Independent Review of iRBD Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2023-24

Third Reading

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The CPD IRBD 2024 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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1. Introduction

Introduction

- Bangladesh economy is **currently under significant strain** due to several ongoing challenges
  - External factors such as the COVID-19 pandemic and the Ukraine war have left their mark
  - Persistent domestic issues—such as policy weaknesses, poor governance, and failure to implement necessary reforms—have also contributed to the difficulties
- These **ingrained structural weaknesses** have **exacerbated the pressures** on Bangladesh's economy, particularly in the first three-quarters of FY24
  - This was evidenced by subdued revenue mobilisation, resulting in a shrinking fiscal space, a high reliance on government borrowing from commercial banks to finance the budget deficit, tightened liquidity in scheduled banks, elevated prices of essential goods, and a deteriorating external sector balance and foreign exchange reserves
- These **challenges were also evident in FY23**, which **led the GoB to** initiate an **IMF supported** 42-month **programme** in Feb'23 to improve the balance of payment and restore macroeconomic stability
  - After more than a year of the IMF programme, the **economy is yet to show any improvement on the attendant concerns**

Introduction

- Recently, the **central bank** has adopted policy measures such as **market-based interest rates and exchange rates** in an attempt **to control inflation** and **improve forex reserves**
  - The success of these policies will depend on consistent fiscal policies
- In this regard, the upcoming national **budget for FY25**, is **expected to address these issues, help the economy bounce back, and support people in distress**
- This review of the current FY24 offers an analysis of the economy that is passing through difficult times throughout the fiscal year

2. Growth and employment

Context

- Ongoing **macroeconomic instability** and **consequent policy adjustments**, largely influenced by the IMF conditionalities, surely **affected** the country's **economic growth prospects**
- In this context, the **debate concerning the trade-off** between **economic growth** and **macroeconomic stability** has once again come to the fore
- In Bangladesh, it is a matter of regret that it has become customary to set targets concerning the macroeconomic framework that are not consistent with ongoing realities
- **For FY24**, the government **initially targeted** a **GDP growth of 7.5%** despite existing distresses in the macroeconomic scenario
  - As per the MPS released in Jan 24, this target was revised down to 6.5%
  - Several **multilateral agencies were less optimistic** regarding Bangladesh's GDP growth
    - For instance, ADB projected Bangladesh's GDP growth in FY24 to be 6.1%. Similarly, the IMF mentioned 5.7% and World Bank mentioned 5.6%

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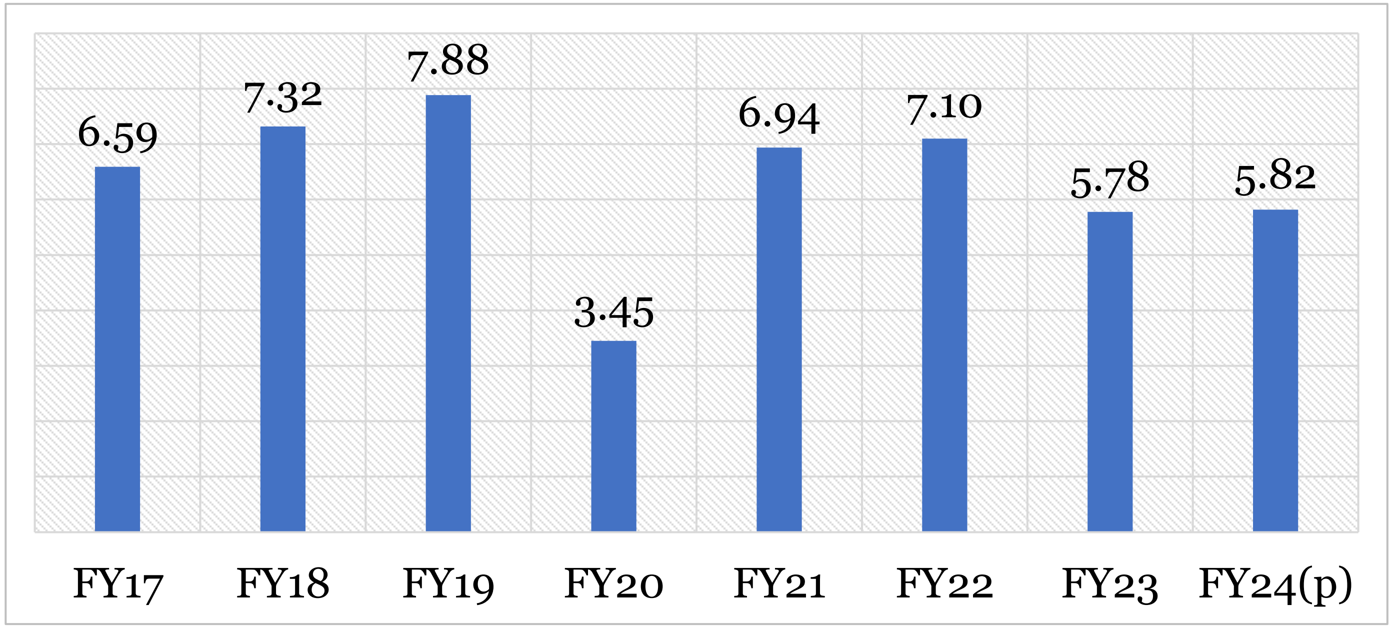
GDP growth

- The **provisional estimates** of BBS predicted a **GDP growth rate** to the tune of **5.82% in FY24** – a marginal increase from FY23
- This **estimate** was made largely **based on the data of the first six to seven months** of the ongoing fiscal year and **the original programmed national budget**, which were **surely overestimated**

Figure: GDP growth of Bangladesh (in %)



Source: Author's compilation from BBS data.
Note: 'P' denotes provisional estimates.

- Hence, the **final estimate may be revised downwards** once the required data for the entire fiscal year becomes available
  - This has been the case for the FY22 and FY23

Sources of provisional GDP growth

- In the **incremental GDP of FY24**, the **agriculture, industry, and services** sectors are expected to contribute about **6.0%, 41.7%, and 49.2%,** respectively.
- One of the major contributors to incremental GDP in recent decades, the **manufacturing** subsector, is projected to **contribute only 27.2%** to the incremental GDP
  - **Considerably lower** than the corresponding **figure for FY23** (36.0%)
- The **agriculture sector** is estimated to grow **modestly by 3.21%**, whereas the **industry** sector posted a growth of **6.66%**
  - Within industry, **manufacturing** and **construction** subsectors registered **notable growth of 6.58% and 7.45%,** respectively
- The **services sector** grew by **5.80%** in FY24
  - Within services, wholesale and retail trade combined with the repair of motor vehicles, motorcycles, and personal and household goods recorded a growth of 6.19%

Per capita income

- ❑ **Per capita GDP** stood at **USD 2,675** in FY24, while **per capita GNI** stood at **USD 2,784**, recording 1.21% and 1.27% growth, respectively
  - ➢ While the growth, although marginal, is encouraging, the per capita income in dollar terms is still below that of FY22
  - ➢ The **rapid depreciation of BDT against USD** is a **significant** contributing **factor** to this end. Indeed, the exchange rate considered for this estimation (Tk. 109.97/USD) will also not be valid by the end of FY24 in view of the recent significant depreciation (Tk. 117.77/USD)
- ❑ It must also be noted that these **average measures conceal** a **highly skewed income distribution**
  - ➢ One may **apprehend further deterioration of the inequality situation** in the country considering **high food inflation** as food costs consist of a much higher share in the total consumption basket for lower-income households

Investment

- During FY20-FY24, the gross investment-GDP ratio decreased by 0.33 percentage points
  - Gross investment was **31.31% of GDP in FY20**, while it crawled down to **30.98% in FY24**
- **Private investment-GDP** ratio **decreased** from 24.18% in FY23 to 23.51% in FY24
- An **uptick in public investment compensated** for this slack in private investment
  - Given the current **sluggish implementation of ADP**, whether the **provisional estimate for the public investment-GDP ratio will hold** remains a **question**

Table 2.1: Investment-GDP ratio in Bangladesh (in %)

Investment type	FY20	FY21	FY22	FY23	FY24(p)
Total	31.31	31.02	32.05	30.95	30.98
Private	24.02	23.70	24.52	24.18	23.51
Public	7.29	7.32	7.53	6.77	7.47

Source: Author's compilation from BBS data.
Note: 'P' denotes provisional estimates.

Disaggregated dynamics of GDP

- **It is encouraging to see that BBS is publishing quarterly estimates of GDP on a regular basis**
- The availability of the provisional GDP estimates for the entire FY24 as well as the first two quarters creates the opportunity to investigate the growth dynamics of Bangladesh in a more disaggregated (e.g., quarterly or half-yearly) manner
- BBS estimated a **6.74% GDP growth** during **H2 of FY24** (4.59% during H2 of FY23)
  - This is a **divergence from the trend of the last two fiscal years**, as GDP growth usually declines during H2 of a particular year
  - Also, the **below 5% growth rate** in **H2 FY23** and **H1 FY24** indicates **economic distress**
- In this scenario, the **key question** is **whether the economy will actually be able to attain a 6.74% growth during H2 FY24, or not**

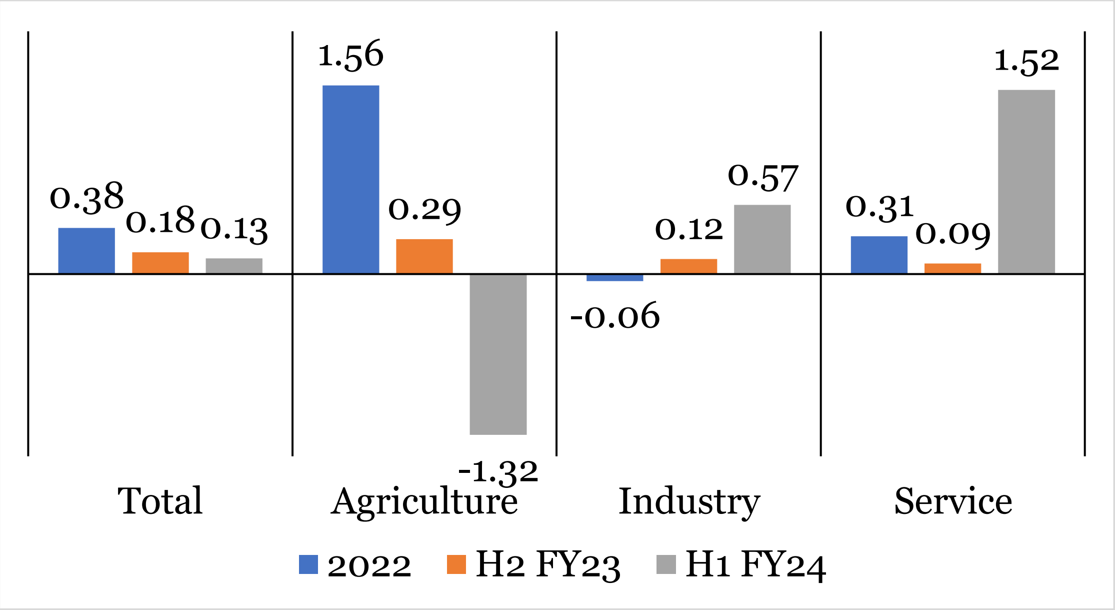
Disaggregated dynamics of GDP (Contd.)

- The **growth in H2 FY24** is **expected to be** primarily **driven by manufacturing**
  - Followed by wholesale and retail trade, repair of motor vehicles and motorcycles; public administration, health and education; and transportation, accommodation and food service, information and communication sectors
  - Recovery, in terms of growth, is expected in all four sectors
- However, the **actual scenario might end up being quite different**
  - For instance, from the Index of Industrial Production (IIP) data released by the BBS, it was observed that **manufacturing production** exhibits a generally **upward** trend **during the H1** period of a fiscal year, and the **reverse** happens **during H2**.
    - **If this trend continues**, then the **anticipated manufacturing GDP growth during H2 FY24 might not materialise**
    - H2 FY24 trends in import payments for capital machinery and intermediate products also support this notion
  - Also, it is **highly likely** that **budgetary targets** were **considered** while estimating the **GDP for public administration, health and education**
    - Since these targets are usually not attained, the estimated GDP growth in this sector may be revised downward
  - Furthermore, **the consideration of GDP deflator is also a matter of concern**
    - During H2 FY24, only a 1.34% growth of GDP deflator was considered. However, this is far from the reality, as CPI inflation has remained over 9% throughout FY24

GDP and employment

- ❑ The **quarterly GDP estimates and LFS data** have **extended an opportunity** to **look into the growth-employment nexus on a regular basis**
- ❑ It can be observed that the **employment elasticity of GDP shows a downward trend** (Figure)
  - ➢ This implies that the economy's ability to generate employment is slowing down
- ❑ **Another salient feature** that can be inferred is that the **pattern of employment is reverting to its original state**
  - ➢ This means that people are gradually shifting from primary (i.e., agriculture) to secondary (i.e., industry) and tertiary (i.e., services) sectors
  - ➢ The reverse trend happened in the aftermath of the COVID-19 pandemic (often labelled as the reverse structural transformation)

Figure: Employment elasticity of GDP



Source: Author's calculation from BBS data.

GDP and employment (Contd.)

- **While the aforementioned trend is encouraging**, it needs to be kept in mind that a high degree of informality still prevails in Bangladesh's secondary and tertiary sectors
  - As the LFS 2022 data shows, 90.5% of the industrial employment and 67.8% of the service sector employment fall under the informal category
- As such, **the concern about decent employment remains**
- Regrettably, the quarterly LFS reports, in their current format, do not provide any data on informality, wages and income
  - This needs to be changed in order to get a more accurate representation of the labour market

3. Public finance

Public finance

- **Commenting on the public finance situation has become problematic due to the unavailability of timely data**
  - As of May 24, the MoF data is available only until Jan 24
- As is known, the MoF provides the most comprehensive and better-quality data concerning public finance in Bangladesh
- Although **alternative and more timely sources** such as the NBR, IMED, and Bangladesh Bank **can be utilised**, **their data is fragmented and often lacks accuracy and congruency**
- The present analyses utilise all these sources but might be constrained in some cases due to data limitations

Revenue mobilisation

- As per **MoF** data, **total revenue collection** grew by **13.3%** during **Jul-Jan of FY24**
  - This is a **considerable improvement** from Jul-Jan of FY23 (-2.0%)
  - Despite this, a **whopping 63.2% growth** will be required during the remainder of FY24 **if the annual target is to be achieved** – **a highly unlikely prospect**
  - Primarily driven by improved performances in income tax and VAT collection as well as by significant increases in government earnings from dividends and profit
- As per **NBR** data, **tax collection by NBR** grew by **15.6%** during **Jul-Apr of FY24**
  - **Significant increase** from Jul-Apr FY23 (7.1%)
  - **Driven primarily by the collection of VAT and SD at the local level and income tax**
    - Perhaps the **persistently high price level** in the economy is **driving the improvement of VAT and SD collection** at the local level
  - The **underwhelming performance of indirect taxes collected at the import level**, despite the substantial depreciation of BDT, can be **attributed to the import-related restrictions** imposed through government regulatory measures
- **Given these dynamics, whether the revenue-related conditionalities set by the IMF can be met remains a critical question**

Public expenditure

- In general, **a restrained approach in terms of public expenditure was observed**
- As MoF data shows, **overall budget utilisation** was **32.4%** during **Jul-Jan of FY24**
  - The corresponding figure for FY23 was also the same
- The **ADP implementation rate was on the lower side** – 20.0% (corresponding figure for FY23 was 16.3%)
  - According to World Bank (2024), import-related difficulties originating from the ongoing foreign currency crisis and reprioritisation of projects have contributed to this
- The govt has taken some initiatives **to reduce its subsidy burden** in line with IMF prescription
  - These include the **reduction of export subsidies to several sectors, increasing electricity prices, and adopting a periodic formula-based price adjustment mechanism for petroleum products**
  - The government also **issued a series of special bonds**, at below-market interest rates, **to clear arrears to fertiliser suppliers and independent power producers**
    - These bonds, purchased by the domestic banks, will be eligible for Bangladesh Bank's repo facilities and will be taken into account for meeting the statutory liquidity ratio criteria
    - **This can be perceived as deficit monetisation** and could **counteract the central bank's contractionary monetary policy stance**

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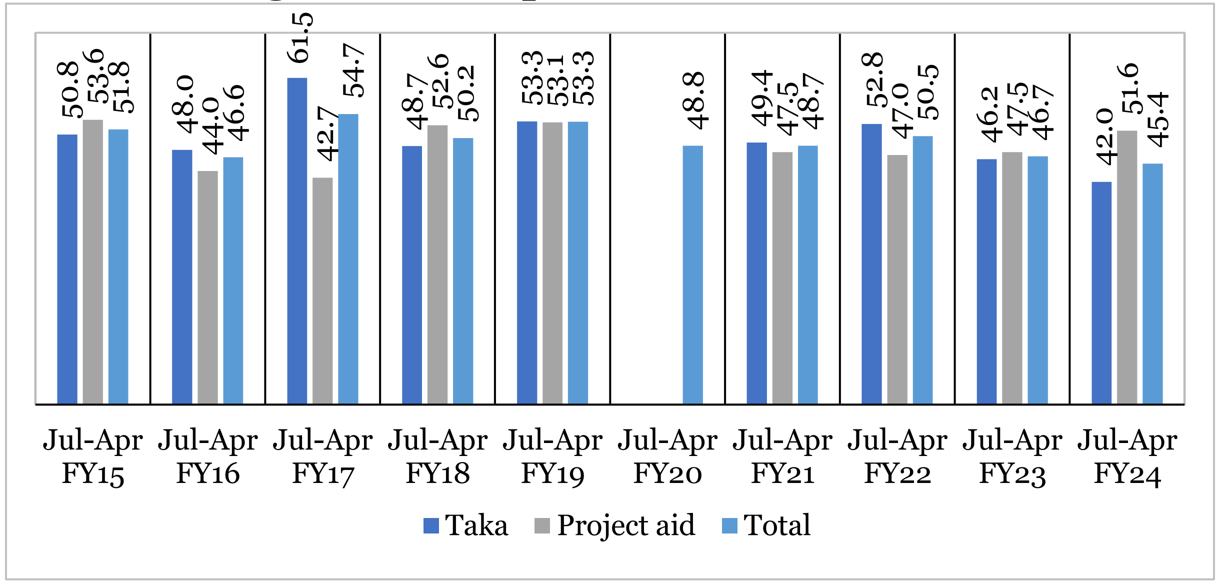
Public expenditure (Contd.)

- According to **IMED** data, **ADP implementation rate** reached **45.4% during Jul-Apr** of FY24 – **the lowest in the last ten years**
  - The **slow utilisation** of the **'Taka' component** is the **primary reason**
  - **On a positive note, project aid utilisation breached** the **50%** mark **after five years**
    - Commendable given the ongoing foreign currency situation

Figure: ADP implementation rate (in %)



Source: Author's calculation from IMED data

- **Among the top ten ministries/divisions** that account for 70.2% of the ADP allocation for FY24, the **ADP implementation of six was below the average level**
  - These include the Road Transport and Highways Division, Secondary and Higher Education Division, Health Services Division, Ministry of Primary and Mass Education, Ministry of Water Transport, and Bridges Division
  - The **trend of poor ADP implementation in the education and health sectors has continued in FY24**

Deficit and its financing

- As per **MoF** data, **during Jul-Jan of FY24**, the **budget deficit increased only marginally** by Tk. 730 crore
- However, **significant shifts were observed in the composition of deficit financing**
  - In the Jul-Jan FY24 period, **deficit financing was primarily reliant on foreign borrowing**
    - The scenario was converse during the corresponding period of FY23
  - Within the domestic sources, **high dependency on scheduled banks for deficit financing was observed**
    - **There is a considerable risk of increased government borrowing crowding out private investment, given the current tight liquidity situation in the market**
- A combination of tighter control over NSC issuance and less competitive interest rates resulted in **net NSC sales remaining negative** during Jul-Jan of FY24

Five key principles

Five key principles have been identified that should be taken into consideration for public finance management in the upcoming FY25

Enhancing fiscal space

- Any attempt to **enhance the fiscal space** should **focus on generating more resources** as well as **sealing the leakages**
  - In the upcoming FY25 budget, **efforts to widen the tax base** must be prioritised as part of **generating more resources**
    - To this end, initiatives such as taxing the digital economy and digitalising the taxation system need to be given due attention. Analysing current tax exemptions in-depth with thorough data analysis needs to be a top priority for the government. There are also frontier issues that need to be addressed immediately, such as the meaningful taxation of wealth and property, and the growing digital economy
  - As part of **sealing the leakages**, curbing illicit financial flows must be high on government's agenda. At the same time, highest effort should be given to limit tax evasion and tax avoidance

Five key principles (Contd.)

Prioritising expenditure

- The **framework for public expenditure** in FY25 needs to **account for the ongoing rise in the price of essentials**
- The current **austerity measures** must be **maintained in a way** that their **impact on the social safety net, health and education sectors, agriculture, and small and medium enterprises (SMEs)** becomes **less burdensome**
- Also, prior government directives to **curtail "unnecessary and luxury" public expenditure** (which includes purchase of govt. vehicles and international travel) should be **continued**
- **Exit plans** will need to be formulated in the cases of **fiscal incentives towards exports and remittances**
  - If a market-based exchange rate regime is eventually put into place, the resultant depreciation should be able to cover the fiscal incentives currently being provided.

Five key principles (Contd.)

Prioritising foreign financing

- Considering the declining forex reserve situation, the government should **prioritise implementing all foreign-funded ADP projects**
  - The government should give higher priority to implementing projects that are very close to their completion (about 90-95% completion rate in Jun 24)
- **Availability of financing** from foreign sources **hinge upon ADP design and implementation capacities** of the government agencies
  - Thus, **rapid improvement** in these aspects have become an exigency
- In the case of **availing budget supports**, **policy reform** ends up being the **determining factor**
  - Thus, the government will need to become **more accommodative** in this regard

Five key principles (Contd.)

Ensuring good governance

- The **political economy dynamics** of Bangladesh have **frequently impeded substantial reforms**, even while the stakeholders have acknowledged their need
  - For example, political economy factors have played a significant role in the postponement, cancellation, and reversal of revenue mobilisation-related reforms, such as the preparation and implementation of the new Act on VAT, income tax, customs, related automation as well as tax administration reforms
- In addition, the government **must review public expenditure**, especially **in light of the hefty price tag of public investment projects** and devise a **strategy to ensure value for public money**
- It goes without saying that **good governance and political buy-in from the highest level is a prerequisite** in this regard

Five key principles (Contd.)

Protecting the interests of vulnerable and disadvantaged groups

- While enhancement of fiscal space and prioritisation of public expenditure ought to the centre stage in the public finance framework for FY25, the associated **economy-wide implications and equity concerns should not be undermined**
- Supporting the **vulnerable and disadvantaged groups** should be the **central focus** of fiscal management in FY25
- **Design of both revenue and expenditure related measures need to take this into cognisance**

4. Inflationary pressures continue unabated

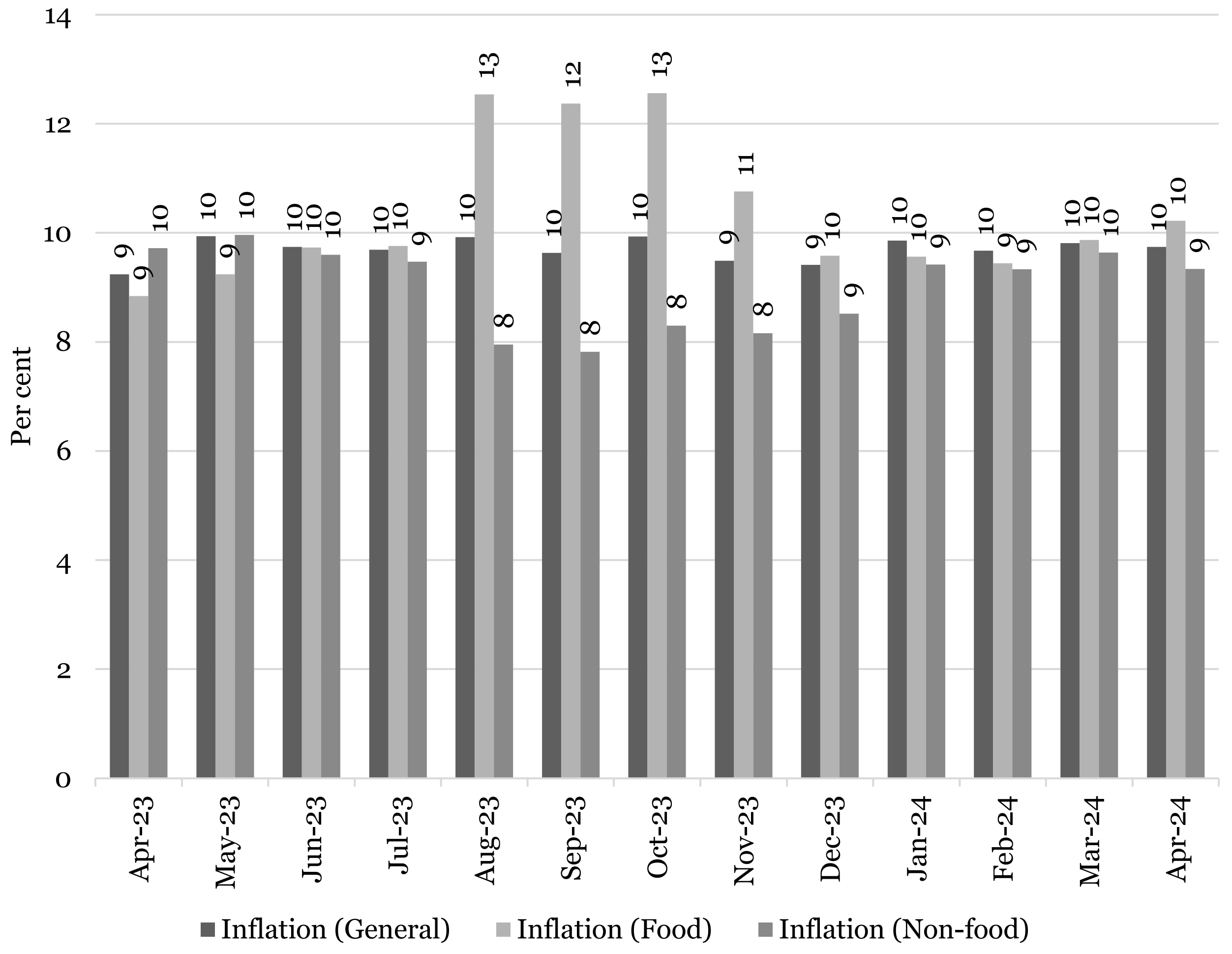
Inflationary pressures

- **Persistent High Inflation:** Bangladesh has been experiencing high inflation for over two years, exceeding inflation rates in many developed and developing economies, including Sri Lanka
- **Disproportionate Impact:** The burden of this inflation falls heavily on poor and low-income households, as essential goods like food and fuel have seen significant price hikes, eroding their purchasing power
- **Continued Suffering:** The suffering of these families began during the COVID-19 pandemic in early 2020 and has continued due to inflation, further worsened by the Ukraine war in February 2022
- **Policy and Institutional Failures:** The persistence of high inflation points towards potential policy and institutional failures within Bangladesh
- **Lagging Behind:** While many other countries have successfully controlled inflation, Bangladesh continues to struggle with ongoing inflationary pressure

New CPI base does not adequately reflect the rapidly rising prices

- ❑ **High inflation rates hovering around the 10% mark** have significantly increased the cost of living and decreased consumer purchasing power
- ❑ **General Inflation:** Consistently high, hovering around 10% for most of the period. Slight increases in April, May, and June 2023, but remained steady afterward. April 2024 data shows a persistent 10% inflation rate
- ❑ **Food Inflation:** More volatile. Started at 9% in April 2023, peaked at 13% in August 2023, then dipped to 9% in February 2024. April 2024 data shows a 10% food inflation rate
- ❑ **Non-Food Inflation:** Least fluctuation. Started and remained at 10% for most of the period, except for August and September 2023 where it dipped to 8%. April 2024 data indicates a 9% non-food inflation rate

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

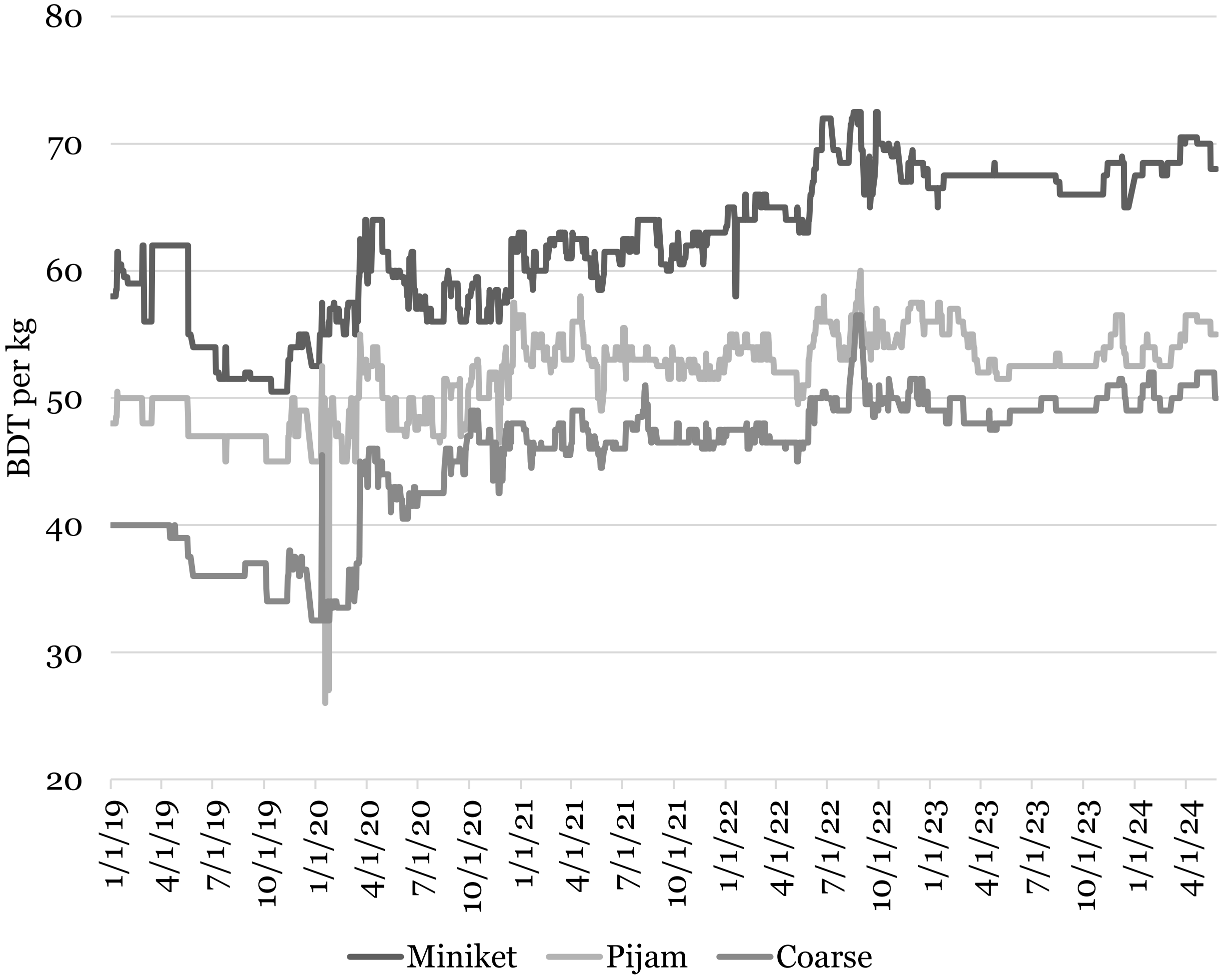


Source: CPD illustration based on data from Bangladesh Bank

Price of rice

- The average price of **Miniket** rice increased by **17%** from BDT 58 per kg to BDT 68 per kg, the average price of **Pijam** rice increased by **15%** from BDT48 per kg to BDT 55 per kg, and the average price of **Coarse** rice increased by **30%** from BDT 40 per kg to BDT 52 per kg, between 1 January 2019 and 19 May 2024
- In its earlier reports, CPD showed that the price of three common types of rice in Dhaka has been consistently higher than that of Thai and Vietnamese rice

Figure: Average daily price of rice in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

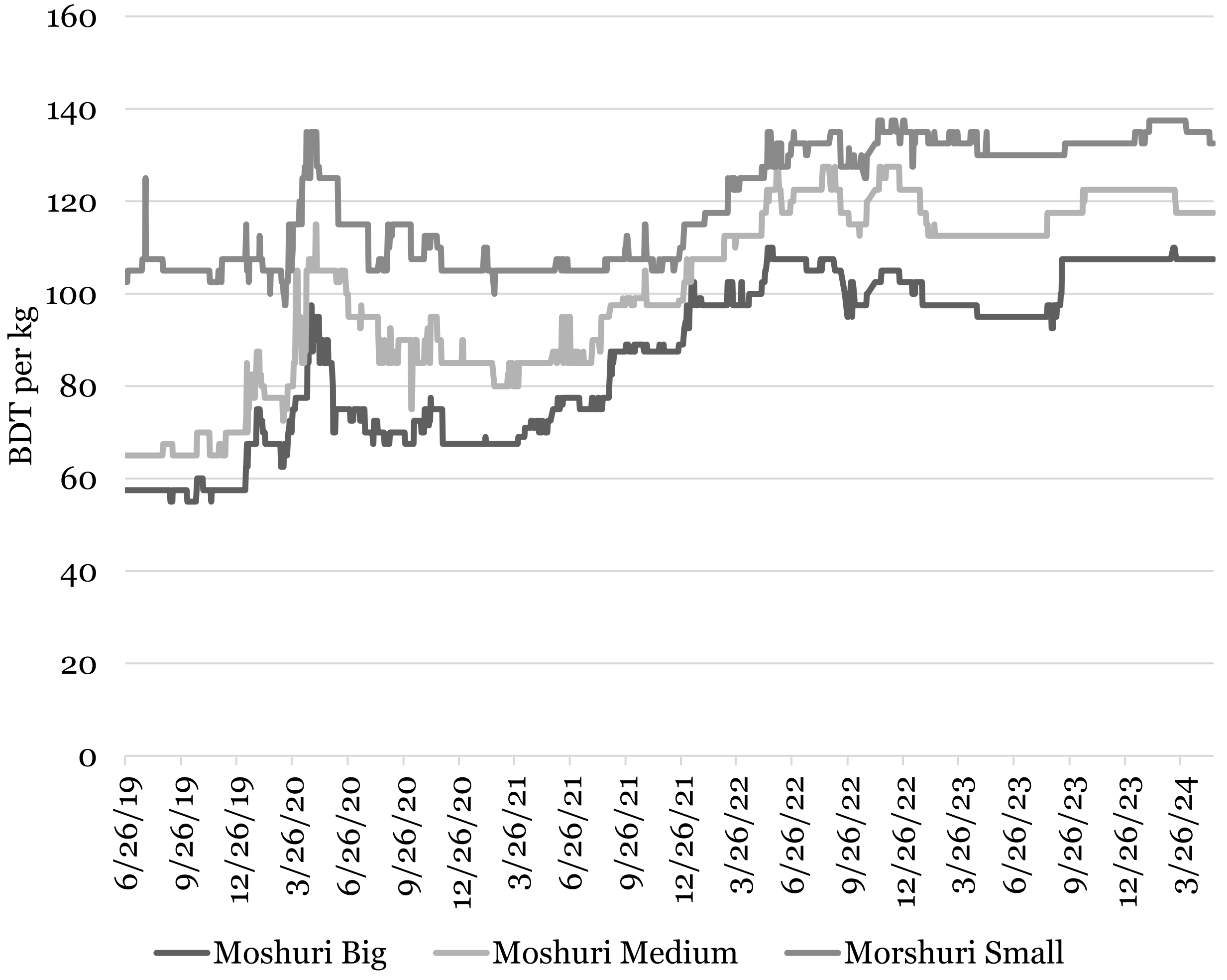


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of dal (lentils)

- 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 **88%** from BDT 63 to BDT 118, and the average price of **Moshuri dal (small)** increased by **56%** from BDT 85 to BDT 133 from 1 January 2019 to 19 May 2024

Figure: Average daily price of dal (lentils) in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

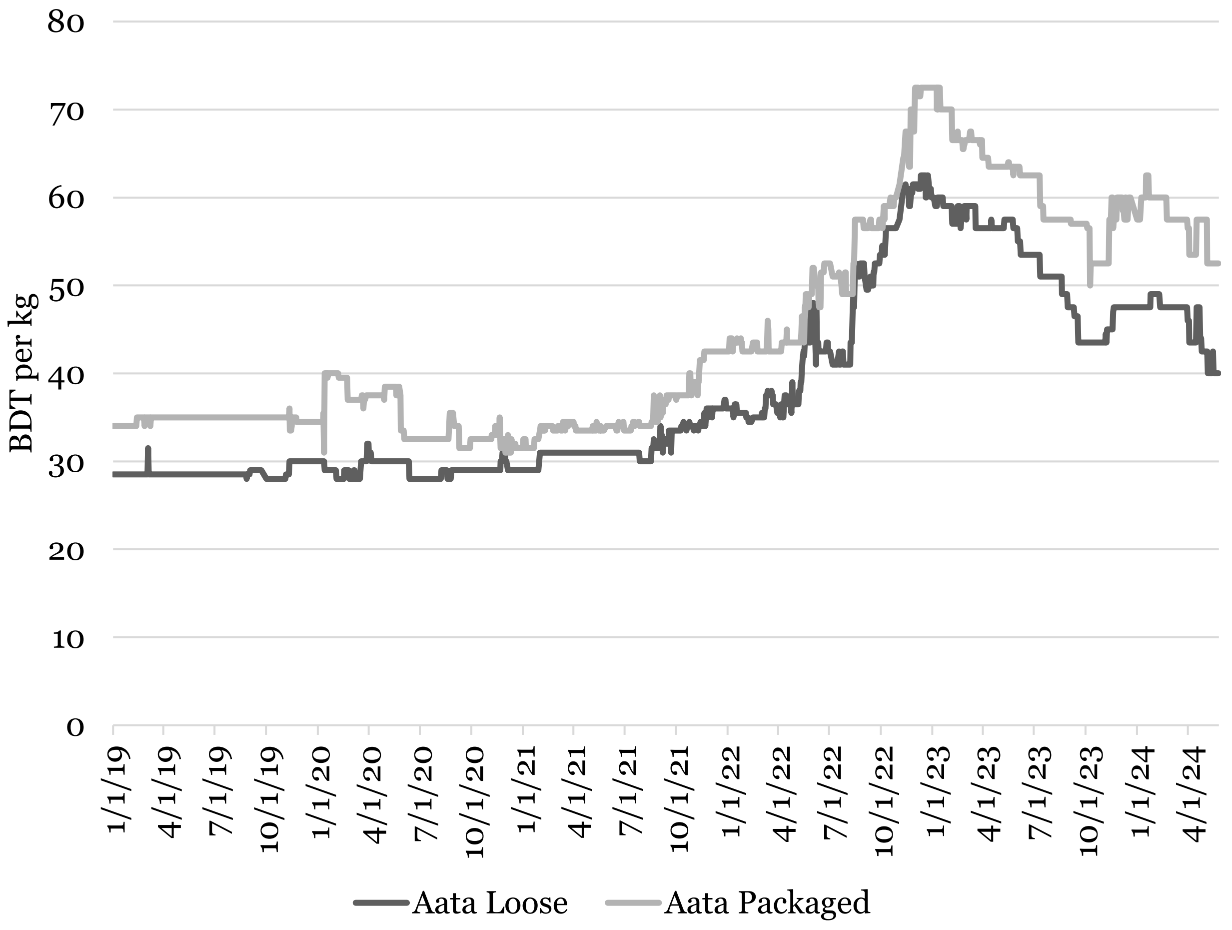


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of unprocessed flour (aata)

- The average price of **loose unprocessed flour (Aata)** increased by **40%** from BDT 29 per kg to BDT 40 per kg, and the average price of **packaged unprocessed flour (Aata)** increased by **54%** from BDT 34 per kg to BDT 53 per kg, from 1 January 2019 to 19 May 2024
- The price of unprocessed flour (Aata) started increasing in Dhaka before the start of the conflict in Ukraine
- This indicates that there may be other domestic causes of the increase in the price of unprocessed flour (Aata), which warrant a comprehensive investigation by the Bangladesh Competition Commission

Figure: Average daily price of unprocessed flour (Aata) in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

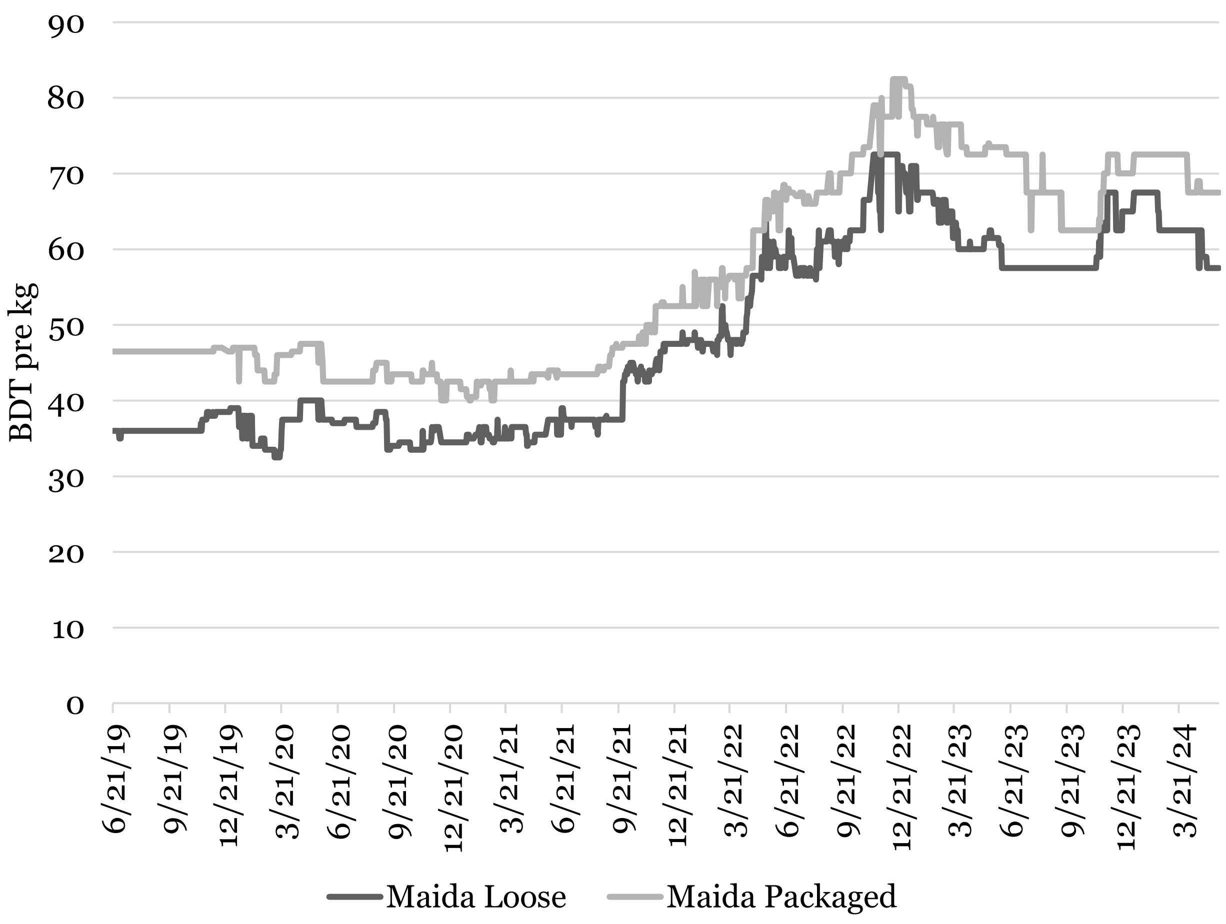


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of processed flour (maida)

- The average price of **loose processed flour (Maida)** increased by **60%** from BDT 36 per kg to BDT 58 per kg, and the average price of packaged **processed flour (Maida)** increased by **45%** from BDT 47 per kg to BDT 68 per kg, from 1 January 2019 to 19 May 2024
- The price of processed flour (Maida) started increasing in Dhaka before the start of the conflict in Ukraine
- This indicates that there may be other domestic causes of the increase in the price of processed flour (Maida), which warrant a comprehensive investigation by the Bangladesh Competition Commission

Figure: Average daily price of processed flour (Maida) in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

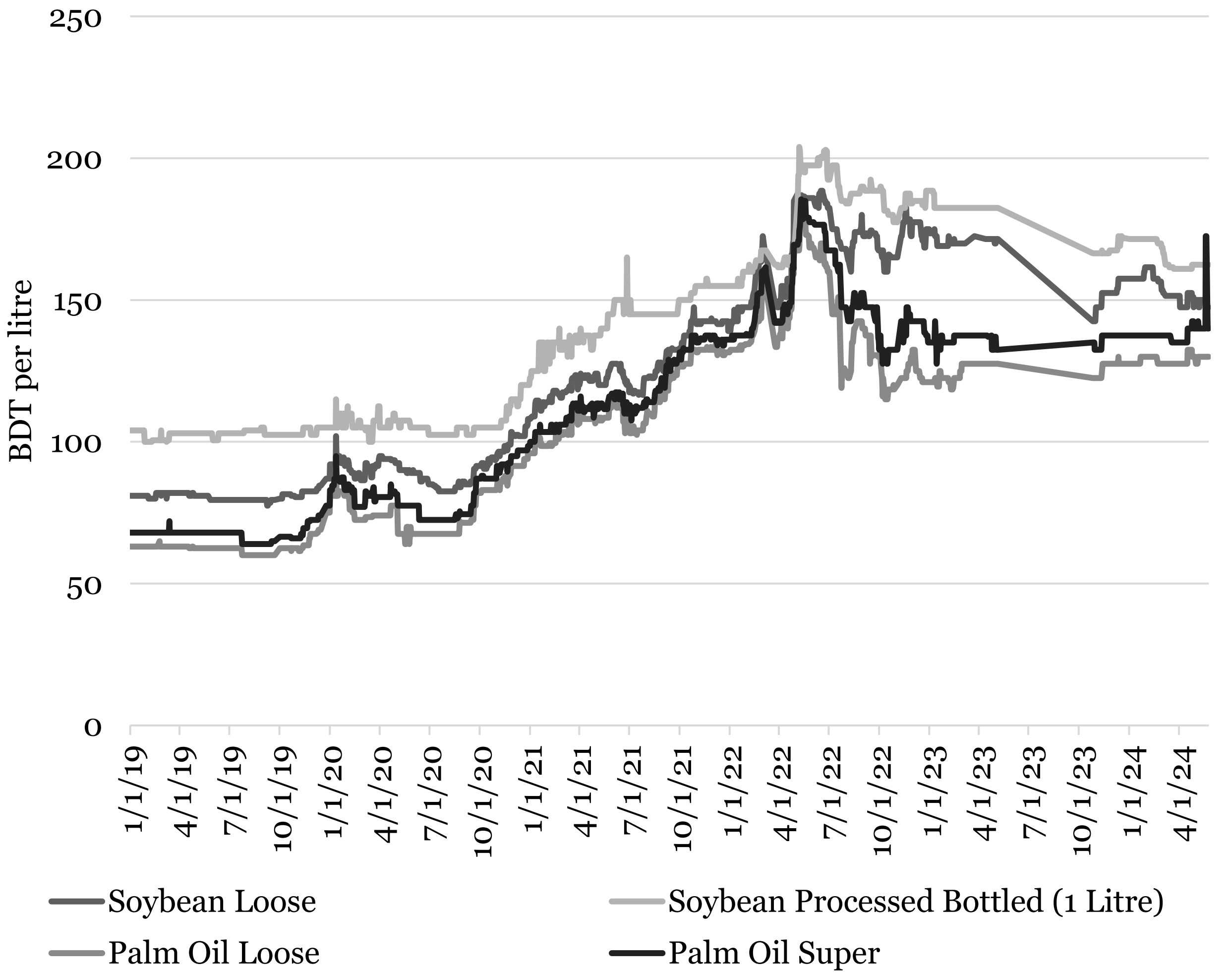


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of edible oil

- The average price of **loose soyabean oil** increased by **84%** from BDT 81 per litre to BDT 150 per litre, and the average price of **bottled soyabean oil** increased by **56%** from BDT 104 per litre to BDT 163 per litre from 1 January 2019 to 19 May 2024
- On the other hand, the average price of **loose palm oil** increased by **106%** from BDT 63 per litre to BDT 130 per litre, and the average price of **palm oil super** increased by **106%** from BDT 68 per litre to BDT 140 per litre, from 1 January 2019 to 19 May 2024
- As of April 2024, the **price of soyabean oil in the world market was BDT 105 per litre**, which was lower than the prevailing price in the Bangladesh market at the same time

Figure: Average daily price of edible oil in Dhaka between 1 January 2019 and 25 May 2024 (BDT per litre)

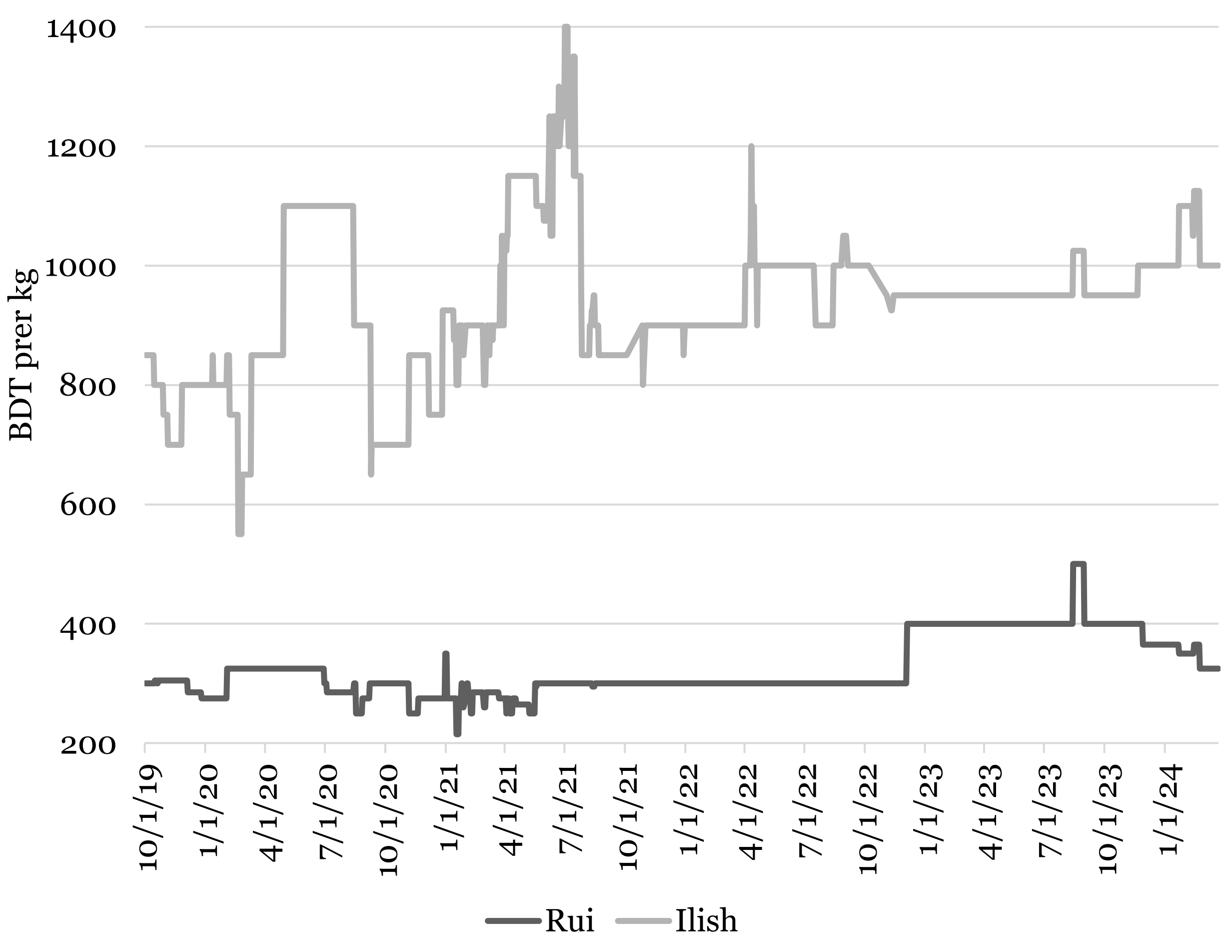


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of fish

- The average price of **Rui fish** increased by **10%** from BDT 310 per kg to BDT 340 per kg, and the average price **of Ilish (Hilsha) fish** increased by **35%** from BDT 850 per kg to BDT 1150 per kg from 1 January 2019 to 19 May 2024

Figure: Average daily price of fish in Dhaka between 1 January 2019 and 25 May 2024 (BDT per kg)

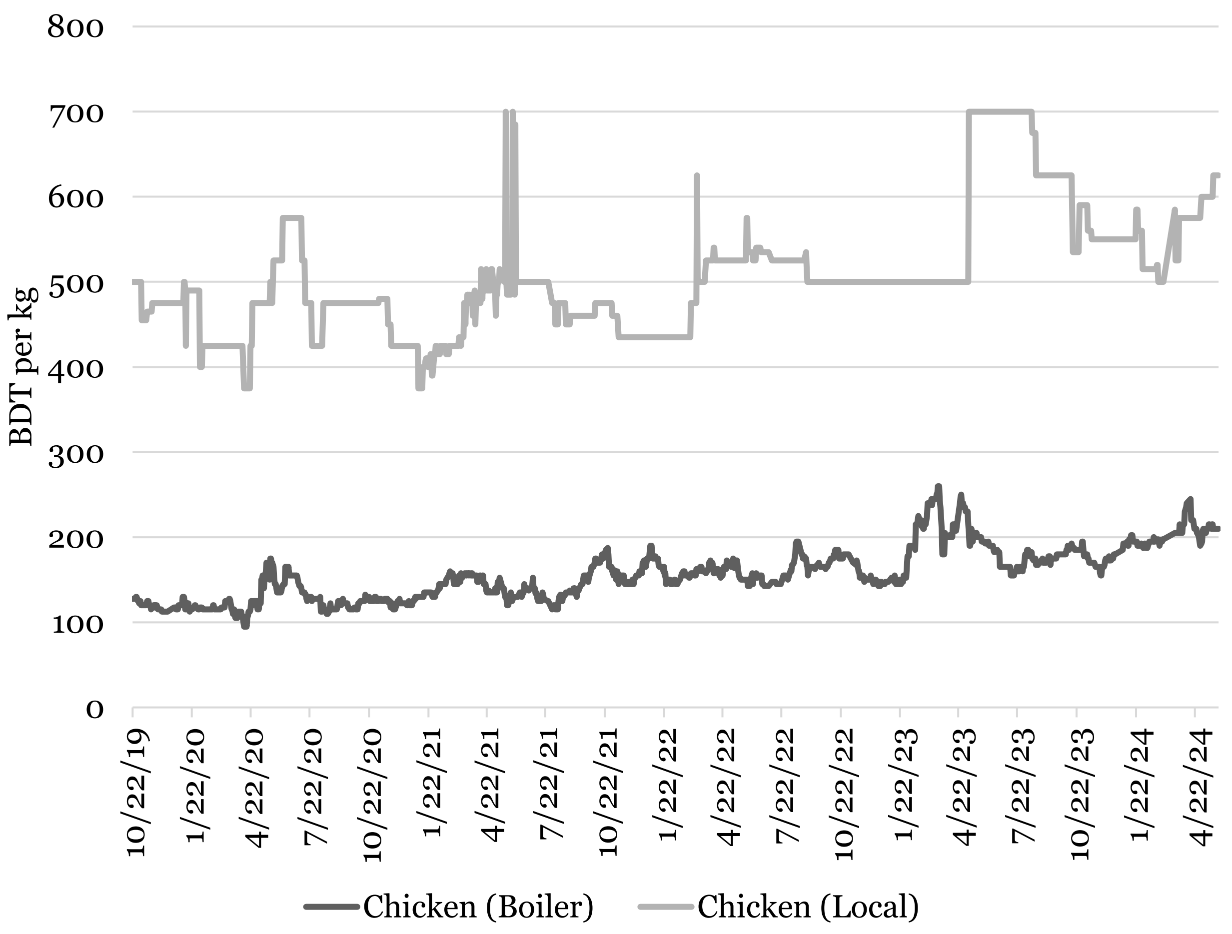


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of beef and mutton

- The average price of **beef** increased by **58%** from BDT 485 per kg to BDT 765 per kg, and the average price of **mutton** increased by **40%** from BDT 750 per kg to BDT 1050 per kg from 1 January 2019 to 19 May 2014
- As of April 2024, the **price of beef in the world market was BDT 663 per kg,** which was lower than the prevailing price in the Bangladesh market at the same time

Figure: Average daily price of beef and mutton in Dhaka between 1 January 2019 and 25 May 2024 (BDT per kg)

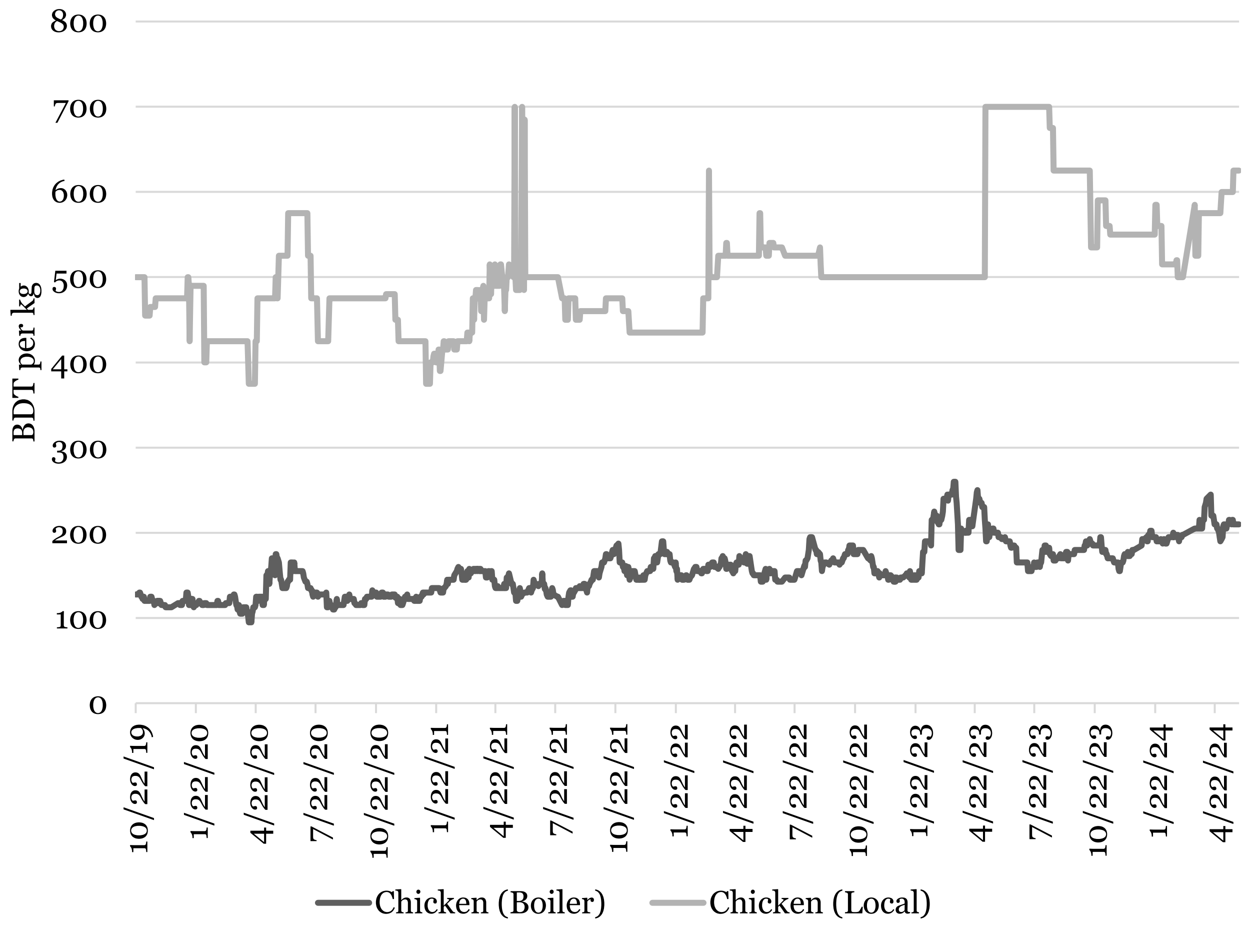


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of chicken

- The average price of **broiler chicken** has risen by **59%** from BDT 135 to BDT 215, and the average price of **local chicken** has increased by **46%** from BDT 410 to BDT 600 from 1 January 2019 to 19 May 2024

Figure: Average daily price of chicken in Dhaka between 1 January 2019 and 25 May 2024 (BDT per kg)

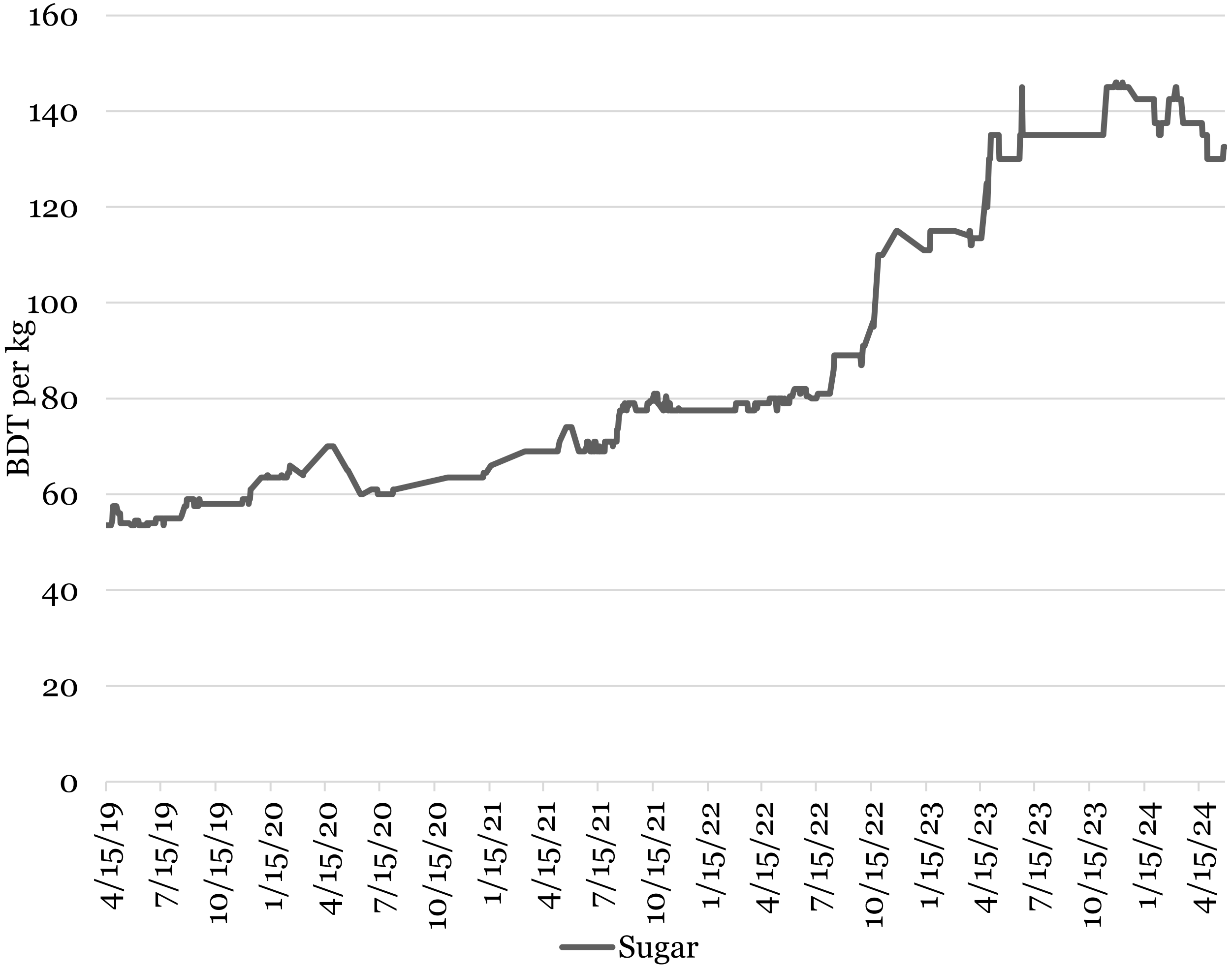


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of sugar

- The average price of **sugar** increased by **152%** from **BDT 52 per kg to BDT 130 per kg** from 1 January 2019 to 19 May 2024
- As of April 2024, the price of sugar in the **EU market was BDT 39 per kg**, the price of sugar in the **US market was BDT 96 per kg**, and the price of sugar in the **world market was BDT 50 per kg**, all of which were lower than the prevailing price in the Bangladesh market at the same time

Figure: Average daily price of sugar in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

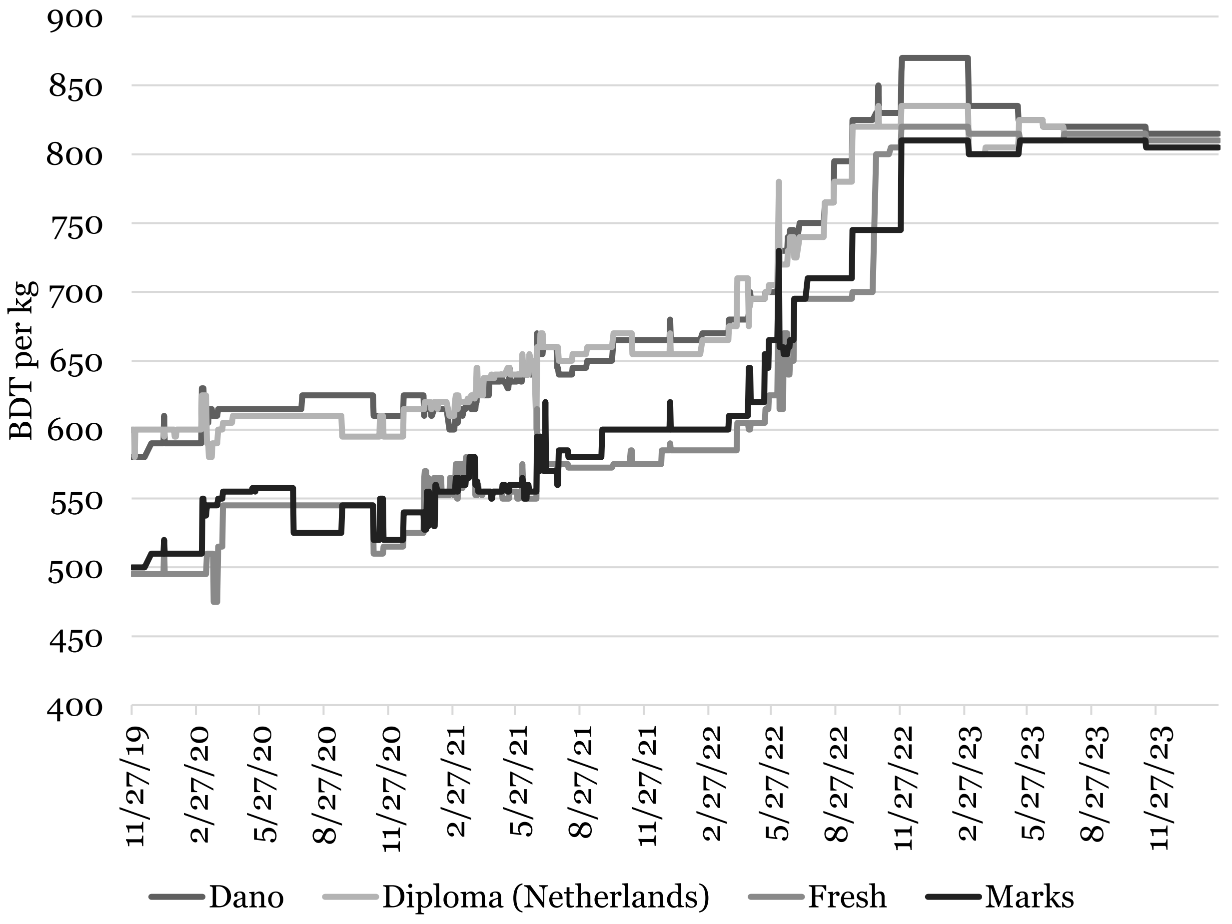


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of powdered milk

- The average price of **Dano** brand powdered milk increased by **43%** from BDT 565 per kg to BDT 810 per kg, the average price of **Diploma** brand powdered milk increased by **46%** from BDT 550 per kg to BDT 805 per kg, the average price of **Fresh** brand powdered milk increased by **80%** from BDT 440 per kg to BDT 790 per kg, and the average price of **Marks** brand powdered milk increased by **79%** from BDT 445 per kg to BDT 795 per kg from 1 January 2019 to 19 May 2024

Figure: Average daily price of four brands of powdered milk in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

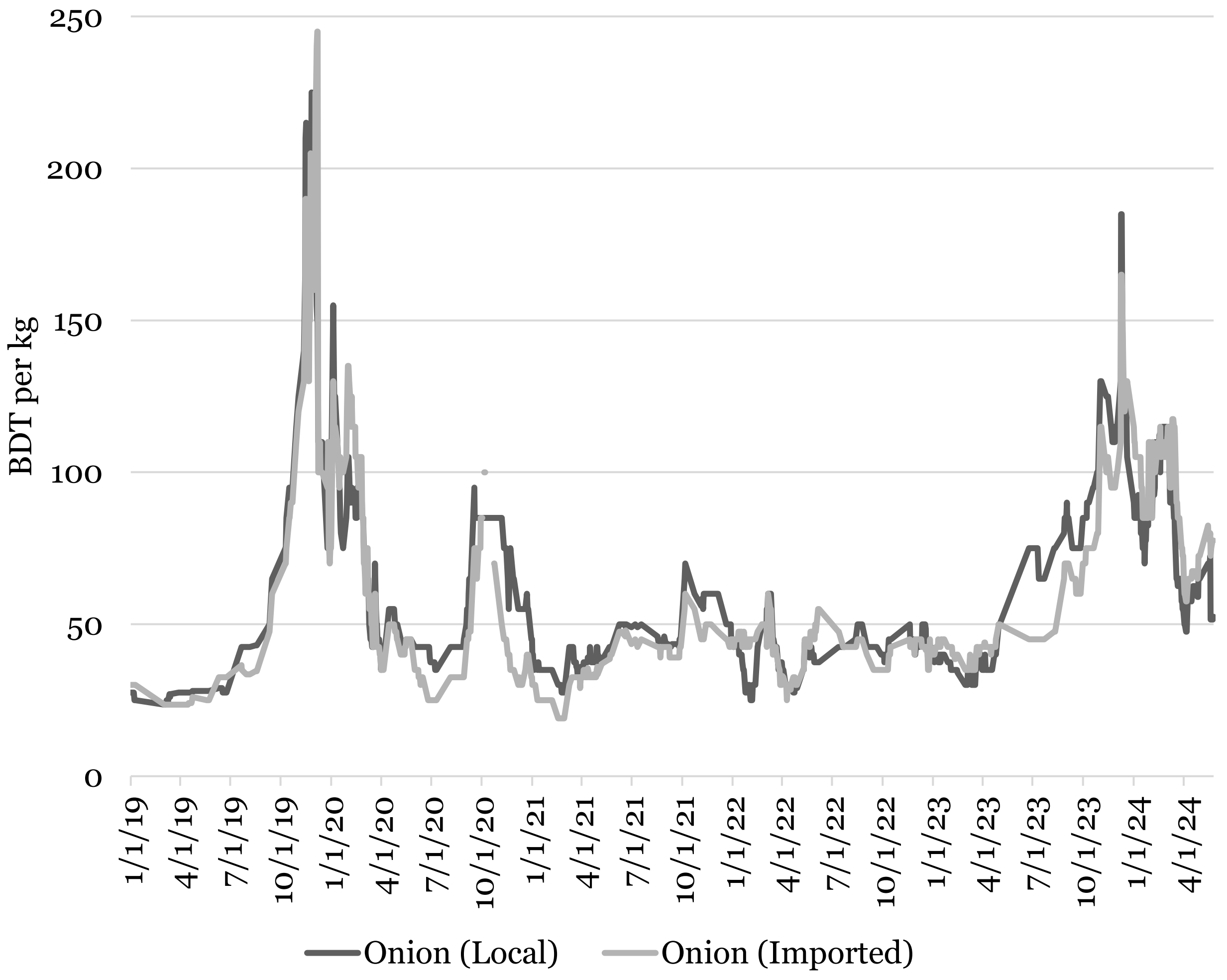


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of onions

- The average price of **local onions** increased by **164%** from BDT 28 per kg to BDT 73 per kg, and the average price of **imported onions** increased by **167%** from BDT 30 per kg to 80 per kg from 1 January 2019 to 19 May 2024

Figure: Average daily price of onions in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

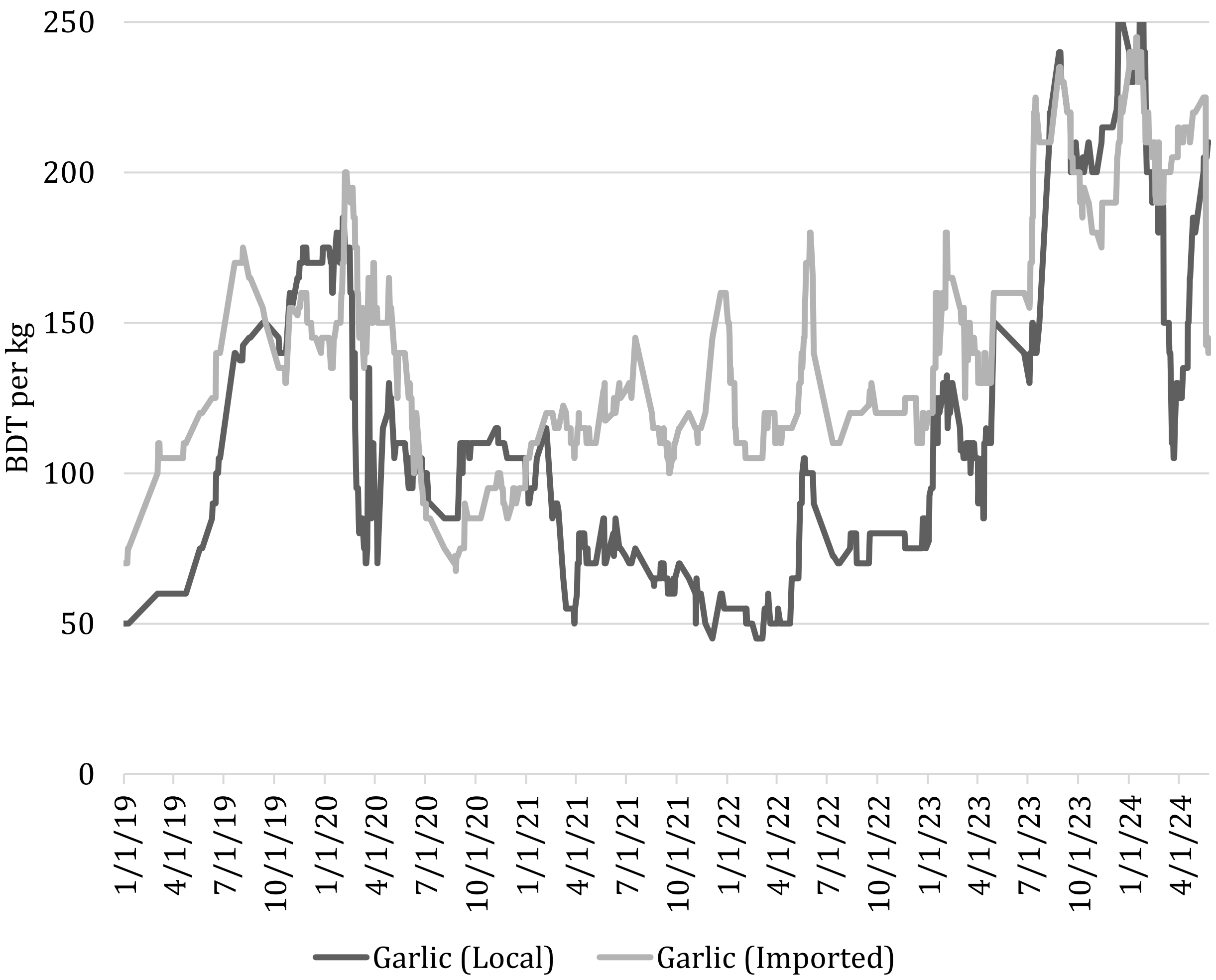


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of garlic

- The average price of **local garlic** increased by **310%** from BDT 50 per kg to BDT 205 per kg, and the average price of **imported garlic** increased by **221%** from BDT 70 per kg to BDT 225 per kg from 1 January 2019 to 19 May 2024

Figure: Average daily price of garlic in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

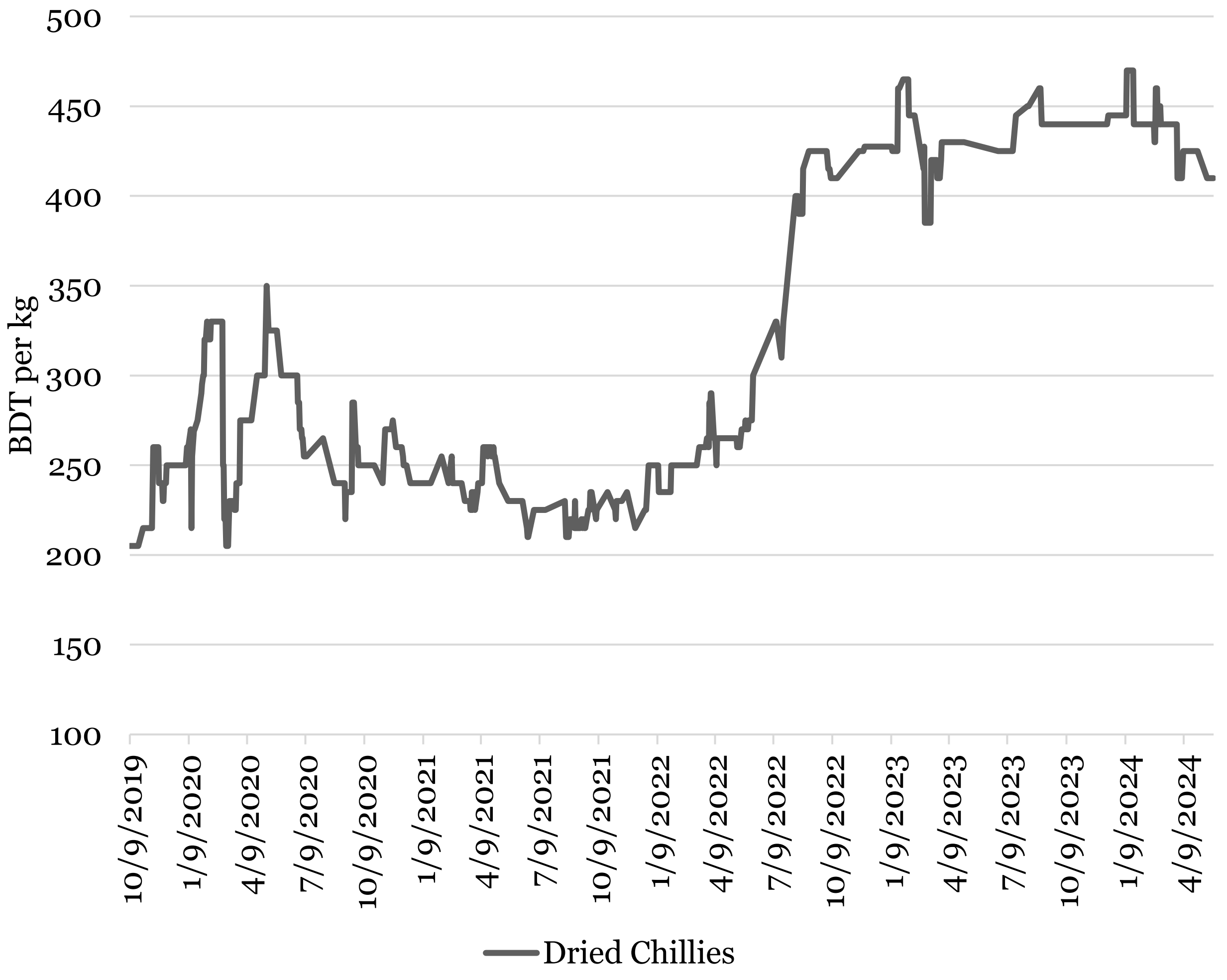


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of dried chillies

- The average price of **dried chillies** increased by **105%** from BDT 200 per kg to BDT 410 per kg from 1 January 2019 to 19 May 2024

Figure: Average daily price of dried chillies in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

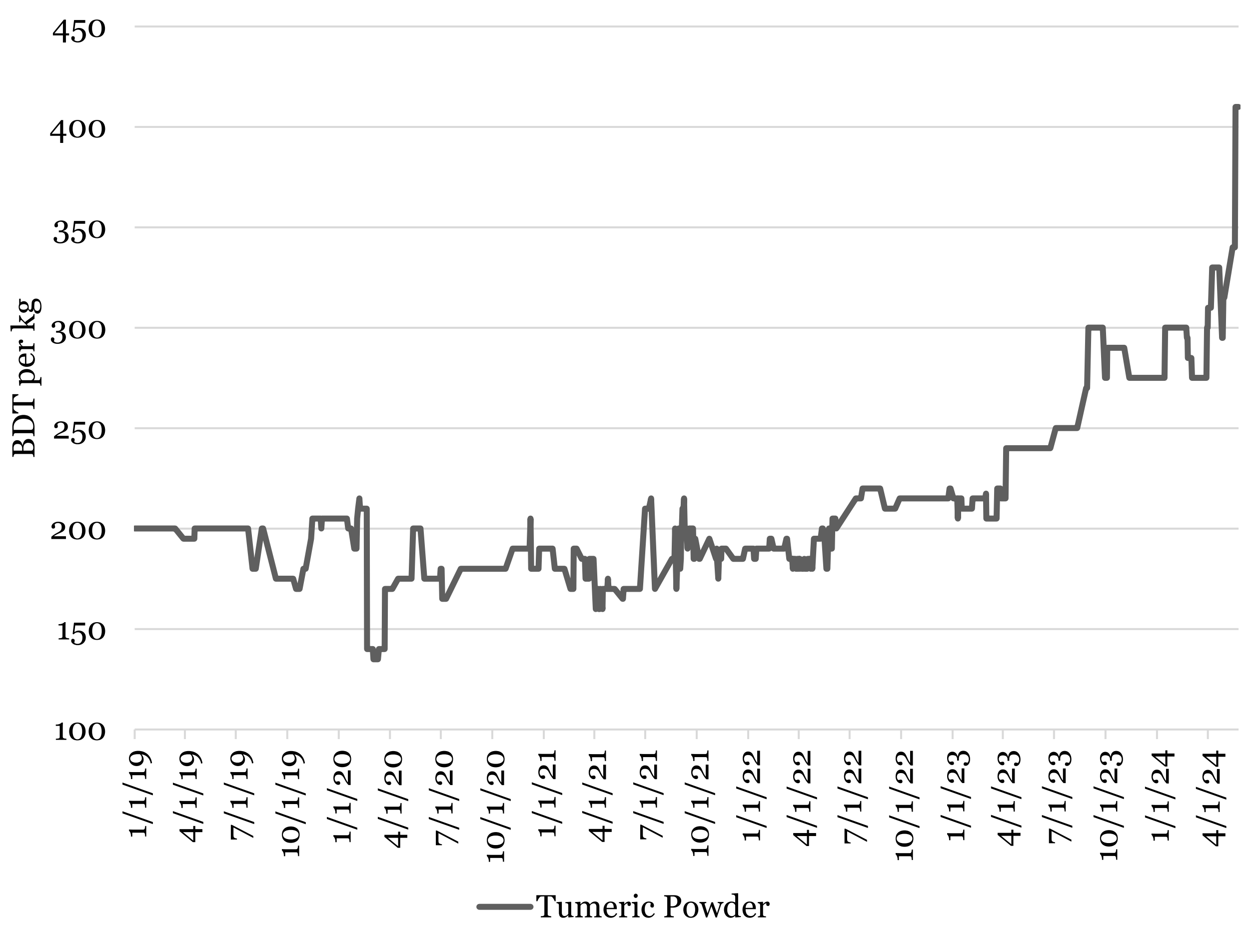


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of turmeric powder

- The average price of **turmeric powder** increased by **70%** from BDT 200 per kg to BDT 340 per kg from 1 January 2019 to 19 May 2024

Figure: Average daily price of turmeric powder in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)

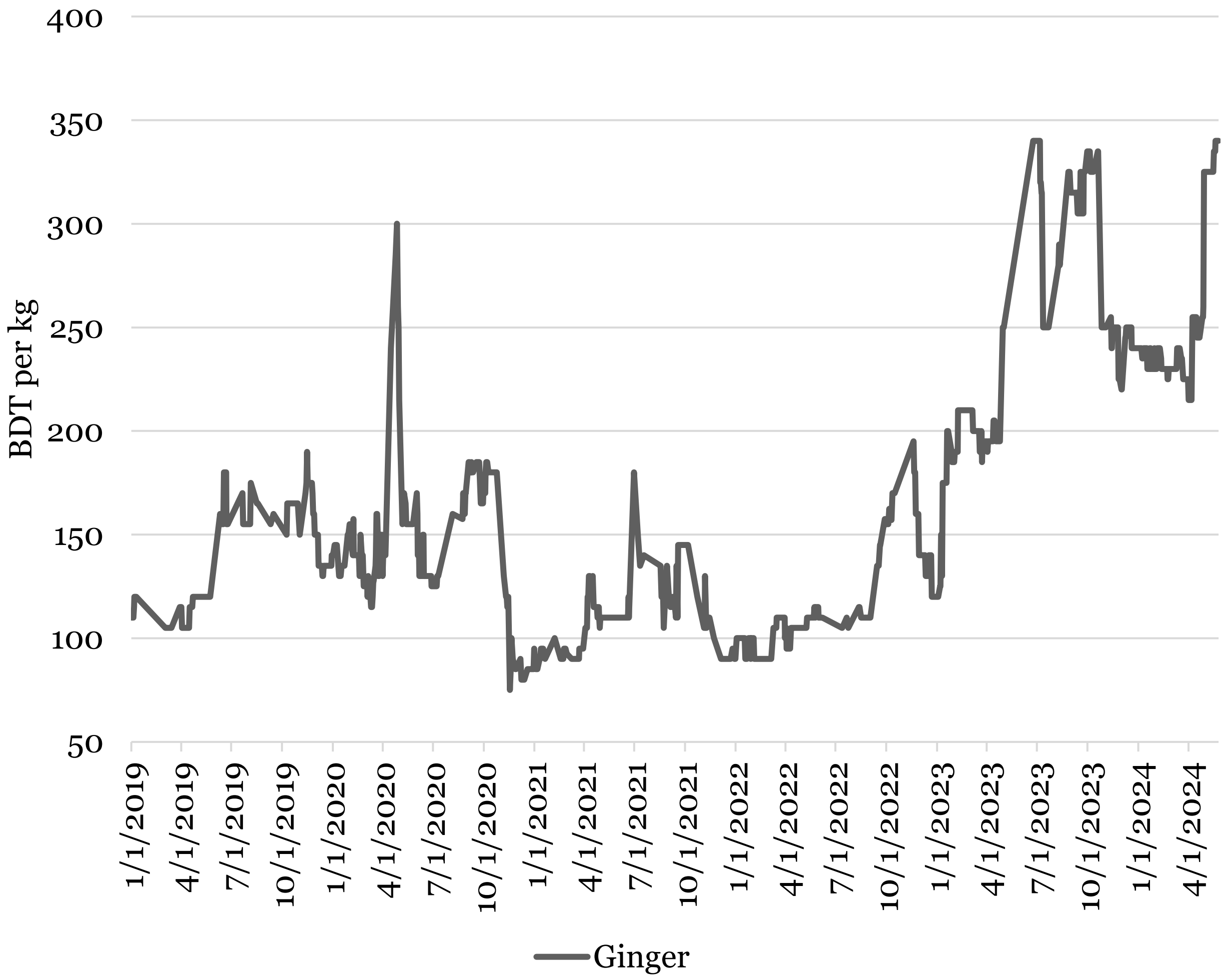


Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of ginger

- The average price of **ginger** increased by **205%** from BDT 110 per kg to BDT 335 per kg from 1 January 2019 to 19 May 2024

Figure: Average daily price of ginger in Dhaka from 1 January 2019 to 25 May 2024 (BDT per kg)



Source: CPD illustration based on data from Trading Corporation of Bangladesh

Increase in price of essential food items from 1 January 2019 to 19 May 2024

Table: Increase in price of essential food items from 1 January 2019 to 19 May 2024

		Price on 1 Jan 2019 BDT	Price on 19 May 2024 in BDT	Absolute change in BDT	Percentage change
1	Miniket Rice (1 kg)	58	68	10	17
2	Pijam Rice (1 kg)	48	55	7	15
3	Coarse Rice (1 kg)	40	52	12	30
4	Aata (unprocessed flour) Loose (1 kg)	29	40	12	40
5	Aata (unprocessed flour) Packaged (1 kg)	34	52.5	19	54
6	Maida (processed flour) Loose (1 kg)	36	57.5	22	60
7	Maida (processed flour) Packaged (1 kg)	47	67.5	21	45
8	Soybean Oil Loose (1 litre)	81	150	69	85
9	Soybean Oil Processed Bottled (1 litre)	104	162.5	59	56
10	Palm Oil Loose (1 litre)	63	130	67	106
11	Palm Oil Super (1 litre)	68	140	72	106
12	Moshuri Dal (Lentil) Big (1 litre)	55	107.5	53	95
13	Moshuri Dal (Lentil) Medium (1 kg)	63	117.5	55	88
14	Morshuri Dal (Lentil) Small (1 kg)	85	132.5	48	56
15	Onion (Local) (1 kg)	27.5	72.5	45	164
16	Onion (Imported) (1 kg)	30	80	50	167
17	Garlic (Local) (1 kg)	50	205	155	310
18	Garlic (Imported) (1 kg)	70	225	155	221

Increase in price of essential food items from 1 January 2019 to 19 May 2024

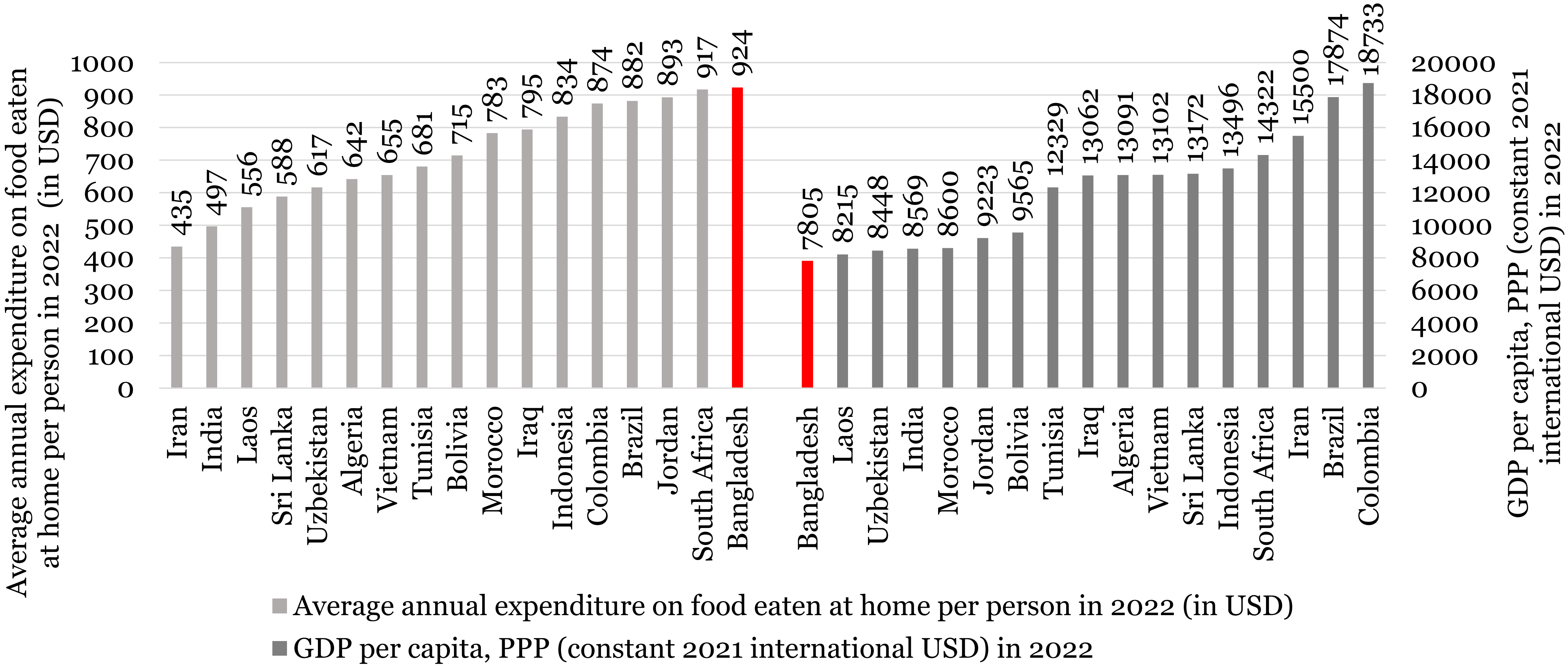
Table: Increase in price of essential food items from 1 January 2019 to 19 May 2024

		Price on 1 Jan 2019 BDT	Price on 19 May 2024 in BDT	Absolute change in BDT	Percentage change
19	Dried Chillies (1 kg)	200	410	210	105
20	Tumeric Powder (1 kg)	200	340	140	70
21	Ginger (1 kg)	110	335	225	205
22	Rui Fish(1 kg)	310	340	30	10
23	Ilish (Hilsha) Fish (1kg)	850	1150	300	35
24	Beef (1 kg)	485	765	280	58
25	Mutton (1 kg)	750	1050	300	40
26	Chicken (Boiler) (1 kg)	135	215	80	59
27	Chicken (Local) (1 kg)	410	600	190	46
28	Dano Powder Milk(1 kg)	565	810	245	43
29	Diploma Powder Milk (Netherlands) (1 kg)	550	805	255	46
30	Fresh Powder Milk (1 kg)	440	790	350	80
31	Marks Powder Milk(1 kg)	445	795	350	79
32	Sugar (1 kg)	52	130	79	152
33	Salt (1 kg)	32	41	10	30
34	Eggs (20 eggs)	34	49	15	44

Independent Review of Bangladesh's Development

High prices but low income: A comparison with 16 countries

Figure: Average annual expenditure on food eaten at home per person in 2022 (in USD) vs GDP per capita, PPP (constant 2021 international USD) in 2022



Measures taken by the government to tackle inflation

❑ Interest Rate Policy:

- Capped interest rates at 6% for deposits and 9% for loans in April 2020, making borrowing too cheap
- Shifted to the SMART system in July 2023 and raised policy rate in 2024
- On May 8, 2024, the central bank raised the policy rate by 50 basis points to 8.5%

❑ Exchange Rate Policy:

- Introduced Crawling Peg Mid-Rate system in May 2024; initial rate set at BDT 117 per USD, allowing for adjustments
- Aims to stabilise BDT value against USD but reflects depreciation
- Potential benefits for exporters and remittance senders, but concerns for importers and production costs

❑ Policy Inconsistency:

- The central bank's contractionary monetary policy contrasted with the government's expansionary fiscal policy
- High government spending and reliance on bank borrowing contribute to inflation

Conclusion

- The success in controlling inflation will depend on **properly implementing the government's policies**
- **No policy can work in isolation**
- Therefore, relevant ministry departments will have to **coordinate** among various policies for containing inflation
- While **monetary policy** is an important instrument, **fiscal, trade and agriculture policies** are also crucial in addressing the challenge of inflationary pressure
- In this regard, **four specific measures** should be undertaken

Recommendations

❑ Strengthening the Bangladesh Competition Commission:

- ➢ The Bangladesh Competition 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

❑ Revision of the Competition Act 2012:

- ➢ Competition Act 2012 should be revised to address monopolies and include specific anti-trust clauses and concrete penalties for violators

❑ Support to the poor and low-income households:

- ➢ The government should provide direct cash support to people experiencing poverty, enhance social protection for low-income families, and extend stimulus packages to small businesses for survival during challenging times
- ➢ The distribution of essential commodities sold through the open market system (OMS) must be managed effectively and without corruption so that eligible people can access these items at low prices

❑ **Reduction of tariffs on essential items:** CPD earlier showed that at least 27 essential items have import tariffs imposed on them. Reducing tariffs on those items for a certain period will help reduce market prices. However, the authorities should ensure the actual reduction of prices in the market due to the tariff reduction

5. External sector performance:
The spell of headwinds continues

Context

❑*Some Steps in the Right Direction, but Results are Yet to be Visible*

- A large part of Bangladesh's ongoing macroeconomic woes originates in the headwinds facing the external sector. Accordingly, restoration of macroeconomic stability will critically hinge on how quickly the external sector correlates recover from the current disquieting status
- True, in recent times the central bank has taken some steps in the right direction, albeit with considerable delay. These included **market-based interventions (e.g. significant exchange rate depreciation), change in policy stance (contractionary monetary policy) and administrative measures (e.g. import controls)**
- However, the derived impacts in the form of rising export competitiveness and robust remittance flows, growing forex reserves and stabilisation of balance of payments position are yet to be fully felt on the ground
- **External sector of Bangladesh thus continues to remain vulnerable and the balance of payments scenario continues to evince uncomfortable trends. In this backdrop, as is known, some of the key IMF external sector targets had also to be revised downwards**

❑ *Trade Scenario: Timid Export Market Response in the Backdrop of Continuing Restrictive Import Measures*

➢ One would have expected a tangible positive impact of the significant depreciation of the BDT over the recent past months, against all major currencies, on Bangladesh's export competitiveness and export performance. However, this is yet to be seen. As is known, **BDT depreciated by about 35% (from BDT 86 to BDT 117 to a dollar) over the past couple of years. This should have given substantial competitive edge to exports from Bangladesh as also significantly incentivise remitters**

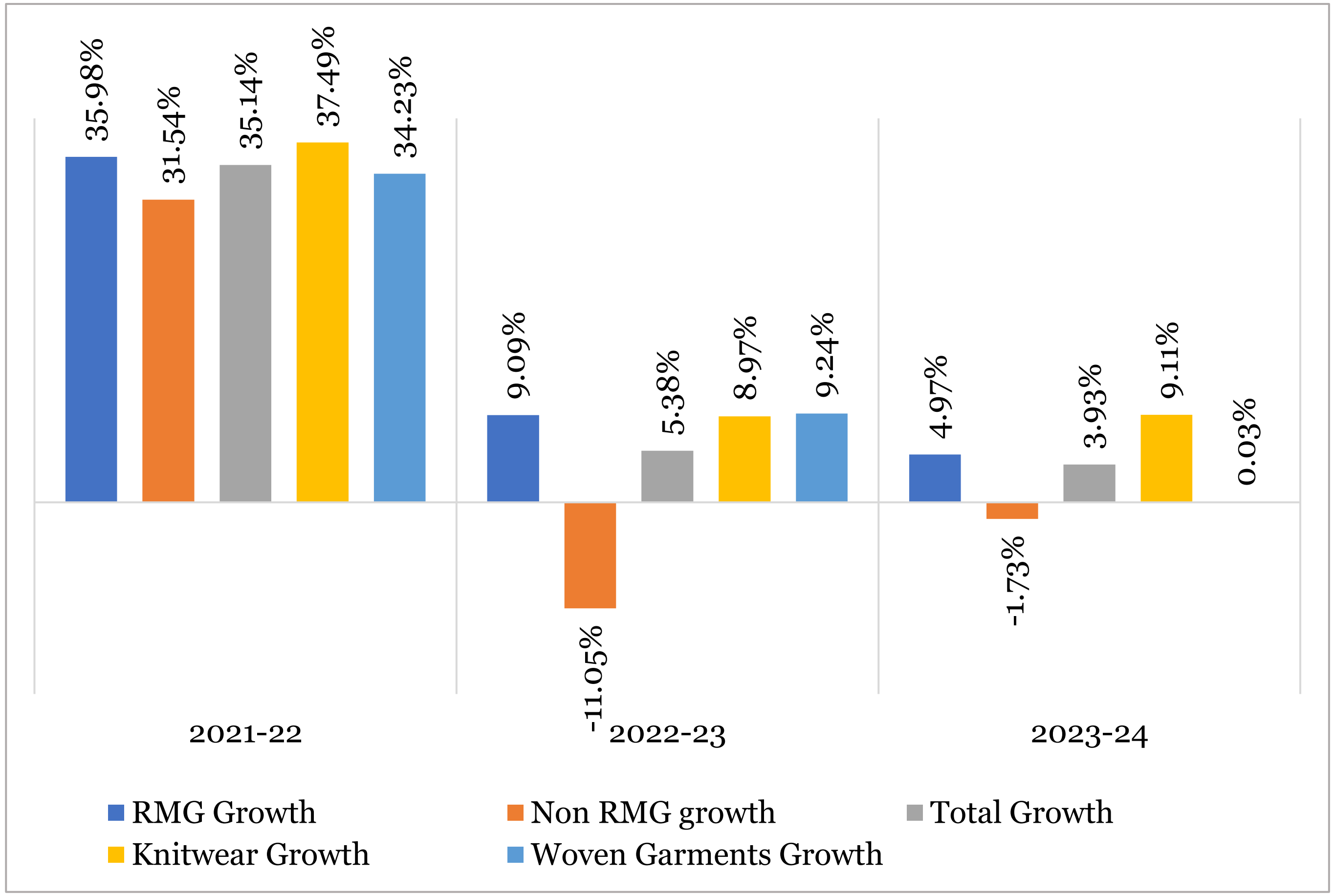
Trade scenario

- However, as the data indicates, over the July-April period of FY24, exports have posted a rise of only 3.93% compared to the corresponding period of FY23. To note, this growth was based on a rather low-reference point- export growth in FY23 over FY22 during the corresponding period was a lowly 5.38%

- **This must send warning signals to the policymakers as to why Bangladesh's export performance is behaving in such an unacceptable way**

- It is evidently clear that, **only a policy of exchange rate depreciation will not raise competitiveness of Bangladesh's exports**

Figure: Exports Growth Trends During July-April: FY24 Vs FY23



Source: Calculated from EPB figures

Trade scenario

- To note, concentration of RMG in export composition has gained further strength during the period under discussion: while RMG earnings rose by 4.97%, that of the non-RMG came down by (-) 1.73%. Within the RMG, the growth was driven primarily by knitwear export (9.1%), while export of woven wear (0.03%) almost stagnated. These **trends are indeed disconcerting**
- In all likelihood other factors such as **labour and capital productivity, skills, technology-embeddedness of exports, cost of doing business, business environment etc. are undermining the formidable gains that should have come with such significant depreciation, not to speak of the cash incentives**
- **During the first nine-months of FY24 (July-March), imports of apparels by the USA from Bangladesh posted a negative growth (-17.8%), with both volume of export (-8.0%) and price /unit (-10.7%) registering a decline. To note, the trends are same also for China and Vietnam (USITC Database). These trends are similar for the EU as well with the three corresponding figures for July- February, FY24 period being – 28.3% (export value), -16.6% (export volume), and –13.9% (for export price per unit). These trends are also similar for China and Vietnam (European Union Database)**

Trade scenario

- Thus, at a time when exporters are facing demand-side crunch, all efforts must be put in raising competitive strength of Bangladesh's export sector. Otherwise, once the initial gains from depreciation withers away, the exports will be faced with even more formidable difficulties. Policymakers must look at the underlying factors driving the low levels of export performance- to what extent fall in price of intermediates are driving the fall in price of outputs and whether this is reflected in lower export earnings. Also, policymakers must investigate what extent export earnings are not being repatriated back to the country

- **The upshot of the above scenario as regards export performance correlates are several:**
  - The significant exchange rate depreciation did not have tangible impact on Bangladesh's export competitiveness and export performance and this need to be analysed and investigated to unearth the underlying drivers
  - Bangladesh should put emphasis on incentivising intra-RMG diversification, towards non-cotton RMG which is the expanding segment of the global apparels markets
  - The need for export diversification and market diversification are becoming ever more urgent. Bangladesh must target the expanding markets of South Asia, RCEP and ASEAN regions, by creating supply-side capacities in special economic zones, by attracting FDI and domestic investors to these zones. All efforts must be made to have at least a few SEZs up and running. The services promised as part of the One Stop Service Act (OSSA) of 2018 must be ensured and on time
  - A triangulation of investment, transport and trade connectivities will be called for to translate Bangladesh's comparative advantages into competitive advantages
  - In view of challenges emanating from the upcoming LDC graduation, a transition will need to be made from preference-driven competitiveness to skills and productivity-driven competitiveness

Trade scenario

- That the trade balance has somewhat improved (the negative figure has come down significantly), has primarily been driven by the GoB's conscious policy to restrict imports, and a dearth of availability of foreign exchange on the part of private sector. **Higher dollar price also had a dampening impact from the demand side. For example, imports during July-March in FY22 was worth about USD 66.50 billion, which came down to USD 58.27 billion (-12.3%) in FY23 and thereafter to USD 49.21 billion in FY24 (a decline of about 15.5% over the matched period of FY23)**

- The composition of imports shows that, import payment for intermediates (-14.7% and -14.2%) and capital machineries (-11.9% and -23.6%) **have come down significantly over the period between FY22, FY23, and FY24 respectively (July-March).** Thus, **import restrictions in the backdrop of lack of availability of foreign exchange and falling forex reserves have played their role in somewhat reducing the yawning gap in trade balance**. However, in all likelihood, **the timid investment growth in the backdrop of high inflation, and the rising interest rates, have also played a part in this, reinforcing the subdued supply-side**

❑*Balance of Payments Scenario: A Mixed Picture*

- That there has been some improvement in the ***Current Account* component (which include trade and services accounts) owes largely to improvements in trade account and the rise in the remittance flows, particularly since January 2024**

- As the balance of payments scenario indicates, Current Account Balance which **stood at (-) USD 14.07 billion at the end of March 2022, improved to (-) USD 3.29 billion in March 2023 to a positive of (+) USD 5.80 billion at the end of March 2024, as is evidenced from Table 1**

Table 1: Balance of Payments position (July-March): FY21-FY24

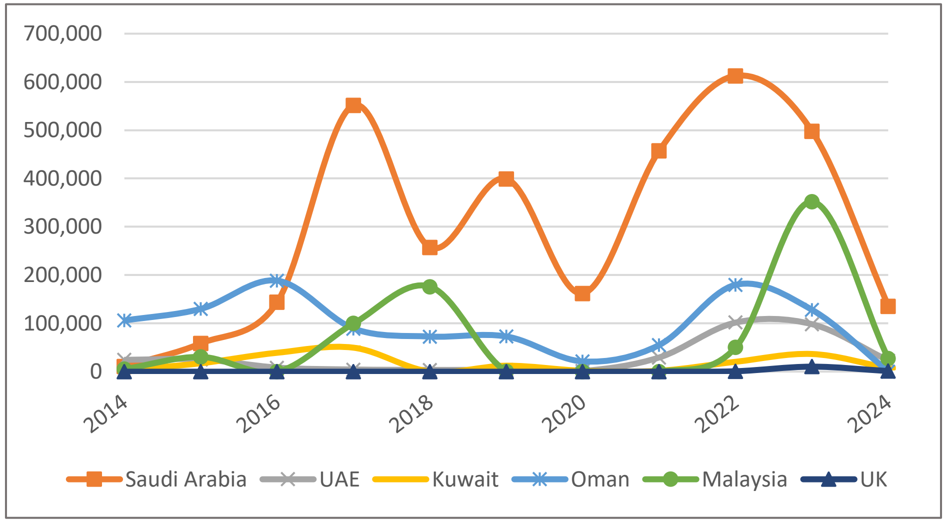
Items	July-March (million USD)			
	FY21	FY22	FY23	FY24
Trade balance	-15,218	-24,907	-14,633	-4,745
Of which: Export	27,549	36,617	39,306	40,875
Import	42,767	61,524	53,939	45,620
Secondary income	190,46	15,800	16,528	17,541
Of which: remittances inflows	18,598	15,299	16,035	17,074
Current Account Balance	-555	-14,072	-3,298	5,799
Financial account	7,950	11,343	-2,928	-9,258
Overall Balance	6,990	-3,097	-8,486	-4,754

Source: Extracted from Bangladesh bank

➢ While encouraging at a time when reserves are depleting, there is a need to go deeper into factors why remittances are not rising at a faster pace. **Over the last three years almost 2.8 million people have gone abroad in search of work. A large number of these workers have gone to Middle-East countries, particularly Kingdom of Saudi Arabia. Indeed, beginning from January 2021 till April 2024, about 1.7 million people have gone to Saudi Arabia alone**

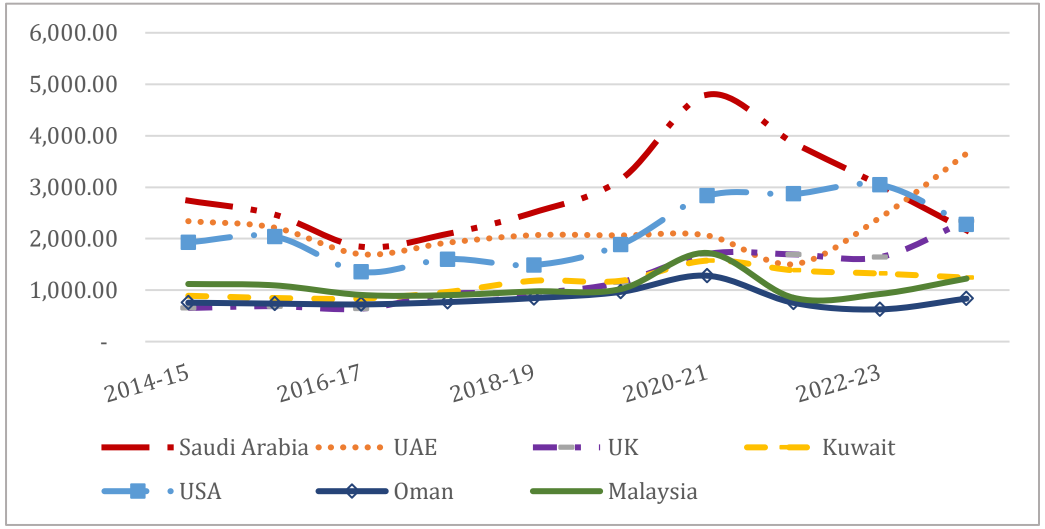
➢ However, if we juxtapose the number of people going to particular destination countries and the sources of flow of remittances, the mismatch is quite compelling and telling. This is clearly discernible from Figure 1 and Figure 2

Figure 1: Country-wise Employment (Calendar Years)



Note: The 2024 figures are for January to April
Source: Extracted from BMET

Figure 2: Remittance Inflow to Bangladesh from Selected Major Sources (July-April)



Source: Based on Bangladesh Bank

Balance of Payments

- **Policymakers must look into the underlying reasons closely- why such significant degree of mis-correspondence has emerged between the two trends and (outflow of workers and inflow of remittances) why such a discrepancy has emerged**

- This once again, reinforces the argument that there is an urgent need to **investigate money laundering, export under invoicing import invoicing and capital flight, and the working hundi-hawala syndicate to unearth the underlying drivers of this phenomenon** which is having such a detrimental impact on forex reserves

- Middle income graduation of Bangladesh has meant that **the share of non-concessional (high interest rate with stringent terms and condition for loans) have been on the rise**. Reason enough for a highly cautionary stance in incurring debt, particularly foreign debt, and to be highly selective in incurring in foreign debt

- **Caution must be exercised in managing external debt, and there should be a thorough study as regards Bangladesh's debt carrying capacity over the near to medium term**

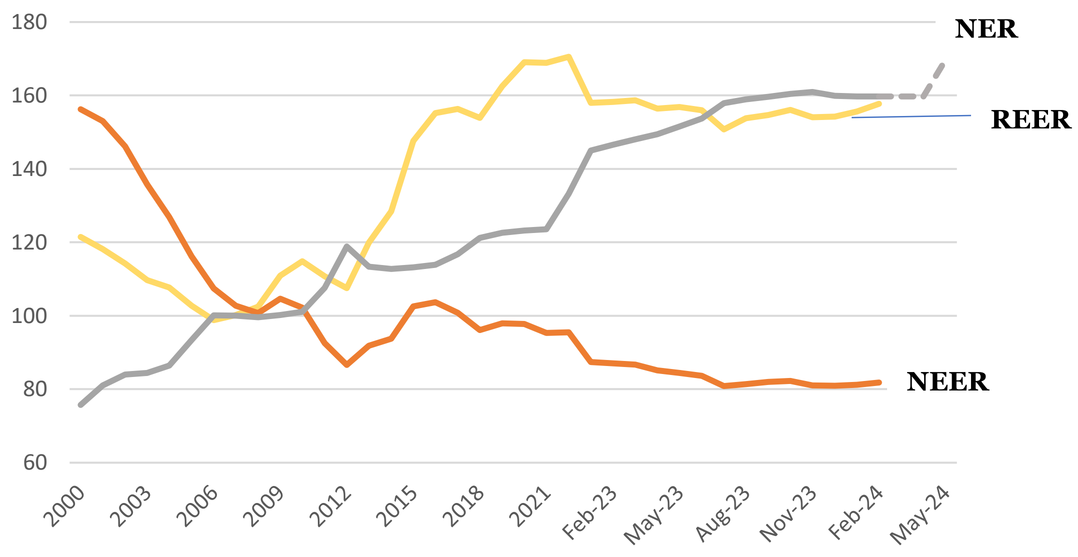
Exchange rate movement

❑*Exchange Rate Movement: A Move in the Right Direction*

- It appears that through successive spate of depreciation, the exchange rate of BDT is approaching a **new equilibrium**

- If one examines the movement of REER and NER, it appears that the current value **more or less approximates the equilibrium value**. One reckons that the exchange rate of BDT is expected to **stabilise at around the current rate in near term future**

Figure: REER Vs NEER Vs NER



Source: Extracted from Bruegel, World bank and Bangladesh Bank

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Concluding remarks

❑ ***Business As Usual Will Not Deliver the Expected Results***

- Many of the current challenges facing the sector accumulated over the years, in areas of **exchange rate management, lack of export product and market diversification, weak productivity growth, lack of technology-embeddedness of exports and external debt management**. These were either not managed in a timely fashion or were not dealt with the due seriousness and urgency that they deserved. When economy was doing good, a complacency had set in. Reforms were put in the backburner and flanking strategies were not pursued in anticipation of global shocks
- This lack of proactive external sector management exposed serious vulnerabilities once the twin shocks of covid pandemic and Russia-Ukraine war hit the economy. The embedded weakness in the domestic economy only accentuated the situation
- **Pursuing reforms, raising the quality of economic management, effectiveness of public service delivery institutions will need to reinforce the measures that the policymakers are now undertaking, in areas of fiscal-monetary**, to stabilise the external sector. These are the preconditions if the expected results in terms of exchange rate stability, healthy balance of payments and robust forex reserves are to be restored. Going forward, **Bangladesh's robust dual graduation- sustainable LDC graduation and sustainable middle-income graduation** will critically hinge on the policies and initiatives pursued by policymakers in the broader areas of macroeconomic management

6. Agricultural commodities: Production, inputs and marketing

Land use pattern

- Agriculture sector has experienced major changes in cropping pattern, land use, input use, product composition
  - Rise in income and changes in demand for agricultural commodities
  - Rapid urbanisation
  - Climate change
- Consistent growth in production of major agricultural commodities and rising imports have been the most important factors for ensuring domestic food security over the last decades
- This section explores possible scopes for the rise in domestic production

Land Use in Agricultural Production

- Declining net cropped areas need to be stopped, and gross/net cropped areas need to be increased through using fallow and wasteland as well as rising crop intensity

Table 1: Land Use Pattern (in '000'acres)

	FY19	FY20	FY21
Total	***36465***	***36465***	***36465***
Forest	6363	6363	6363
Not available for cultivation	8364	8284	8312
Culturable waste	639	671	700
Current fallow	1126	1066	1118
Single cropped	5271	5216	5260
Double cropped	10065	10194	10166
Triple cropped	4594	4613	4594
Quadruple Cropp	43	56	53
Net cropped	19973	20081	19972
Gross cropped	39357	39678	39493

Source: BBS (2023)

Cultivation and production of agricultural commodities

Production of Agricultural Commodities

- Despite the stagnant land use for cultivation, agricultural production has steadily improved during the last three decades
- Crop production index has risen four times from 32.1 in 1973 to 119.1 in 2022
  - Mainly due to the rise in the production of rice, wheat, tobacco, fibres, vegetables, and potatoes (Al Mamun, et al., 2021)
- Self-sufficiency in rice production is yet to be achieved
  - A shortfall of 2-3% has been met through imported rice
- There are scopes for a rise in acreage and yield of aus and aman rice
- Rising import of wheat can be partly replaced by increasing domestic production
- Declining import of lentils portrays a rise in domestic capacity to meet local demand through increased production
- Other than onion, none of the spices have a strong domestic production base – where more attention is needed
- Production of summer and winter season vegetables has been increasing over the years
- Majority of temporary and permanent fruits have experienced growth in production while some others have experienced slow or negative growth
- Given the growing demand for protein, a further rise in the production of meat, milk, and eggs is necessary

Growth in Production of Agri Commodities

Crops	Average growth
Rice (FY19-FY23)	**1.5%**
Aus	2.1
Aman	1.4
Boro	0.6
Spices (FY20-23)	**9.3%**
Mint	390.5
Capsicum	159.8
Chilies (winter)	88.3
Chilies (summer)	60.1
Coriander Leaf	13.8
Black Cumin	9.0
Onion	7.6
Garlic	3.3
Coriander	1.2

Livestock & poultry (FY19-FY23)	**2.0**
Duck	2.9
Chicken	2.1
Sheep	1.6
Goat	0.5
Cattle	0.5
Buffalo	0.4

Source: BBS (2023); DSL (2023)

Cultivation and production of agricultural commodities

Annual average growth in production (Positive growth): Vegetables

Crops	Average growth	Crops	Average growth	Crops	Average growth
Vegetables (FY20-FY23)	5	Vegetables (FY20-FY23)	5	Vegetables (FY20-FY23)	5
Beetroot	140.9	Brinjal (Summ er)	6.8	Pumpkin (Summer)	3.7
Lady's Finger	17.9	Water Spinach (Kalmi shak)	6.7	Red amaranth (Lal Sak)	3.6
Carrot	17.0	Wax gourd (Chalkumra)	6.5	Gourd	3.4
Khirai	13.0	Arum (OLKachu)	6.5	Tomato	3.2
Long bean (Batboti)	11.9	Malabar Spinach (Puisak)	5.6	Pumpkin (Rabi)	2.9
Ribbed gourd (Jhinga)	11.0	Turnips (Shallgham)	5.5	Green Banana	2.8
zucchini (Dhundol)	10.7	Cauliflower	5.4	Moringa (Shajna)	2.7
Bitter gourd (Karala)	10.0	Snak gourd (Chichinga)	5.2	Gourd leaves	2.5
Pointed gourd (Patol)	9.7	Brinjal (Robi)	4.9	Cabbage	2.5
Spiny gourd (Kakrol)	9.6	Radish	4.7	Green Papaya	2.4
Beans	8.6	Danta	4.7	Arum (Mura Kachu)	1.8
Arum (Mukhi Kachu)	8.4	Data leaves	4.6	Spinach (Palong Sak)	1.7
Cucumber	7.8	Jute leaves (Pat Shak)	4.4	Arum (Maan Kachu)	1.5
Utshee	7.6	Arum (Pani Kachu)	4.0	Arum (Lati)	1.0

Source: BBS (2023)

Cultivation and production of agricultural commodities

Annual positive average growth Production (Yearly average)

Crops	Average growth
Fruits (FY20-FY23)	**3.6**
Dragaon	1031.6
Sweet orange (Malta)	39.1
Watermelon	29.5
Strawberry	28.7
Water Fruit	19.2
Lime & Lemon	17.7
Burmese grap (Lotkon)	10.5
Lichi	7.3
Melon	6.1
Mango	5.3
Elephant Apple (Kathbell)	3.4
Guava	3.3

Crops	Average growth
Fruits (FY20-FY23)	**3.6**
Orange	3.1
Ripe Papaya	2.8
Monkey jackfruit (Dewya)	2.6
Sapodilla (Safeda)	1.9
water apple (Jamrul)	1.6
Jackfruit	1.5
Elephant Apple (Chaita)	1.0
Olive	1.0
Banana (Ripe)	0.7
Green Coconut	0.6
Pomegranate (Dalim)	0.6
Wood apple (bell)	0.3

Source: BBS (2023)

Annual average growth in production (Negative growth)

Crops (Macro)	Crops (Micro)	Negative Average growth
Spices (FY20-FY23)	Cassia-leaf	-4.3
	Turmeric	-4.0
	Fenugreek (Methi)	-2.4
	Ginger	-0.3
Fruits (FY20-FY23)	Jujube (Kul)	-6.5
	Custard apple (Sharifa)	-5.5
	Myrobalan (Amloki)	-2.9
	Pomelo	-2.9
	Sugar apple (Ata)	-2.5
	Pineapple	-2.4
	Bengal currant (Kharamcha)	-1.6
	Black Berry	-1.4
	Tamarind	-1.2
	Hog-plum (Amra)	-1.2
	Carambol (Kamranga)	-0.8
Vegetables (FY20-FY23)	Arum leaves (Kachu Shak)	-1.1

Source: BBS (2023)

Costs of production of agricultural commodities

- The production costs of major crops have generally increased over the observed years, with significant contributions from fertiliser and pesticide expenses
- Land cultivation costs generally trended upward, reflecting higher expenses associated with land preparation. Labour costs exhibited variability but generally increased, indicating changes in labour demand and wage rates
- Irrigation costs remained relatively stable but showed a slight increase, underscoring the importance of water management in agriculture
- Seed costs fluctuated, with some crops experiencing peaks followed by stabilisation, reflecting variability in seed prices or usage
- Further mechanisation with seed planters, transplanters, and harvesting machines can cut operational costs
- Agricultural credit gradually shifted to livestock and poultry (its share increased from 13.6% in FY19 to 22.9% in FY23)
- Different forms of subsidy in crop cultivation help reduce the financial burden of the farmers

Production Cost of Major Crops (Tk/KG)

Crops	FY19	FY20	FY21	FY22	FY23	Annual growth
Boro Rice	24.7	24.8	26.0	26.5	28.4	3.00
Aman Rice		24.2	25.3	25.8	27.6	3.57
Wheat	25.2	25.3	26.9	26.9	32	5.40
Potato	7.8	8.3	9.7	10.3	10.5	6.85
Tomato		7.9		9.4	9.5	5.16
Eggplant	8.8	9.0		9.9	12.2	7.65

Subsidy in Fertiliser and Irrigation

	Per Acre Fertiliser Subsidy (Taka per Acre)	Per Hectare Irrigation Subsidy	Total Subsidy Paid (Crore Taka
FY16	1592	28	6418.2
FY17	841	29	3470.9
FY18	1241	30	5054.2
FY19	1883	38	7683.6
FY20	1701	28	6875.6

Source: DAM (2023)

Costs of production of agricultural commodities

% of Seed Demand Met

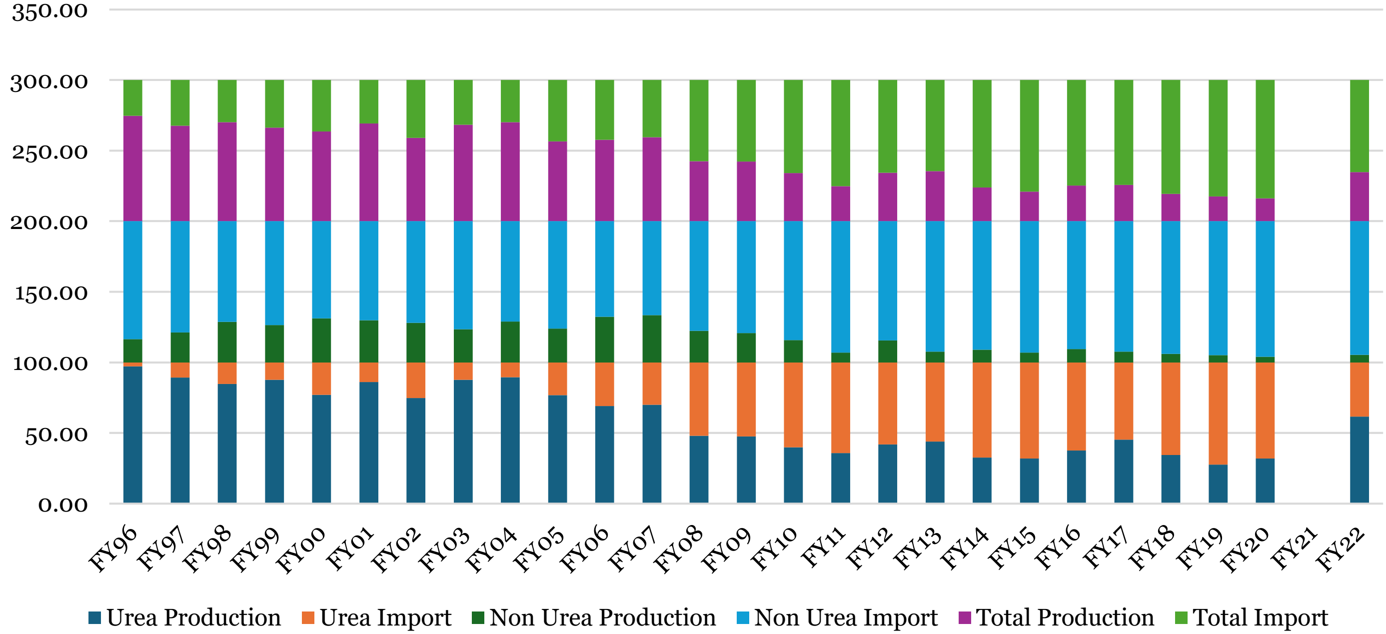
Name of Seeds	Percentage of Demand Seed Met				
	FY19	FY20	FY21	FY22	FY23
Rice	44.33	44.18	60.03	65.60	63.75
Wheat	50.36	29.01	41.58	44.89	43.34
Maize	62.62	97.94	55.54	73.69	66.73
Jute	99.69	115.28	110.14	87.56	82.50
Pulse	8.85	7.93	12.36	12.83	11.90
Oil	7.02	9.46	15.30	17.37	20.96
Vegetable	58.91	81.26	106.31	110.98	102.51
Potato	14.82	15.46	16.06	16.38	13.07
Total	25.20	25.32	30.35	64.24	29.85

Source: MoA (2022)

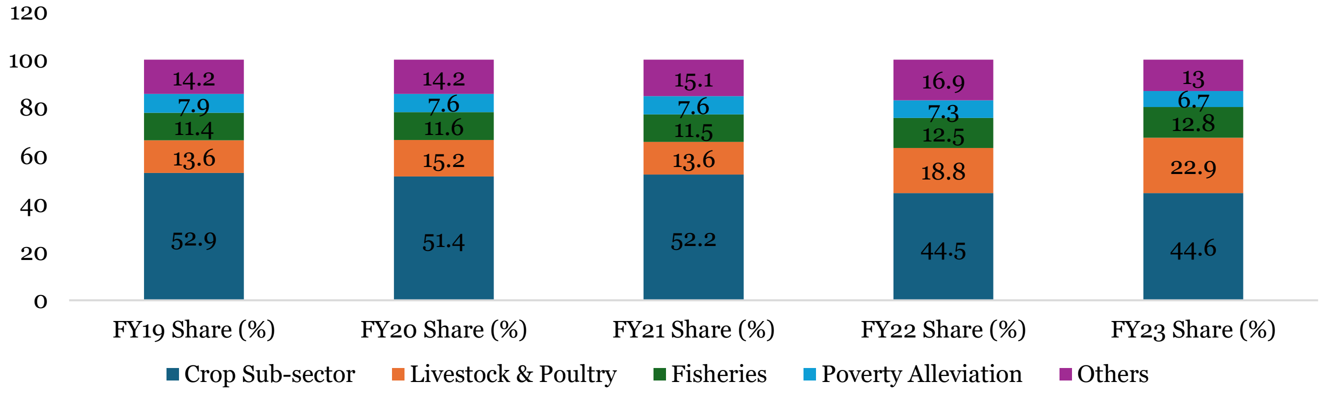
Consumption of Pesticides over the years

Year	Total Consumption of Pesticides (MT/KL)	Gross cropped Area in Thousand Acre	Pesticide Used KG/KL per Acre
2019	38062.2	39357	0.97
2020	37562.81	39357	0.95
2021	39542.75	39678	1
2022	39083	39493	0.99

Production and Import Composition of Fertilisers



Purpose of Agricultural Loans



Source: FPMU (2024); Bangladesh Bank. (2024)

Marketing of agricultural commodities

- **Market Dynamics**: The agricultural sector in Bangladesh saw significant margin fluctuations from 2018 to 2022, indicating inefficiencies and disruptions
- **Crop Margins:** Wheat margins fell sharply, while eggplant, maize, tomato, lentil, and potato margins fluctuated
- **Spice Margins:** Onion, garlic, ginger, dried chili, turmeric, and coriander margins showed mixed stability and volatility due to supply issues
- **Meat & Fish Margins:** Poultry and fish markets exhibited both stability and volatility, with notable fluctuations in Rui, Katol, Pangash, and Ilish margins
- **Retail Margins:** Significant fluctuations in rice and varied trends in wheat, eggplant, maize, tomato, lentil, and potato margins reflect imbalances in supply and demand
- **Key Issues:** Market inefficiencies, price volatility affecting farmers, and dependence on imports
- **Import Trends:** Lower imported prices lead to higher import quantities; higher prices reduce imports, highlighting the impact of price differences on import volumes (Table in next slide)

Margin Level at Wholesale and Retail Markets (% of Retail Price)

Margin Level at Retail and Wholesale Market (in %)					
Name of item	Market	2018	2019	2020	2021
RICE					
Rice (Mota)	Retail	7	9	54	5
Rice (Medium)	Retail	5	6	6	6
Rice (Soru)	Retail	6	6	-7	6
CROPS					
Wheat	Wholesale	8	7	4	-7
	Retail	9	8	12	11
Eggplant	Wholesale	18	8	18	3
	Retail	21	27	18	23
Maize Crop	Wholesale	9	0	4	-16
	Retail	16	17	21	14
Tomato	Wholesale	40	19	2	2
	Retail	24	23	23	26
Lentil	Wholesale	29	21	32	32
	Retail	11	11	7	6
Potato	Wholesale	5	5	7	11
	Retail	25	27	17	19
Onion	Wholesale	5	5	7	11
	Retail	17	13	12	12
Mustard (Oil Seed)	Wholesale	4	1	7	-9
	Retail	18	23	18	17

Source: DAM (2022).

Independent Review of iRBD Bangladesh's Development

Marketing of agricultural commodities

Conclusions

- Despite a consistent rise in production, maintaining competitiveness of domestic production remains a challenge
    - This is due to the rising cost of production, particularly those of fertiliser, labour, irrigation, despite having subsidised supply of these inputs
- Majority of crops need at least a part to be imported and the share of import is increasing
    - In other words, domestic food security is increasingly dependent on part of import – self-sufficiency in food production is not yet achieved
- There are scopes for further enhancement of domestic production of cereal and non-cereal crops through higher cropping intensity and increasing net cropped area covering fallow and waste lands
    - At the same time, it is also important to supply agricultural commodities at competitive market price

National Wholesale Average Market Price (Tk/kg), Imported Price (Tk/kg) and Import Quantity (in Tons)

Name of item	Unit	2018	2019	2020	2021
Rice	Wholesale Price	52	45	52	57
	Imported Price	38	59	97	36
	Import (Tons)	995210	55075	21708	2644282
Wheat	Wholesale Price	23	25	25	27
	Imported Price	19	19	20	26
	Import (Tons)	4839307	6879079	6014980	7162222
Maize Crop	Wholesale Price	19	18	19	22
	Imported Price	17	16	18	24
	Import (Tons)	1710501	1313750	2218941	1898786
Tomato	Wholesale Price	38	44	35	39
	Imported Price	31	36	37	36
	Import (Tons)	1294	33391	42676	45571
Onion	Wholesale Price	37	49	58	37
	Imported Price	20	36	23	25
	Import (Tons)	262562	253789	687594	571290

Source: DAM (2022).

Recommendations

- Considering the long-term food security of the country, the current fallow and cultivable waste, which amounts to 1118 acres (8.3% of total land), needs to be ready for cultivation
  - Similarly, cropping intensity needs to be enhanced - land currently used for single crops needs to be used for double crops, and those double crops to turn into triple crops
- Domestic production base should be increased, particularly production of different types of spices, wheat and meat production
  - Given the higher demand for wheat, domestic production of wheat should get more attention
- Despite providing incentives and subsidies, the cost of production is higher. Therefore, the government should provide incentives to the farmers in order to reduce the cost of production of different crops

7. Energy and power demand projection for 2041: IEPMP Vs. CPD

Energy and power demand projection for 2041: IEPMP Vs. CPD

❑ Background and Objective

- In **November 2023**, the new IEPMP 2023 was approved by the MoPEMR
- IEPMP's **Ambitious** Vision:
  - ✓ Over-inflated Estimations caused by optimistic GDP Growth Rates and Simplified Methods
  - ✓ Most recent observation: 2019, and so, the COVID-19 incident is ignored.
- Revisiting Forecasting Methods: Potential issues with **model misspecification** in the IEPMP and hence, **revise future energy strategy** with better **long-run** historical, most **recent** data and more comprehensive model

❑ Summary of the Energy Demand Forecast in the IEPMP

- Econometric modelling: **OLS Regression** analysis and **micro-level** demand forecasting.
- **Although key assumptions include** GDP, population, energy prices, previous demand, energy efficiency, and CO_2 intensity, actual econometric model includes only three variables: Price, previous demand and GDP
- **Three technology scenarios** and **three GDP cases** are considered,
- According to the estimation of the IEPMP: from 2019 to 2030, the energy demand will increase by **1.64 times in 2030**, by **2.39 times in** 2041, and by **3.14** times in 2050, from a base of 41.25 MTOE

Energy and power demand projection for 2041: IEPMP Vs. CPD

❑ Summary of the Power Demand Forecast in the IEPMP

- IEPMP mainly follows **PP2041** power strategy using government forecasts (IEPMP Interim Report, 2022), without separate and individual estimations (IEPMP Interim Report, 2022)
- Electricity demand was measured by a time-invariant constant GDP elasticity method (elasticity = 1.27) as per PSMP 2016, and no efficiency parameter was used
- According to the estimation of the IEPMP: from 2019 to 2030, the energy demand will increase by **2.26 times** to 206.1 Tw-H, by **4.5 times** to 411 Tw-H by 2041, and by **7.38 times** to 673.7 Tw-H by 2050, from a base of 91 Tw-H

❑ Methodological Issues in the IEPMP

- The OLS model is likely to suffer from non-stationarity, endogeneity, autocorrelation and misspecification issue
- Moreover, **GDP** is assumed to be **exogenous** which is, according to literature, an **unrealistic** assumption
- Our approach, **VECM**, deals with all these methodological issues
  - ✓ The VECM allows for a more dynamic, robust, flexible and realistic modelling approach
  - ✓ Post estimation robustness and stability of the model: **Satisfied**
  - ✓ The short-run and long-run interrelationship among the variables are consistent with previous literature

Energy and power demand projection for 2041: IEPMP Vs. CPD

❑ Revised Forecast of Energy Demand

Table 1: Comparison of VECM Forecast of Energy Demand with that of IEPMP

Year	Primary Energy Consumption (mtoe)		Changes in Forecasted energy consumption (folds)	
	According to the **IEPMP**	According to the **VECM**	**IEPMP** Forecast of Energy Demand	**VECM** Forecast of Energy Demand
2019	41.25	41.25	-	-
2030	67.65	56.1	1.64 folds	1.36 folds
2041	98.59	72.6	2.39 folds	1.76 folds
2050	129.53	84.98	3.14 folds	2.06 folds

Source: Authors' Calculation and the IEPMP

- The VECM forecast illustrates a **much lower primary energy forecast** estimation each year (Table 1)
- The systematic loss or any other cost associated with the conversion from primary energy to final energy has been considered constant across the scenarios, in both, the IEPMP and VECM estimation
- The last data observation point of the IEPMP is 2019, which **did not consider the COVID-19** shock on the economy and this structural break might be a big reason behind the discrepancy

Energy and power demand projection for 2041: IEPMP Vs. CPD

❑ Revised Forecast of Power Demand

Table 2: Comparison of VECM Forecast of Power Demand with that of IEPMP

	Power Demand (Tw-H)		Changes in Forecasted Power Demand (times)	
Year	Power Demand (Tw-H) according to the **IEPMP**	Power Demand (Tw-H) according to the **VECM**	**IEPMP** Forecast of Power Demand (Times Changed)	**VECM** Forecast of Power Demand (Times Changed)
2019	91	91	-	-
2030	206.1	135.59	2.26 times	1.49 times
2041	411.1	191.1	4.5 times	2.10 times
2050	673.7	239.33	7.38 times	2.63 times

Source: Authors' Calculation and the IEPMP

- VECM with data spanning from 1985 to 2022 (**the COVID-19 incident is addressed**)
- The VECM forecast illustrates a **much lower electricity forecast** estimation in every year
- More popularly, our forecast shows that the electricity demand in 2041 **will be 27,345 MW** compared to the estimate of the IEPMP, **58,410 MW**
- Considering the 25% reserve margin (as proposed in the IEPMP), the projected capacity would be **34,181 MW**

Energy and power demand projection for 2041: IEPMP Vs. CPD

❑ Revised Forecast of Power Demand

Table 3: Comparison of Actual and Forecast Power Consumption with and without COVID-19

Year	Actual Power Consumption (Tw-H)	Forecast of Power Demand (Tw-H): without COVID-19	Forecast of Power Demand (Tw-H): actual scenario
2019	91.3	91.3	91.3
2020	85.5	106.8*	85.5
2021	92.21	114.6*	92.21
2022	97.6	123.17*	97.6
2023		130.05*	102.25*

Source: Authors' Calculation, IEPMP and BPDB

- The Table shows that the **absence of the COVID-19 incident** is supposed to increase the power demand for the year spanning from 2020 to 2022 (middle column)
- However, the **realised power demand** observed from 2020 to 2022 is **much lower** than the one estimated by the scenario which did not consider COVID-19, aligning with forecast of the IEPMP.
- Although the **IEPMP was finalised in 2022,** it has already failed to bring a similar and equal outcome with the realised values from recent years and that explains the higher power consumption demand forecast of the IEPMP

Energy and power demand projection for 2041: IEPMP Vs. CPD

❑ Recommendations

- In case of the projection of energy and power demand by 2041, **serious estimation flaws** are revealed
  - ✓ **Over-projection of power and energy demand would push** for making 'unnecessary' investments for infrastructure development, particularly for fossil-fuel-based energy generation, transmission, and distribution would obstruct energy transition in the country
  - ✓ With the re-estimated projected demand, 40% of total power generation capacity by 2041 (about **14000 MW) could be met** by renewable energy – solar (rooftop, solar park) and wind (onshore and off-shore)
  - ✓ Necessary attention should be put in place for **industry-scale renewable energy generation**, net-metering energy generation, etc.

8. Conclusions

Conclusions

- The performance of the Bangladesh economy during the first ten months of FY24 indicates that the remaining months of the FY24 will **continue to face ongoing challenges despite some positive policy measures taken by the Bangladesh Bank**
  - This is because it takes a while to see the outcome of any policy. However, the effectiveness of any policy also depends on complementary polices in other areas
- In the **backdrop of formidable economic challenges**, the new Finance Minister will present the **national budget for FY25**
  - This and the previous IRBD reports of FY24 by CPD have made both broad and specific measures needed for the economic recovery
- CPD has emphasised that while **restoring macroeconomic stability** should be the **main focus** of the policymakers, they must **also offer concrete measures for proving respite to the inflation-afflicted common people** with limited income
- Therefore, the **macroeconomic framework** for the upcoming **FY25** should continue to **focus on curbing inflation and stabilising the exchange rate**

Conclusions

- ❑**Instead of GDP growth, protecting the interests of vulnerable and disadvantaged** groups should be the priority of the policymakers
- ❑Issues such as **enhancing fiscal space**, **prioritising expenditure**, and **prioritising foreign financing** ought to **guide** the **public finance** management in **FY25**
- ❑For positive outcomes of policy measures and improving macroeconomic performance, **complementarity between the fiscal and monetary policies** must be ensured
- ❑Along with the immediate and short-term measures, the government should also work towards **addressing the structural problems, such as establishing good governance and strengthening institutions through reforms**
  - ➢Given that reforms are unpopular and painful, these require strong political commitment

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