangladesh **has made progress in** a number of areas related to labour rights.
 - RMG industry has made remarkable progress in **improving its safety status**
 - Child labour involved in **the hazardous sector decreased compared** to the past
 - The **manpower of DIFE has increased** compared to the past
 - **Three** new labour courts **have been established**
 - Digital factory **licencing and inspection have been introduced**
 - **Employment injury insurance scheme** at pilot scale has been introduced
- ❑ However, poor performance persists in **case of many fundamental labour rights**
 - The space for **freedom of association and collective bargaining** has been reduced over the years in the country
 - Despite progress, **child labour**, including their involvement in the hazardous working sector, is still pervasive across the countries
 - Labour law does not take into **consideration many international standards**
 - The **safety in the non-RMG industry is still a concern**
 - Presence of **forced labour and regressive laws** is also concerning

6.5.1 Actions required in short and medium-term

6.5.1.1 Operational

1. A **co-ordinated and immediate approach involving the Ministry of Commerce, Employment, and Foreign Affairs** would be required, particularly targeting to start G2G negotiations, seeking time and assistance to minimise the possibilities of facing any trade penalty, visa restriction, sanctions, or removal of preferential trade measures like the EBA;
2. Ensure **a fair trial** by releasing the RMG workers detained during the wage protest; **withdraw any deliberate cases** filed specifically against the protesting workers; **provide compensation** to the workers' families killed during the protest;
3. Reconsider **revision of minimum wage in the garment industry** by 2025; **establish new wage boards** for sectors overdue for a new minimum wage; **extend the coverage of the minimum wage** to include new sectors;
4. Immediately instruct the industrial police **not to create obstacles when workers protest against** the violation of their rights and entitlements;
5. DIFE, with the collaboration of other stakeholders, should **conduct a dedicated inspection over the next year**, focusing particularly on industries like fish drying, brick production, garment manufacturing, and leather goods production with the objective of minimising instances of hazardous **child labour and forced labour**;
6. Consider adopting a targeted approach including strict measures to enhance workplace safety **in the non-RMG industries**;
7. Initiatives should be taken to **reduce the backlog of cases** in the labour court such as **further digitalising the labour court**, **improving infrastructure**, prioritising sensitive cases such as wage-related disputes, and **granting magistracy authority** to DIFE.

6.5.1.2 Legal

1. The draft labour law amendment of 2022 should be **open for further in-country review of all the stakeholders** and **approval should be expedited**; it should also **consider law-related concerns raised by the USA and EU** as reported in this chapter;
2. The law amendments should cover include more sectors (**including commercial sexual exploitation, domestic work, seamen, ocean-going vessels, and agriculture farms with fewer than 10 workers**) as hazardous for child labour; the labour law should also criminalise **child involvement in pornographic operations**, prohibit their recruitment **by non-state armed groups**; and the punishment of child labour offense should be made **imprisonment along with the higher penalty**;
3. The law **amendments should include penalties** for workplace discrimination; **anti-union discrimination**; remove the barriers to **forming trade unions and arranging a strike**;
4. The ongoing efforts of increasing the manpower of DIFE **must be continued**; the **budget allocation for this department needs to be increased** in the upcoming budgets;
5. The rules for the EPZ should be revised to align with the BLA, ensuring that workers in the EPZ are not subject **to discrimination compared to non-EPZ workers**;
6. The Cyber Security Act should be revised to ensure that workers do not face **intimidation when voicing concerns about unfair labour practices**.

6.5.2 Actions Required in Long-term

6.5.2.1 Operational

1. The industrial police **must be trained in a way so that it can** refrain from taking action against workers protesting labour rights violations;
2. The number of **labour courts should be further increased**; necessary **amendments of the laws/rules relating to** the labour courts should be done to make the courts effective;
3. **Enforce all court directives against the petitions filed with the** High Court Division of the Bangladesh Supreme Court regarding Child Labour;
4. Adopt more projects **targeting workers' welfare, particularly for minorities**; consider full-fledged implementation of schemes like unemployment insurance; workplace injury insurance etc.

6.5.2.2 Legal

1. The coverage of labour laws should be extended gradually to include workers in **the informal sector and employees of managerial roles**;
2. Gradually **endorse and implement** all International Labour Organization (ILO) conventions;
3. Gradually implement the **United Nations Guiding Principles on Business and Human Rights (UNGPs)** with the assistance of relevant national and international stakeholders.

7. Conclusions

- ❑ As Bangladesh prepares to welcome 2024, **economic issues ought to continue to engage the attention of policymakers**
- ❑ The economy is going through **unprecedented challenges**, and these are **not going to recede** to the backfront even **after the national elections** scheduled to be held on 7 January 2024
- ❑ The **key task** confronting the policymakers is to **restore macroeconomic stability** by taking into cognisance the current economic realities and identifying concrete measures to address these
 - The policymakers have to **come out of the obsession with GDP growth** and **look at the underlying factors** that led to an impressively functioning economy falling into this macroeconomic conundrum
- ❑ Even though the economy was facing strong headwinds towards the end of FY23, the government had projected a 7.5% GDP growth for FY24
 - **Various international organisations have downgraded Bangladesh's GDP growth** in FY24, as they have done for many other countries (IMF: 6.0%; World Bank: 5.6%)
 - **The government should revisit its GDP growth target** in view of the emergent scenario
 - **Without a realistic projection** backed by authentic data, **policymakers cannot assess the economic situation and craft appropriate policies**

- ❑ The government will also have to **focus on structural issues** since **better economic performance** will critically **hinge on the efficiency of some of the important institutions** including the NBR, and the Bangladesh Bank
- ❑ **Reform of the institutions** responsible for improving economic performance and accountability **remains an unfinished agenda**
 - **Enforcement of laws and regulations against bank loan defaulters or those who are involved in illicit financial flows is almost absent**
 - Similarly, **lack of accountability** has **led to overpriced and wasteful public expenditure**
- ❑ **High inflation is eating away the purchasing power of low-income people, and market manipulation and syndication are exacerbating the situation**
 - These are **undermining the impressive progress** in terms of socioeconomic indicators as regards which Bangladesh has been genuinely taking credit
- ❑ **Establishing good governance through reform measures will not be an easy task as the vested interest groups are strong and public institutions have been captured by the oligarchs**

- ❑ Whilst IMF may come up with many ‘conditionalities’ or ‘recommendations’, **ownership over the reforms and a strong political drive** to implement these are what **will make the difference**
 - Indeed, **Bangladesh’s economists and professionals have been arguing for energetic actions on both fronts for quite some time**
- ❑ Now that the economy is facing such multi-pronged challenges, and the country truly stands at a crossroads, one **only hopes** that **policymakers will understand** and appreciate **that business-as-usual will not do**
- ❑ **Only a selfless and strong political leadership can venture in taking the difficult path of reforms and actions to rescue the economy and deal with the risks and uncertainties that loom in the horizon**

Thank You



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