

Bangladesh Economy in FY2023–24

*Interim Review of
Macroeconomic Performance*

Prepared under CPD's programme on



**Bangladesh Economy
in FY2023–24**

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Macroeconomic Performance*

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Macroeconomic Performance*

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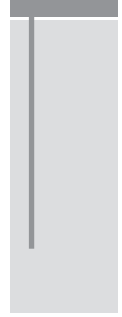
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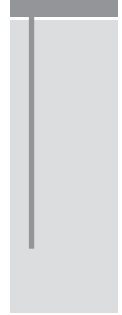


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Acronyms

ACC	Anti-Corruption Commission
ADB	Asian Development Bank
ADP	Annual Development Programme
ADR	advance-deposit ratio
AIMS	Aid Information Management System
AIT	Advance Income Tax
APCF	Asia-Pacific Climate Finance Fund
ASEAN	Association of Southeast Asian Nations
AT	Additional Tax
ATS	Advanced Technology Scenario
BAU	Business as Usual
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BCBL	Bangladesh Commerce Bank Ltd
BDT	Bangladeshi Taka
BEPZA	Bangladesh Export Processing Zones Authority
BFIU	Bangladesh Financial Intelligence Unit
BIBM	Bangladesh Institute of Bank Management
BILS	Bangladesh Institute of Labor Studies
BLA	Bangladesh Labour Act
BMET	Bureau of Manpower, Employment and Training
BoP	Balance of Payments
BPC	Bangladesh Petroleum Corporation
BRI	Belt and Road Initiative
BRTA	Bangladesh Road Transport Authority
CD	Customs Duty
CIF	Cost, Insurance, and Freight
CIFs	Climate Investment Funds
CIID	Customs Intelligence and Investigation Directorate
CIT	Corporate Income Tax
CO ₂	Carbon Dioxide
CPD	Centre for Policy Dialogue
CPI	Consumer Price Index
CRAFT	Climate Resilience and Adaptation Finance and Technology Transfer Facility for South Asia
CRM	Credit Risk Management
CRMUs	Compliance Risk Management Units
CTF	Clean Technology Fund
DAM	Department of Agricultural Marketing
DAP	Detailed Area Plan
DIFE	Department of Inspection for Factories and Establishments
DLS	Department of Livestock Services
DoL	Department of Labour
DPs	Development partners

EBA	Everything But Arms
EFDs	electronic fiscal devices
ENDS	Electronic nicotine delivery systems
EPB	Export Promotion Bureau
EPR	Extended Producer Responsibility
EPZs	Export Processing Zones
ERD	Economics Relations Division
ERS	Economic Research Service
ESMAP	Energy Sector Management Assistance Program
EU	European Union
EVs	Electric Vehicles
FCTC	Framework Convention on Tobacco Control
FDI	Foreign direct investment
FES	Friedrich-Ebert-Stiftung
FID	Financial Institutions Division
FY	Fiscal Year
G2G	Government-to-Government
GCF	Green Climate Fund
GDP	Gross Domestic Product
GED	General Economics Division
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GHG	Greenhouse Gas
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GoB	Government of Bangladesh
GSP	Generalised Scheme of Preferences
GTF	Green Transformation Fund
HS	Harmonised System
IDCOL	Infrastructure Development Company Limited
IEPMP	Integrated Energy and Power Master Plan
IFF	Illicit Financial Flow
IIP	Index of Industrial Production
ILO	International Labour Organization
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
IPPs	Independent Power Producers
IRBD	Independent Review of Bangladesh’s Development
IRC	Interest Rate Corridor
ITUC	International Trade Union Confederation
JICA	Japan International Cooperation Agency
LDC	Least Developed Country
LED	Light-emitting diodes
LNG	Liquefied Natural Gas
MEPs	Members of the European Parliament
MLTRS	Medium and Long-Term Revenue Strategy
MLTRS	Medium-and Long-Term Revenue Strategy
MOA	Ministry of Agriculture
MoEFCC	Ministry of Environment, Forest and Climate Change
MoF	Ministry of Finance
MoP	Ministry of Planning
MoPEMR	Ministry of Power, Energy, and Mineral Resources
MPS	Monetary Policy Statement
MT	Metric Tonnes
MTDMS	Medium Term Debt Management Strategy
MTMPS	Medium-Term Macroeconomic Policy Statement
MTOE	Million Tonnes Of Oil Equivalent

MW	Megawatt
NAP	National Action Plan
NBR	National Board of Revenue
NDB	New Development Bank
NDC	Nationally Determined Contribution
NDF	Nordic Development Fund
NEET	Not Entering Education, Employment Or Training
NEM	Net Energy Metering
NGOs	Non-Government Organisations
NPLs	Non-Performing Loans
NSC	National Savings Certificate
NTCC	National Tobacco Control Cell
OECD	Organisation for Economic Co-operation and Development
OMS	Open Market Sale
OSH	Occupational Safety and Health
OSSA	One Stop Service Act
PCBs	Private Commercial Banks
PFM	Public Finance Management
PIT	Personal Income Tax
PPE	Personal Protection Equipment
PPP	Public Private Partnerships
PSMP	Power System Master Plan
QLFS	Quarterly Labour Force Survey
RD	Regulatory Duty
REPP	Renewable Energy Performance Platform
RMG	Readymade Garment
RRPs	Recommended Retail Prices
SCBs	State-Owned Commercial Banks
SD	Supplementary Duty
SDG	Sustainable Development Goal
SIP	Solar Irrigation Pump
SMART	Six-month Moving Average Rate of Treasury bills
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprise
SREDA	Sustainable and Renewable Energy Development Authority
SRO	Statutory Regulatory Order
SSB	Sugar-Sweetened Beverages
TAF	The Asian Foundation
TCB	Trading Corporation of Bangladesh
TICFA	Trade and Investment Cooperation and Facilitation
TPC	Transfer Pricing Cell
TRIPS	The facilities under the Trade-Related Aspects of Intellectual Property Rights
TTI	Total Tax Incidence
TWh	Terawatt-hours
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNGPs	United Nations Guiding Principles on Business and Human Rights
USD	United States Dollar
VAT	Value Added Tax
WHO	World Health Organization
WTO	World Trade Organization
WWA	Worker Welfare Associations

Chapter 1

State of the Bangladesh Economy in FY2023–24 *(Third Reading)*

EXECUTIVE SUMMARY

The report provides a comprehensive analysis of Bangladesh's economic performance and challenges as it enters the final phase of the 2024 fiscal year. It discusses key macroeconomic indicators, trends, and challenges in agriculture, energy, and overall economic policy. The focus is identifying critical issues that must be addressed in the upcoming national budget and offering policy recommendations for sustainable economic development. The report draws from various data sources, including government reports, economic trends, and CPD's forecasts, to provide a well-rounded view of the economic landscape.

The analysis begins by noting the pressure on Bangladesh's agricultural sector. The country faces a steady decline in arable land due to rapid urbanisation, reducing the area available for farming. As a result, there has been an increase in cropping intensity, with more land being used for multiple crops each year. While this has helped maintain agricultural output, it raises concerns about the long-term sustainability of such practices. The report highlights the increasing reliance on multiple cropping systems, such as double and triple-cropping, on land once used for single crops. This intensification can strain the land and reduce soil fertility, potentially leading to diminishing returns in the future.

Despite these challenges, Bangladesh's agricultural production has steadily improved in recent decades, particularly in producing rice, vegetables, livestock, and fisheries. However, rising production costs, including those for fertilisers, labour, and irrigation, have significantly weakened the competitiveness of domestic agricultural products in the global market. For instance, the cost of threshing Boro rice has increased significantly, making domestically produced rice more expensive than imports. This has contributed to Bangladesh's reliance on imported food, particularly rice and wheat. The report suggests that to improve food security, Bangladesh should optimise land use by converting underutilised areas, such as fallow and wastelands, into productive agricultural land. Additionally, enhancing mechanisation in agriculture and improving storage and distribution systems would help reduce post-harvest losses and increase the overall efficiency of the agricultural sector.

Another important issue discussed in the report is the energy sector, particularly the Integrated Energy and Power Master Plan (IEPMP) developed by the Ministry of Power, Energy, and Mineral Resources. While the IEPMP aims to address Bangladesh's energy needs through 2050, its projections are based on highly optimistic assumptions about GDP growth, which may lead to overestimated energy demand. The report highlights that the IEPMP's reliance on simplistic econometric models, such as Ordinary Least Squares (OLS), does not accurately reflect the complexities of energy consumption. For example, the IEPMP assumes that primary energy consumption will increase more than three times between 2019 and 2050. However, CPD's alternative analysis, based on the Vector Error Correction Model (VECM), provides more conservative estimates, indicating that energy demand will rise more moderately.

The overestimation of energy demand poses significant risks, particularly regarding the potential for over-investment in energy infrastructure. Overestimating future energy needs could lead to constructing unnecessary power plants and transmission networks, especially those relying on fossil fuels. Such investments could strain the country's financial resources and delay its transition to renewable energy. The report argues that a more accurate energy forecast is crucial to avoid this problem. It suggests that the IEPMP should revise its projections using more robust econometric models, such as VECM, which better account for long-term trends and economic shocks like the COVID-19 pandemic. Furthermore, the report recommends that Bangladesh

prioritise renewable energy sources in its future energy plans. According to CPD's forecast, up to 40 per cent of the country's power generation could be sourced from renewable sources, such as solar and wind, by 2041. This would reduce the country's reliance on fossil fuels and help achieve its sustainability goals.

The energy demand forecast also underscores the importance of decentralised energy systems. The report suggests that innovative approaches like net metering should be promoted, allowing individuals and industries to generate and sell their energy. This would help diversify energy sources, increase energy security, and reduce pressure on centralised power plants. Furthermore, it could encourage private sector investment in renewable energy and help Bangladesh meet its energy needs more sustainably.

The report also evaluates Bangladesh's broader macroeconomic performance, particularly regarding inflation and fiscal management. It notes that while there have been some positive developments, such as the Bangladesh Bank's policy initiatives, the country continues to face significant economic challenges. Inflation remains a major concern, with rising prices affecting the purchasing power of the general population. The report points out that inflationary pressures are particularly harmful to low-income households struggling to afford basic necessities. In this context, the report stresses that the government's priority should be to address inflation and stabilise prices, particularly for food and energy, to ensure that the public can maintain a decent standard of living.

The report offers recommendations for the upcoming national budget in light of these challenges. It suggests that the Ministry of Finance should take comprehensive measures to control inflation, particularly in the food and energy sectors, and ensure that fiscal and monetary policies are aligned to achieve this goal. A key part of this effort should be improving public sector management and governance to reduce inefficiencies and encourage more effective allocation of resources. The report acknowledges that such reforms can be difficult and politically unpopular, but they are necessary for long-term stability and growth. The government must be willing to make the tough decisions required to address Bangladesh's structural economic problems, including reforming public sector institutions and reducing corruption. Only with a commitment to good governance and comprehensive economic reforms can Bangladesh hope to achieve sustained, inclusive growth in the years to come.

Finally, the report concludes that while Bangladesh has made significant progress in key areas such as agriculture and energy, several challenges remain. The upcoming national budget must address these issues by incorporating the recommendations made in the report, with particular attention to controlling inflation, improving the efficiency of public sector institutions, and prioritising sustainable development. The government must adopt a long-term vision that addresses short-term economic difficulties and lays the foundation for a more resilient and competitive economy. With the right policies, Bangladesh can overcome its current economic challenges and continue its journey towards prosperity.

1.1 INTRODUCTION

The Bangladesh economy is currently under significant strain due to several ongoing challenges. While 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.

During the first three quarters of FY2024, the Bangladeshi economy faced significant pressure. This was evidenced by subdued revenue mobilisation, resulting in a shrinking fiscal space, 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. Indeed, these challenges were also evident in FY2023, which led the government of Bangladesh (GoB) to initiate a 42-month programme supported by the International Monetary Fund (IMF) in February 2023 to improve the balance of payment and restore macroeconomic stability. After more than a year of the IMF programme, the economy has yet to show any improvement in the attendant areas of concern. The central bank has recently adopted policy measures such as market-based interest rates and exchange rates 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 FY2025, which will be presented to the national parliament on 6 June 2024, is expected to address these issues, help the economy bounce back, and support people in distress.

This FY2024 review prepared under CPD’s flagship Independent Review of Bangladesh’s Development (IRBD) programme, analyses the economy, which has been experiencing difficult times throughout the fiscal year. The current IRBD report discusses the performance of a few selected issues: growth and employment, public finance, inflation, external sector, agricultural commodities, and power and energy.

1.2 GROWTH AND EMPLOYMENT

Key Findings

1. While per capita income increased marginally in FY2024, it is still below FY2022 in United States Dollar (USD) terms – owing to the rapid depreciation of the Bangladeshi Taka (BDT) against USD.
2. The Bangladesh Bureau of Statistics (BBS) estimated a 6.74 per cent growth in Gross Domestic Product (GDP) during the second half (H2) of FY2024, which goes against the usual downward trend of growth in this period.
3. While GDP’s employment elasticity shows a downward trend, the employment pattern is shifting back to its pre-pandemic state, with a movement from the primary sector (agriculture) to the secondary (industry) and tertiary (services) sectors.

Key Policy Recommendations

1. The current Quarterly Labour Force Survey (QLFS) reports do not provide any data on informality, wages and income, which needs to be remedied to get a clear picture of the labour market.
2. Implementing the Annual Development Programme (ADP) needs to improve the provisional estimate of the public investment-GDP ratio to hold.
3. The government must set macroeconomic targets consistent with ongoing realities instead of overestimating potential outcomes.

Context

The ongoing macroeconomic instability and consequent policy adjustments, largely influenced by the IMF conditionalities, surely affected the country's economic growth prospects. The debate concerning the trade-off between economic growth and macroeconomic stability has returned in this context. While stabilising the macroeconomic situation with corrective measures might entail some adverse impacts in the short term, they ultimately prove to be beneficial in the medium to long term if supported by complementary macro-management policies (Stiglitz et al., 2006). It must also be mentioned that stabilisation packages prescribed by multilateral agencies such as the IMF often prioritise stability over growth (Bird, 1996; Przeworski & Vreeland, 2000). However, as was observed from the past experiences of developing countries, there are divergences in the results of such packages (Abbott, Andersen & Tarp, 2010; Taylor, 1988).

In Bangladesh, it is a matter of regret that it has become customary to set targets concerning the macroeconomic framework that are inconsistent with ongoing realities (CPD, 2023). For FY2024, the government initially targeted a GDP growth of 7.5 per cent despite existing distresses in the macroeconomic scenario. As per the Monetary Policy Statement (MPS) of the Bangladesh Bank, released in January 2024, this target was revised down to 6.5 per cent. Several multilateral agencies were less optimistic regarding Bangladesh's GDP growth prospects. For instance, the Asian Development Bank (ADB) projected Bangladesh's GDP growth in FY2024 to be 6.1 per cent (ADB, 2024). Similarly, the IMF and World Bank projected the corresponding figure to be 5.7 per cent and 5.6 per cent, respectively (IMF, 2024; World Bank, 2024).

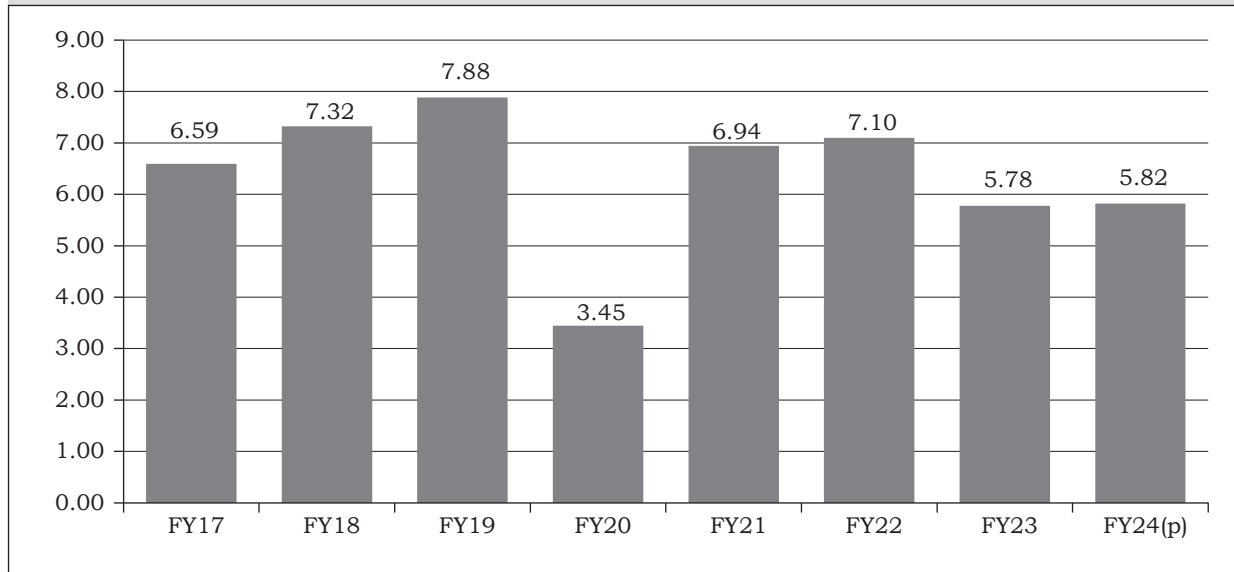
GDP growth

The Bangladesh Bureau of Statistics (BBS)'s provisional estimates predicted a GDP growth rate of 5.82 per cent in FY2024, a marginal increase from the growth recorded in FY2023 (Figure 1.1).

However, this estimate was largely based on the data for the first six to seven months of the ongoing fiscal year and the original programmed national budget, which were surely overestimated. 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 last two fiscal years, FY2022 and FY2023.

Sources of provisional GDP growth

In the incremental GDP of FY2024, the agriculture and industry sectors are expected to contribute about 6.0 per cent and 41.7 per cent, respectively. The services sector accounted for nearly half of the incremental GDP in FY2024 (49.2 per cent). One of the major contributors to incremental GDP

Figure 1.1**GDP growth of Bangladesh***(in per cent)*

Source: Author's compilation from BBS data.

Note: 'P' denotes provisional estimates.

in recent decades, the manufacturing subsector, is projected to contribute only 27.2 per cent to the incremental GDP. This is considerably lower than the corresponding figure for FY2023 (36.0 per cent).

The agriculture sector is estimated to grow modestly by 3.21 per cent, whereas the industry sector posted a growth of 6.66 per cent. Within the industry sector, manufacturing and construction subsectors registered notable growth of 6.58 and 7.45 per cent, respectively. The services sector grew by 5.80 per cent in FY2024. 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 cent.

Per capita income

Per capita GDP stood at USD 2,675 in FY2024, while per capita GNI stood at USD 2,784, recording 1.21 per cent and 1.27 per cent annual growth rates, respectively. While the growth, although marginal, is encouraging, the per capita income in US dollar terms is still below that of FY2022. The rapid depreciation of BDT against USD is a significant contributing factor to this end. Indeed, the exchange rate considered for this estimation (BDT 109.97 per USD) will also not be valid by the end of FY2024, given the recent significant depreciation (BDT 117.77 per 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 the last five years (FY2020-FY2024), the gross investment-GDP ratio has decreased by 0.33 percentage points. Gross investment was 31.31 per cent of GDP in FY2020, while it crawled

down to 30.98 per cent in FY2024 (Table 1.1). Private investment-GDP ratio decreased from 24.18 per cent in FY2023 to 23.51 per cent in FY2024. An uptick in public investment compensated for this slack in private investment. Given the sluggish implementation of the Annual Development Programme (ADP), whether the provisional estimate for the public investment-GDP ratio will hold remains a question.

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 GDP estimates regularly. The availability of the provisional GDP estimates for the entire FY2024 and the first two quarters creates the opportunity to investigate Bangladesh's growth dynamics in a more disaggregated (e.g., quarterly or half-yearly) manner.

As Table 1.2 shows, BBS estimated a 6.74 per cent growth of the Bangladesh economy during the second half (H2) of FY2024. 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 per cent growth rate in H2 FY2023 and H1 FY2024 indicates economic distress. In this scenario, the key question is whether the economy will attain a 6.74 per cent growth during H2 FY2024.

The growth in H2 FY2024, as predicted by the BBS, 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. In terms of growth, recovery 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 in FY2024, the anticipated GDP growth in the manufacturing sector during H2 FY2024 might not materialise. The trends in import payments for capital machinery and intermediate products during the early months of H2 FY2024 also support this notion. Also, budgetary targets were likely to be considered when 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 FY2024, only a 1.34 per cent growth of GDP deflator was considered. However, this is far from the reality, as CPI inflation has remained over 9 per cent throughout FY2024.

Table 1.2**Half-yearly GDP growth of Bangladesh***(in per cent)*

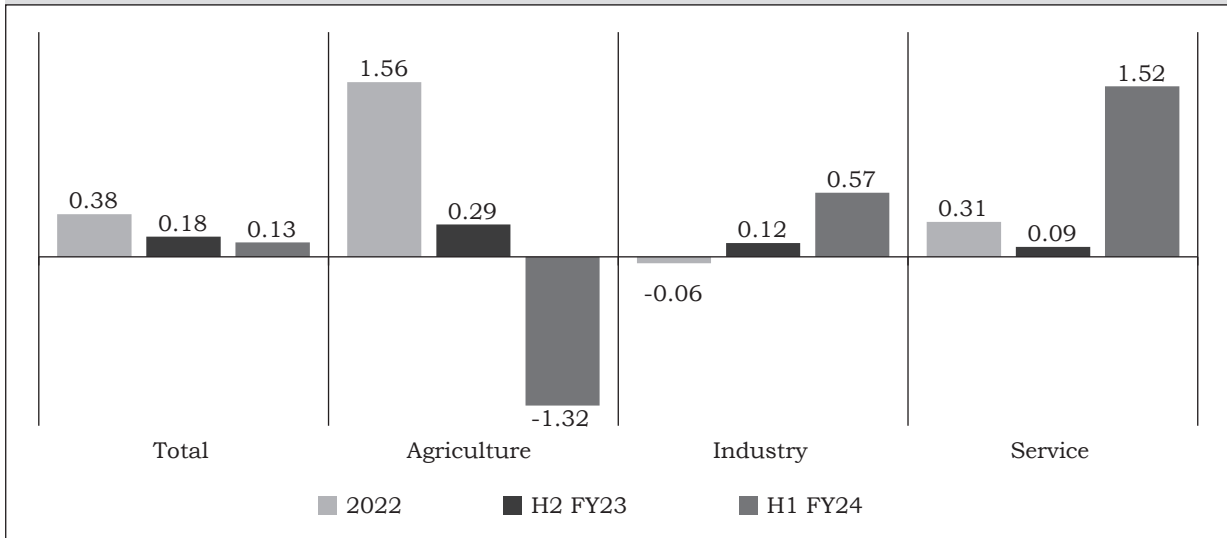
Industrial origin sector	FY22		FY23		FY24(p)	
	H1	H2	H1	H2	H1	H2
A. Agriculture	2.99	3.12	2.35	4.39	3.02	3.39
1 Agriculture, forestry and fishing	2.99	3.12	2.35	4.39	3.02	3.39
B. Industry	11.01	8.80	8.69	8.06	6.21	7.08
2 Mining and quarrying	-3.07	0.61	11.35	13.90	5.22	10.11
3 Manufacturing	12.11	10.76	10.10	7.77	5.18	7.92
4 Electricity, gas and water supply	5.24	7.55	6.06	-0.15	-0.11	1.25
5 Construction	11.95	5.84	5.03	8.80	10.05	5.10
C. Services	5.76	6.70	8.13	2.93	3.39	8.05
6 Wholesale and retail trade; repair of motor vehicles and motorcycles	13.08	4.72	10.53	2.74	4.57	7.72
7 Transportation, accommodation and food service, information and communication	5.22	5.92	7.41	3.97	2.07	8.76
8 Financial and insurance activities	5.72	6.01	3.33	1.80	1.14	8.45
9 Real estate, professional administrative and support service activities	0.40	7.44	5.54	2.72	2.33	5.71
10 Public administration, health and education	0.80	13.22	10.78	3.52	7.51	9.63
11 Art, recreation and other service	5.85	1.04	5.58	1.30	-1.96	8.32
GDP at a constant price	7.24	6.97	7.06	4.59	4.84	6.74

Source: Author's calculation from BBS data.**Note:** 'P' denotes provisional estimates.**GDP and employment**

The quarterly GDP estimates and labour force survey (LFS) data from BBS have extended an opportunity to regularly look into the growth-employment nexus. From Figure 1.2, it can be observed that the employment elasticity of GDP (i.e., how employment varies with economic output growth) shows a downward trend. This implies that the economy's ability to generate employment is slowing down. Another salient feature that can be inferred from Figure 1.2 is that the employment pattern 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. As may be recalled, the reverse trend happened in the aftermath of the COVID-19 pandemic (often labelled as the reverse structural transformation).

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 per cent of industrial employment and 67.8 per cent of the service sector employment fall under the informal category (BBS, 2023). 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 to get a more accurate representation of the labour market.

Figure 1.2
Employment elasticity of GDP



Source: Author’s calculation from BBS data.

1.3 PUBLIC FINANCE

Key Findings

1. Total revenue collection increased 13.3 per cent during the July-January period of FY2024, which implies that a whopping 63.2 per cent growth will be required during the remainder of FY2024 if the annual target is to be achieved.
2. A restrained approach to public expenditures was observed during the first seven months of FY2024, as evident from the adjustments in subsidy schemes and pricing mechanisms for petroleum products.
3. The budget deficit was predominantly financed by foreign borrowing during the July-January FY2024 period, with a high dependency on scheduled banks within the domestic sources.

Key Policy Recommendations

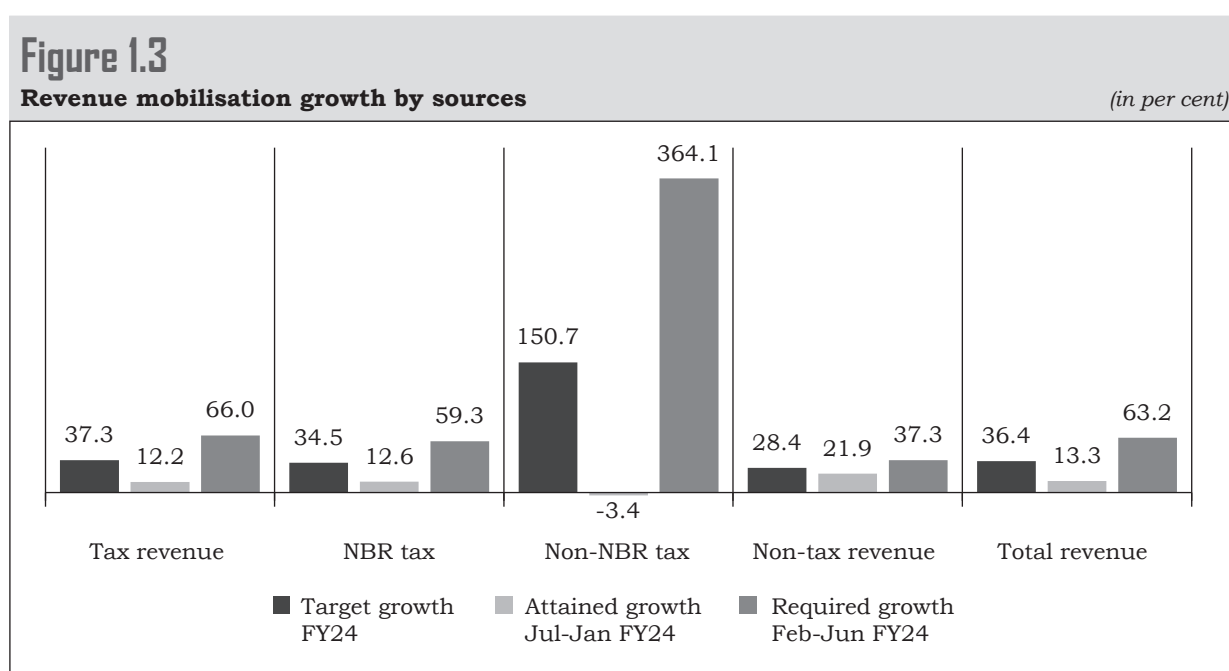
1. Enhancing the fiscal space by blocking resource leakage and finding strategies to increase tax revenue effectively is required.
2. It is imperative that public expenditure adjustments properly account for the rise in the prices of essentials, which implies that austerity measures must consider their impact on the social safety net, health, education, agriculture, and small and medium enterprises (SMEs).
3. The government should prioritise annual development programme (ADP) projects that are about 90–95 per cent complete and focus on foreign-funded projects, which will help to improve the declining forex reserve.

Commenting on the public finance situation has become problematic due to the unavailability of timely data. As of May 2024, the Ministry of Finance (MoF) data is available only until January 2024. As is known, the MoF provides the most comprehensive and better-quality data concerning

public finance in Bangladesh (Bhattacharya et al., 2022). Although alternative and more timely sources such as the National Board of Revenue (NBR), Implementation Monitoring and Evaluation Division (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.

1.3.1 Revenue mobilisation

According to MoF data, total revenue collection recorded a 13.3 per cent growth during the July-January period of FY2024. This is a considerable improvement from the corresponding figure of FY2023 (-2.0 per cent). Despite this, a whopping 63.2 per cent growth will be required during the remainder of FY2024 if the annual target is to be achieved—a highly unlikely prospect¹ (Figure 1.3). Improved income tax and VAT collection performances and significant increases in government earnings from dividends and profit primarily drove the total revenue growth during July-January FY2024.



Source: Author's calculation from MoF data.

As per NBR data, tax collection by the NBR grew by 15.6 per cent during the July-April period of FY2024. This is a significant increase from the corresponding figure for July-April FY2023, which stood at 7.1 per cent. The growth in the ongoing FY2024 was driven primarily by collecting Value Added Tax (VAT) and Supplementary Duty (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. On the other hand, the underwhelming performance of indirect taxes collected at the import level, despite the substantial depreciation of the Bangladeshi Taka (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.

¹In March 2024, CPD projected that revenue shortfall could reach approximately BDT 82,000 crore at the end of FY2024.

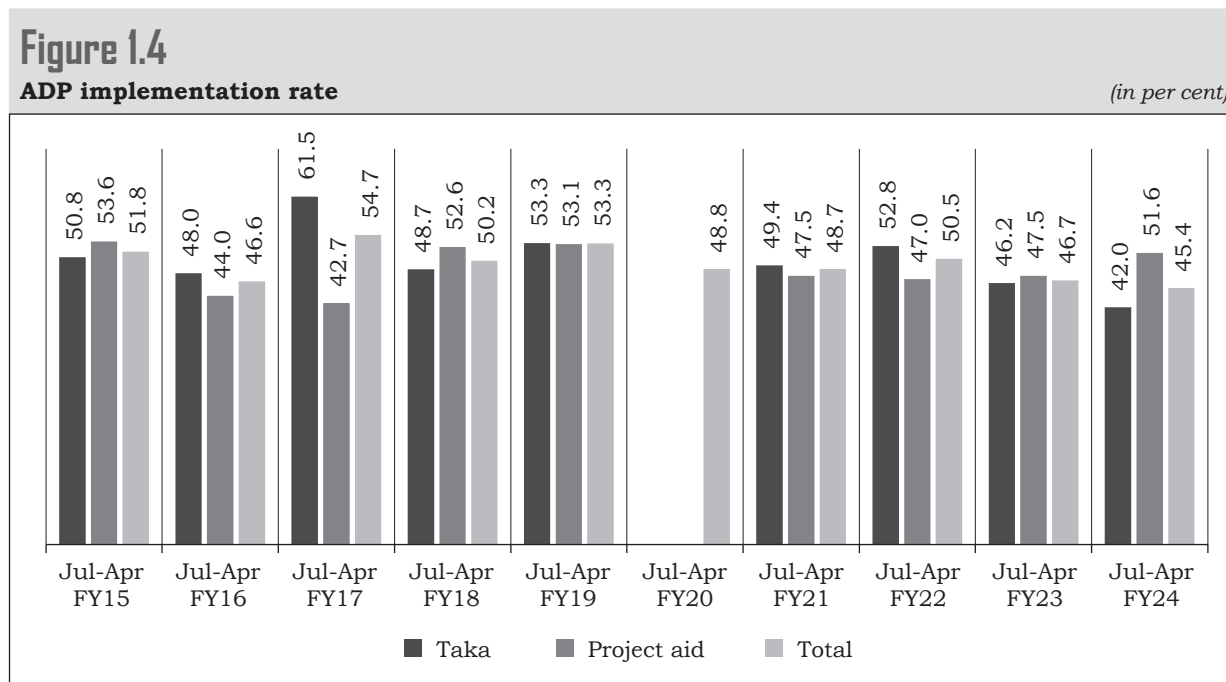
1.3.2 Public expenditure

Generally, a restrained approach to public expenditure was observed during the first seven months of FY2024. As the MoF data shows, overall budget utilisation was 32.4 per cent during July-January of FY2024. The corresponding figure for FY2023 was also the same. The Annual Development Programme (ADP) implementation rate was on the lower side – with 20.0 per cent of the allocated amount spent during July-January FY2024 (the corresponding figure for FY2023 was 16.3 per cent). According to the World Bank (2024), import-related difficulties originating from the ongoing foreign currency crisis and reprioritisation of projects have contributed to this.

The government has taken some initiatives to reduce its subsidy burden per the 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 pricing mechanism for petroleum products was introduced in March 2024, which is expected to reduce subsidy requirements due to changes in international fuel prices. The government also issued 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 considered 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.

According to IMED data, the ADP implementation rate against the original budget allocation reached 45.4 per cent during July-April FY2024—the lowest in the last 10 years (Figure 1.4).

The primary reason behind the slow implementation is the slow utilisation of the ‘Taka’ component (i.e., the part of ADP financed by domestic resources). On a positive note, within the components of



Source: Author’s calculation from IMED data.

Note: For the July-April FY2020 period, IMED changed its data reporting format due to the COVID-19 pandemic. Hence, the ‘Taka’ and ‘Project aid’ components are unavailable.

ADP, project aid utilisation breached the 50 per cent mark after five years. This is commendable, given the ongoing foreign currency situation.

Six of the top 10 ministries/divisions that account for 70.2 per cent of the ADP allocation for FY2024 implemented ADP 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 FY2024.

1.3.3 Deficit and its financing

As per MoF data, during the July-January period of FY2024, the budget deficit increased only marginally compared to the corresponding period of FY2023—by BDT 730 crore. However, significant shifts were observed in the composition of deficit financing. In the first seven months of FY2024, deficit financing primarily relied on foreign borrowing. The scenario was converse during the corresponding period of FY2023. Within the domestic sources, high dependency on scheduled banks for deficit financing was observed. In this connection, it must be noted that 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 National Savings Certificates (NSC) issuance and less competitive interest rates resulted in net NSC sales by the government remaining negative in the first seven months of FY2024.

1.3.4 Five key principles

Based on the discussion so far, five key principles have been identified that should be considered for public finance management in the upcoming FY2025.

Enhancing fiscal space

Any attempt to enhance fiscal space should focus on generating more resources and sealing leakage. In the upcoming FY2025 budget, efforts to widen the tax base must be prioritised as part of the former. To this end, initiatives such as taxing the digital economy and digitalising the taxation system must be given due attention. Analysing current tax exemptions in-depth with thorough data analysis needs to be a top priority for the government. Frontier issues must also be addressed immediately, such as the meaningful taxation of wealth and property and the growing digital economy. To seal the leakages, curbing illicit financial flows (IFF) must be high on the government's agenda. At the same time, the highest effort should be given to limit tax evasion and tax avoidance.

Prioritising expenditure

The framework for public expenditure in FY2025 needs to account for the ongoing rise in the price of essentials. The current austerity measures must be maintained to make their impact on the social safety net, health and education sectors, agriculture, and small and medium enterprises (SMEs) less burdensome. Also, prior government directives to curtail 'unnecessary and luxury' public expenditure (which includes the purchase of government vehicles and international travel) should be continued. Exit plans must be formulated for fiscal incentives towards exports and remittances. If a market-based exchange rate regime is eventually implemented, the resultant depreciation should be able to cover the fiscal incentives currently being provided.

Prioritising foreign financing

Considering the declining foreign exchange reserve situation, the government should prioritise implementing all foreign-funded ADP projects. The government should prioritise implementing projects very close to completion (about 90-95 per cent completion rate in June 2024). The availability of financing from foreign sources hinges upon the ADP design and implementation capacities of the government agencies. Thus, rapid improvement in these aspects has become a necessity. Policy reform ends up being the determining factor in availing budget support. Therefore, the government will need to become more accommodating in this regard.

Ensuring good governance

The political economy dynamics of Bangladesh have frequently impeded substantial reforms, even while the stakeholders have acknowledged their needs. 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, and 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. In this regard, good governance and political buy-in from the highest level is a prerequisite.

Protecting the interests of vulnerable and disadvantaged groups

While enhancing fiscal space and prioritising public expenditure ought to take centre stage in the public finance framework for FY2025, 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 FY2025. The design of both revenue and expenditure-related measures needs to take this into cognisance.

1.4 INFLATIONARY PRESSURES CONTINUE UNABATED

Key Findings

1. Prices of certain items, such as beef and sugar, have been unusually high in Bangladesh even when they fell in the global market, possibly due to interference in the domestic market.
2. Bangladesh's inflation rate has been persistently high, and because of this, Bangladesh spends more on essential food items than other richer countries.
3. The central bank used to maintain a fixed exchange rate, which made exports less competitive in the global market.

Key Policy Recommendations

1. The Bangladesh Competition Commission must give special attention to driving out any collusive forces responsible for high prices.
2. The government must provide direct cash support, enhance social protection, and give subsidies to small businesses to protect them from the negative impact of high prices.
3. At least 27 essential items have import tariffs, so the government needs to reduce these tariffs, even for a short period, to ensure affordability for the public.

1.4.1 Introduction

For over two years, Bangladesh has been grappling with high inflation. This phenomenon completely contrasts several developed and developing economies, including the troubled Sri Lanka, which managed to control inflation through effective policies. Bangladesh’s persistent high inflation phenomenon is due to policy and institutional failures. The burden of high inflation falls disproportionately on the poor and low-income households. Due to price hikes in essential goods like food and fuel, the purchasing power of ordinary people has eroded significantly. The suffering of the poor and low-income families, which began following the outbreak of the COVID-19 pandemic in early 2020, has continued to date. The Ukraine war further worsened the situation in February 2022. However, while many countries have managed to control inflation, Bangladesh still struggles to overcome the ongoing inflationary pressure. This section represents the trends of continuing inflation, policies and measures taken by the government, and a set of recommendations.

1.4.2 Point-to-point inflation

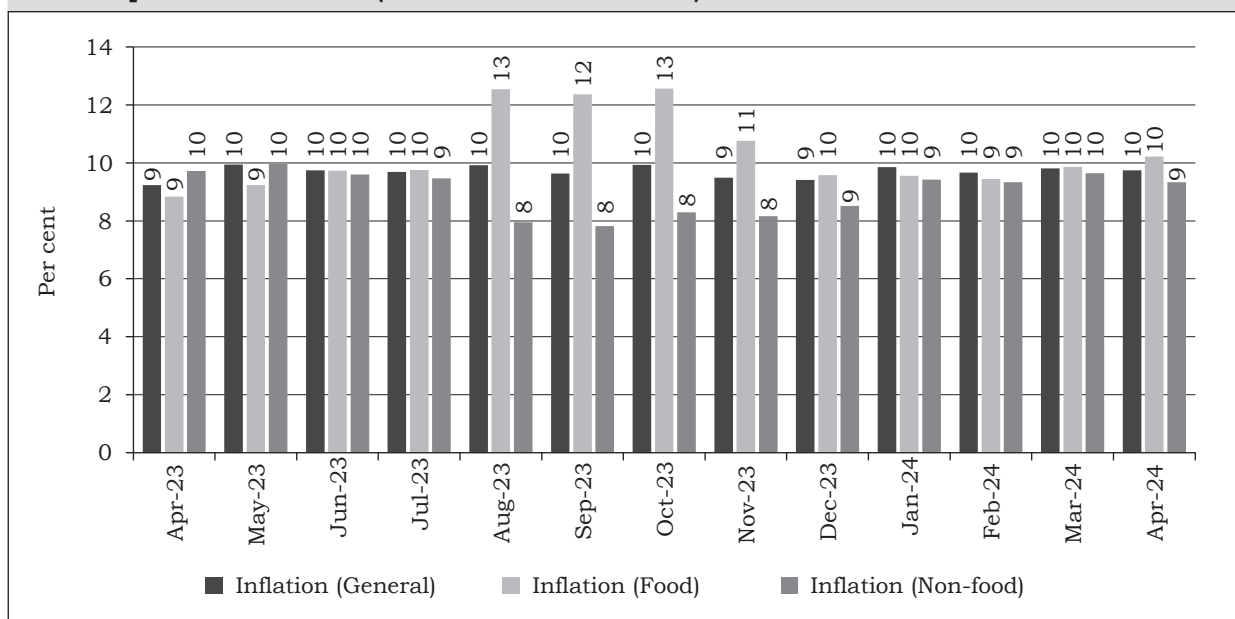
In the new base index, where the consumer price index (CPI) in FY2021-22 is assumed to be 100, there is currently data available for point-to-point inflation rates for the general inflation rate, food inflation rate, and non-food inflation rate over 13 months from April 2023 to April 2024 (Figure 1.5).

The data paints a clear picture of Bangladesh’s inflation situation. The general inflation rate has been consistently high, hovering around 10 per cent. There were slight increases in April, May, and June of 2023, but the rate remained steady at 10 per cent for most of the following months. In April 2024, the general inflation rate was again 10 per cent, indicating persistent and unyielding inflationary pressure (Bangladesh Bank, 2024a).

Food inflation, however, exhibited more variation. While it started at 9 per cent in April 2023, it reached a high of 13 per cent in August 2023 before dipping to 9 per cent in February 2024

Figure 1.5

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

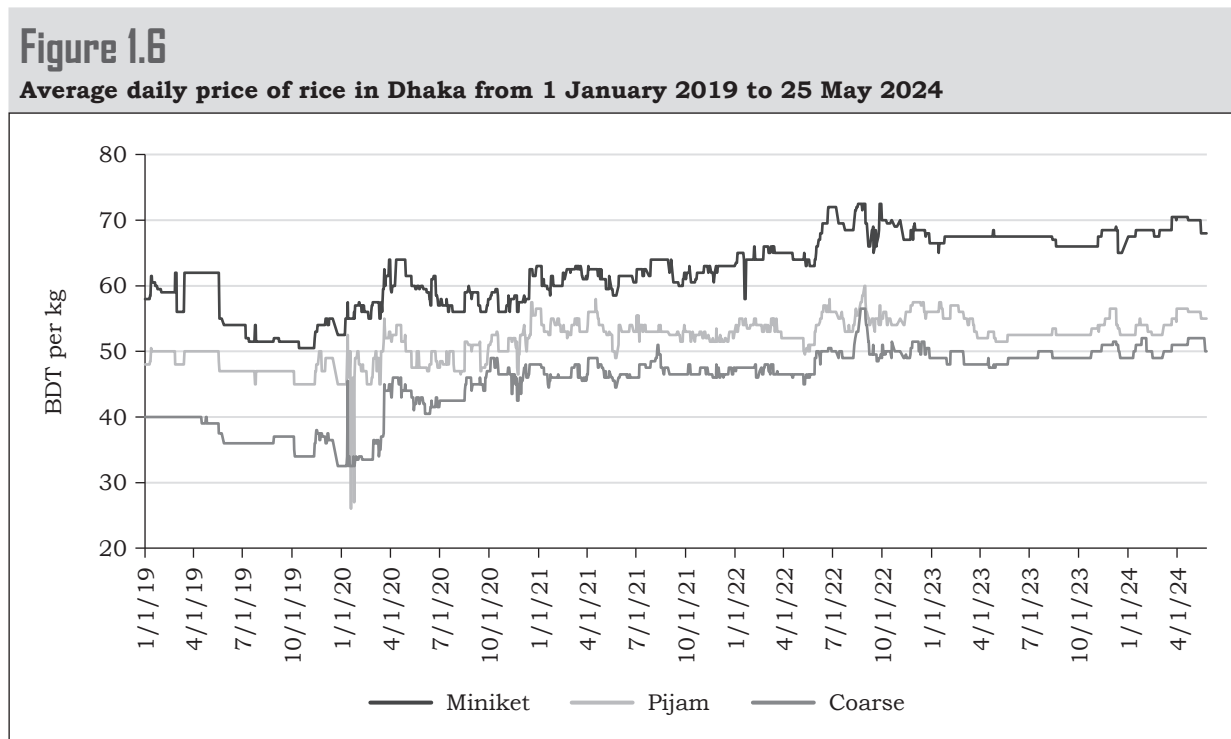


Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2024a).

(Bangladesh Bank, 2024a). In April 2024, the food inflation rate was 10 per cent (Bangladesh Bank, 2024a). Non-food inflation displayed the least fluctuation. It started at 10 per cent in April 2023 and remained at 10 per cent for almost the entire year, except for August and September 2023, when it dipped to 8 per cent (Bangladesh Bank, 2024a). In April 2024, the non-food inflation rate was 9 per cent (Bangladesh Bank, 2024a).

1.4.3 Trends in the prices of essential items

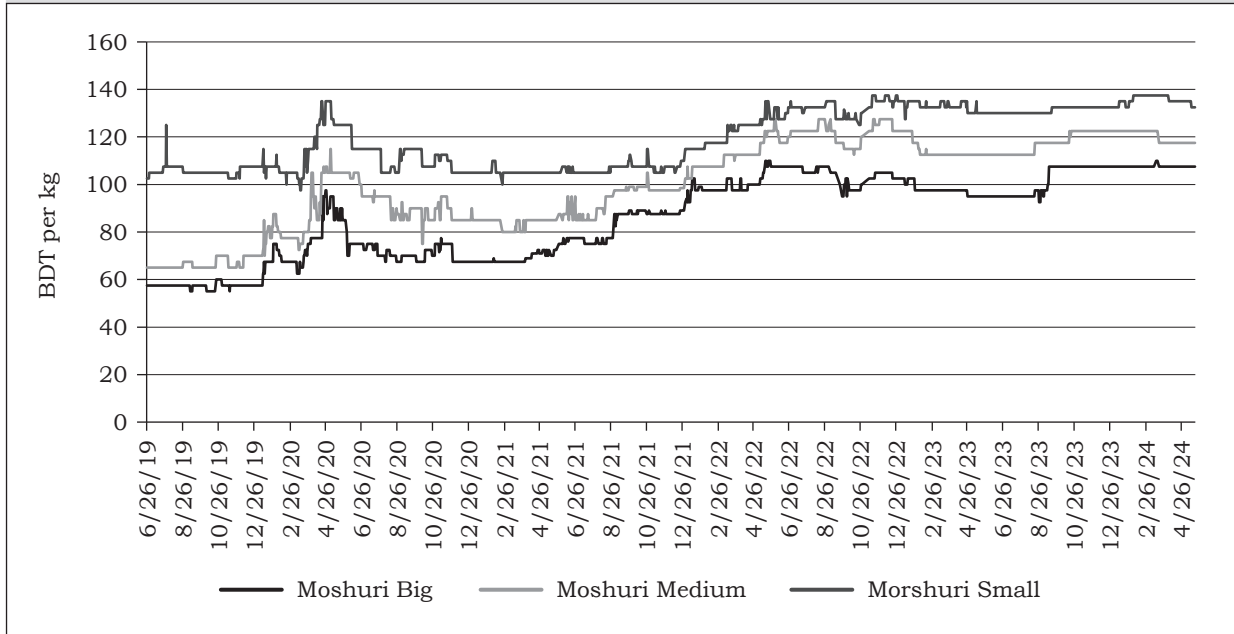
Analysis of the average daily prices of 34 essential food items in Dhaka from 1 January 2019 to 19 May 2024 shows that prices increased from 10 per cent to 310 per cent (Figures 1.6 to 1.7). In its earlier reports, CPD showed that the price of three common types of rice in Dhaka has been consistently higher than that of Thai and Vietnamese rice varieties (CPD, 2024). The price of unprocessed flour (Aata), processed flour (Maida), and edible oil started increasing in Dhaka before the start of the conflict in Ukraine (Figures 1.8 and 1.9). This indicates that there may be other domestic causes of the increase in the price of unprocessed flour (Aata), processed flour (Maida), and edible oil, which warrant a comprehensive investigation by the Bangladesh Competition Commission. Figures 1.10 to 1.20 showcase price trends of different essential items. CPD reports have shown that soyabean oil prices have been consistently higher in Bangladesh than in the world market from January 2019 to October 2022. 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 (World Bank, 2024a). The price of beef and mutton has skyrocketed in Dhaka over the past few years, almost elevating the status of these basic food items from essential goods to luxury goods. A comparison of the price of beef in Bangladesh and the world market shows that beef has been consistently higher in Bangladesh than in the world market from January 2019 to October 2022. For instance, in October 2022, the price of beef was BDT 528 per kg in the world market but BDT 718 per kg in Bangladesh. Moreover, the price of beef in the world market fell from June 2022 to October 2022, but the price of beef in Bangladesh



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.7

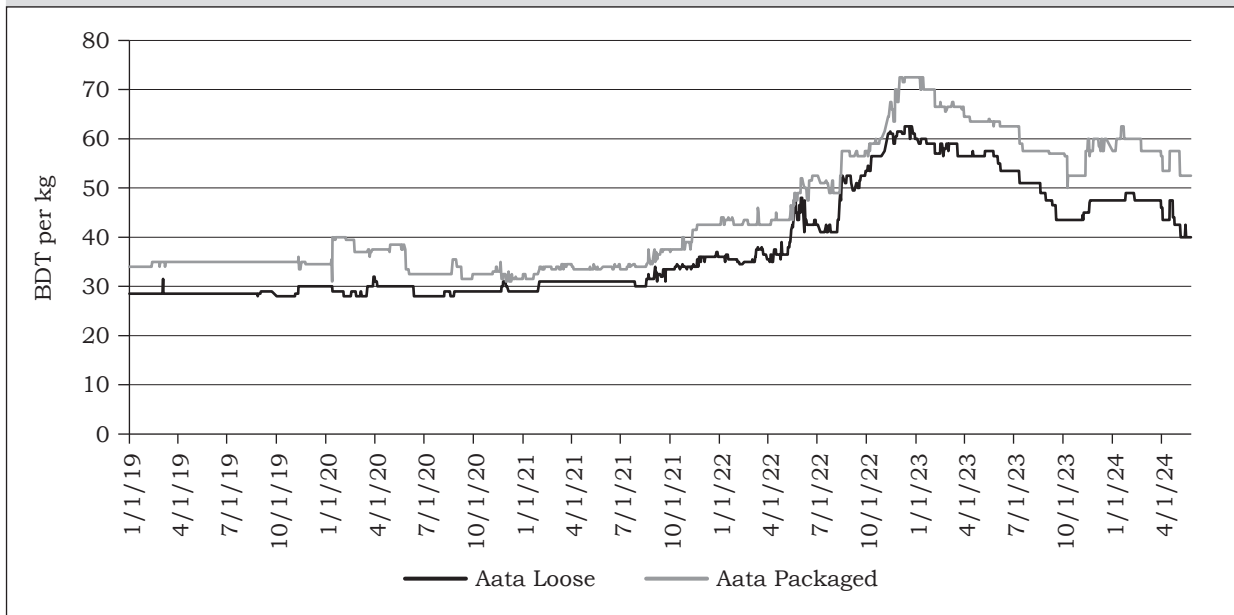
Average daily price of dal (lentils) in Dhaka from 1 January 2019 to 25 May 2024



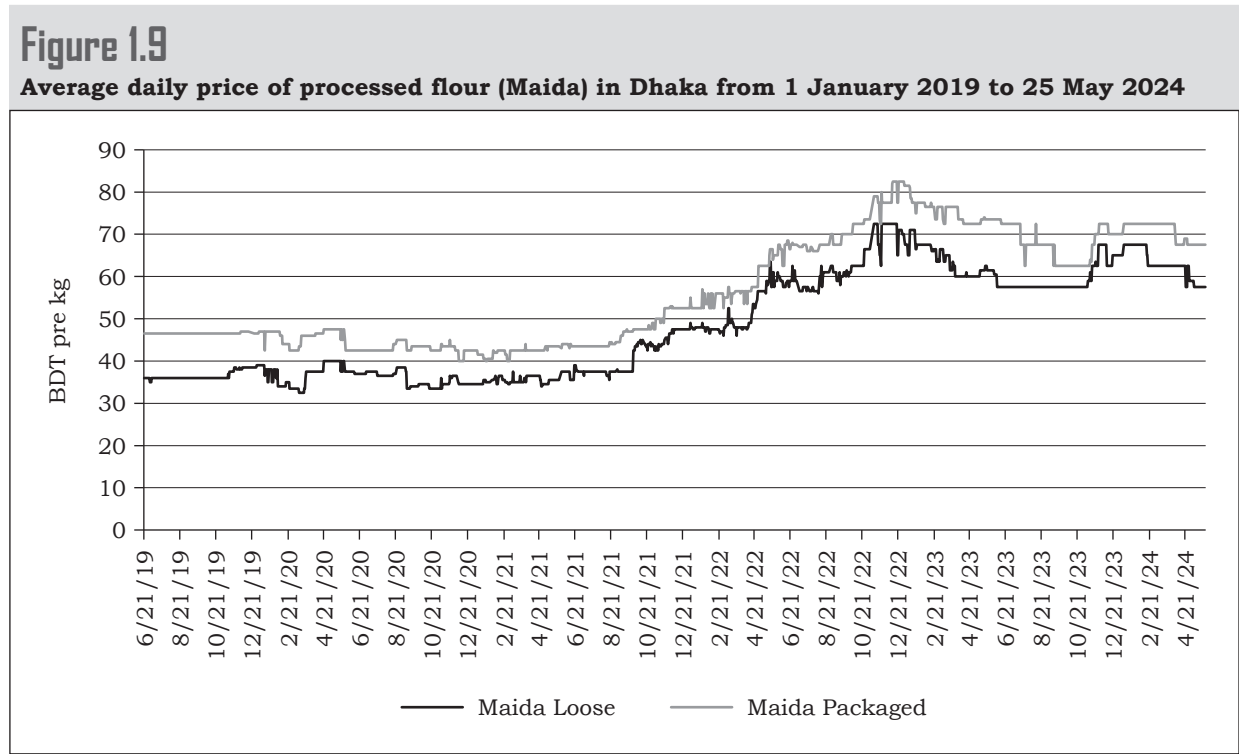
Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.8

Average daily price of unprocessed flour (Aata) in Dhaka from 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

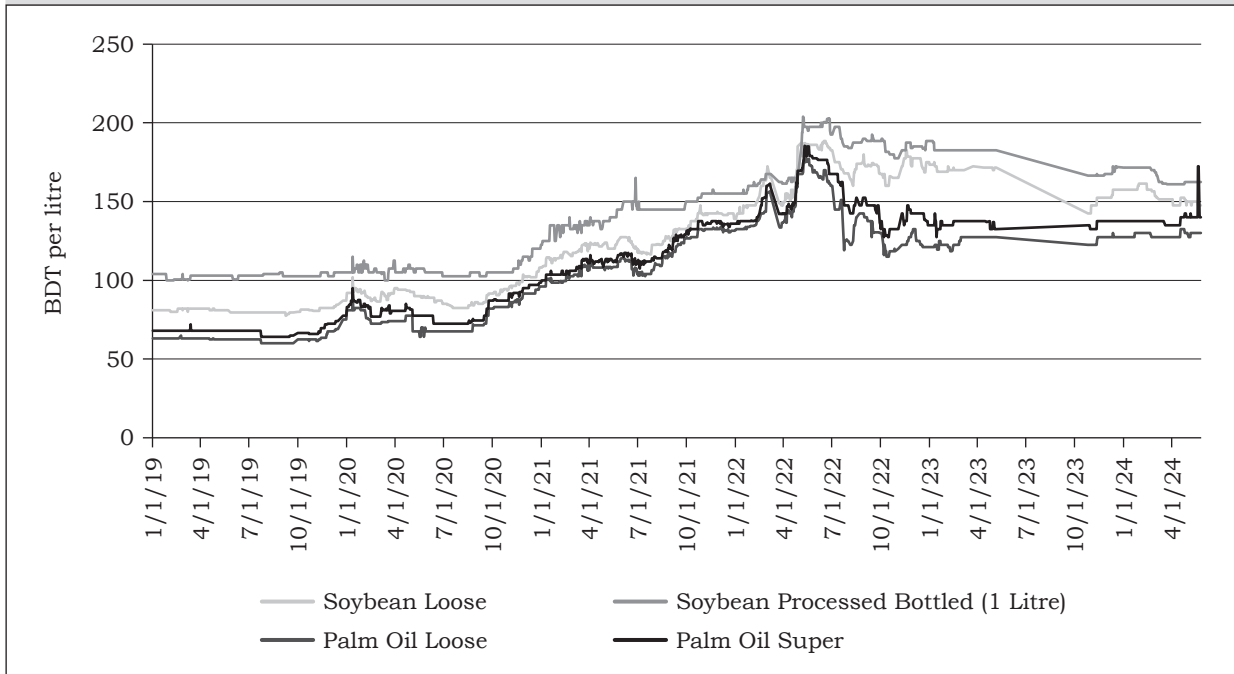


Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

increased during the same time (World Bank, 2024a). 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 (World Bank, 2024a). Over the past few years, the price of sugar in Dhaka has increased dramatically. A comparison of the price of sugar in Bangladesh and the price of sugar in the EU, US, and world markets shows that the price of sugar has been consistently higher in Bangladesh than in the world market from January 2019 to October 2022. For instance, in October 2022, the price of sugar was BDT 31 per kg in the EU market, BDT 37 per kg in the world market, and BDT 74 per kg in the US market (World Bank, 2024a), but BDT 98.75 per kg in Bangladesh (BBS, 2022). Moreover, while the price of sugar remained largely stable in the world market from June 2022 to October 2022, the price of sugar in Bangladesh increased during the same time. As of April 2024, the price of sugar in the European Union (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 (World Bank, 2024a).

Figure 1.10

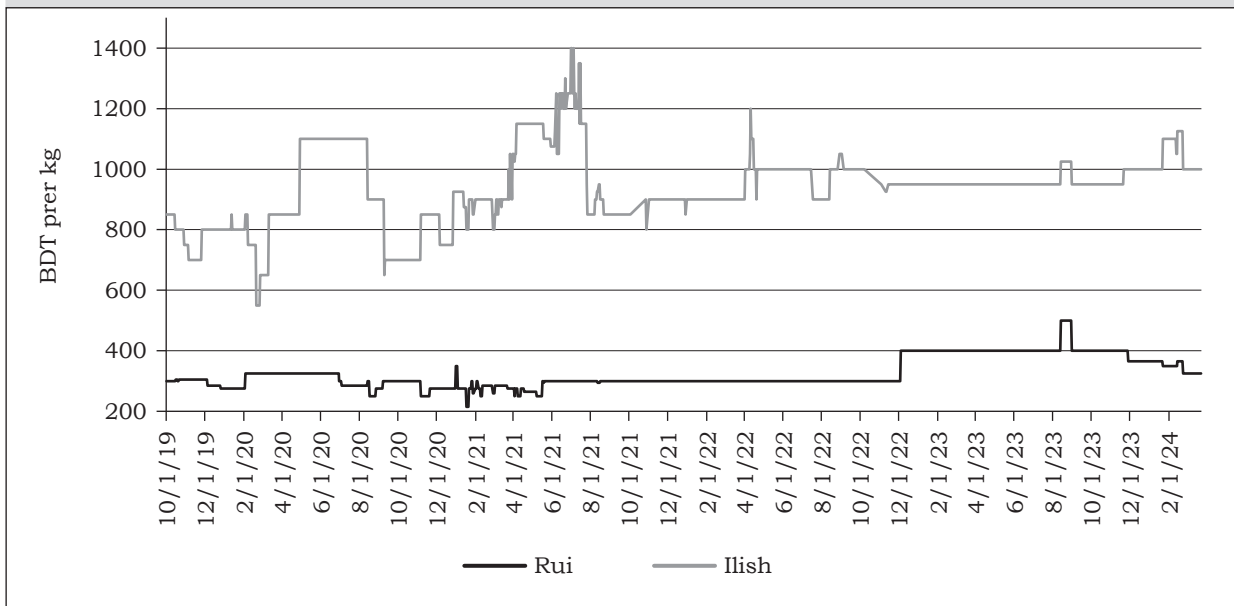
Average daily price of edible oil in Dhaka between 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.11

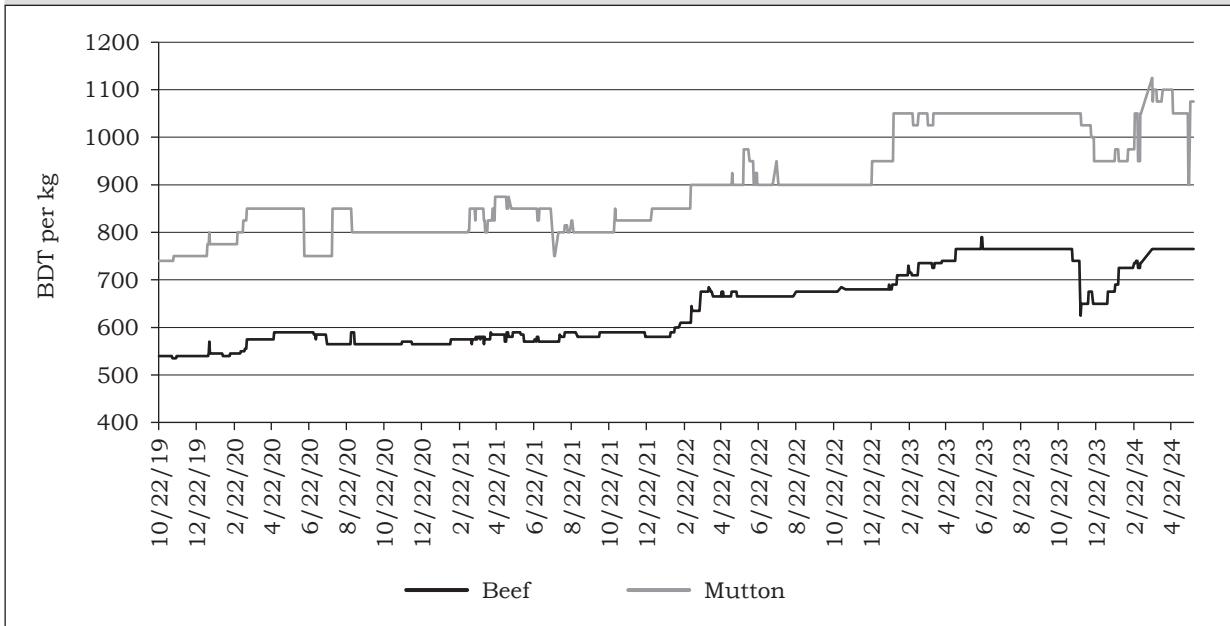
Average daily price of fish in Dhaka between 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.12

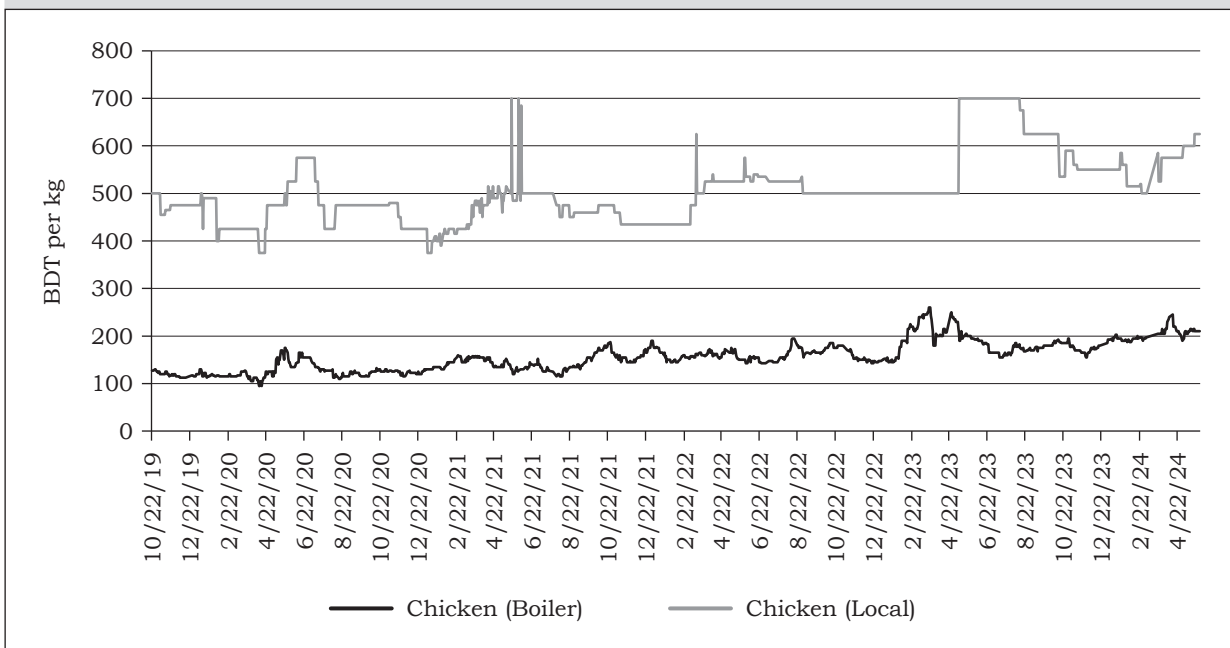
Average daily price of beef and mutton in Dhaka between 1 January 2019 and 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.13

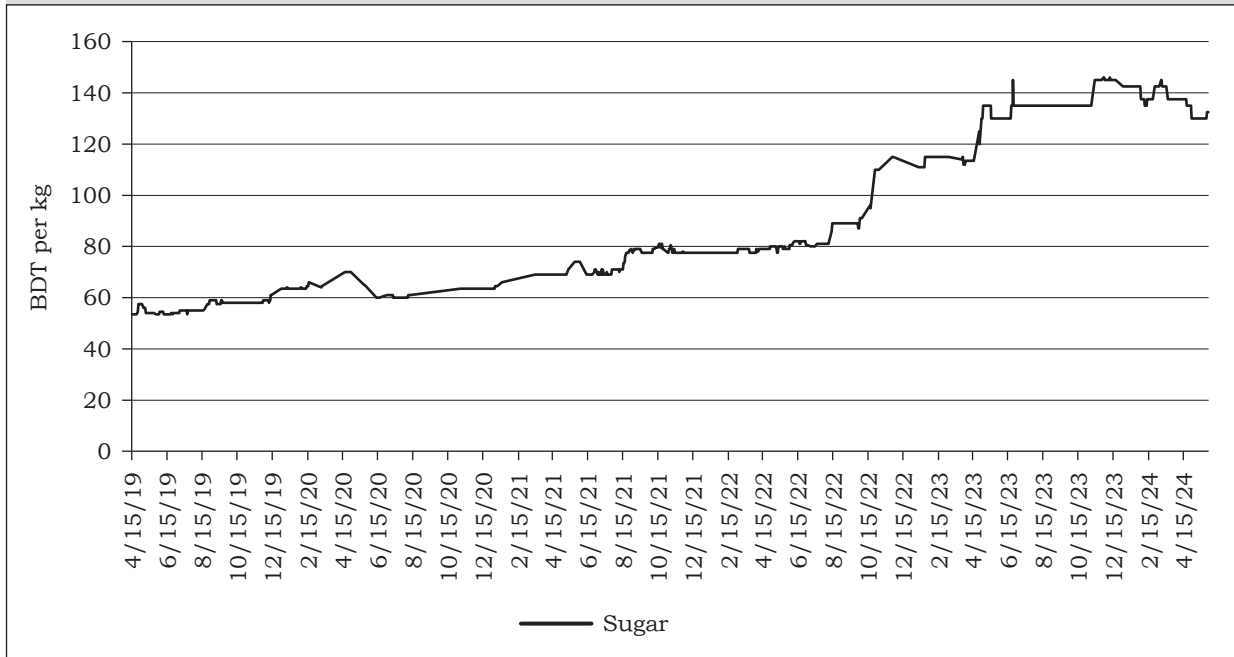
Average daily price of chicken in Dhaka between 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.14

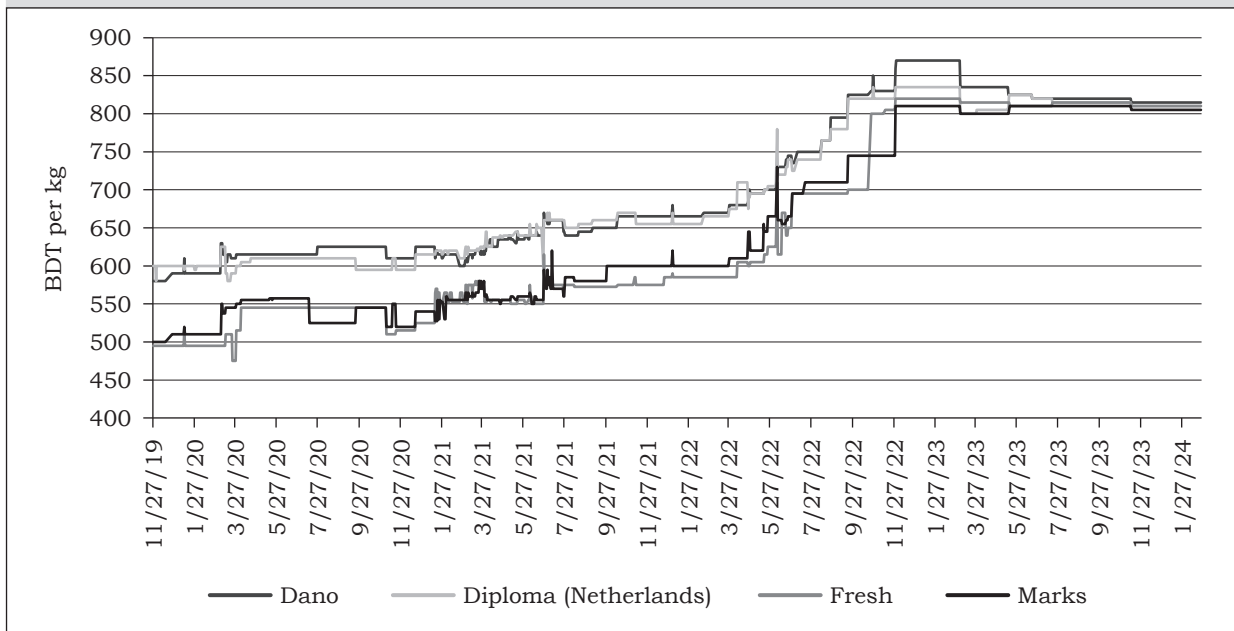
Average daily price of sugar in Dhaka from 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.15

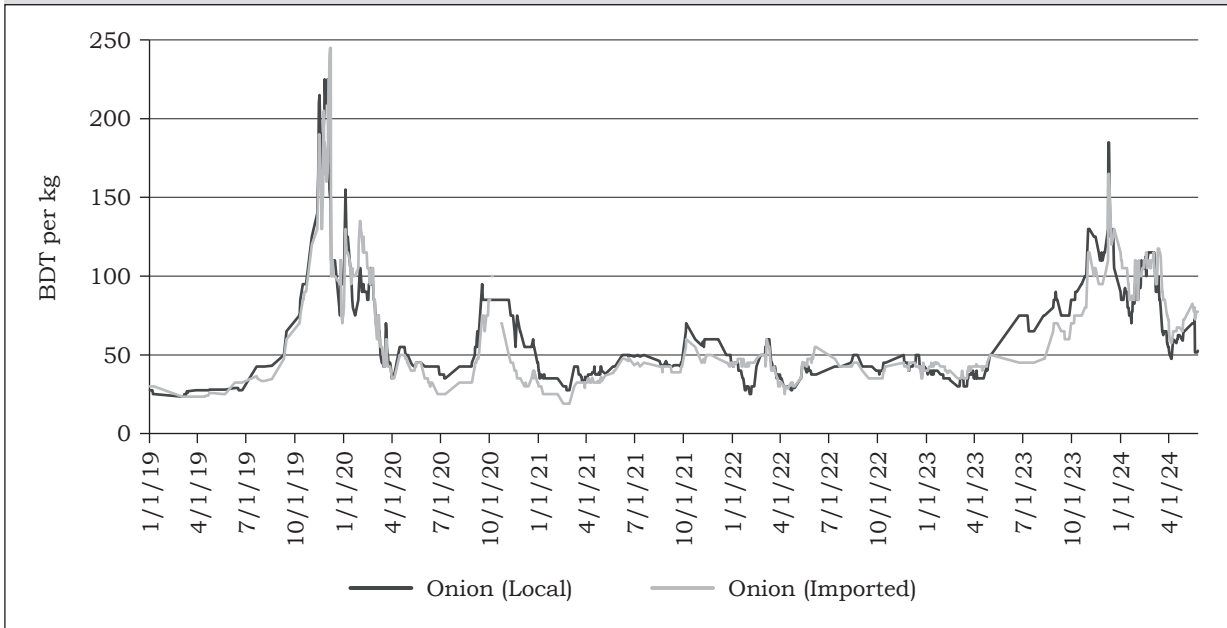
Average daily price of four brands of powdered milk in Dhaka from 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.16

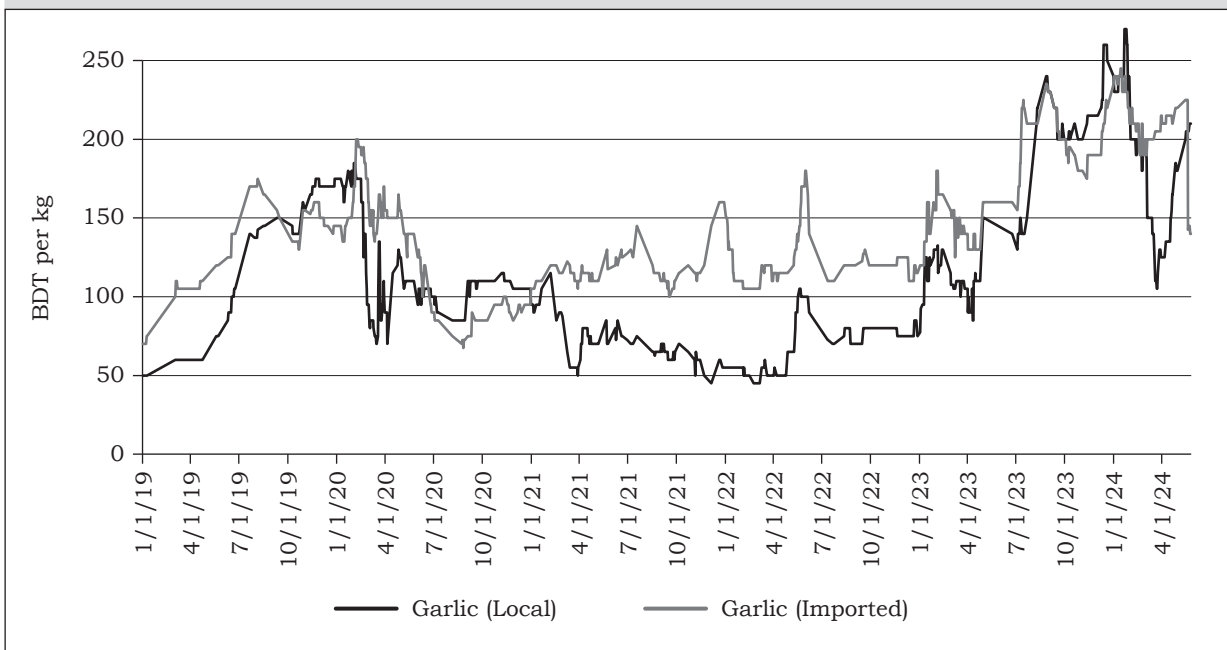
Average daily price of onions in Dhaka from 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.17

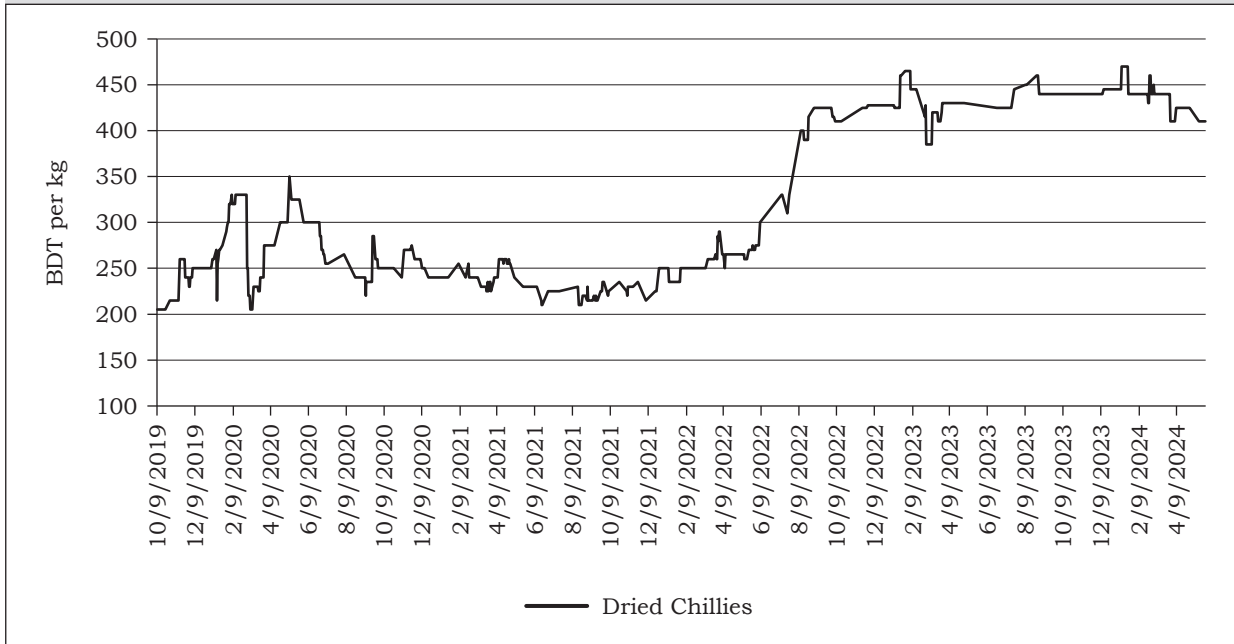
Average daily price of garlic in Dhaka from 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.18

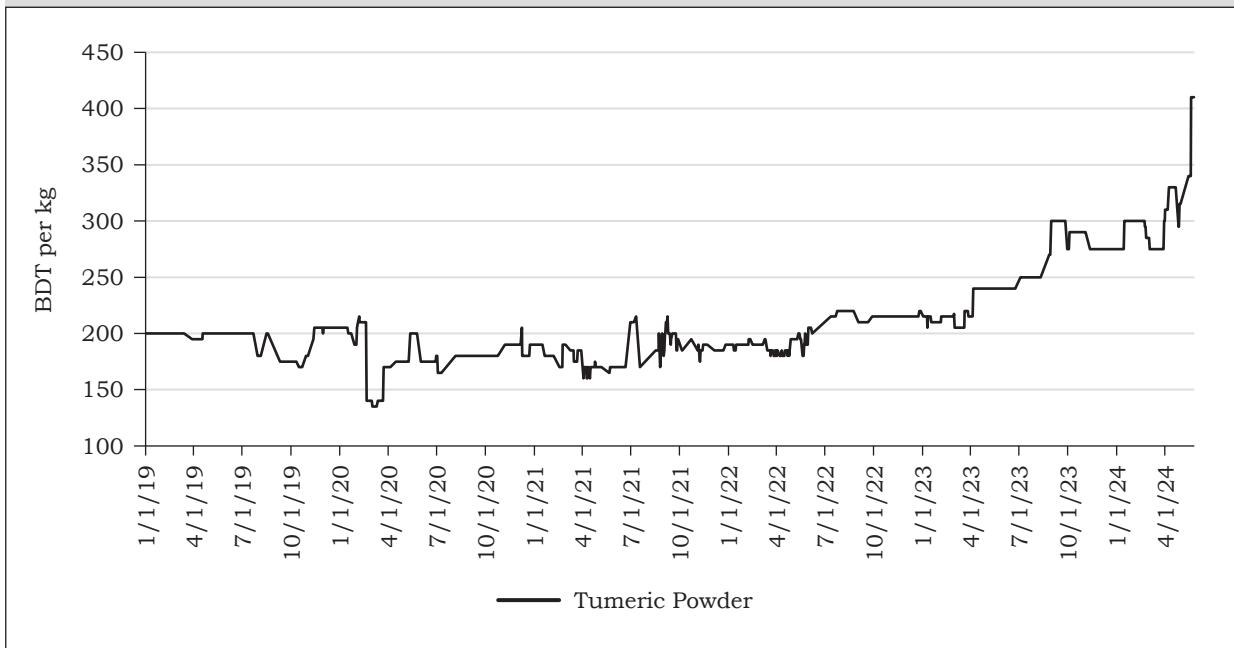
Average daily price of dried chillies in Dhaka from 1 January 2019 to 25 May 2024



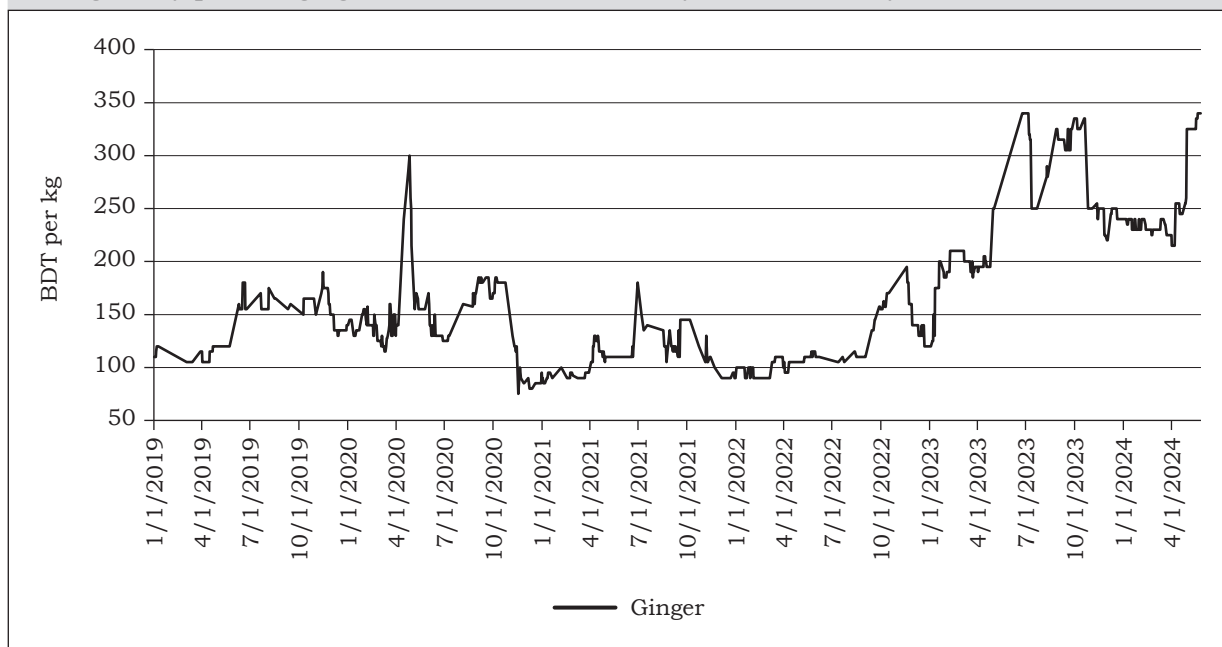
Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.19

Average daily price of turmeric powder in Dhaka from 1 January 2019 to 25 May 2024



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Figure 1.20**Average daily price of ginger in Dhaka from 1 January 2019 to 25 May 2024**

Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2024).

Table 1.3 summarises the price rise of 34 essential food items, showing the absolute and percentage change between 1 January 2019 and 19 May 2024.

Table 1.3**Increase in price of essential food items from 1 January 2019 to 19 May 2024**

Sl.	Food items	Price on 1 Jan 2019 BDT	Price on 19 May 2024 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	Moshuri Dal (Lentil) Small (1 kg)	85	132.5	48	56

(Table 1.3 contd)

(Table 1.3 contd)

Sl.	Food items	Price on 1 Jan 2019 BDT	Price on 19 May 2024 BDT	Absolute change in BDT	Percentage change
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
19	Dried Chillies (1 kg)	200	410	210	105
20	Turmeric 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 (Broiler) (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

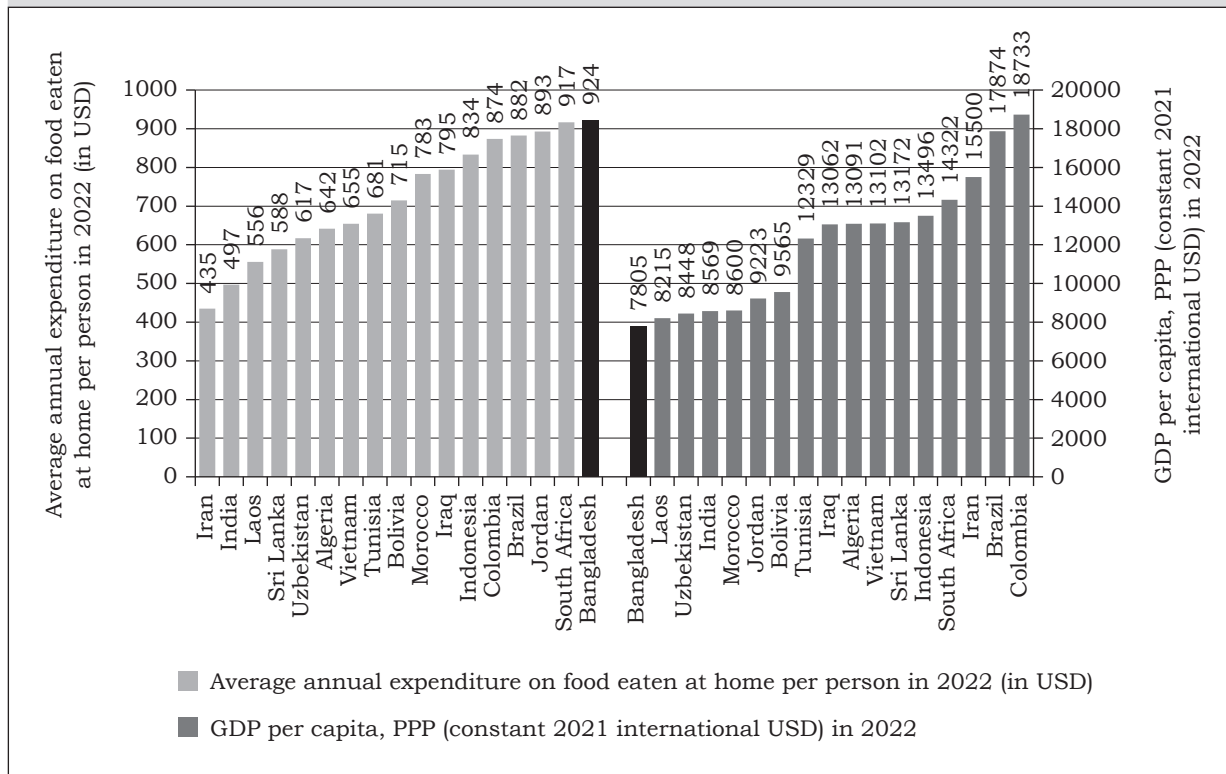
Source: CPD compilation based on data from Trading Corporation of Bangladesh (TCB, 2024).

1.4.4 High prices but low income

As a result of the persistent rise in the prices of essential food items, people in Bangladesh are now spending more on food than in other richer countries (Figure 1.21). For instance, the average annual expenditure on food eaten at home per person in 2022 was USD 924 in Bangladesh, compared to USD 882 in Brazil and USD 874 in Colombia (USDA Economic Research Service, 2023), both of which have a GDP per capita more than twice that of Bangladesh (World Bank, 2024b). As of 2022, at least 16 countries with a higher GDP per capita than Bangladesh (World Bank, 2024b) spent less on food than Bangladesh (USDA Economic Research Service, 2023).

Figure 1.21

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



Source: CPD illustration based on data from the United States Department of Agriculture Economic Research Service, (USDA Economic Research Service, 2023) and the World Bank (World Bank, 2024b).

1.4.5 Measures taken by the government to tackle inflation

Unlike several countries that have successfully controlled inflation by applying monetary policy tools, the Bangladesh Bank opposed the idea of a market-based interest rate. Since April 2020, the central bank imposed a cap on interest rates, fixing the lending rate at 9 per cent and deposit rate at six per cent. However, borrowing became too cheap when the inflation rate was higher than 9 per cent and close to 10 per cent. Hence, this policy proved to be ineffective. This policy stifled economic activity and unfairly disadvantaged depositors who earned negative real returns due to inflation exceeding the deposit rate. Later, in July 2023, the central bank adopted the Six-month Moving Average Rate of Treasury bills (SMART) mechanism for determining lending rates (Bangladesh Bank, 2023). Finally, on 8 May 2024, the central bank raised the policy rate by 50 basis points to 8.5 per cent (Bangladesh Bank, 2024b). In January 2024, the rate increased from 7.75 per cent to 8 per cent in January 2024 (Bangladesh Bank, 2024c). The new measures of leaving interest to the market are expected to increase competitiveness and efficiency in the banking system.

Another recent policy measure by Bangladesh Bank has been the introduction of a Crawling Peg Mid-Rate system, setting the initial exchange rate at Bangladeshi Taka (BDT) 117 per US dollar (USD) (Bangladesh Bank, 2024d). This system announced on 8 May 2024, aims to stabilise the value of BDT against the USD by allowing banks to buy and sell dollars within a designated band. The central bank intends for the Crawling Peg Mid-Rate to reflect the prevailing market rate, with

adjustments made as necessary. Over the past two years, the BDT has depreciated by over 29 per cent against USD. The new system reflects a further depreciation of more than 6 per cent in a single step. Previously, Bangladesh Bank had maintained an overvalued currency to keep import costs low. However, this policy made Bangladeshi exports less competitive in the global market. While exporters and remittance senders stand to benefit, importers will likely face increased costs. Indeed, the private sector is also apprehending the increased cost of production due to interest rate hikes. Policymakers need to address other important factors to reduce business costs. For example, improved infrastructure, better connectivity, skilled human resources, technology adoption, and corruption reduction can significantly reduce the cost of doing business in Bangladesh.

While the central bank has adopted a contractionary monetary policy, the government follows an expansionary fiscal policy. The lack of consistency between monetary and fiscal policies has contributed to persistent inflation. The operation cost of the government is still high. The government has relied on the banking sector to undertake its expenditure. This has added to the domestic debt burden. High inflation in Bangladesh is also due to market distortion, where market rules do not work. Often, prices of imported and domestic commodities are controlled by a small group of market players who artificially create supply chain bottlenecks and high prices.

1.4.5 Conclusion and recommendations

The success of controlling inflation will depend on the proper implementation of the government's policies. No policy can work in isolation. Therefore, relevant ministry departments will have to coordinate 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.

- **Strengthening the Bangladesh Competition Commission:**
 - o 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.
 - o 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:**
 - o The 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:**
 - o 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.
 - o Distribution of essential commodities sold through the open market sale (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.

1.5 EXTERNAL SECTOR PERFORMANCE: THE SPELL OF HEADWINDS CONTINUES

Key Findings

1. Bangladesh's external sector remains vulnerable, with the balance of payments showing disquieting trends despite some policy measures to address the adverse developments.
2. Despite the significant depreciation of the BDT, export competitiveness and external sector performance have failed to post the expected results in terms of export earnings and remittance.
3. Improvements in the trade balance and current account balance are driven primarily by restrictive import measures and not by an increase in the performance of the external sector correlates.

Key Policy Recommendations

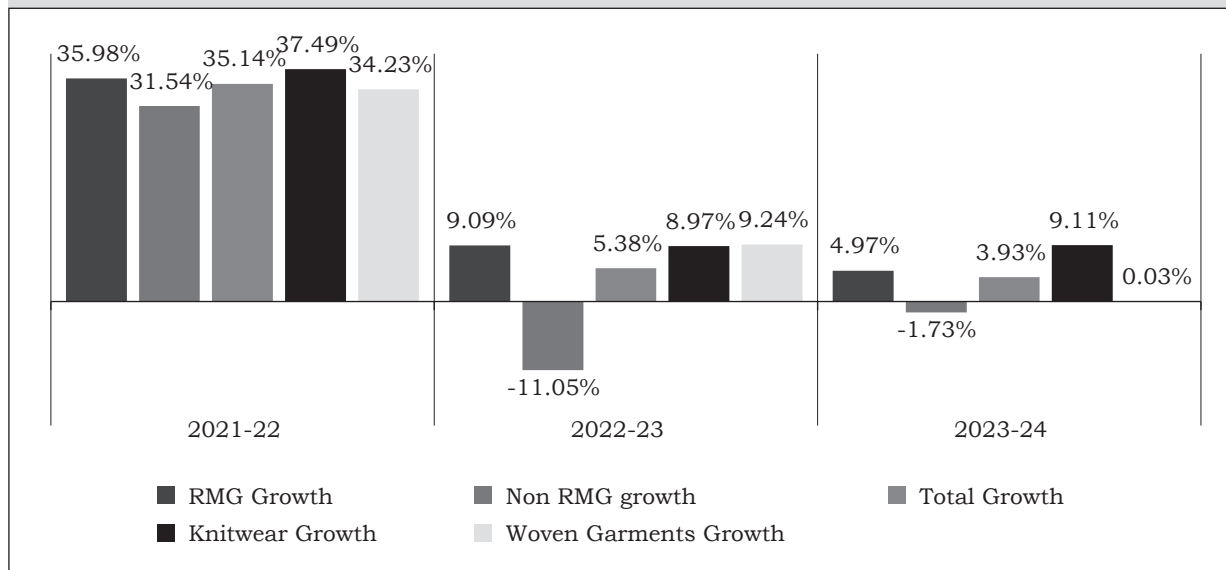
1. Policymakers should address the underlying problems afflicting the performance of the Bangladesh export sector, including low productivity levels, lack of required skills, and slow pace of technology adoption, which are necessary to improve export competitiveness.
2. Given the challenges of the LDC graduation, proactive policies towards deepening regional cooperation will be necessary. Against this backdrop, exploring export opportunities in South Asia, East Asia, and ASEAN markets must be given the highest priority.
3. Bangladesh should prioritise managing external debt, and in this connection, a thorough assessment of the country's debt-carrying capacity over the medium term needs to be carried out urgently.

1.5.1 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, restoring macroeconomic stability will critically hinge on how quickly the external sector correlates to recover from the current disquieting status. 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), changes 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 the balance of payments position are yet to be fully felt. The external sector of Bangladesh, thus, continues to remain vulnerable, and the balance of payments scenario continues to evince uncomfortable trends. Against this backdrop, as is known, some of the key IMF external sector targets also had to be revised downwards.

1.5.2 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 months, against all major currencies, on Bangladesh's export competitiveness and performance. However, this is yet to be seen. As is known, BDT depreciated by about 35 per cent (from BDT 86 to BDT 117 to a dollar) over the past couple of years. This should have given Bangladesh a substantial competitive edge in exports and also significantly incentivised remitters.

Figure 1.22**Exports growth trends during July-April: FY2024 Vs FY2023**

Source: Calculated from EPB figures.

However, as the data from Figure 1.22 indicates, over the July-April period of FY2024, exports have posted a rise of only 3.93 per cent compared to the corresponding period of FY2023. This growth was based on a rather low reference point—export growth in FY2023 over FY2022 during the corresponding period was a low of 5.38 per cent. This must send warning signals to the policymakers as to why Bangladesh’s export performance is behaving in such an unaccepted way. It is clear that only a policy of exchange rate depreciation will not raise the competitiveness of Bangladesh’s exports. So, when BDT was experiencing a very high pace of depreciation, export earnings failed to take advantage of the gains through export competitiveness originating from the competitive advantage that this provided.

Note that the concentration of RMG in export composition has gained further strength during the period under discussion: while RMG earnings rose by 4.97 per cent, that of the non-RMG came down by (-) 1.73 per cent. Within the RMG, the growth was driven primarily by knitwear exports (9.1 per cent), while exports of woven wear (0.03 per cent) 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 mention the cash incentives.

This is not to deny the demand-side factors may have also contributed to this. During the first 9 months of FY2024 (July-March), USA apparel imports from Bangladesh posted a negative growth (-17.8 per cent), with both volume of export (-8.0 per cent) and price/unit (-10.7 per cent) registering a decline. The trends are also the same for China and Vietnam (USITC Database). These trends are similar for the EU as well, with the three corresponding figures for the July- February FY2024 period being -28.3 per cent (export value), -16.6 per cent (export volume), and -13.9 per cent (for export price per unit). These trends are similar for China and Vietnam (European Union Database).

Thus, when exporters face a demand-side crunch, all efforts must be put into raising the competitive strength of Bangladesh's export sector. Otherwise, once the initial gains from depreciation wither, the exports will face even more formidable difficulties. Policymakers must look at the underlying factors driving the low levels of export performance—to what extent the fall in the price of intermediates is driving the fall in the price of outputs and whether this is reflected in lower export earnings. Also, policymakers must investigate to what extent export earnings are not being repatriated back to the country. The discrepancy between the Ministry of Finance data and EPB figures must be investigated in-depth, and whether this discrepancy is fully explained by double-counting of deemed exports must be thoroughly examined.

There are several upshots of the above scenario regarding export performance correlations. Firstly, the significant exchange rate depreciation did not have a tangible impact on Bangladesh's export competitiveness and performance, and this needs to be analysed and investigated to unearth the underlying drivers. Secondly, Bangladesh should emphasise incentivising intra-RMG diversification towards non-cotton RMG, which is the expanding segment of the global apparel market. Thirdly, the need for export and market diversification is becoming increasingly urgent. Bangladesh must target the expanding markets of South Asia, RCEP, and ASEAN regions by creating supply-side capacities in special economic zones and attracting FDI and domestic investors to these zones. All efforts must be made to have at least a few SEZs running. The services promised as part of the One Stop Service Act (OSSA) of 2018 must be ensured on time. A triangulation of investment, transport and trade connectivity will be called to translate Bangladesh's comparative advantages into competitive advantages. Fourthly, given the challenges emanating from the upcoming LDC graduation, a transition will need to be made from preference-driven competitiveness to skills and productivity-driven competitiveness. The emerging global trade scenario is also rather bleak. A radical departure from the business-as-usual scenario will be called for if export earnings return to their historical trends.

The trade balance has somewhat improved (the negative figure has come down significantly) and 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 the private sector. Higher dollar prices also had a dampening impact on the demand side. For example, imports during July-March in FY2022 were worth about USD 66.50 billion, which came down to USD 58.27 billion (-12.3 per cent) in FY2023 and thereafter to USD 49.21 billion in FY2024 (a decline of about 15.5 per cent over the matched period of FY2023). The composition of imports shows that the import payments for intermediates (-14.7 per cent and -14.2 per cent) and capital machinery (-11.9 per cent and -23.6 per cent) have come down significantly over the period between FY2022, FY2023, and FY2024, respectively (July-March). Thus, import restrictions in the backdrop of a lack of availability of foreign exchange and falling forex reserves have played their role in somewhat reducing the yawning gap in the trade balance. However, in all likelihood, timid investment growth in the backdrop of high inflation and rising interest rates has also played a part in reinforcing the subdued supply side. Thus, the negative in trade account (during the July- March period), which jumped from (-) USD 15.21 billion in FY2021 to (-) USD 24.90 billion in FY2022, had come down sharply to (-) USD 14.63 billion in FY2023 to (-) USD 4.74 billion in FY2024, given the above. However, as was noted, this improvement came at a formidable cost, which is also reflected in timid GDP growth (over the first two-quarters of FY2024) and the depressed investment scenario (low import of capital machinery and intermediates bear this out). This, in turn, is also manifested in subdued export growth. However, while these may be acceptable as fire-fighting measures, from medium-term macroeconomic sustainability and stability, these can only serve as short-term measures.

1.5.3 Balance of Payments scenario: A mixed picture

That there has been some improvement in the Current Account component (which includes trade and services accounts) owes largely to improvements in the trade account and the rise in the remittance flows, particularly since January 2024. As the balance of payments scenario indicates, the 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 1.4.

Table 1.4

Balance of Payments position (July-March): FY2021-FY2024

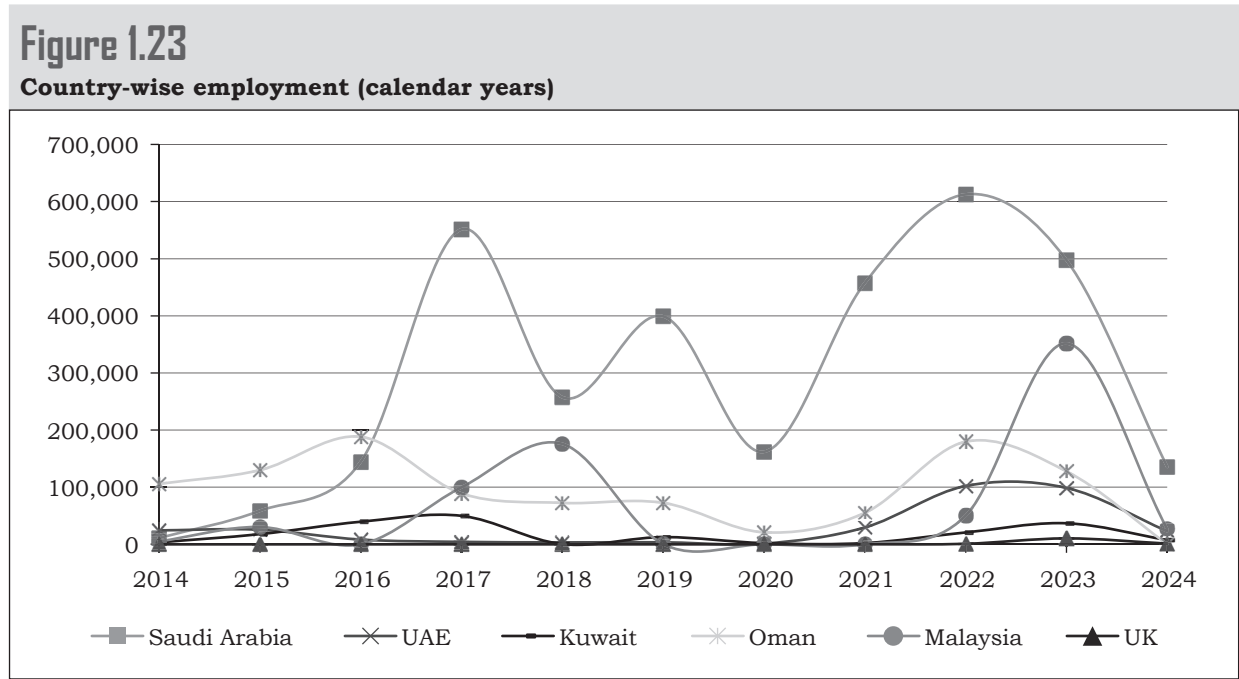
Items	July-March (million USD)			
	FY2021	FY2022	FY2023	FY2024
Trade balance	-15,218	-24,907	-14,633	-4,745
<i>Of which:</i>				
Export	27,549	36,617	39,306	40,875
Import	42,767	61,524	53,939	45,620
Secondary income	190,46	15,800	16,528	17,541
Of which: remittances inflows	18,598	15,299	16,035	17,074
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.

The impact of exchange rate depreciation and the introduction of 5 per cent cash incentives on remitted amounts (2.5 per cent by the Bangladesh Bank and up to 2.5 per cent by the dealing banks) has, in all likelihood, stimulated a shift from sending remittances through formal channels (with April 2024 remittance figures showing a USD 2.04 billion inflow). However, 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 for work. A large number of these workers have gone to Middle-East countries, particularly the Kingdom of Saudi Arabia. Indeed, from January 2021 till April 2024, about 1.7 million people have gone to Saudi Arabia alone. However, the mismatch is quite compelling and telling if we juxtapose the number of people going to particular destination countries and the sources of the flow of remittances. This is discernible from Figure 1.23 and Figure 1.24.

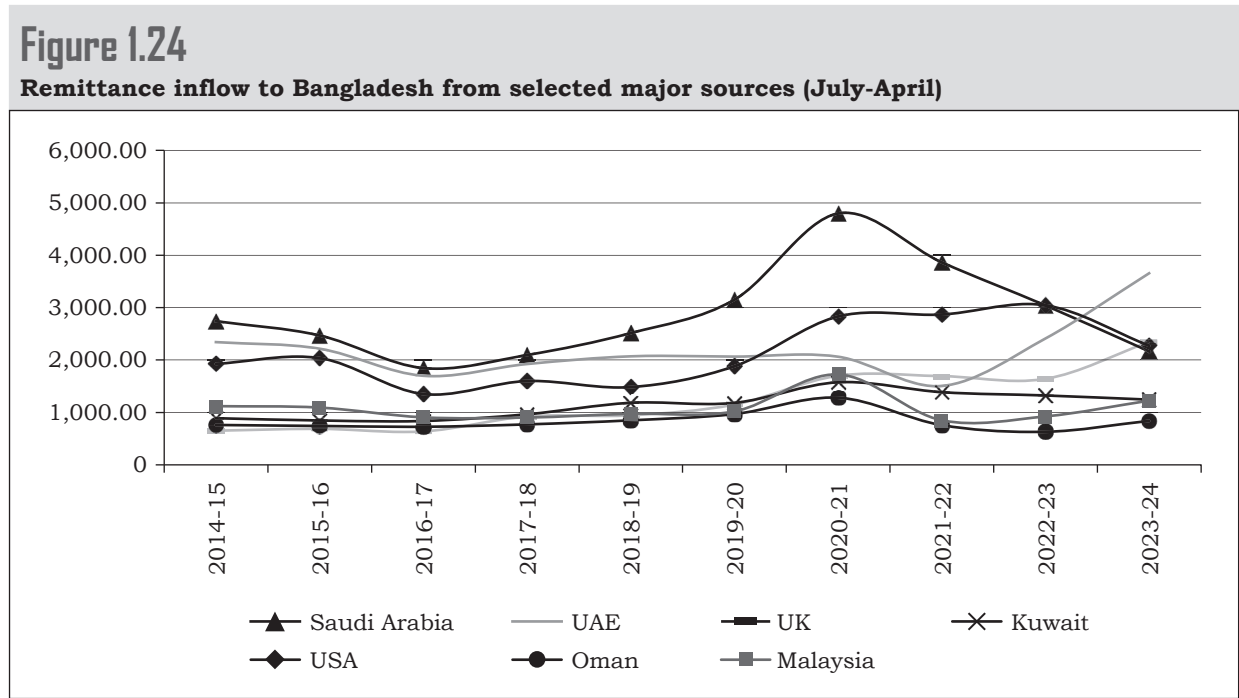
Policymakers must look into the underlying reasons closely—why such a significant degree of mis-correspondence has emerged between the two trends and (outflow of workers and inflow of remittances) why such a discrepancy has emerged. This, once again, reinforces the argument that there is an urgent need 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.

At the same time, the significant depreciation of BDT creates an opportunity for the government to gradually phase out the cash incentives it is providing on remittance flows and exports.



Source: Extracted from BMET.

Note: The 2024 figures are for January to April.



Source: Based on Bangladesh Bank.

In the balance of payment, the financial account remains the villain in the piece. While during July-March 2022, this was (+) USD 11.34 billion, the amount came down to (-) USD 2.9 billion in FY2023 and to (-) USD 9.25 billion in FY 2024. The larger part is on account of trade credit (-) USD 12.2 billion (in July-March 2024), which was (-) USD 3.92 billion in FY2023 and a positive amount (+180.0 million in 2022). This perhaps reflects the high pace of private sector repayment

of trade credit in the face of the falling value of the BDT. However, what is highly discouraging is the trends in FDI (net FDI has been dismally low at less than USD 2.0 billion), and the net portfolio investment has indeed been negative (-USD 89.0 million). Bangladesh must address the factors driving such low levels of FDI and portfolio flows by restoring faith in governance, the efficacy of institutions, the effectiveness of dispute resolution mechanisms and others.

To warn that Bangladesh's debt repayment liabilities will rise over the near future as the grace period of several significantly large infrastructure projects is ending, and the maturity period is to start over the near term. As is known, only interest payments have to be made during the grace period, and during the maturity period, both interest and principal amount will need to be repaid. As may be recalled, Bangladesh's external debt repayment was less than USD 3.0 billion in FY2021 when reserves stood at USD 44.9 billion; in June 2024, debt repayment is likely to exceed USD 5.0 billion at a time when forex reserves (according to IMF's BPM6 method) are anticipated to remain below USD 20.0 billion. Middle-income graduation in Bangladesh has meant that the share of non-concessional (high interest rate with stringent terms and conditions for loans) has been on the rise. Reason enough for a highly cautionary stance in incurring debt, particularly foreign debt, and to be highly selective in incurring foreign debt.

Caution must be exercised in managing external debt, and Bangladesh's debt-carrying capacity over the near to medium term should be thoroughly studied.

1.5.4 Exchange rate movement: A move in the right direction

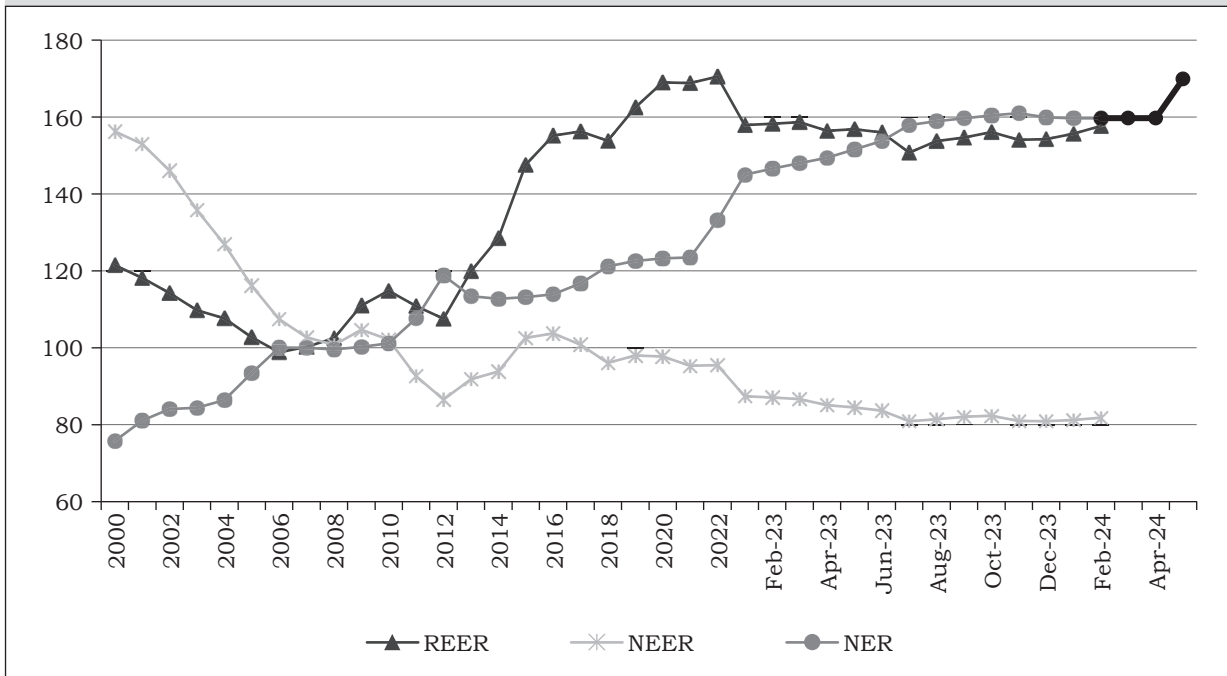
As is known, Bangladesh has gone for significant depreciation of the BDT against major currencies. The pent-up pressure, originating from accumulated artificially appreciated BDT, had to be released through significant depreciation of the BDT, from BDT 86.0 to one USD a couple of years back to BDT 117.0 a few days back. While no one can argue that the current policy of depreciation pursued by the Bangladesh Bank was long overdue, 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, the current value more or less approximates the equilibrium value, as evidenced by Figure 1.25. One reckons that the exchange rate of BDT is expected to stabilise at around the current rate in the near future.

1.5.5 Concluding remarks: Business-as-usual will not deliver the expected results

It was pointed out at the very outset that many of Bangladesh's macroeconomic woes originate from how the external sector was managed in recent years. 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 in the seriousness and urgency they deserved. When the economy was doing well, complacency set in. Reforms were put on the back burner, and flanking strategies were not pursued in anticipation of global shocks. The lack of proactive external sector management exposed serious vulnerabilities once the twin shocks of the pandemic and the 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, and improving the effectiveness of public service delivery institutions will need to reinforce the measures that policymakers are now undertaking in fiscal-monetary areas to stabilise the external sector. These are the preconditions for the expected results regarding exchange rate stability, healthy balance of payments, and robust

Figure 1.25
REER Vs NEER Vs NER



Source: Extracted from Bruegel, World Bank and Bangladesh Bank.

forex reserves 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 area of macroeconomic management.

1.6 AGRICULTURAL COMMODITIES: PRODUCTION, INPUTS AND MARKETING

Key Findings

1. Arable land in Bangladesh is shrinking because of urbanisation, with the net cropped area slowly decreasing. Double-cropped areas comprise the majority (50.9 per cent), while single-cropped land accounts for 26.3 per cent. Despite the declining share of fallow land, cropping intensity is increasing, as even quadruple-cropped land is gradually rising. The country must utilise fallow and cultivable wasteland to ensure long-term food security.
2. Urbanisation puts pressure on land use for agriculture, reducing the availability of arable land and necessitating increased multiple cropping on the same land, which could be detrimental in the long run.
3. Despite persistent growth in the production output of agricultural products, domestic production is not competitive in the global economy due to rising costs associated with fertiliser, labour, and irrigation.

Key Policy Recommendations

1. Cropping intensity should be enhanced by converting single-crop and double-crop lands into double-crop and triple-crop fields, respectively. Domestic cereal and non-cereal crop production can be significantly increased by intensively utilising more land, including fallow and wastelands.
2. Bangladesh should focus on expanding and optimising the cultivation of Aus and Aman rice varieties while improving farming techniques to boost yields and reduce reliance on imports. Additionally, increasing domestic wheat and pulse production by supporting higher yields and efficient farming practices can help meet growing demand and decrease the need for imports.
3. Enhancing agricultural mechanisation and improving storage and distribution infrastructure, particularly for perishable goods, will reduce labour costs and post-harvest losses and improve supply chain efficiency.

1.6.1 Introduction

The stable production of major agricultural commodities, including rice, vegetables, livestock, and fisheries, has been the most important instrument for ensuring domestic food security over the last decades. With the rise in income and demand for agricultural commodities, the sector has experienced major changes in cropping patterns, land use, input use, and composition of agricultural commodities. Rapid urbanisation and climate change have caused further changes in land use patterns, adversely affecting agriculture. Along with domestic production, the importation of specific crops is becoming important for selected products. This section presents an overview of the state of production and import of agricultural commodities, including crop and non-crop, livestock, and fisheries, to explore the scope for a rise in domestic production.

1.6.2 Land use in agricultural production

Bangladesh has about 21,891 acres of arable land, which includes both cropped and fallow areas (BBS, 2023). Table 1.5 presents the distribution of land for different usages in the country. A

Table 1.5**Land use pattern***(in '000' acres)*

Year	FY2019	FY2020	FY2021
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).

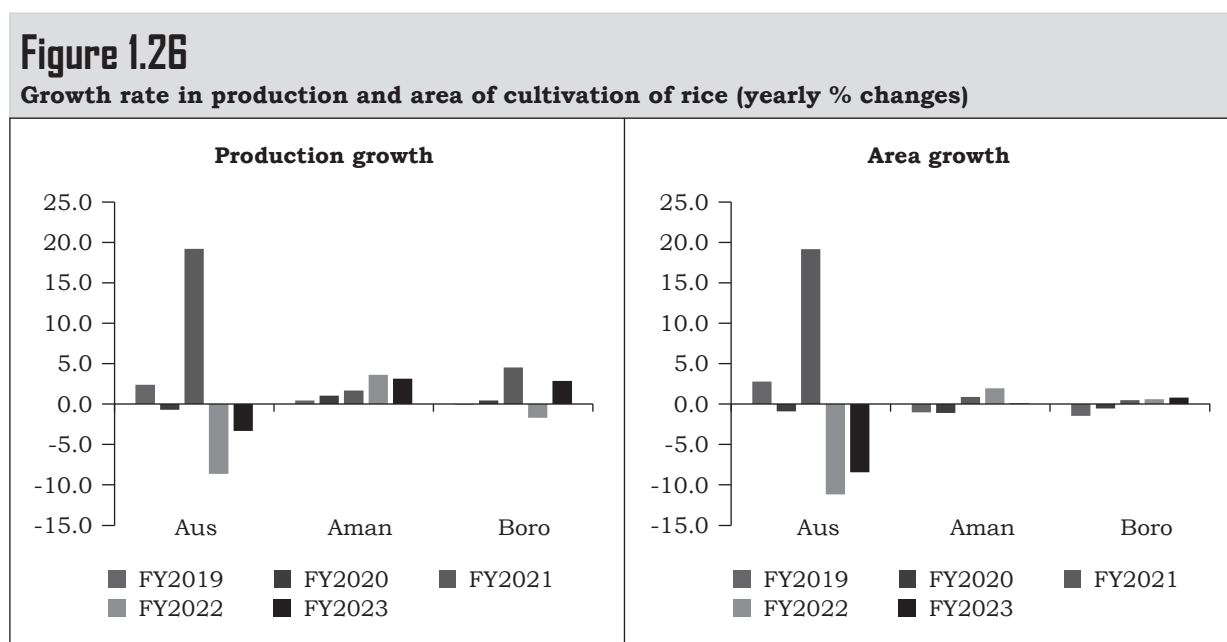
total of 19,972 acres of net cropped area is available, which is slowly declining. The majority are the double-cropped area (50.9 per cent) followed by single cropped area (26.3 per cent). Even the quadruple-cropped area is slowly rising, though still with a minuscule share. The declining share of fallow land (about 3.1 per cent of the total land area) indicates its growing use for non-agricultural purposes. A large share of ‘area not available for cultivation’ (22.7 per cent) portrays how agriculture is pressurised by rising cropping intensity. Due to rapid urbanisation, arable land has been declining in the country (Titumir, 2021). Considering the country’s long-term food security, the current fallow and cultivable waste, which amounts to 1118 acres (8.3 per cent 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 need to be turned into triple crops.

1.6.3 Production of agricultural commodities

Despite stagnant land use, agricultural production has steadily improved during the last three decades. The crop production index has increased nearly fourfold, from 32.1 in 1973 to 119.1 in 2022, primarily driven by higher production of rice, wheat, tobacco, fiber, vegetables, and potatoes.

Rice: During FY2023, total rice production in Bangladesh was 39.1 million MT, 2.5 per cent higher than in FY2022. This rise in rice production is attributed to a slow rise in yield. Land use for rice cultivation did not increase. Instead, it maintained a stagnant situation. Figure 1.26 presents changes in rice cultivation and high Boro rice production at a smaller share of land, attributed to higher yield. The poor acreage and production of Aus rice cultivation, which is only 9.1 per cent of total rice cropped land, indicates the scope for enhancing acreage and yield of Aus rice. There are scopes for the rise in acreage and yield of Aman rice. Self-sufficiency in rice production has yet to be achieved—the domestic demand shortfall of 2-3 per cent has been met through imported rice (FPMU, 2024).

Wheat: During FY2023, total wheat production was 1.2 million MT, 7.7 per cent higher than in FY2022 (Table 1.6). The acreage under wheat cultivation has experienced a decline (-1.9 per cent



Source: FPMU (2024).

Table 1.6**Wheat production**

Fiscal Year	Area ('000 acres)	Production ('000 m ton)	Import ('000 m ton)	Yield (ton/acre)	Share of import of total domestic production
FY18	865	1098	4575	1.27	416.3
FY19	816	1017	5629	1.25	554.0
FY20	821	1029	6435	1.34	317.2
FY21	878	1299	5343	1.48	492.4
FY22	778	1086	4012	1.40	369.4
FY23	783	1170	1912	1.49	
Average changes in five years	-1.9	1.3	-11.6	3.5	

Source: FPMU (2024).

per year), though average yearly production and yield have increased. Imports have increasingly met the rising demand for wheat, though the volume of imports has varied in different years. Given the higher demand for wheat, domestic wheat production should get more attention.

Pulses: During FY2023, lentil production reached 200,000 metric tons, followed by grass pea (Khesari) production of 130,000 metric tons and mung dal production of 50,000 metric tons (Table 1.7). Other pulses, including Maskalai, Arhar, Motor, and Felon dal, have experienced negative growth. The import of lentils and garlic has shown a significant decline over the years (Table 1.8), which portrays a rise in domestic capacity to meet local demand through increased production.

Table 1.7**Production of different types of pulses***(in lakh MT)*

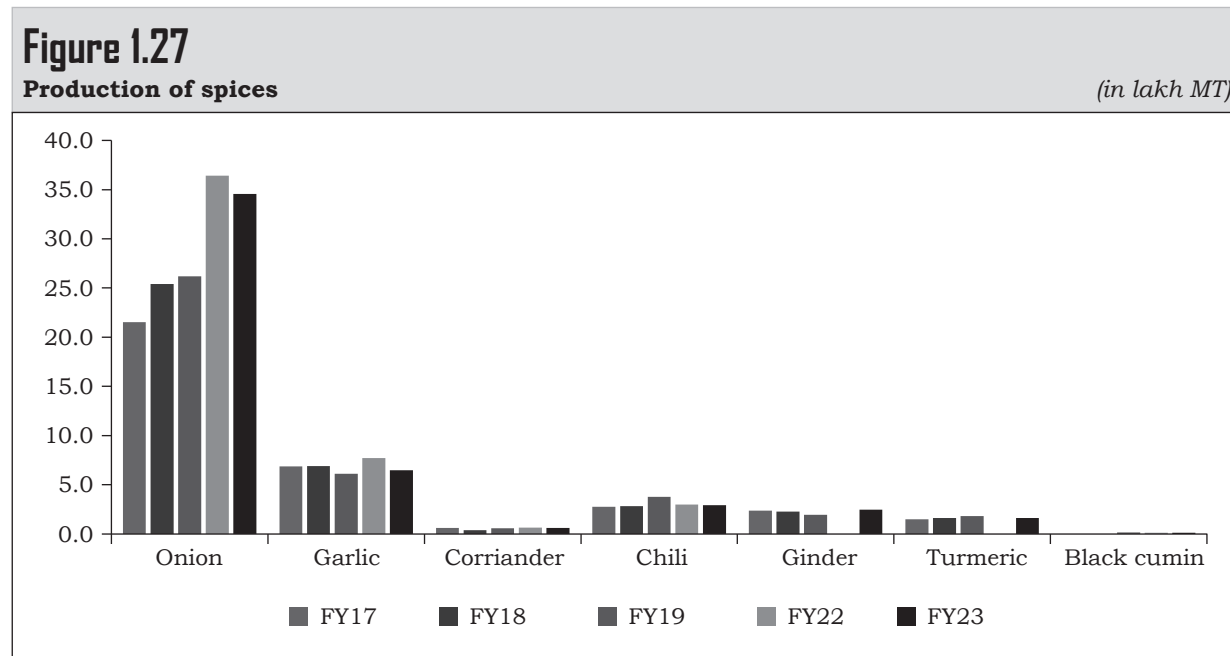
Crops	Production of pulses in lakh MT				Annual Average Growth Rate
	FY20	FY21	FY22	FY23	
Lentil (Masur)	1.8	1.9	1.9	2.0	2.7
Grass pea	1.2	1.3	1.3	1.3	2
Mung bean	0.4	0.4	0.4	0.5	5.7
Vigna mungo	0.3	0.4	0.4	0.4	4.9

Source: BBS (2023).

Table 1.8**Import of lentil, onion, and garlic***(lakh MT)*

Fiscal Year	Lentil	Onion	Garlic
FY2020	6169	6409	942
FY2021	4957	7806	974
FY2022	4798	7559	595
Annual Average	-7.4	6.0	-12.3

Source: BBS, (2023).



Source: DAM (2023).

Spices: A soaring demand for spices has yet to be considered an opportunity for rising domestic production (Figure 1.27). None of the spices have a strong domestic production base besides onion. Importing means that a large part of the domestic demand for these spices is met. In 2022, 54 different types of spices were imported. In 2023, about USD 297 million worth of spices were imported (IBEF, 2024), which added pressure to the depleted forex reserve.

Vegetables: The production of summer and winter vegetables has been increasing over the years (Table 1.9). Annual average vegetable production over the last five years has increased by 6.5 per cent during summer and 4.3 per cent during winter.

Table 1.9
Vegetables that are produced in the summer season (in lakh MT)

Fiscal Years	Vegetables (summer)	Vegetables (winter)
FY20	13.5	31.3
FY21	14.0	32.7
FY22	15.5	34.5
FY23	17.0	36.7
Annual average growth	6.5	4.3

Source: BBS (2023).

Fruits: Most temporary and permanent fruits have experienced production growth. Temporary fruit production is highly dominated by the production of bananas, followed by watermelon and pineapple. In contrast, the production of mango, jackfruit, coconut, guava, and others dominates the permanent fruit basket. During the last four years (FY2020-FY2023), higher growth in fruit production is observed in the case of watermelon, strawberry, water fruit, and lime and lemon (Table 1.10). On the other hand, some crops experienced negative or low production growth, including pineapple, green coconut, banana, and jackfruit.

Table 1.10**Production of fruits***(in Lakh MT)*

Types	Fruits	FY20	FY21	FY22	FY23	Annual average growth rate
Temporary	Banana (Ripe)	8.2	8.3	8.0	8.4	0.7
	Watermelon	2.5	3.5	5.5	5.6	29.5
	Pineapple	2.2	2.1	2.1	2.0	-2.4
	Melon	0.4	0.5	0.5	0.5	6.1
	Water Fruit	0.0	0.0	0.0	0.0	19.2
	Strawberry	0.0	0.0	0.0	0.0	28.7
Permanent	Mango	12.2	12.1	12.1	14.8	5.3
	Jackfruit	10.0	11.0	10.5	10.6	1.5
	Green Coconut	4.5	4.4	4.6	4.6	0.6
	Guava	2.3	2.4	2.4	2.6	3.3
	Ripe Papaya	1.3	1.3	1.5	1.5	2.8
	Lichi	0.8	0.9	0.9	1.0	7.3
	Lime & Lemon	0.6	0.8	1.0	1.0	17.7

Source: BBS (2023).

Livestock and Poultry: The livestock population is increasing, (Table 1.11) and the data shows a steady rise in all listed livestock species over the last five years. This positive increase in livestock has led to an increase in dairy and meat products. During FY2019-FY2023, chicken and duck production's annual average growth rate is higher.

Table 1.11**Livestock population of Bangladesh***(in lakhs)*

Fiscal Year	Cattle	Buffalo	Sheep	Goat	Chicken	Duck
FY19	242.4	14.9	35.4	262.7	2893	578
FY20	243.9	14.9	36.1	264.4	2966	597
FY21	245.5	15.0	36.8	266.0	3041	617
FY22	247.0	15.1	37.5	267.7	3118	638
FY23	248.6	15.2	38.3	269.5	3197	660
Annual Average Growth Rate	0.5	0.4	1.6	0.5	2.1	2.9

Source: Department of Livestock Services (DLS) (2024).

Meat production has steadily increased over the years, (Table 1.12) though it has slightly decreased in 2023. Meat production has a slower rise (3.2 per cent) compared to that of eggs (7.3 per cent) and milk (8.4 per cent). Given the growing demand for protein, a further rise in meat, milk, and egg production is necessary. A bulk-level import of these items would further pressure the external balance.

Table 1.12**Production of milk and meat**

Products	Milk (Lakh Metric Ton)	Meat (Lakh Metric Ton)	Egg (Crore)
FY19	99.2	75.1	1711.0
FY20	106.8	76.7	1736.0
FY21	119.9	84.4	2057.6
FY22	130.7	92.7	2335.4
FY23	140.7	87.1	2337.6
Annual Average Growth Rate	8.4	3.2	7.3

Source: Department of Livestock Services (DLS) (2024).

1.6.4 Production costs of agricultural commodities

Over the last five years, the per-unit production cost across all major crops has steadily risen (Table 1.13). This has happened because of the growing cost of agricultural inputs. Such a rise in input as well as production costs, would weaken the competitiveness of local agriculture production and push for more imports.

Table 1.13**Per unit production cost of major crops**

Production Cost/KG	FY2019	FY2020	FY2021	FY2022	FY2023	Average % Change over the Years
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

Source: DAM (2023).

Rice: For Boro rice, the total production cost per kilogram rose from BDT 24.7 in FY2019 to BDT 28.4 in FY2023 (Table 1.14). Seed costs fluctuated slightly, decreasing from BDT 1100 per acre to BDT 975 per acre, while fertiliser costs substantially increased from BDT 4480 per acre to BDT 7015 per acre. Pest management costs rose significantly from BDT 1000 per acre to BDT 2300 per acre. Irrigation costs remained stable at around BDT 8000 per acre, with land cultivation costs fluctuating between BDT 4500 and BDT 7000 per acre.

For Aman rice, the production cost per kilogram increased from BDT 24.2 in FY2020 to BDT 27.64 in FY2023. Seed costs slightly decreased from BDT 840 per acre to BDT 800 per acre, while fertiliser costs increased from BDT 5048 per acre to BDT 5450 per acre. Pest management expenses grew from BDT 1200 per acre to BDT 1500 per acre, and irrigation costs increased from BDT 1500 per acre to BDT 2100 per acre. Land cultivation costs stayed within BDT 3000 to BDT 5100 range.

Wheat production costs per kilogram rose from BDT 25.2 in FY2019 to BDT 32.0 in FY2023. Seed costs increased from BDT 3000 per acre to BDT 3480 per acre, and fertiliser costs rose from BDT

Table 1.14**Sector-wise production cost for rice**

Description of Materials	Boro Rice				
	FY2019	FY2020	FY2021	FY2022	FY2023
Seed	1100	1000	800	800	975
Fertiliser	4480	6185	5685	5685	7015
Pest Management	1000	1000	1900	2200	2300
Wages of Labour	28000	28800	37000	25000	27500
Land Cultivation/ Power Tiler	6000	4500	4500	6000	7000
Irrigation	7000	8000	8000	8000	8000
Threshing Cost			3000	5000	6000
Interest Payment	1650	817	748	1219	1209
Rent/Lease of Land	8000	8000	7500	8000	8000
Total Production Cost	57230	58503	69633	70904	77899
Production Cost per kilogram	24.7	24.8	26.0	26.5	28.4

Source: DAM (2023).

4880 per acre to BDT 9505 per acre. Pest management costs varied, peaking at BDT 1300 per acre in FY2023. Irrigation costs initially decreased but later increased to BDT 3000 per acre, with land cultivation costs generally stable around BDT 4500 per acre.

Potato: The cost per kilogram of potatoes rose from BDT 7.83 in FY2019 to BDT 10.5 in FY2023. Fertiliser costs for potatoes increased sharply from BDT 12,072 per acre to BDT 19,262 per acre, and pest management costs rose from BDT 4656 per acre to BDT 27877 per acre.

Tomato: Tomato production costs increased from BDT 7.95 per kilogram in FY2020 to BDT 9.59 in FY2023, with significant rises in fertiliser and pest management expenses.

Eggplant: Eggplant production costs rose from BDT 8.84 to BDT 12.22 per kilogram, driven by notable increases in land cultivation and pest management costs.

The production costs for these major crops have generally increased over the observed years, with significant contributions from fertiliser and pesticide expenses. Fertiliser costs have consistently risen across all crops, indicating increased application rates or higher input prices. Pest management costs also showed an upward trend, suggesting a growing emphasis on pest control. 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 slight increases, 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.

1.6.5 Agricultural input market

Seed Market: Bangladesh's seed production and distribution data from FY2018 to FY2023 highlight key aspects of the agricultural market's efficiency (Table 1.15). For rice, meeting

demand improved from 44.3 per cent in FY2019 to 63.8 per cent in FY2023, though persistent deficits of around 160,000 metric tons suggest ongoing inefficiencies. Wheat showed inconsistent trends, with demand decreasing from 50.4 per cent to 43.3 per cent and rising deficits indicating reliance on imports and market issues. Maize saw a dramatic improvement in FY2021, reaching 97.94 per cent, but this was not sustained, showing volatility in supply chains. Jute data reveals overproduction in some years, like FY2021, followed by deficits, suggesting a misalignment between production and demand. Vegetables and potatoes experienced severe fluctuations, with occasional overproduction in vegetables and large, consistent deficits in potatoes, highlighting issues in supply and demand alignment.

Table 1.15**Percentage of seed demand met**

Name of Seeds	Percentage of Demand Seed Met (% of total demand)				
	FY2019	FY2020	FY2021	FY2022	FY2023
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).

These trends suggest various challenges that exist within the markets for agricultural inputs. Persistent deficits in rice and wheat indicate potential inefficiencies in production and distribution, possibly exacerbated by rent-seeking behaviours or speculative trading. The volatility in maize and jute points to misalignment between production and market demand, potentially due to poor market intelligence or speculative activities. Fluctuations in vegetables and large deficits in potatoes underscore the difficulties in managing perishable goods and market inefficiencies. These factors collectively suggest that significant inefficiencies could be addressed through improved production planning and enhanced distribution systems while improvements exist.

Fertiliser Market: Chemical fertiliser usage in Bangladesh has shifted significantly, particularly between urea and non-urea fertilisers (Table 1.16). Total fertiliser use has increased over the last eight years, peaking at 6,825.55 thousand metric tons in FY2022. The share distribution between urea and non-urea fertilisers changed dramatically, decreasing from 48.4 per cent of total use in FY2016 to 38.9 per cent in FY2022, while non-urea increased to 61.0 per cent. This shift perhaps reflects changes in crop preferences.

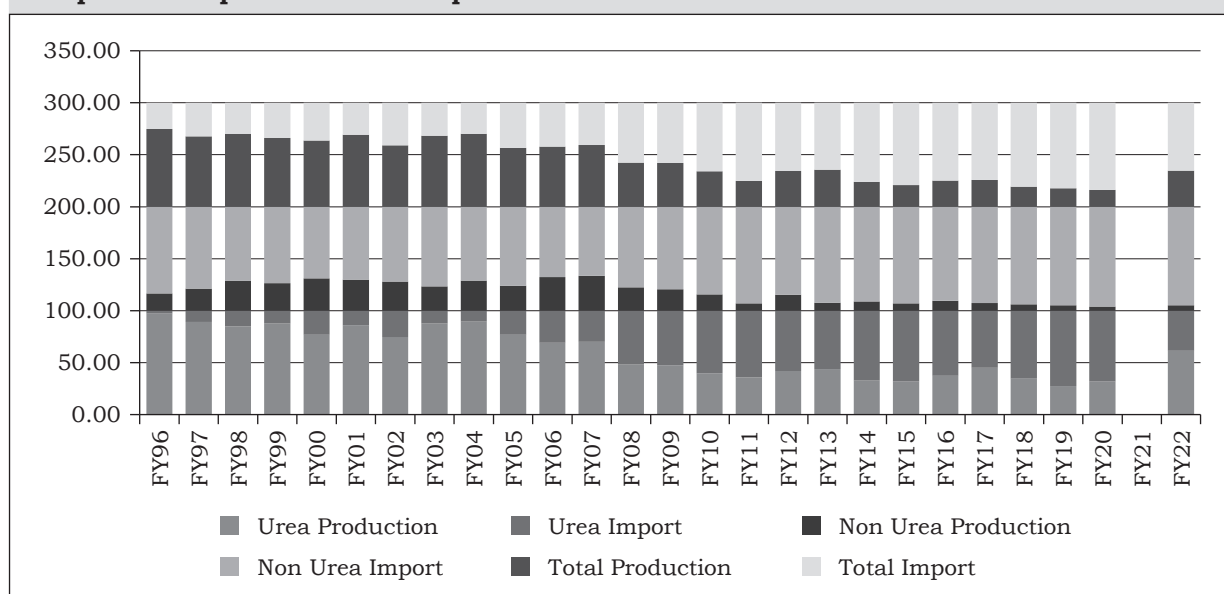
Fertiliser use per acre also evolved, with urea rising from 58.2 kg in FY2016 to 67.4 kg in FY2022 and non-urea increasing more sharply from 62.2 kg to 105.5 kg (Figure 1.28). Consequently, total fertiliser use per acre grew from 120kg to 173kg. Despite higher fertiliser application, agricultural yields did not rise proportionally, indicating potential issues like declining soil productivity or inefficiencies in fertiliser use. The substantial rise in non-urea use by 22.3 per cent in FY2021 and 15.4 per cent in FY2022, alongside changes in urea use, may reflect subsidy policy changes, price fluctuations, or availability constraints.

Table 1.16**Change in the composition of chemical fertilisers**

FY	Total Use in Thousand MT	Proportion of Urea	Proportion of Non-urea	Urea (kilogram) Used per Acre	Non-Urea (kilogram) Used per Acre	Total Fertiliser Used per Acre
FY2016	4738.40	48.35	51.65	58.21	62.18	120.40
FY2017	4926.77	48.02	51.98	60.12	65.07	125.18
FY2018	5093.45	47.66	52.34	61.68	67.74	129.42
FY2019	5422.00	47.84	52.16	65.38	71.27	136.65
FY2020	5457.00	45.90	54.10	63.43	74.75	138.18
FY2021	6073.00	40.56	59.44	62.37	91.41	153.774
FY2022	6825.55	38.99	61.01	67.38	105.45	172.829
FY2023*	5913.31	38.66	61.34	57.88	91.85	149.731

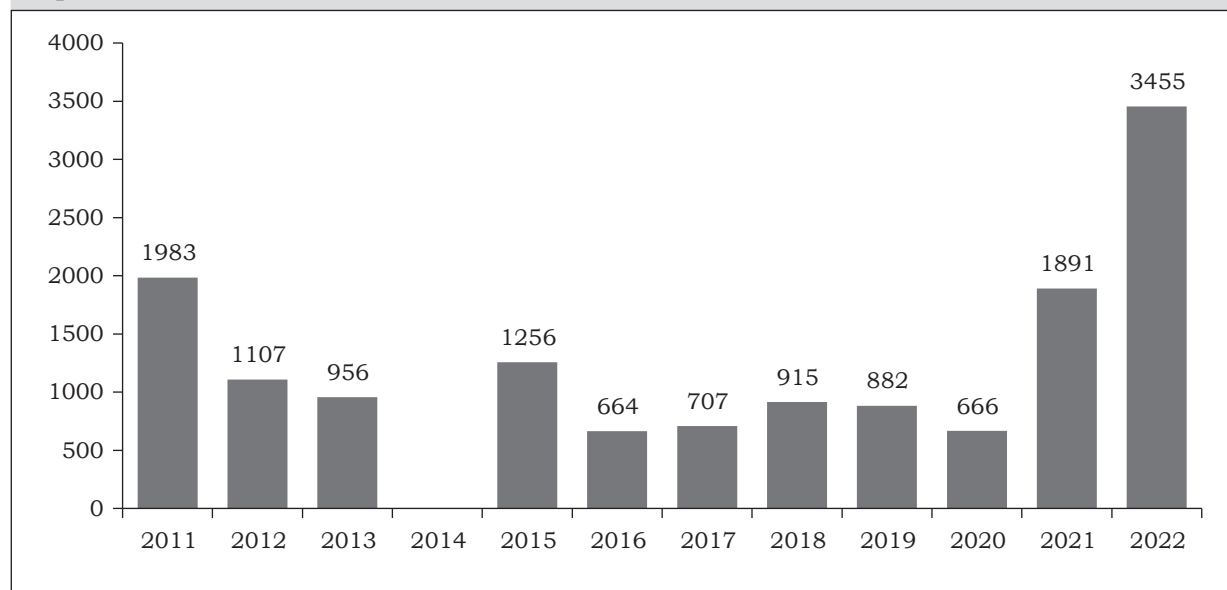
Source: MOF (2023).

Note: Data available for FY2023* is from July 2022 to February 2023.

Figure 1.28**Composition of production and import share of urea and non-urea fertilisers**

Source: FPMU (2024).

Bangladesh's fertiliser supply has increasingly relied on imports (Figure 1.29). Initially, local production met most of the demand for urea, with imports playing a minor role. Over time, imports of both urea and non-urea fertilisers have grown. In FY1996, urea imports were minimal, but by FY2022, reliance on imports had increased significantly. Non-urea fertilisers followed a similar pattern, with imports rising to a substantial portion of the supply. This shift suggests challenges in domestic production or a strategic preference for imports due to less availability of gas to be supplied in fertiliser factories for urea production. The reliance on imports with poor foreign reserves necessitates a rise in domestic production, which would be difficult without ensuring a sufficient gas supply.

Figure 1.29**Imported fertilisers between 2011 to 2022***(in million USD)***Source:** ITC Trade Map (n.d.).

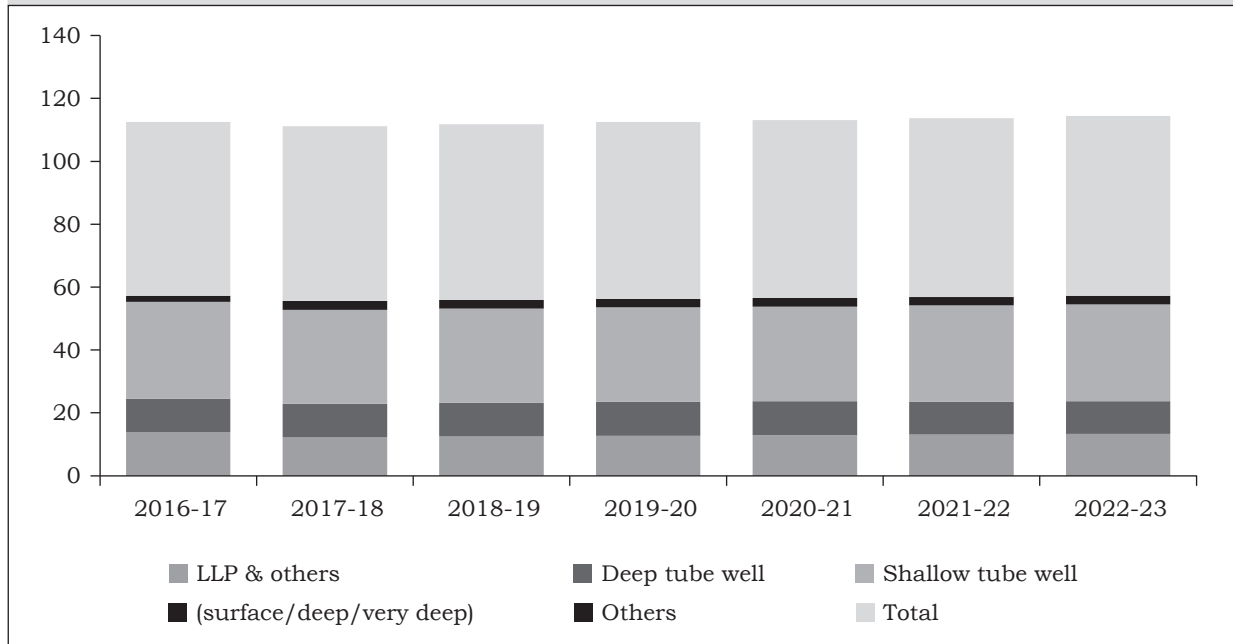
Pesticide Market: Total pesticide consumption in Bangladesh, encompassing insecticides (granular, liquid, powder), matricides, fungicides (general, sulphur), herbicides, and rodenticides, has generally increased despite minor fluctuations (Table 1.17). In 2019, total pesticide usage was 38,062 metric tons/kilolitres across 39,357 acres, resulting in a usage rate of approximately 0.967 kilograms per acre. By 2020, usage slightly decreased to 37,563 metric tons/kilolitres over the same area, translating to 0.95 kilograms per acre. In 2021, pesticide consumption rose to 39,543 metric tons/kilolitres over 39,678 acres, with the usage rate rebounding to 1.001 kilograms per acre. In 2022, there was a slight reduction in the usage rate to 0.99 kilograms per acre. Additionally, the total value of pesticide imports has shown a steady upward trend, further supporting these observations.

Table 1.17**Total 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

Source: BBS (2023).

Irrigation: The irrigation sub-sector of Bangladesh's agricultural sector has remained relatively unchanged over the years, with the total irrigated area increasing from 55.3 lakh hectares in FY2017 to 57.2 lakh hectares in FY2023 (BBS, 2023) (Figure 1.30). This growth is mainly due to the expanded use of shallow tube wells and LLP methods, which rose 30.8 lakh hectares and

Figure 1.30**Proportion of irrigation methods used**

Source: MOF (2023).

13.3 lakh hectares, respectively. Deep tube wells and other irrigation methods remained steady at around 10.5 and 2.7 lakh hectares, respectively. Crop irrigation patterns have remained skewed towards non-traditional methods, particularly for key crops like Boro and Aman rice. Non-traditional cultivation areas for Boro increased from 11.1 lakhs acre to 11.32 lakhs acre, and for Aman from 2.65 lakhs acre to 3.33 lakhs acre, while traditional methods remained stable (BBS, 2023). Despite these changes, the sector has largely maintained its core practices, incorporating modern technologies to improve water use efficiency and crop yields.

Agricultural Machinery: As of 2021, Bangladesh's agricultural sector utilises a vast array of machinery, including 2.8 million engines, 760,000 power tillers, 60,000 tractors, and 1.5 million sprayers (Table 1.18). Significant numbers of deep tube well pumps (1.76 million), shallow tube well pumps (500,000), and threshers (600,000) are also in operation, alongside 200,000 seeders, 150,000 grader drum ploughs, 50,000 manual weeders, and 30,000 fruit cutters (MOA, n.d.). Mechanisation rates for land preparation, irrigation, threshing, and pesticide application exceed 90 per cent, while planting and harvesting rates remain below 2 per cent. Manual planting requires 123-150 person-hours per hectare, whereas mechanical transplanting reduces this to 9-11 person-hours. Delays in transplanting can cause significant yield reductions, with a one-month delay reducing yields by 25 per cent and a two-month delay by 70 per cent (MOA, n.d.). Further mechanisation with seed planters, transplanters, and harvesting machines can cut operational costs by at least 50 per cent, demonstrating significant efficiency gains from modern machinery.

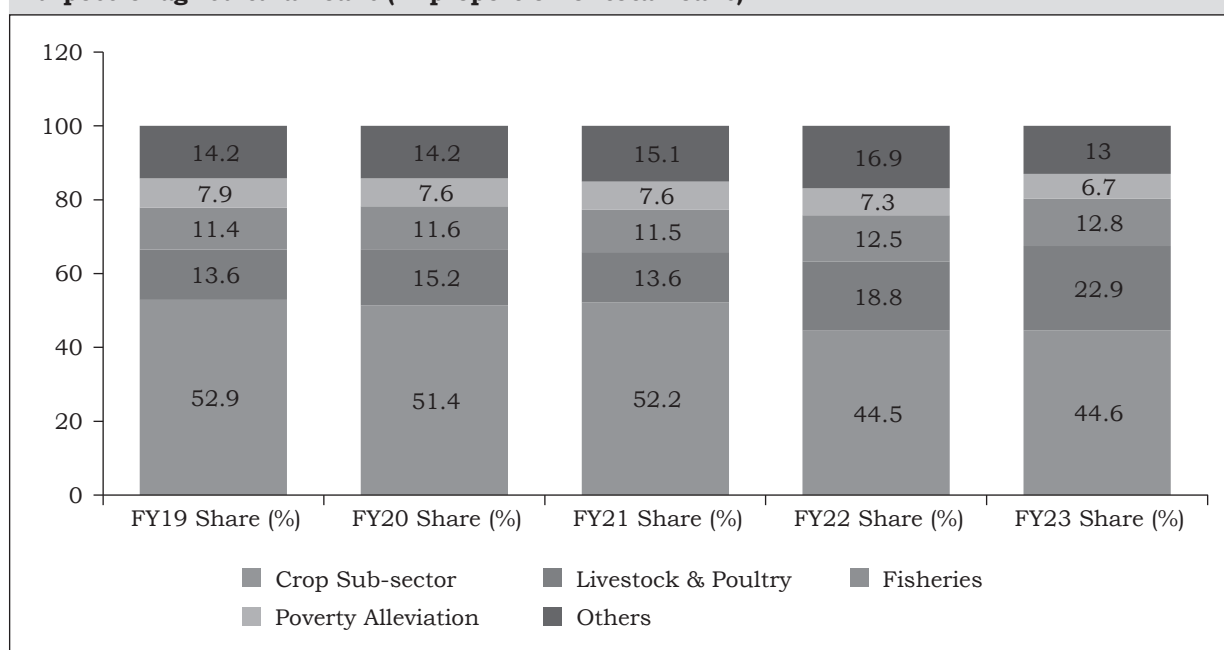
Table 1.18**Number of agricultural machines in Bangladesh***(Up to 2021)*

Name of Agricultural Machinery	Number of Machines	Name of Agricultural Machinery	Number of Machines
Engines used for agricultural work	2,800,000	Combine Harvester	6,000
Power Tiller	760,000	Seeder	200,000
Tractor	60,000	Drum Seeder	8,000
Rice Transplanter	1,120	Grader Drum Plow	1,50,000
Reaper	30,000	Grader Drum Planter	2,00,000
Bed Planter	8,000	Floating Weeder	48,500
Granular Urea Applicator	1,800	Manual Weeder	50,000
Granular Fertiliser Applicator	18,000	Thresher	600,000
Sprayer	1,500,000	Dryer	500
Deep Tube Well Pump	1,763,485	Cutter (Rice, Wheat, Corn, Lentil, Oilseed, Spice)	30,000
Shallow Tube Well Pump	500,000	Straw Chopper	3,50,000

Source: Authors' compilation from the information of the Ministry of Agriculture.

1.6.6 Financing agricultural production

Agricultural Credit: Between FY2015 and FY2023, agricultural credit disbursement grew significantly, with targets rising from BDT 16,400 million in FY2016 to BDT 30,911 million in FY2023 (Figure 1.31). Disbursements consistently exceeded targets, and recovery amounts increased from BDT 17,056 million to BDT 33,010 million, indicating effective loan mechanisms.

Figure 1.31**Purpose of agricultural loans (In proportion of total loans)**

Source: Bangladesh Bank (2024).

From 2019 to 2023, the allocation of agricultural loans shifted, with the crop subsectors' share decreasing from 52.9 per cent to 44.6 per cent, while livestock and poultry loans increased from 13.6 per cent to 22.9 per cent. Loans for fisheries remained stable, and those for poverty alleviation and other purposes showed minor fluctuations, suggesting a focus on diversifying agricultural activities to boost productivity and resilience.

Subsidy: From FY2015 to FY2020, the Bangladeshi government used subsidies to stabilise fertiliser prices (Table 1.19). The urea subsidy per kilogram peaked at BDT 12.7 in FY2019 before decreasing to BDT 11.8 in FY2020. In contrast, the retail price of urea remained fixed at BDT 16 per kilogram despite fluctuating international prices. Non-urea fertiliser subsidies also varied, with the highest subsidy at BDT 16 per kilogram in FY2016, decreasing to BDT 12.7 in FY2020. DAP prices fell slightly from BDT 27 to BDT 24 per kilogram, even as international prices peaked at BDT 31.7 in FY2019. MOP prices remained steady at BDT 15 per kilogram despite international price fluctuations. These subsidies helped maintain stable domestic fertiliser prices, cushioning farmers from international market volatility.

Table 1.19

Market price, international price and subsidy paid in fertiliser

Fertilisers	Indicators	FY2016	FY2017	FY2018	FY2019	FY2020
Urea (BDT/ KG)	Subsidy	10.2	5.0	7.0	12.7	11.8
	Domestic price	16.0	16.0	16.0	16.0	16.0
	Global price	18.6	16.5	18.9	22.2	19.4
Non-Urea	Subsidy	16.1	8.3	12.0	14.8	12.7
	DAP Domestic Price	27.0	27.0	27.0	25.0	24.0
	DAP Global Price	29.5	25.8	29.7	31.7	23.2
	MOP Domestic Price	15.0	15.0	15.0	15.0	15.0
	MOP Global Price	23.7	17.8	18.0	19.6	21.3

Source: FPMU (2023); WB (2023); MOA (2022).

From FY2017 to FY2020, the electricity rebate for irrigation increased – it peaked in FY2019 with the highest subsidy per hectare at BDT 37.7. By FY2020, the total subsidy decreased to reducing the subsidy per hectare to BDT 28.3 (Table 1.20). This variability reflects adjustments in electricity prices for irrigation from time to time.

The Agricultural Machinery Technology Innovation and Expansion Project, launched in 2010, provides substantial subsidies for farm machinery. As of April 19, 2023, the Ministry of Agriculture announced a 70 per cent subsidy for farmers in the Haor region and a 50 per cent subsidy for those in other regions on essential machinery such as combine harvesters, rice transplanters, reapers, seeders, threshers, dryers, sprayers, weeders, potato diggers, carrot washers, and various spare parts. Additionally, around 2,000 farmers and mechanics receive annual training on agricultural machinery.

Table 1.20**Government subsidy in fertiliser and irrigation**

Fiscal Year	Subsidy in Fertiliser			Subsidy in Irrigation			Total Subsidy Paid (Crore BDT)
	Urea (Subsidy Paid in BDT Crore)	Non-Urea (Subsidy Paid in BDT Crore)	Per Acre Fertiliser Subsidy (BDT per Acre)	Total Irrigated Area (lakh hectares)	Electricity Rebate (Subsidy Paid in BDT Crore)	Per Hectare Irrigation Subsidy	
FY2016	2337.28	3928.85	1592.13	55.14	152.1	27.56	6418.23
FY2017	1182.14	2127.42	840.91	55.27	161.38	29.20	3470.94
FY2018	1694.67	3191.29	1241.45	55.57	168.28	30.28	5054.24
FY2019	3298.83	4174.11	1883.40	55.87	210.67	37.71	7683.61
FY2020	2954.16	3762.12	1700.63	56.27	159.31	28.31	6875.59

Source: MOA (n.d.).

1.6.7 Marketing of agricultural commodities

Distribution of margin at retail market

Rice and Crops: The rice market has seen fluctuations in the margin at the retailers' end, where retail margins surged from 7 per cent in 2018 to 54 per cent in 2020, though margins have stabilised in the following years (5-6 per cent in 2021 and 2022) (Table 1.21). In contrast, Rice (Medium) and Rice (thin) displayed relatively stable margins, consistently hovering around 5-6 per cent. A higher margin for rice (coarse) at the retailers' end forces poor and low-income people to buy rice, leading to a higher financial burden.

Wheat has experienced a slight upward trend in retail margins, peaking at 12 per cent in 2020 before reducing 8-11 per cent in subsequent years, indicating increasing retail markups. Conversely, eggplant margins reveal significant volatility, ranging from 18 to 28 per cent, with a peak in 2022 suggesting supply constraints driving up retail margins. This volatility points to underlying instability, possibly due to seasonal production variations or inadequate storage facilities.

Spices: The agricultural spice market demonstrates a mix of stability and volatility. Onion margins fluctuate, peaking at 17 per cent in 2018 following 12-15 per cent margins, indicating supply chain disruptions or production issues. Garlic margins show significant increases, peaking at 24 per cent in 2018 and 2022, suggesting supply constraints. Ginger exhibits wide volatility, with margin changes from 2 per cent to 23 per cent and a peak in 2022 indicating severe supply disruptions. Dried chilli margins show moderate fluctuations, peaking at 12 per cent in 2022, reflecting consistent supply. Turmeric remains stable at around 10-13 per cent, suggesting balanced supply and demand. In contrast, coriander shows significant volatility, peaking at 25 per cent in 2022, indicating supply constraints, with high markups pointing to production or distribution challenges. Since most spices are imported, the volatility at retailers' margins is partly explained by high import costs due to the devaluation of BDT against the dollar.

Table 1.21**Distribution of margin at retail market and wholesale market***(in %)*

Name of item	Market	2018	2019	2020	2021	2022
<i>RICE</i>						
Rice (Coarse)	Retail	7	9	54	5	6
Rice (Medium)	Retail	5	6	6	6	5
Rice (Thin)	Retail	6	6	-7	6	5
<i>CROPS</i>						
Wheat	Wholesale	8	7	4	-7	-21
	Retail	9	8	12	11	5
Eggplant	Wholesale	18	8	18	3	7
	Retail	21	27	18	23	28
Maize Crop	Wholesale	9	0	4	-16	0
	Retail	16	17	21	14	9
Tomato	Wholesale	40	19	2	2	8
	Retail	24	23	23	26	25
Lentil	Wholesale	29	21	32	32	22
	Retail	11	11	7	6	8
Potato	Wholesale	5	5	7	11	-14
	Retail	25	27	17	19	22
<i>SPICES</i>						
Onion	Wholesale	5	5	7	11	-14
	Retail	17	13	12	12	15
Garlic	Wholesale	10	-21	25	32	-36
	Retail	24	16	15	11	21
Ginger	Wholesale	7	-2	37	14	-33
	Retail	18	15	2	15	23
Dried Chilli	Wholesale	8	-11	5	12	-22
	Retail	11	9	11	10	12
Turmeric	Wholesale	7	9	9	11	-3
	Retail	13	10	11	11	10
Coriander	Wholesale	11	9	8	10	-7
	Retail	24	16	16	15	25
Mustard (Oil Seed)	Wholesale	4	1	7	-9	1
	Retail	18	23	18	17	8

Source: DAM (2022).***Wholesale price, imported price, and import quantity***

Analysing the data from 2018 to 2022, we observe intriguing patterns in the wholesale prices, imported prices, and import quantities of various commodities in Bangladesh (Table 1.22). The relationship between the price differences and import quantities provides significant insights into the market dynamics and strategies employed by importers. This narrative thoroughly explores these trends, highlighting the key findings and their implications.

Table 1.22**National wholesale average market price (BDT/ kg), imported price (BDT/ kg) and import quantity***(in Tons)*

Name of item	Price	2018	2019	2020	2021	2022
Rice	Wholesale Price	52	45	52	57	63
	Imported Price	38	59	97	36	39
	Import (Tons)	995,210	55,075	21,708	2,644,282	908,087
Wheat	Wholesale Price	23	25	25	27	37
	Imported Price	19	19	20	26	32
	Import (Tons)	4,839,307	6,879,079	6,014,980	7,162,222	4,197,787
Maize Crop	Wholesale Price	19	18	19	22	32
	Imported Price	17	16	18	24	30
	Import (Tons)	1,710,501	1,313,750	2,218,941	1,898,786	2,265,460
Tomato	Wholesale Price	38	44	35	39	53
	Imported Price	31	36	37	36	27
	Import (Tons)	1,294	33,391	42,676	45,571	38,758
Onion	Wholesale Price	37	49	58	37	34
	Imported Price	20	36	23	25	19
	Import (Tons)	262,562	253,789	687,594	571,290	712,334
Garlic	Wholesale Price	44	90	98	65	53
	Imported Price	44	85	60	71	48
	Import (Tons)	65,056	81,967	102,717	61,606	71,152
Ginger	Wholesale Price	87	127	146	78	76
	Imported Price	31	36	37	36	27
	Import (Tons)	81,648	109,189	128,030	158,780	97,903
Turmeric	Wholesale Price	130	127	125	126	126
	Imported Price	86	86	79	96	95
	Import (Tons)	4,206	15,671	51,250	28,376	28,807

Source: ITC Trade Map(n.d.), DAM (2023).

Rice: Over the years, rice has shown considerable wholesale and imported price fluctuations. In FY2018, the wholesale price of rice was BDT 52/kg, while the imported price was significantly lower at BDT 38/kg. This price disparity likely encouraged higher import quantities, as evidenced by the substantial import quantity of 995,210 tons. However, in FY2020, when the imported price surged to BDT 97/kg, far exceeding the wholesale price of BDT 52/kg, the import quantity dropped dramatically to 21,708 tons. This trend underscores a direct relationship between price advantage and import quantities: lower imported prices relative to wholesale prices incentivise higher imports, while higher imported prices discourage them. By FY2022, the wholesale price rose to BDT 63/kg, and the imported price decreased to BDT 39/kg, resulting in a notable import quantity of 908,087 tons, reaffirming this pattern.

Wheat: The data for wheat also reveals compelling insights. In 2018, wholesale and imported prices were relatively close at BDT 23/kg and BDT 19 /kg, respectively. The substantial import quantity of 4,839,307 tons suggests that even a slight price advantage in imported wheat can drive high import volumes. By FY2021, the wholesale price increased to BDT 27/kg, while the imported price remained lower at BDT 22/kg, corresponding with an import quantity of 7,162,222 tons, the highest in the observed period. This trend highlights that a consistent price advantage in imports

significantly boosts import volumes, supporting the need to import to meet domestic demand at a lower cost.

Maize Crop: For maize, the imported price remained consistently lower than the wholesale price across the years. For instance, in FY2020, the wholesale price was BDT 19/kg compared to the imported price of BDT 18/kg, resulting in a high import quantity of 2,218,941 tons. This marginal price difference still prompted significant imports, indicating that importers take advantage of even minimal cost savings. By FY2022, the wholesale price rose to BDT 32/kg, while the imported price was BDT 30/kg, with the import quantity reaching 2,265,460 tons. This suggests that as long as the import price is lower, import quantities tend to remain high, reflecting cost-saving measures by importers.

Tomato: Tomato prices exhibit a unique pattern where the wholesale prices often exceed the imported prices. In 2019, the wholesale price was BDT 44/kg, while the imported price was lower at BDT 36/kg, leading to an import quantity of 33,391 tons. Despite the lower price of imports, the quantities remained relatively moderate, possibly due to the perishable nature of tomatoes and logistical challenges. However, in 2022, when the wholesale price increased to BDT 39/kg and the imported price dropped to BDT 27/kg, import quantities rose to 38,758 kg. This suggests significant price differences can overcome logistical hurdles, driving higher imports.

Onion: The onion market experienced sharp price fluctuations. In FY2019, the wholesale price was BDT 49/kg, significantly higher than the imported price of BDT 36/kg, resulting in an import quantity of 253,789 tons. The high import quantity aligns with the substantial price advantage of imported onions. However, in FY2022, when the wholesale price decreased to BDT 37/kg and the imported price was BDT 24/kg, the import quantity soared to 712,334 tons. This substantial increase indicates that lower imported prices relative to wholesale prices can drastically boost import quantities, highlighting the market's sensitivity to price changes.

Garlic: Garlic prices present another interesting case. In FY2018, wholesale and imported prices were identical at BDT 44/kg, with an import quantity of 650,656 kg. This suggests a baseline import requirement regardless of price advantage. In FY2021, the wholesale price rose sharply to BDT 98/kg, while the imported price was lower at BDT 65/kg, resulting in a decreased import quantity of 61,606 tons. By FY2022, with the wholesale price at BDT 53/kg and the imported price at BDT 48/kg, imports were 71,152 tons. The fluctuating import quantities, despite price advantages, suggest that other factors, such as better domestic supply, influence garlic imports.

Ginger: Ginger prices and quantities show a clear correlation with price advantages. In FY2019, the wholesale price was BDT 127/kg, while the imported price was significantly lower at BDT 36/kg, leading to an import quantity of 190,189 kg. The substantial price difference drove high import volumes. By FY2022, the wholesale price increased to BDT 76/kg; the imported price was BDT 72/kg, with imports at 97,903 tons. This decrease in import quantity despite a lower import price reflects that significant price advantages are more influential in driving high import volumes.

Turmeric: Turmeric also demonstrates the impact of price differences on import quantities. In FY2018, the wholesale price was BDT 130/kg, while the imported price was BDT 86/kg, with an import quantity of 4,206 tons. In FY2021, the wholesale price rose to BDT 126/kg, and the imported price decreased to BDT 96/kg, resulting in a higher import quantity of 51,250 tons. By FY2022, the wholesale price was BDT 126/kg, and the imported price was BDT 95/kg, with imports at 28,870 tons. These trends suggest that significant price advantages in imported turmeric can drive higher import quantities, particularly when domestic prices remain high.

1.6.8 Conclusion

The review of the agriculture markets, including production, inputs and marketing of different crops, non-crops, livestock and fisheries, indicates that despite the consistent rise in production, competitiveness of domestic production remains a challenge. This is due to the rising costs of production, particularly those of fertiliser, labour, and irrigation, despite having a subsidised supply of these inputs. Most crops need at least a part to be imported, and the share of imports is increasing. In other words, domestic food security increasingly depends on part of import – self-sufficiency in food production is not yet achieved. However, 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 wastelands. At the same time, it is also important to supply agricultural commodities at competitive market prices.

1.7 ENERGY AND POWER DEMAND PROJECTION FOR 2041: IEPMP vs CPD

Key Findings

1. The new Integrated Energy and Power Master Plan (IEPMP) by the Ministry of Power, Energy, and Mineral Resources (MoPEMR) relies on unrealistically optimistic GDP growth rates, potentially leading to inflated energy demand projections.
2. The revised CPD forecast utilises a Vector Error Correction Model (VECM), which accounts for the data's cointegration, autocorrection, and endogeneity, along with historical trends and interrelationships among the factors.
3. CPD's power and energy sector forecast estimates significantly lower demand than IEPMP's.

Key Policy Recommendations

1. The IEPMP's energy demand projections should be revised using more robust models like VECM to avoid over-investment while maintaining a deficit in the financial account.
2. To align with sustainability goals, a significant portion of future power generation capacity, around 40 per cent by 2041, from renewable energy sources seems feasible, considering the forecast performed by the CPD.
3. Innovative approaches like net metering should be prioritised to promote decentralised renewable energy generation at both individual and industrial levels.

1.7.1 Introduction

In November 2023, the Ministry of Power, Energy, and Mineral Resources (MoPEMR) approved the new Integrated Energy and Power Master Plan (IEPMP). Through this plan, the Government of Bangladesh (GoB) has embarked on an ambitious journey to forecast and strategise the nation's energy needs up to 2050. The IEPMP envisions a comprehensive roadmap to address the increasing power demand, considering the rapid pace of urban development, industrial growth, and the necessity for environmental sustainability and social equity.

However, the current IEPMP relies heavily on optimistic GDP growth rates, which may have led to over-inflated power and energy demand estimations. Additionally, the forecasting methods utilised in the IEPMP are based on simplified models, with the most recent data point being from 2019. This approach fails to account for significant events like the COVID-19 pandemic, which has

profoundly impacted energy consumption patterns. Accurate forecasting is crucial for urban and industrial planning and ensuring environmental sustainability and social equity.

Given these potential shortcomings, the CPD aims to provide a revised and more accurate forecast of future electricity consumption in Bangladesh. By employing a comprehensive time series modelling approach that incorporates long-run historical data and the most recent observations, we strive to develop a more realistic and reliable estimate of the country's energy needs. These forecasts extend to 2050, marking 2030, 2041 and 2050 as benchmarks, and serve as a critical tool for government officials, energy sector executives, and planners, helping to ensure that the nation's energy infrastructure can meet rising demands without compromising environmental and social objectives.

1.7.2 Summary of the energy demand forecast in the IEPMP

The IEPMP employs an econometric methodology for forecasting energy demand, utilising a technological assessment model based on a bottom-up approach alongside econometric modelling techniques such as OLS regression analysis and micro-level demand forecasting. The key assumptions underlying these models include GDP, population, energy prices, previous demand, energy efficiency, and CO₂ intensity, with metrics such as total energy consumption per GDP and total CO₂ emissions per GDP. However, the actual econometric model used in the IEPMP simplifies this by including only three primary variables: price, previous demand, and GDP.

The formula for Final Energy Consumption in the IEPMP is expressed as:

Energy Demand = f [income (+), energy price (-), previous demand (+)]

The IEPMP considers three scenarios for its projections: the Reference scenario (business as usual), the Advanced Technology Scenario (ATS), and the Net Zero scenario, although the latter is ignored in the final analysis. Additionally, three GDP growth cases are examined: the PP2041 scenario, the In-between case, and the IMF Extended case. These scenarios and cases are designed to capture a range of possible future states, allowing for flexibility and adaptability in planning.

According to the IEPMP's estimations, energy demand in Bangladesh is projected to increase significantly from 2019 to 2050. Specifically, energy demand is expected to rise by 1.64 times to 67.65 million tonnes of oil equivalent (MTOE) by 2030, by 2.39 times to 98.59 MTOE by 2041, and by 3.14 times to 129.53 MTOE by 2050, from a base level of 41.25 MTOE in 2019. These projections underscore the need for a strategic approach to energy planning, ensuring that future demand is met sustainably and efficiently.

1.7.3 Summary of the power demand forecast in the IEPMP

The Integrated Energy and Power Master Plan (IEPMP) primarily adopted the PP2041 strategy for its power forecast, leveraging the government's previous successful strategies, as highlighted in the IEPMP Interim Report 2022. However, the success of a few strategies does not necessarily justify the wholesale integration of this power strategy into the IEPMP. One key method used to measure electricity demand in the IEPMP is the GDP elasticity method, with an elasticity value of 1.27, indicating a strong relationship between GDP growth and electricity demand growth. This approach aligns with the Power System Master Plan (PSMP) 2016.

A critical shortcoming of the IEPMP's electricity demand forecast is the assumption of a constant relationship between GDP growth and electricity demand growth, which lacks consideration for

potential changes in efficiency and other influencing factors. Notably, no efficiency parameters were included in the forecast model. This constant relationship assumption simplifies the complexity of real-world dynamics, potentially leading to inaccuracies in the forecast.

According to the IEPMP's estimations, electricity demand in Bangladesh is expected to rise dramatically from 2019 to 2050. Specifically, demand is projected to increase by 2.26 times to 206.1 terawatt-hours (TWh) by 2030, by 4.5 times to 411 TWh by 2041, and by 7.38 times to 673.7 TWh by 2050, starting from a base level of 91 TWh in 2019. These projections emphasise the necessity for a more nuanced and flexible forecasting approach that can adapt to evolving economic conditions and incorporate efficiency improvements to ensure a sustainable energy future. Table 1.23 summarises the energy and power demand forecast illustrated in the IEPMP 2022.

Table 1.23

Summary of the forecast of energy and power demand in the IEPMP

Year	Forecast of Primary Energy Demand (toe) ²	Forecast of Power Demand (Tw-H)
2030	67.7	206.1
2041	98.6	411.1
2050	129.5	673.7

Source: Authors' compilation and calculation based on the IEPMP.

1.7.4 Methodological issues in the IEPMP and the advantage of VECM

The IEPMP has several methodological issues that undermine the reliability of its energy demand forecasts. One significant issue is using non-stationary data in Ordinary Least Squares (OLS) regression, which can lead to spurious regression results. When data is non-stationary, its statistical properties, such as mean and variance, change over time, making traditional OLS methods unreliable. Additionally, autocorrelation in the data can result in biased and inefficient estimates, as past values influence current values, violating the assumption of independence in OLS.

Another critical issue is the inability of OLS to capture long-term relationships among variables due to the lack of cointegration. Cointegration allows for identifying a long-term equilibrium relationship between non-stationary variables, which OLS cannot adequately address. This limitation leads to endogeneity bias, where omitting relevant variables and complex interdependencies among existing variables invalidate the homogeneity assumption. In the IEPMP, the electricity demand forecast assumes a constant relationship between GDP growth and electricity demand growth, a simplification that fails to reflect real-world dynamics. Moreover, according to existing literature, GDP is treated as an exogenous variable, which is an unrealistic assumption.

We utilised the Vector Error Correction Model (VECM) to overcome these methodological shortcomings. VECM addresses the issues of non-stationary data by allowing for cointegration, thus capturing the long-term equilibrium relationships among variables. This model also accounts for autocorrelation, providing more reliable and efficient estimates. By incorporating endogeneity, VECM acknowledges the complex interdependencies among variables, offering a more accurate and realistic forecast. Our analysis used data from 1977 to 2022 for energy demand and from 1985 to 2022 for power demand, ensuring a comprehensive examination of trends and patterns.

²In the IEPMP, energy demand is measured using the Final Energy Consumption. However, in the CPD's forecast, the measure has been calculated using Primary Energy Consumption. Since the IEPMP has assumed a constant systematic loss of conversion, the conversion from Final Energy Consumption to Primary Energy Consumption was calculated for the IEPMP.

The VECM’s advantage lies in its ability to model short- and long-run dynamics, capturing historical inter-period changes under the Business as Usual (BAU) scenario. This makes VECM a more flexible and robust tool than OLS. Post-estimation tests for the robustness and stability of the VECM model have yielded satisfactory results, with the short-run and long-run interrelationships among variables consistent with previous literature. The electricity demand was measured using the GDP elasticity method, with an elasticity value of 1.27, aligning with the Power System Master Plan (PSMP) 2016. Despite an efficiency parameter in the IEPMP, VECM’s comprehensive approach ensures a more reliable forecast by addressing the methodological flaws inherent in the IEPMP’s OLS-based model.

By utilising VECM, we provide a more dynamic, robust, and realistic modelling approach, significantly improving the accuracy of future energy and power demand forecasts for Bangladesh. This method not only corrects the methodological issues present in the IEPMP but also offers a clearer and more actionable insight into the country’s future energy needs.

1.7.5 Revised forecast of energy demand

Our model’s primary variables include Primary Energy Consumption, Real GDP, Total CO₂ Emissions, Population Growth Rate, and the Global Energy Price Index. The data spans from 1974 to 2022, allowing for a thorough analysis of historical trends and future projections. The VECM approach captures historical inter-period dynamics under the business-as-usual scenario and ensures the model’s robustness and stability post-estimation. The short-run and long-run interrelationships among the variables are consistent with previous literature, and the optimal rank of the model is determined to be 2, with an optimal lag of 1. This comprehensive approach provides a more realistic and reliable forecast of Bangladesh’s future energy demand than the initial IEPMP methodology. The data is sourced from Our World in Data, World Development Indicators, and IMF.

Table 1.24 compares the primary energy consumption forecasts between the IEPMP and our VECM approach, showing significant differences in the projected energy demand. According to the IEPMP, primary energy consumption is expected to reach 67.65 MTOE by 2030, 98.59 MTOE by 2041, and 129.53 MTOE by 2050. In contrast, the VECM forecasts lower consumption levels of 57.71 MTOE by 2030, 75.14 MTOE by 2041, and 96.51 MTOE by 2050. The changes in forecasted energy consumption indicate that the IEPMP predicts much higher growth rates, with energy demand increasing by 1.64 times by 2030, 2.39 times by 2041, and 3.14 times by 2050. The VECM, however, forecasts a more moderate increase of 1.40 times by 2030, 1.82 times by 2041, and 2.34 times by 2050.

Table 1.24

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	41.3	41.25	-	-
2030	67.7	56.1	1.64 fold	1.36 fold
2041	98.6	72.6	2.39 fold	1.76 fold
2050	129.5	85	3.14 fold	2.06 fold

Source: Authors’ Calculation, 2024.

The discrepancy can be attributed to several factors, including the IEPMP's last data observation point in 2019, which did not account for the economic impacts of the COVID-19 pandemic. This structural break likely led to overestimated future energy demand in the IEPMP forecasts. The IEPMP and VECM also assumed constant systematic loss and conversion costs from primary to final energy, emphasising the differences arising from the underlying methodological approaches. The VECM's more conservative estimates suggest a need for revising the IEPMP's forecasts better to reflect recent economic changes and more robust modelling techniques.

1.7.6 Revised forecast of power demand

For the VECM-based electricity demand forecast, we used variables such as total electricity consumption, GDP growth rate, total CO₂ emissions, domestic retail electricity price, and electricity intensity. According to our diagnostics, using Johansen cointegration and selection order criteria, we determined that the optimal rank for both models is 2, and the optimal lag is 1. This approach ensures a more accurate and adaptable forecast, reflecting the complex and changing nature of the factors influencing electricity demand.

Our estimates, illustrated in Table 1.25, use data from 1985 to 2022, including adjustments for the COVID-19 pandemic. According to the IEPMP, power demand is projected to reach 206.1 TWh by 2030, 411 TWh by 2041, and 673.7 TWh by 2050. In contrast, our VECM forecasts significantly lower power demand: 182.9 TWh by 2030, 278.1 TWh by 2041, and 368.3 TWh by 2050.

Table 1.25

Comparison of VECM forecast of power demand with that of IEPMP

Year	Power Demand (Tw-H)		Changes in Forecasted Power Demand (times)	
	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	91.0	91.0	-	-
2030	206.1	135.6	2.26 times	1.49 times
2041	411.1	191.1	4.50 times	2.10 times
2050	673.7	239.3	7.38 times	2.63 times

Source: Authors' Calculations, 2024.

The IEPMP's forecasts imply power demand increases of 2.26 times by 2030, 4.5 times by 2041, and 7.38 times by 2050, while our VECM forecasts show more moderate increases of 2.01 times by 2030, 3.06 times by 2041, and 4.05 times by 2050. Notably, in 2041, our forecast predicts a power demand of 27,345 MW compared to the IEPMP's estimate of 58,410 MW. Considering the 25% reserve margin proposed in the IEPMP, our projected capacity for 2041 would be 34,181 MW.

This significant difference highlights the VECM's more conservative and realistic approach, which accounts for recent economic disruptions and provides a more feasible scenario for future electricity demand.

Table 1.26 compares the actual power consumption from 2020 to 2022 with the forecasted power demand under two scenarios: one without considering the COVID-19 pandemic and one reflecting the actual scenario that includes the impact of COVID-19. The actual power consumption values are indicated, while the forecasted values are marked with an asterisk (*) to denote that they are estimates.

Table 1.26**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*	92.2
2022	97.6	123.2*	97.6
2023	-	130.1*	102.3*

Source: Authors' Calculation based on the IEPMP.

The table illustrates that the absence of the COVID-19 incident would have led to significantly higher power demand for 2020, 2021, and 2022. For instance, the forecasted power demand without considering COVID-19 was 86.9 TWh for 2020, 94.8 TWh for 2021, and 102.2 TWh for 2022. The observed power demand was 72.2 TWh in 2020, 75.3 TWh in 2021, and 81.8 TWh in 2022, considerably lower than the non-COVID forecasts.

This discrepancy highlights the impact of the COVID-19 pandemic on power consumption, leading to lower-than-expected demand. Furthermore, it demonstrates a significant divergence from the IEPMP's forecast, which did not account for the pandemic. Although the IEPMP was finalised in 2022, it failed to align with the realised values from recent years, explaining why its power consumption demand forecast is higher than observed. This underscores the importance of incorporating unforeseen events and economic disruptions into energy demand forecasting models to ensure more accurate and reliable predictions.

1.7.7 Recommendations

The analyses reveal significant flaws in the energy and power demand projections 2041 within the IEPMP. These overestimations suggest an inflated need for power, which could lead to substantial and potentially unnecessary investments in infrastructure development, particularly for fossil-fuel-based energy generation, transmission, and distribution. Such investments strain financial resources and pose a significant barrier to the country's transition towards sustainable energy solutions.

With the re-estimated projected demand, it is feasible that 40 per cent of the total power generation capacity by 2041, approximately 14,000 MW, could be sourced from renewable energy. This includes solar energy (through rooftop installations and solar parks) and wind energy (both onshore and offshore). Emphasising renewable energy aligns with global sustainability trends and reduces dependence on fossil fuels, thereby mitigating environmental impacts and enhancing energy security.

Therefore, it is imperative to prioritise industry-scale renewable energy generation and adopt innovative approaches such as net metering, which allows consumers to generate their electricity and feed surplus energy back into the grid. Such measures would encourage the adoption of renewable energy at both the individual and industrial levels, promoting a decentralised and resilient energy system. By focusing on these sustainable strategies, Bangladesh can better manage its energy needs while advancing its environmental sustainability and economic efficiency goals.

1.8 CONCLUSIONS

The performance of the Bangladesh economy during the first 10 months of FY2024 indicates that despite some positive policy measures taken by the Bangladesh Bank, the remaining months of FY2024 will continue to face challenges. This is because it takes a while to see the outcome of any policy. However, the effectiveness of any policy also depends on complementary policies in other areas.

In the backdrop of formidable economic challenges, the new Finance Minister will present the national budget for FY2025. This and the previous IRBD reports of FY2024 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 policymakers, they must also offer concrete measures to provide respite to the inflation-afflicted common people with limited income.

Therefore, the macroeconomic framework for the upcoming FY2025 should focus on curbing inflation and stabilising the exchange rate. 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 FY2025. Complementarity between the fiscal and monetary policies must be ensured for positive outcomes of policy measures and for improving macroeconomic performance.

Along with the immediate and short-term measures, the government should also work towards addressing structural problems, such as establishing good governance and strengthening institutions through reforms. Given that reforms are unpopular and painful, they require strong political commitment.

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Chapter 2

CPD's Recommendations for the National Budget FY2024-25 *(Second Reading)*

EXECUTIVE SUMMARY

The report provides a comprehensive analysis of Bangladesh's current fiscal policy. It presents several key recommendations to strengthen its economic foundations, particularly in public health, education, and environmental sustainability. The findings and recommendations address the country's critical fiscal challenges and provide a long-term economic stability and growth roadmap.

Bangladesh faces significant economic difficulties from macroeconomic instability, a liquidity crisis, high interest rates, and slow budget implementation. These issues have been exacerbated by shrinking foreign reserves and low levels of foreign direct investment, leading to a depreciation of the Bangladeshi Taka (BDT). The short-term economic outlook for the country remains challenging, and these issues require urgent attention. The report emphasises the need for a cohesive strategy between fiscal and monetary policies to achieve the desired macroeconomic stability. This requires close cooperation between the Ministry of Finance (MoF) and Bangladesh Bank (BB) and addressing deep-rooted structural issues that, if left unresolved, could hinder any future improvements in economic performance. Structural reforms are critical, and their successful implementation will play a crucial role in determining the overall effectiveness of the proposed fiscal measures.

The report highlights that while the government has recognised the importance of tackling the country's economic challenges, the real difficulty lies in implementing the recommended measures and reforms. The implementation process is often fraught with obstacles, and the success of any policy depends on strong governance and disciplined fiscal and monetary policies. Without effective governance and adherence to these principles, the intended benefits of the proposed measures may not materialise. The report urges policymakers to prepare for the difficult decisions that need to be made, some of which may be politically unpopular but are necessary to address the underlying issues threatening economic stability. The report suggests that the first year of a government's tenure may be the best time to implement these essential but potentially contentious reforms, as the government typically has more political capital.

Regarding fiscal policy, the report emphasises the need to increase public investment in critical sectors, particularly health and education. Bangladesh's health sector has been consistently underfunded, with the country's health budget allocation remaining below 1 per cent of GDP for the past two decades. This allocation is one of the lowest among the 44 Least Developed Countries (LDCs), with only a small proportion of the national budget being directed towards healthcare. The report highlights the significant impact of this underfunding, which has contributed to alarmingly high out-of-pocket health expenditures, making up 74 per cent of total health spending in 2020. This has resulted in a growing financial burden on individuals and limited access to essential healthcare services, particularly for vulnerable populations. The report recommends increasing the health sector's budget allocation in FY2025 to prevent people from being pushed into poverty due to out-of-pocket expenses. Additionally, it calls for implementing simple, specific, and universal excise duties on products like tobacco, soft drinks, and energy drinks, which would help reduce consumption and improve public health outcomes. Improved governance is also necessary to ensure the efficient utilisation of the health budget and that resources are allocated most effectively.

The education sector in Bangladesh also faces significant challenges. Despite an increase in the education budget's share of the total national budget, the actual allocation for education as a percentage of GDP remains below 2 per cent, which falls short of the Eighth Five-Year Plan's target of 3 per cent by FY2025. Budget utilisation for education has declined recently, from 95

per cent in FY2019 to 87 per cent in FY2022. The report notes that despite the expansion of educational opportunities in Bangladesh, the quality of education remains insufficient to equip young people with the skills needed to succeed in the modern labour market. The report highlights the mismatch between the skills provided by the education system and the needs of the labour market, with many workers in high-demand fields like information technology earning more due to their proficiency in digital skills. However, the education system, both public and private, has been unable to adequately train young people in these essential skills. To address this, the report recommends increasing the budget allocation for education and improving the efficiency of resource utilisation in the sector. Additionally, the report calls for a reduction in corporate income tax rates for private universities and educational institutions offering technical and vocational courses, such as medical, dental, and engineering colleges, which would help foster their growth and sustainability. The report also advocates for the exemption of VAT on tuition fees for all academic institutions, including English-medium schools, and the exemption of taxes on imported books to ease the financial burden on students and their families.

Bangladesh has significant environmental challenges, notably air pollution and plastic waste mismanagement. The country's air quality has worsened over recent years, with air pollution in Dhaka being 13.2 times worse than the World Health Organization's safe air quality guideline. The report emphasises that poor air quality has led to increased healthcare costs, with people in Dhaka spending an average of BDT 4,000 annually to treat ailments caused by air pollution. The report calls for a more vigorous fiscal policy to promote sustainable production and consumption, focusing on the environment. Several measures are proposed, including introducing VAT exemptions for renewable energy equipment and an incentive tariff for electricity generated from renewable sources, making renewable energy more attractive and competitive with fossil fuels. The report also proposes imposing a 1 per cent surcharge on goods produced through environmentally harmful means and phasing out fossil fuel subsidies to encourage a shift towards greener technologies. The report recommends a higher Advance Income Tax on fossil fuel-driven vehicles compared to hybrid and electric cars in the transport sector, incentivising green technologies' adoption.

Plastic pollution remains another major environmental issue, with Bangladesh being a top contributor to global mismanaged plastic waste. The report recommends reinstating the 5 per cent supplementary duty on plastic bags, which was withdrawn in FY2023, and increasing customs duties on plastic waste imports to promote domestic recycling. Moreover, the report suggests allocating additional funds to tackle plastic waste in the country's rivers, particularly in the 54 transboundary rivers shared with India.

In conclusion, the report underscores the urgent need for fiscal policy reforms in Bangladesh to address the country's economic, social, and environmental challenges. While the government has taken steps in the right direction, implementing these reforms is crucial to achieving sustainable growth and stability. The recommendations outlined in the report provide a comprehensive framework for addressing these challenges and ensuring that the fiscal policies implemented in FY2025 and beyond effectively foster long-term prosperity for the country. However, the success of these policies will depend largely on the government's ability to implement them effectively, with strong governance, political will, and commitment to structural reforms being critical to their success.

2.1 INTRODUCTION

The national fiscal year (FY) 2025 budget, the first under the incumbent government and new leadership at the Ministry of Finance (MoF) is set to be presented before the National Parliament amidst a backdrop of persistent macroeconomic challenges. These challenges, including subdued revenue collection, slow budget implementation, high inflation, liquidity crunch in the banking sector, lower momentum of export earnings and remittance inflow, and declining forex reserves, have put macroeconomic stability under considerable pressure. The urgency of these challenges necessitates immediate and focused attention to the FY2025 budget. In this context, the Centre for Policy Dialogue (CPD) has proposed several fiscal budgetary measures and initiatives for the upcoming FY2025 budget.

The present report focuses on seven areas: a) macroeconomic management, b) fiscal framework, c) prices of commodities, d) clean energy, e) health, f) education, and g) environmental concerns. This report highlights some of the key challenges in these areas which require immediate and heightened policy attention, particularly from the macro-fiscal management viewpoint, using the latest available data from official and credible international sources. Finally, this report puts forward recommendations that the policymakers might consider while formulating the national budget for FY2025. The analyses and recommendations presented by this report may also inform the electoral debates after the national budget.

2.2 SNAPSHOT OF MACROECONOMIC CORRELATES

Key Findings

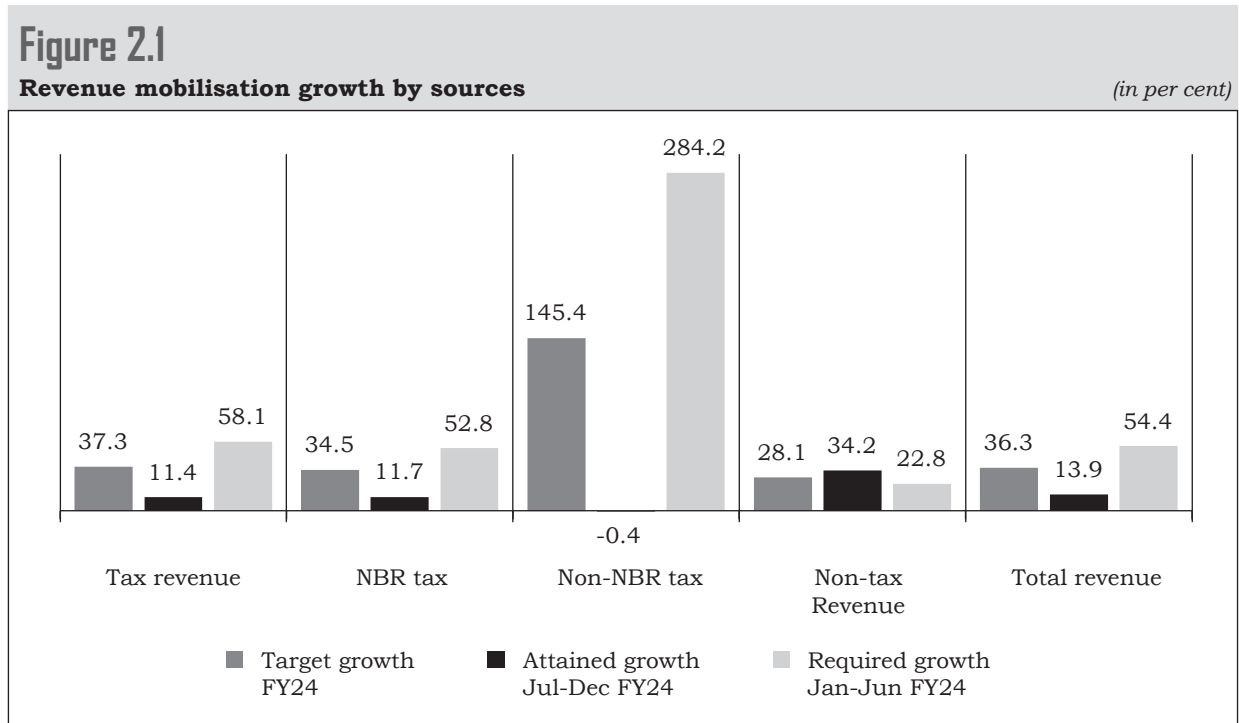
1. Revenue mobilisation growth during the first half of FY2024 was subdued, with a significant shortfall of BDT 82,000 crore expected at the end of the fiscal year if the trend continues.
2. Inflationary pressures have persisted throughout FY2024, with food inflation notably higher than non-food inflation in urban and rural areas.
3. The external sector exhibited mixed performance, with weaker export earnings growth, decreased import payments, higher remittance income, and a slower migration rate of overseas workers.

Key Policy Recommendations

1. The government must base its macroeconomic management stance on restoring macroeconomic stability by curtailing inflation and stabilising the exchange rate, even if this means lower GDP growth.
2. The government should enhance revenue mobilisation by addressing structural weaknesses in tax administration and expanding the tax base.
3. To manage inflation, particularly in the food sector, the government should stabilise food supply chains and mitigate the impact of volatile import prices.

2.2.1 Fiscal space was rather limited during the first half of FY2024

Revenue mobilisation growth was subdued during the first half (July-December) of FY2024. If the annual growth target of 36.3 per cent is to be attained, then total revenue collection will need to grow by a whopping 54.4 per cent during the remainder of FY2024 - a highly unlikely prospect



Source: Author's calculation from MoF (2023, 2024).

(Figure 2.1). If the current revenue mobilisation growth is carried over, the revenue shortfall at the end of FY2024 could reach BDT 82,000 crore.

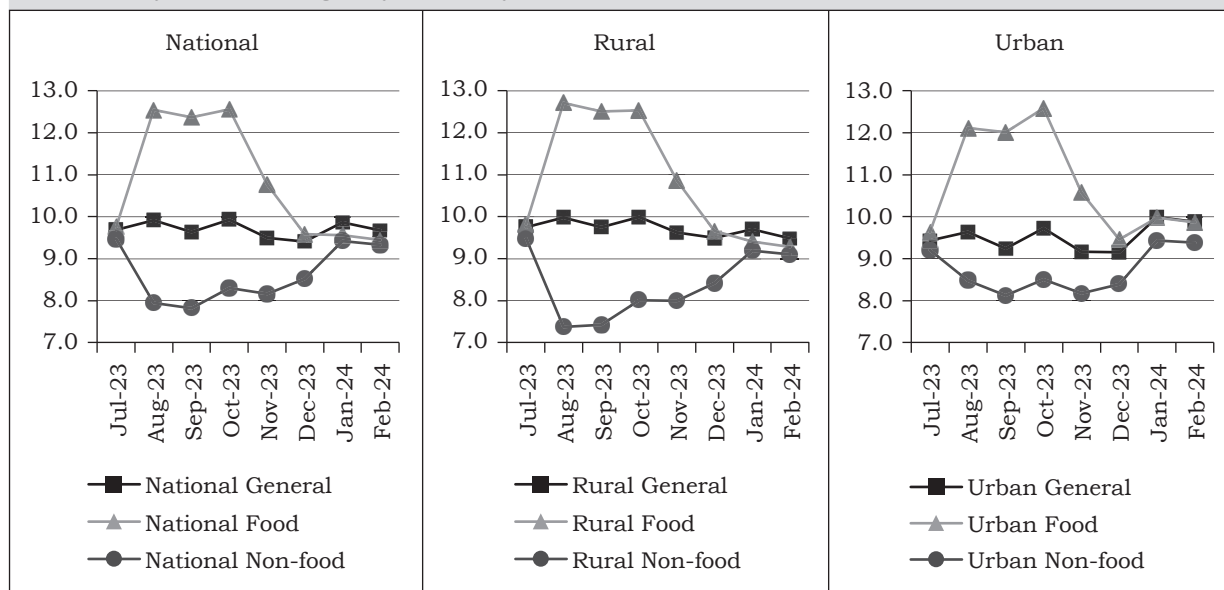
A restrained approach in the area of public expenditure was observed. During the July-December period of FY2024, overall budget utilisation was 25.5 per cent. The corresponding figure for July-December FY2023 was 27.2 per cent. The Annual Development Programme (ADP) implementation was also low. In this context, it must be mentioned that the government took some austerity measures independently and per the International Monetary Fund (IMF) conditionalities. While the budget deficit narrowed, the composition of deficit financing emerged as a more problematic issue. During July-December of FY2024, the budget deficit was BDT 7,885 crore. The corresponding figure was BDT 20,400 crore during the July-December FY2023 period. A high reliance on scheduled banks for deficit financing was observed, affecting private sector credit growth amid the liquidity crunch.

2.2.2 Inflationary pressures persisted

During the first eight months of FY2024, general inflation remained over 9 per cent at national, rural, and urban levels (Figure 2.2). The recent increase in electricity prices is likely to make matters worse. Food inflation in urban and rural areas was higher than non-food inflation. On average, inflation in rural areas was higher than in urban areas.

2.2.3 Some monetary policy measures were taken to restrain inflation

Throughout FY2024, Bangladesh Bank implemented several measures to curb inflation. These measures included raising the policy rate from 6.0 per cent in March 2023 to 8.0 per cent in January 2024, which took effect in March 2024, and removing interest rate caps in favour of

Figure 2.2
Inflationary trend during July-February FY2024
(in per cent)


Source: Author's compilation from Bangladesh Bureau of Statistics [BBS] (2023a, 2023b, 2024a).

a competitive market-based reference rate (SMART), which increased from 7.1 per cent in July 2023 to 9.61 per cent in February 2024, also effective in March 2024. Additionally, Bangladesh Bank ceased lending to the government by creating money (i.e. devolvement). Furthermore, the central bank infused dollars into the local market and absorbed excess liquidity. Considering these actions, projections concerning monetary aggregates were revised (Table 2.1).

Table 2.1
Monetary aggregates projections for FY2024
(growth in per cent)

Projection for June 2024	Net foreign assets	Net domestic assets	Domestic credit	Credit to the public sector	Credit to the private sector	Broad money	Reserve money
Announced in June 2023	4.7	11.1	15.4	31.0	11.0	10.0	6.0
Announced in January 2024	-2.4	12.2	13.9	27.8	10.0	9.7	-1.0

Source: Bangladesh Bank (2024).

2.2.4 External sector performance exhibited mixed trends

Export performance has been rather muted, with adverse implications for net export earnings. Import payments decreased due to policy interventions and falling global commodity prices (Table 2.2). The tightening of imports is hurting the small players in the market. Larger players are gaining ground in the commodity market. These trends will have negative implications for future investment. The trends in remittance flows do not match the growing number of migrant workers leaving for overseas jobs. Trade and current account balances show improvement, but financial

account balance remains a major concern. Foreign exchange reserves are yet to stabilise, albeit at lower levels. The slide in exchange rates is likely to continue under the crawling peg pursued by the Bangladesh Bank.

Table 2.2**Key indicators of the external sector**

Indicator	Unit	Timeframe	FY2023	FY2024
Export earnings growth	Per cent	July-February	9.6	3.7
Import payments growth	Per cent	July-January	-5.7	-18.3
Remittance growth	Per cent	July-February	4.3	7.6
Overseas migration growth	Per cent	July-February	27.5	15.8
Current A/C balance	Million USD	July-January	-4,648	3,148
Financial A/C balance	Million USD	July-January	-812	-7354
Overall balance	Million USD	July-January	-7,387	-4,684
Forex reserve	Million USD	As of February	24,936	20,573
Exchange rate	BDT/USD	As of February	106.2	110.0

Source: Authors' compilation from Bangladesh Bank and Export Promotion Bureau data.

2.2.5 A crawling peg system was introduced for exchange rate management.

A crawling peg system was introduced instead of a fully market-based exchange rate regime. The oft-cited reason is to decrease inflationary pressure. However, as has been reported, importers are already paying considerably higher than the official rate. This measure, perhaps, was taken to reduce the expenditure owing to the government's imports or to provide some relief in terms of private sector external debt repayment. However, this is hurting the cause of quick recovery regarding remittance inflow or export earnings. This crawling peg system helps to incentivise transactions through informal channels (e.g., hundi/hawala) and encourages people not to bring back foreign currency and defer foreign exchange repatriation. This creates additional fiscal burdens for the government through export subsidies and remittance incentives, ultimately limiting fiscal space. The government could have resorted to monetary policy tools (e.g., exchange rate) instead of fiscal policy tools (e.g., cash incentives). The prevailing policy is raising costs for both the government and the banking sector, which importers are passing on to the consumers.

2.2.6 GDP growth declined in the first quarter of FY2024

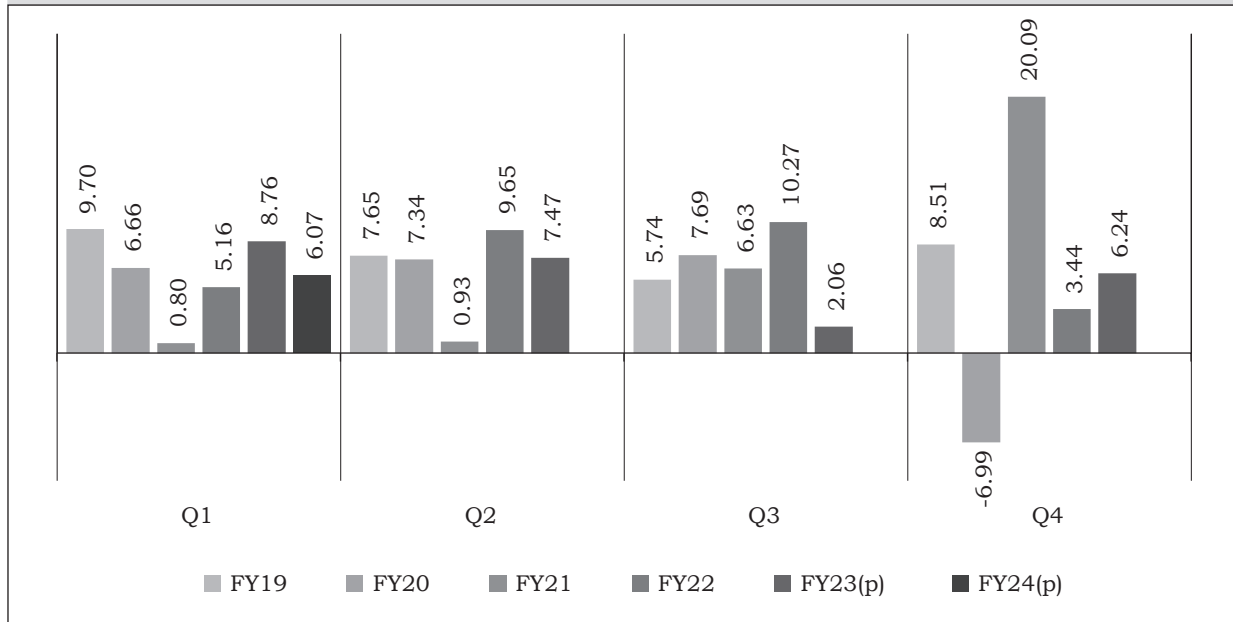
It is encouraging to see that the BBS has started publishing quarterly GDP data regularly. During the July-September period of FY2024, estimated GDP growth was 6.07 per cent (Figure 2.3). The corresponding figure for FY2023 was 8.76 per cent. In this connection, it needs to be mentioned that the annual GDP growth target for FY2024 has been set at 7.50 per cent.

It must be noted that industrial production growth was lower for all categories of industries (large, small, medium and micro; and cottage) during the second quarter (October-December) of FY2024. Hence, whether the annual GDP growth target will be attained amid such developments remains

Figure 2.3

Quarterly GDP growth in Bangladesh

(in per cent)



Source: Authors' compilation from BBS (2024b).

a question. Given the current dynamics, GDP growth in FY2024 is more likely to be affected by the macroeconomic policy adjustments, particularly given the ongoing IMF programme. The key macroeconomic management stance ought to be restoring macroeconomic stability by curtailing the inflation rate and stabilising the exchange rate, even if this comes at the cost of lower GDP growth.

2.3 PROPOSALS TOWARDS A CREDIBLE FISCAL FRAMEWORK

Key Findings

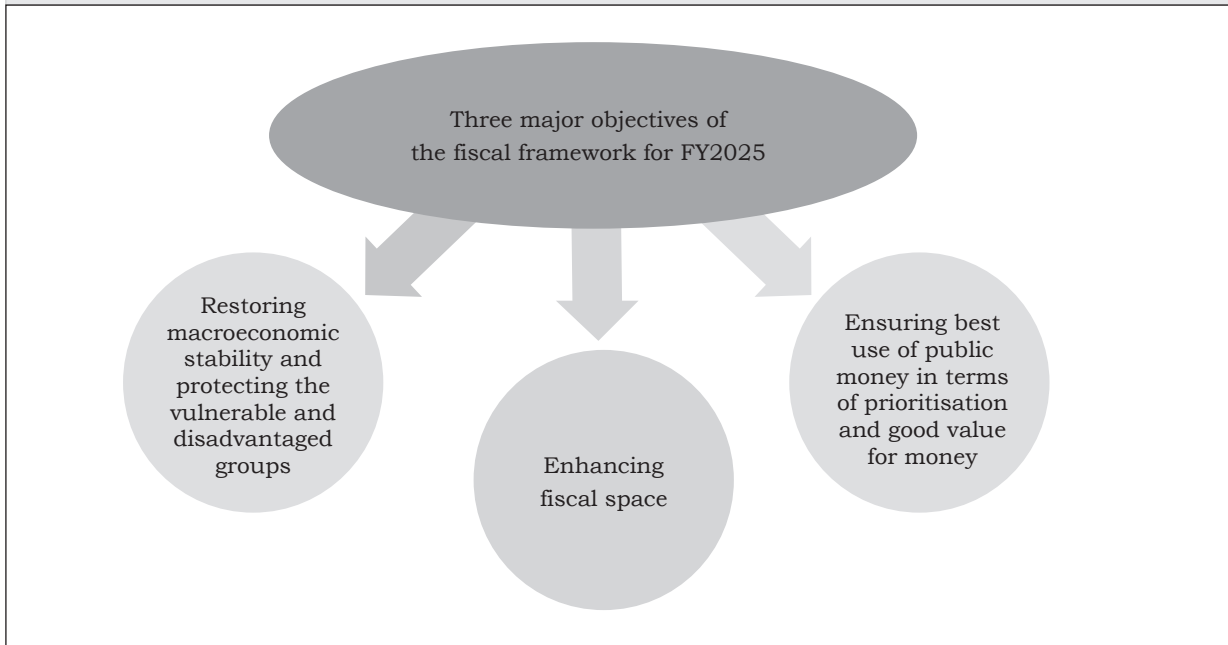
1. The fiscal framework for FY2025 should be grounded in realistic targets, learning from the overly ambitious targets set in the previous year.
2. Public spending should prioritise support for vulnerable groups, particularly given rising living costs and essential goods prices.
3. Managing the composition of budget deficit financing remains challenging, especially with heavy reliance on commercial banks, which could crowd out private sector credit.

Key Policy Recommendations

1. The government should adopt a realistic approach to setting fiscal targets, considering domestic and external economic conditions.
2. Public spending should be focused on essential sectors such as food production, social protection, and subsidies for agriculture, energy, health, and education.
3. To balance budget deficit financing, the government should diversify its sources of financing, including securing more foreign aid and investment and reducing reliance on domestic bank borrowing.

Figure 2.4

The three guiding principles for the national budget for FY2025



Source: Authors' illustration.

2.3.1 The three guiding principles

Three guiding principles should be considered while formulating the national budget for FY2025. These three principles include (i) restoring macroeconomic stability while protecting the interests of vulnerable and disadvantaged groups, (ii) enhancing fiscal space, and (iii) ensuring the best use of public resources through appropriate prioritisation and by ensuring good value for money (Figure 2.4).

2.3.2 Setting the targets for FY2025 in a realistic manner

CPD, while presenting its 'Analysis of the National Budget for FY2023-24' in June 2023, observed that 'the targets to be set for the macroeconomic framework for FY2024 did not take cognisance of the current realities' (CPD, 2023a). The resultant fiscal framework for FY2024 was rather formulaic and envisaged that a business-as-usual scenario would prevail. Consequently, lofty targets were set that were likely to be missed by a considerable margin at the end of the fiscal year. As the FY2024 approaches the finishing line, many of the apprehensions, regrettably, are proving to be true.

Building on the lessons from this experience, the design and fiscal targets of the upcoming FY2025 should be realistic, taking cognisance of the emergent macroeconomic scenario – both concerning the domestic and external fronts. In discussing the issue of realistic target setting, the revenue mobilisation targets for FY2024 can be a case in point. While proposing the budget for FY2024, the targeted growth of revenue mobilisation was set at 15.5 per cent over the revised budgetary target of FY2023. However, if the actual revenue mobilisation of FY2023 is considered, the growth target for FY2024 turns out to be 36.7 per cent—more than double the projected growth rate. This example underscores the crucial need for realistic target setting in budgetary planning.

2.3.3 Setting out priorities for public spending clearly

While designing the budgetary framework for FY2025, policymakers should consider the continued rising cost of essentials. Proper attention should be given to food production, social protection (including public works programmes), subsidies for agriculture, energy and power sectors, and the health and education sectors. Supporting vulnerable and disadvantaged groups should be the central focus of subsidy management.

Earlier government directives should be continued to reduce 'unnecessary and luxury' public spending (such as purchasing government vehicles and international travel). The government should prioritise implementing all foreign-funded ADP projects in light of the declining foreign exchange reserve situation. It should prioritise implementing nearly finished projects (about 90-95 per cent completion rate in June 2024). Projects with a 10 per cent or lower implementation rate until the end of March 2024 should be deprioritised. An independent commission should be formed to examine the concerns about the rising costs of public infrastructure projects.

2.3.4 Maintaining balance in terms of budget deficit financing

In FY2025, a major challenge will be to cater to the envisaged financing from foreign sources. In the case of foreign borrowing, the bulk is tied to the government agencies' ADP design and implementation capacities. Regarding budget support, the majority is contingent upon policy reforms. Non-bank borrowing targets are unlikely to be met. The sale of NSD certificates may continue to be sub-par owing to lower levels of savings by people and the rising interest rates for bank deposits. Bank borrowing will likely be under pressure to finance the budget deficit. In the backdrop of the liquidity crunch of the commercial banks and the government's commitment not to opt for borrowing from the central bank, the fiscal space available for the government will be somewhat limited if private sector borrowings are not to be crowded out.

2.3.5 Fiscal measures for FY2025

In light of the discussion so far, CPD proposes several fiscal measures for the FY2025 budget. These are described subsequently.

- In the FY2024 budget, the tax-free income threshold for personal income was raised to BDT 3.50 lakh from BDT 3.00 lakh, considering the loss of real income due to inflation. Given the persisting high inflation, particularly food items, the second slab for personal income tax (PIT), which is 5 per cent for an additional BDT 1 lakh, should be increased to BDT 2 lakh to cushion limited-income earners (Table 2.3).

Table 2.3

Individual taxpayer – current and proposed tax slabs and rates

FY2024		FY2025	
Current tax slabs	Current tax rate	Proposed tax slabs	Proposed tax rates
Up to BDT 3,50,000/-	Nil	Up to BDT 3,50,000/-	Nil
Next BDT 1,00,000/-	5 per cent	Next BDT 2,00,000/-	5 per cent
Next BDT 3,00,000/-	10 per cent	Next BDT 2,00,000/-	10 per cent
Next BDT 4,00,000/-	15 per cent	Next BDT 4,00,000/-	15 per cent
Next BDT 5,00,000/-	20 per cent	Next BDT 5,00,000/-	20 per cent
On balance	25 per cent	On balance	30 per cent

Source: Authors' elaboration.

- In the FY2021 budget, the highest rate for PIT was reduced to 25 per cent from 30 per cent. It has remained unchanged ever since. CPD argued that reducing the highest tax rate was against the cause of promoting tax justice. The highest tax rate should be reinstated at 30 per cent for top earners in the FY2025 budget (Table 2.3).
- In the FY2023 budget, the corporate income tax (CIT) rate gap for traded and non-traded companies was reduced, discouraging entry to the capital market. The FY2024 budget did not propose any change to these rates. For FY2025, the CIT rates for the aforementioned types of companies should revert to the pre-FY2023 scenario (Table 2.4).

Table 2.4**Corporate taxpayer - current and proposed tax rates**

Company Type	Current FY2024		Proposed FY2025	
	In normal scenario	In case of failure to meet the condition	In normal scenario	In case of failure to meet the condition
A publicly traded company that issues shares worth more than 10 per cent of its paid-up capital through IPO	20.0 per cent	22.5 per cent	20.0 per cent	22.5 per cent
A publicly traded company that issues shares worth 10 per cent or less of its paid-up capital through an IPO	22.5 per cent	25.0 per cent	22.5 per cent	25.0 per cent
Non-publicly traded company	27.5 per cent	30 per cent	30 per cent	32.5 per cent

Source: Authors' elaboration.

- According to Section 2(31) of the Income Tax Act 2023, several not-for-profit entities currently fall under the category of 'companies'. Treating not-for-profit entities in the same way as profit-maximising companies does not do justice to these organisations' purposes, objectives and modus operandi. There is a need to amend this definition to define these entities under a separate category. This will also help ensure that the concerned entities do not face any obstacles while receiving foreign grants.
- According to SRO No 333-Act/Income tax-20/2023, income generated from a private organisation's recognised provident fund, approved gratuity fund, approved superannuation fund, and approved pension fund is subject to 15 per cent tax in FY2024. However, there is no mention of what happens after FY2024. The 15 per cent tax rate should be reduced to 10 per cent, making it permanent in the FY2025 budget.
- Initiating a property tax by valuing the assets at current market prices and integrating data from all available sources should be prioritised.
- The Income Tax Act 2023 includes several provisions concerning legalising undisclosed income and assets. These were carried over from the Income Tax Ordinance 1984 (Table 2.5). Rather than continuing such measures year after year, more proactive actions should be taken against tax dodgers by enforcing appropriate laws.
- To collect VAT at the local stage, the National Board of Revenue (NBR) installed 9,572 electronic fiscal devices (EFDs) as of July 2023. In FY2024, NBR expects to install another 10,000 EFDs. The government plans to install another 300,000 EFDs over the next five years. NBR needs to pursue this target aggressively. Provisions should be made in the FY2025 budget to enable tax authorities to install 60,000 EFDs.
- The NBR should launch a comprehensive online payment system for VAT, income tax and customs together with an interface with iBAS++ and ensure harmonisation and taxpayer data

Table 2.5**Provisions concerning the legalisation of undisclosed income and assets**

As per the Income Tax Act 2023	As per Income Tax Ordinance 1984
Section 20	Section 16H
1st Schedule part-1, para-1	Section 19BBBBBB
1st Schedule part-1, para-2	Section 19DD
1st Schedule part-2	Section 19E
Section 45 (Cha)	Section 19 (6)
Section 67 (4)	Section 19 (8)
Section 67 (6)	Section 19 (9)
4th Schedule, Para-8	Section 19 (14)
Section 41 (2)	Section 19 (17)
Section 67 (6)	Section 19 (9)
Section 24	N/A

Source: Authors' elaboration.

sharing across various NBR wings as envisaged in the Public Financial Management (PFM) Action Plan 2018-23 (MoF, 2018). This should be done as soon as possible. Indeed, the IMF has also raised the issue of data sharing.

- As per data from international sources, a major part of Bangladesh's illicit financial outflows is due to trade mispricing. Transfer Pricing Cell (TPC) of NBR, Bangladesh Financial Intelligence Unit (BFIU) and Customs Intelligence and Investigation Directorate (CIID) should work closely to deal with trade-based money laundering. Bangladesh Bank's current initiatives to deal with the problem should be further strengthened. For effective implementation of the responsibility of the TPC, the national budget for FY2025 should ensure adequate allocation for technical and human resources and forensic investigation capacities.
- As part of the IMF conditionalities, the NBR is scheduled to establish compliance risk management units (CRMUs) within the customs and VAT wings by December 2023, and a CRMU for the income tax wing was expected by early 2024. These units should be adequately endowed with the required financial, technical and human resource capacities in the FY2025 budget.
- The NBR should intensify its efforts towards timely publication of revenue collection data (by type of tax and under stipulated subheadings). As per the IMF Data Reporting Requirements, this data is to be published monthly, within six weeks of the end of each month.
- Efforts to broaden the taxation base must be given priority in the FY2025 budget. NBR should prioritise opportunities to tax the digital economy and initiatives to digitalise the taxation system.
- Fiscal policies and proposals must align with Bangladesh's obligations as a future developing country following LDC graduation. This includes adjusting export subsidies and export credit subsidies and ensuring the frequency of notifications to the World Trade Organization (WTO) is appropriately followed.
- In its earlier State of the Economy exercise, CPD provided several key recommendations for the Medium-and Long-Term Revenue Strategy (MLTRS), which is currently under development and set to be adopted by June 2024 (CPD, 2023b). These recommendations include prioritising the unfinished agenda, recognising frontier taxation issues such as effectively taxing property and wealth, and introducing an inheritance tax. CPD also emphasised improving the data ecosystem, aggressively pursuing the agenda to curb illicit financial flows (IFF) and digitalising the entire revenue system. Additionally, CPD proposed that the scope of the MLTRS should

extend beyond the remit of NBR tax. Also, assessing the economy-wide implications and equity concerns of MLTRS and learning from past experiences with similar strategies should be considered. Furthermore, CPD stressed the need for openness, transparency, and stakeholder participation in fiscal decision-making. CPD reiterated that the successful adoption of the MLTRS will require buy-in from high-level policymakers (political buy-in) and those involved at the operational and implementation levels (functional buy-in).

2.4 PRICE OF ESSENTIALS BEYOND PEOPLE'S REACH

Key Findings

1. The point-to-point Consumer Price Index (CPI) inflation rate has hovered near double digits for almost a year, with food inflation consistently surpassing non-food inflation for the first half of FY2024, worsening the cost-of-living crisis.
2. In 2021, about 73.9 per cent of Bangladesh's population could not afford a healthy diet, and due to persistently high food prices, the number is likely to be higher in 2024.
3. Bangladesh's social safety nets are dangerously underfunded, resulting in services such as Essential Service Delivery and Community-Based Health Care receiving an allocation of about only BDT one (1) per beneficiary per month.

Key Policy Recommendations

1. The Minimum Wage Board should increase minimum wages in all industries to ensure basic food security during high inflation.
2. The government should reduce unnecessary spending, such as capacity payments to independent power producers (IPPs).
3. The government should implement a zero-tolerance policy towards collusive practices and strengthen the role of the Competition Commission by hiring skilled professionals to regularly monitor and prevent market manipulation by powerful companies that contribute to persistently high prices of essential commodities..

Inflationary pressures have been building in Bangladesh since even before the situation in Ukraine began. Recent sharp swings in energy costs have made matters worse in Bangladesh. The continued price growth is partly due to domestic reasons, including market distortion by a few dominant firms and lax regulation. Several essentials are more expensive in Bangladesh than in other developing or even developed countries. Low-income families are fighting to make ends meet as the cost of living continues to rise. Many families, including minimum wage earners across all sectors, are struggling to make ends meet.

Analysis reveals that at least 28 imported essential food items currently face a high tax incidence. These include: fresh or chilled, other cuts of bovine meat with bone; fresh or chilled boneless bovine meat, wrapped/canned up to 2.5 kg; fresh or chilled other cuts of meat of sheep, with bone; frozen cuts and offal of chicken, wrapped/canned up to 2.5 kg; fish (Ruhi, Katla, Pangash, Karp & alike), excluding wrapped/canned up to 2.5kg; Hilsha fish (excluding wrapped/canned up to 2.5 kg); milk & cream of greater than 1 per cent but less than or equal to 6 per cent fat, not concentrated or sweetened, wrapped/canned up to 2.5 kg; milk & cream in powder forms less than or equal to 1.5 per cent fat, concentrated or sweetened, in retail packing up to 2.5kg; milk and cream in solid forms of less than or equal to 1.5 per cent fat imported by vat registration

milk and milk product; milk and cream in powder excluding powder, granules or other solid from and imported vat registered companies; milk and cream in powder excluding powder, granules or other solid from and imported vat registered companies; tomatoes, fresh; onions, fresh or chilled; garlic, fresh or chilled; dates, fresh; pepper, neither crushed nor ground; cardamoms: neither crushed or ground, excluding wrapped/canned up to 2.5 kg; seeds of cumin: neither crushed or ground, excluding wrapped/canned up to 2.5 kg; ginger: neither crushed or ground, excluding wrapped/canned up to 2.5 kg; turmeric (curcuma); other maize, excluding wrapped/canned up to 2.5 kg; husked (brown) rice; semi-milled or wholly milled rice; maize (corn) starch; crude palm oil imported by VAT registered edible oil refinery industries; palm oil (excluding crude) & its fractions, not else specified, including refined palm oil; refined palm kernel/babassu oil & fractions, not chemically modified; salt (other than pure sodium chloride) solution, salt boulder for crushing & salt in bulk; sugars, pure (excluding glucose, etc.); sugar ethers and salts, etc. (National Board of Revenue 2022). In the backdrop of soaring inflation, the National Board of Revenue (NBR) should reduce the duties and taxes, both at import and domestic levels, for essential commodities to provide some respite to consumers with low and limited income.

High inflation has revealed the inherent weakness in the government's domestic resource mobilisation approach, mainly dependent on revenue collection from indirect taxes. If inflation continues at the present rate, the government may be compelled to withdraw indirect taxes on essential items. Thus, fiscal policy, highly dependent on indirect taxes, propagates economic inequality in society and forces the government to trade off revenue generation in the face of high inflation. It is urgently required to increase revenue collection from direct taxation and reduce dependence on indirect taxes, especially since Bangladesh is now poised to graduate from the Least Developed Countries (LDC) group.

International price comparisons show that the price of essential food items does not fall in Bangladesh, even when international prices fall. Additionally, the data shows that prices of some essential food items remain consistently higher than international prices.

For brevity of exposition, we highlight the difference in domestic and international prices of four food items: rice, soyabean oil, sugar, and beef. Rice and beef are mainly produced domestically, whereas soyabean oil and sugar are mostly imported. Nevertheless, we find that the price of all four items in Bangladesh is consistently higher than the international prices. Figure 2.5 shows that the price of three common types of rice has been consistently higher than that of Thai and Vietnamese rice.

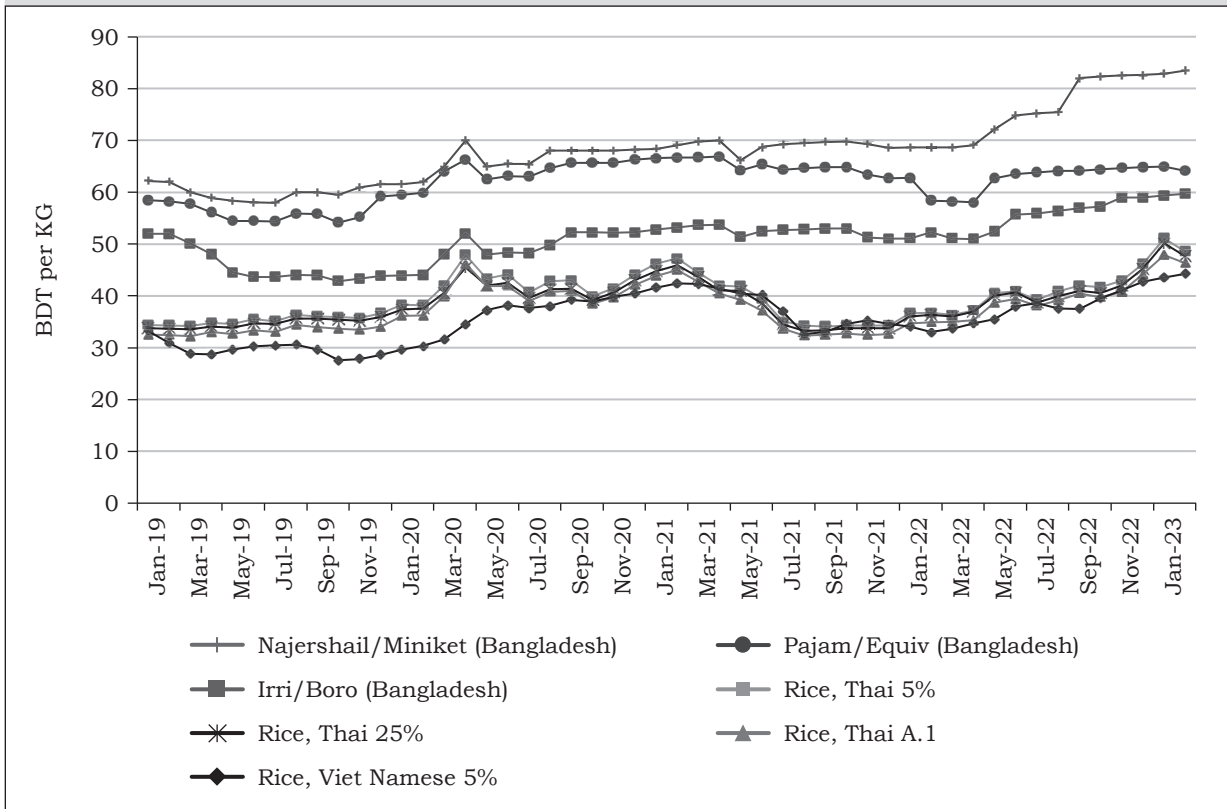
Figure 2.6 shows that the price of soyabean oil fell in the international market from November 2022 to February 2023, whereas it did not decrease in the local market during the same period.

Figure 2.7 shows that the price of sugar in February 2023 was BDT 122 per kg in Bangladesh but only BDT 80 per kg in the US market, BDT 44 per kg in the world market, and BDT 35 per kg in the EU market. Even considering transport costs, import tariffs, and other trade-related expenses, such high price differences appear odd.

Finally, Figure 2.8 shows that the international price of beef decreased from July 2022 to December 2022, whereas the price of beef in Bangladesh increased during the same time. As of February 2023, the price of beef per kg in Bangladesh was BDT 727, BDT 225 higher than the price of beef per kg in the world market.

Figure 2.5

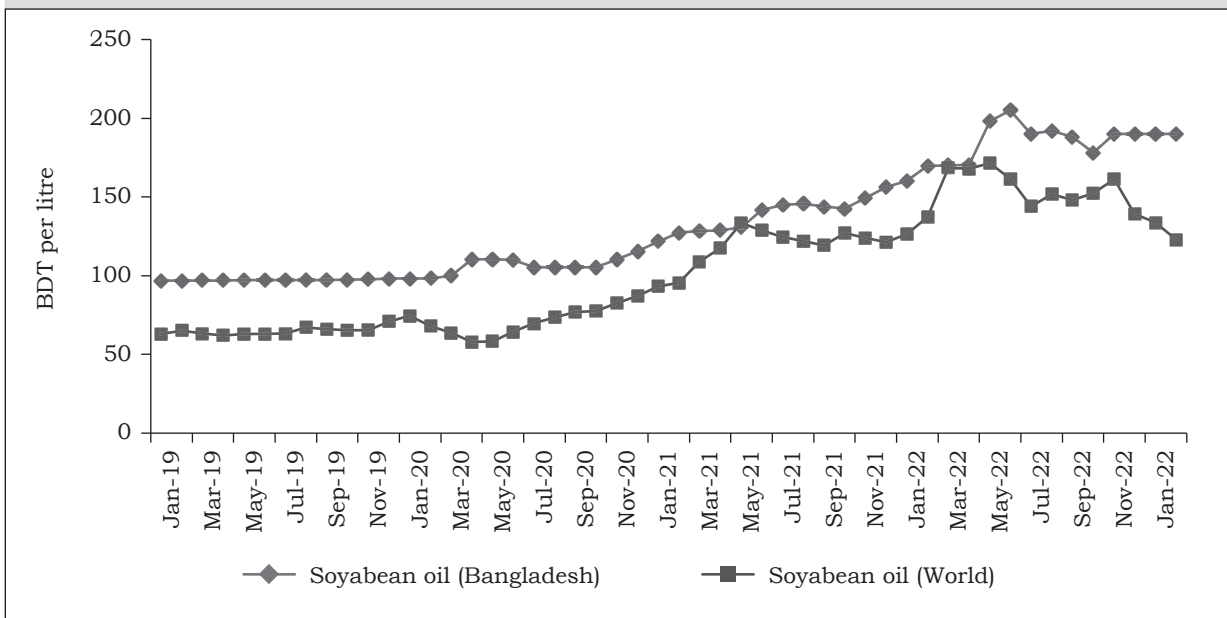
Price of rice in Bangladesh and international markets



Source: Author's illustration based on data from the Bangladesh Bureau of Statistics (BBS 2023) and World Bank (World Bank 2022).

Figure 2.6

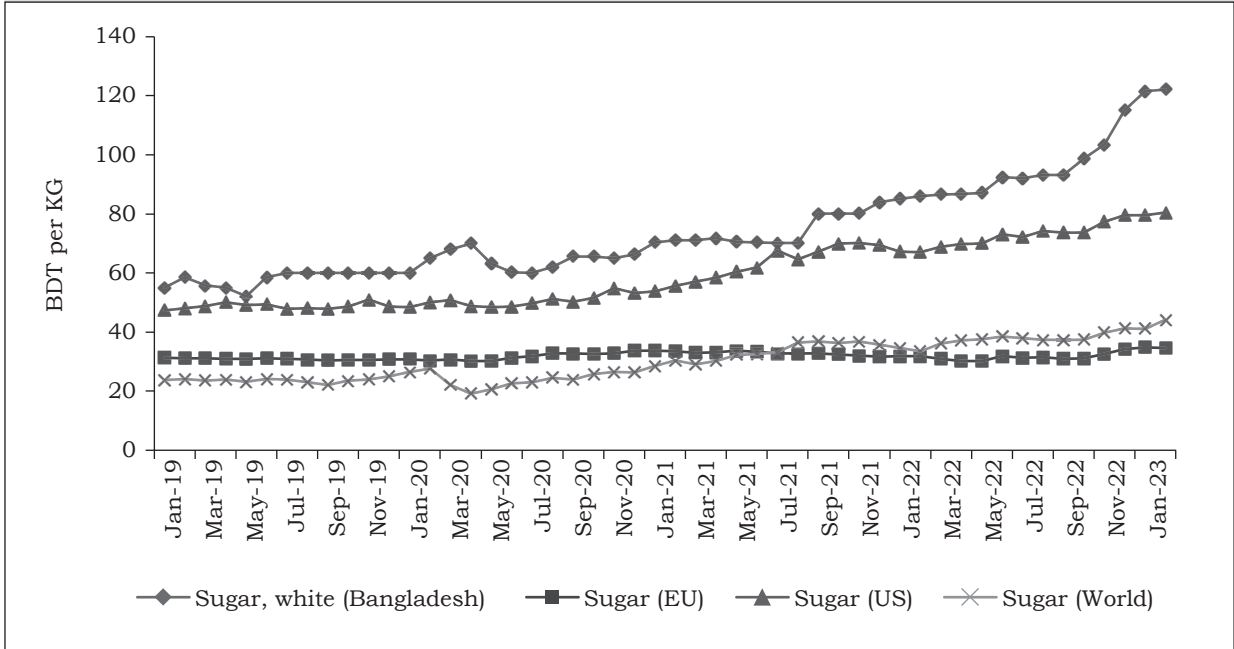
Price of soyabean oil in Bangladesh and international markets



Source: Author's illustration based on data from the Bangladesh Bureau of Statistics (BBS 2023) and World Bank (World Bank 2022).

Figure 2.7

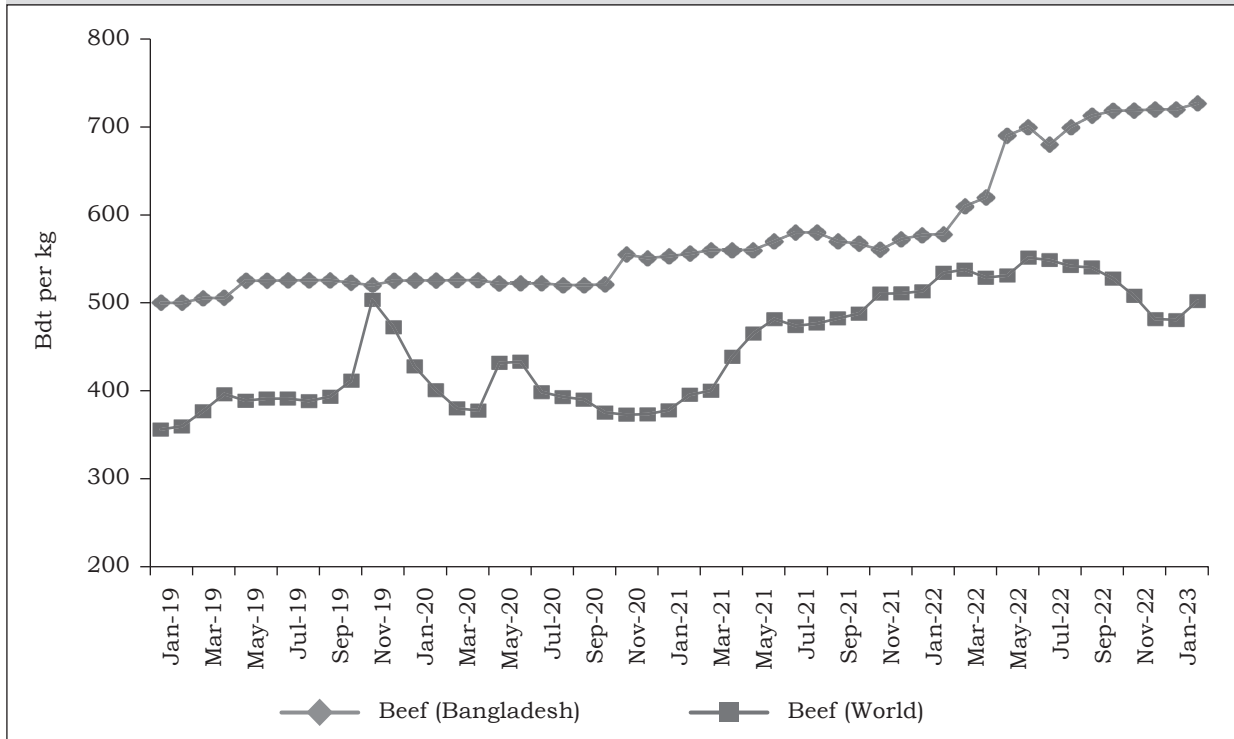
Price of sugar in Bangladesh and international markets



Source: Authors' illustration based on data from Bangladesh Bureau of Statistics (BBS 2022) and World Bank (World Bank 2022).

Figure 2.8

Price of beef in Bangladesh and international markets



Source: Authors' illustration based on data from Bangladesh Bureau of Statistics (BBS 2022) and World Bank (World Bank 2022).

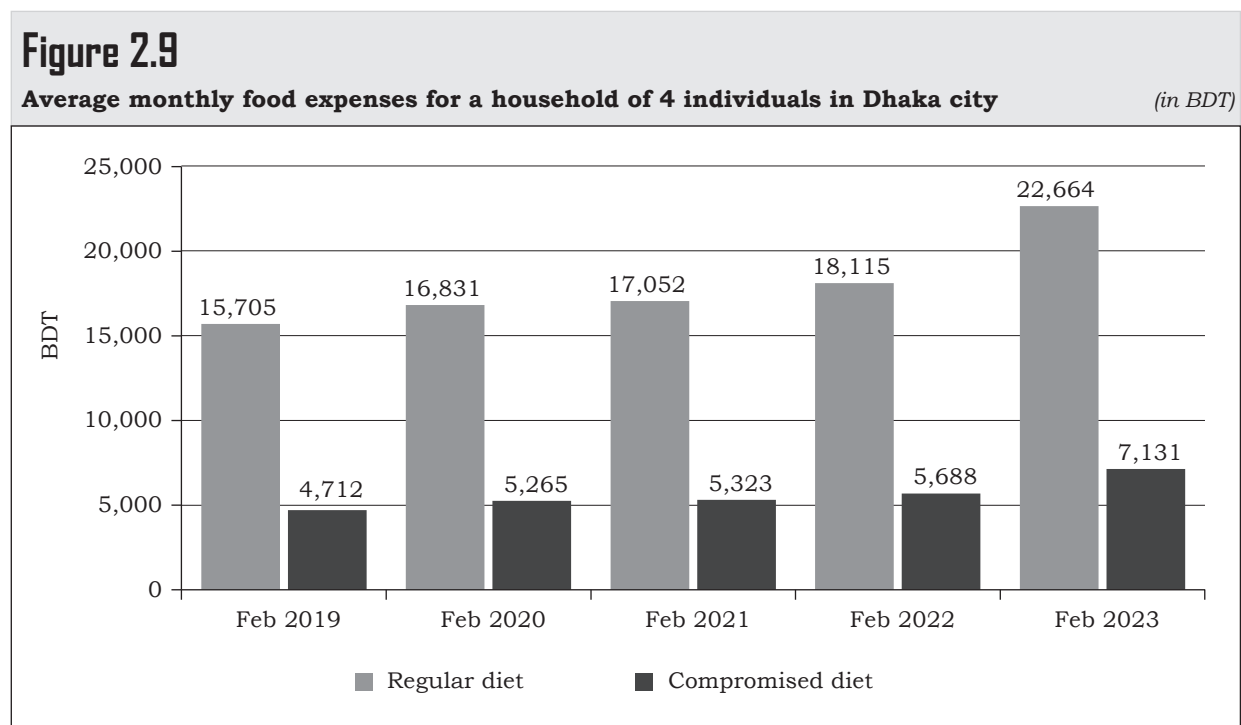
These numbers indicate that the inflation prevailing in Bangladesh may not necessarily be imported inflation, as is commonly presumed. On the contrary, it appears to be a primarily domestic phenomenon.

As a result of these price increases, the cost of living has increased rapidly, causing immense suffering to low-income and fixed-income households. Data on the average price in Dhaka city retrieved from the Trading Corporation of Bangladesh (TCB) (TCB 2023) combined with data on average daily consumption (per person) from Bangladesh Urban Socioeconomic Assessment Survey 2019 (Bangladesh Bureau of Statistics (BBS) 2020) helps shed light on Dhaka city’s average monthly food expenditure (in BDT).

Figure 2.9 shows that the average monthly food expenses for a household of 4 individuals in Dhaka city increased continuously from 2019 to 2023. The average monthly cost of consuming a compromised diet for a household of 4 individuals increased from BDT 4,712 in February 2019 to BDT 7,131 in February 2023, and the average monthly cost of consuming a regular diet for a household of 4 individuals increased from BDT 15,705 in February 2019 to BDT 22,664 in February 2023.

A simple comparison shows that the percentage change in the price of essential food items was significantly higher than the officially reported food inflation. Figure 2.10 shows that the 12-month average food inflation in February 2023 was 8.08 per cent, whereas the percentage change in the price of essential food items in the same period was 25.37 per cent.

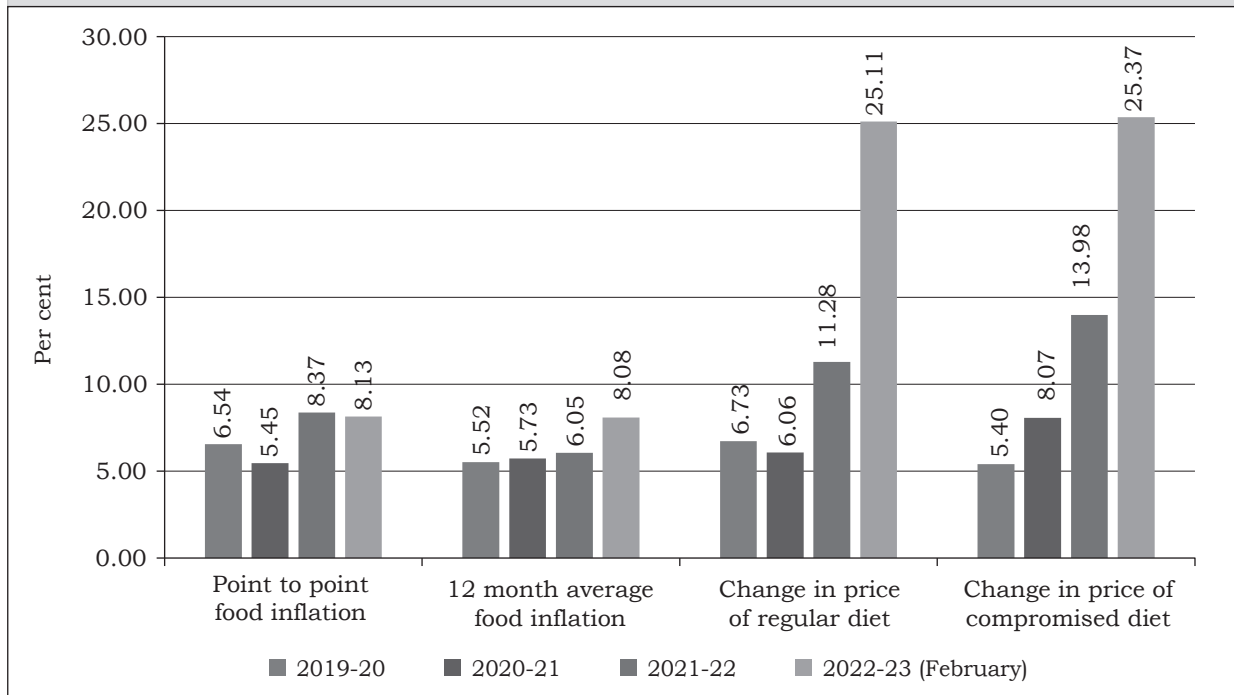
Given the above, the following suggestions are put forward for consideration by policymakers for controlling the price of essentials in the upcoming budget of FY2023:



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

Figure 2.10

Food inflation versus change in price of essential food items



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

- The Minimum Wage Board should consider increasing the minimum wages in all industries so that workers earning minimum wages may at least afford basic food. Private sector corporations should consider a higher salary increment in 2024, given that a 5 per cent salary increment in the face of double-digit price hikes is compelling workers to severely compromise their standard of living.
- The government should carefully examine the duty and tax structures of the essential commodities, both at import and domestic levels, and make downward adjustments to provide some respite to low and limited-income-earning consumers. The increased price level of most of the other commodities should be able to compensate for the potential revenue loss to this end.
- Tax-free income threshold for personal income should be raised to BDT 3.50 lakh, given the added pressure of rising food inflation and income erosion induced by the pandemic. The next slab for personal income tax is 5 per cent for an additional BDT 1 lakh, which should be increased to BDT 3 lakh to provide a cushion for middle-income earners.
- The government should extend the scope of direct cash/kind assistance programmes for low-income population groups.
- The volume of essential commodities sold through the open market sale (OMS) should be increased. The government should set higher targets for foodgrain procurement and food distribution programmes. In a bid to reach the goals, adequate resources should be allocated to the FY2023 budget. Furthermore, the distribution of these commodities must be managed efficiently and without corruption so that only the eligible can obtain the essential items at lower prices.
- Competition Commission's role should be strengthened. Skilled professionals should be hired to this end, particularly to regularly monitor markets for essential commodities. The Commission should create a database, monitor the operations of prominent market players regularly, investigate market control and manipulation (if any), and take appropriate actions.

An adequate budget should be earmarked for the Commission to perform these duties. To this end, the Ministry of Commerce should also work with the Commission. The Bangladesh Competition Commission should adopt a strong stance against cartels and a zero-tolerance policy towards collusive practices. Furthermore, the Competition Act 2012 should be revised to address monopolies directly and include specific anti-trust clauses and concrete penalties for violators.

- The government should provide additional support for subsidised credit programmes for the agriculture sector (both crop and non-crop) to incentivise production during the next fiscal year.
- The government should continue providing stimulus to small and medium enterprises to help them survive the difficult times.

2.5 FISCAL AND FINANCIAL MEASURES FOR CLEAN ENERGY

Key Findings

1. Renewable energy projects in Bangladesh are critically underfunded, receiving only 2.47 per cent of the total ADP allocation in FY2024.
2. Tax incentives for renewable energy investments are less favourable than those offered for fossil fuel-based power plants, and specific stipulations in energy policies and categorisations of capital goods and companies exempt them from tax benefits.
3. Adoption of solar energy could offer the government energy savings of between BDT 5230 crore and BDT 11032 crore.

Key Policy Recommendations

1. The government should allocate more resources to complete renewable energy projects, prioritising the completion of three unapproved solar power plant projects in Barapukuria, Kaptai and Rangunia.
2. Extending tax holidays and reducing VAT and customs duties on solar power-related accessories should improve the competitiveness of tax incentives for renewable energy.
3. The Net Energy Metering (NEM) policy should be revised to remove capacity caps and streamline the adoption of solar energy across various sectors, especially in industries..

2.5.1 Fiscal and budgetary measures for clean energy use in the power and energy sector

The national budget's increasing focus on fiscal and financial measures for enhancing clean energy use is crucial. This shift is not only aimed at lessening fiscal pressure but also at addressing climate vulnerabilities. Promoting clean energy in Bangladesh heavily relies on creating a business-friendly environment that encourages private sector investment in various renewable energy supply chain segments. This necessitates reducing discriminatory fiscal and financial policies favouring fossil-fuel-based energy. Creating an equal opportunity for using renewable energy can be achieved through fiscal and budgetary support for related technologies and the withdrawal of support for fossil-fuel-based technologies.

This section highlights fiscal and financial issues for using clean energy from the following five perspectives: i) fiscal and budgetary measures for clean energy use in the power and energy sector; ii) fiscal measures for clean energy use in the industrial sector; iii) fiscal measures for clean energy

use in the agriculture sector; iv) fiscal measures for clean energy use in the transport sector; and v) financing clean energy.

2.5.2 ADP for renewable energy projects

The underfunding of renewable energy-based projects in public expenditure is a critical concern. During FY2024, ADP allocation on renewable energy-based power and energy projects comprised only about 2.47 per cent of the total power and energy sector allocation. Out of 99 approved power and energy-related projects in ADP 2024, only five projects are associated with renewable energy (Table 2.6).

The lack of sufficient budget allocation could not only delay but also jeopardise the completion of some of the projects (Table 2.6).

Table 2.6

Renewable energy-based major development projects for FY2024

Project name	Allocation in FY2024 (in lakh BDT)	Maximum completion rate (in per cent)
Sonagaji 50MW solar power plant building	22,000	89
Technical support project for renewable energy resource assessment and piloting	1,465	98
TA for strengthening and development of sustainable power sector in Bangladesh	2,800	40
Agriculture irrigation through solar-driven pump	35,122	93
100 MW solar power plant building in Madarganj	72,984	54

Source: Authors' compilation based on ADP data from Ministry of Planning (Ministry of Planning, 2023).

The upcoming national budget for FY2025 should allocate more resources to implement more renewable energy-based projects. The unapproved projects should be prioritised in the case of resource allocation in the next budget, which includes the construction of a 20 MWp Solar Photovoltaic Grid-Connected Power Plant at Barapukuria (July 2023-June 2025), construction of a 7.6 MWp Solar Photovoltaic Grid-Connected Power Plant at Kaptai Hyrdo Power Station, Kaptai, Rangamati (July 2023-June 2025); construction of 50 MWp Solar Photovoltaic Grid-Connected Power Plant at Rangunia (July 2023-June 2025). More funds are required to improve the coastal transmission system and enhance the efficiency of solar power generation.

Current tax incentives for renewable energy investments are not competitive with those for fossil fuel-based power plants, which can enjoy a tax holiday of up to 10 years. Additionally, the tax waiver offered to utility-scale solar projects does not extend sufficiently to small-scale rooftop solar initiatives.

Tax holidays for renewable energy-based power plants should be increased from 5 to 10 years. A 100 per cent duty waiver should be provided for small-scale rooftop solar projects, similar to the waver for utility-scale projects. The tax framework for solar inverters and other solar power-related accessories results in a high total tax incidence (TTI), with rates reaching up to 58 per cent, which may hinder the adoption and implementation of solar energy solutions (Table 2.7). Furthermore, the VAT rates on solar machinery and appliances are still considerably high at 15 per cent, and the customs duties on specific solar power-operated appliances are also high.

Table 2.7**Disaggregated tax structure of solar-related accessories (2024)**

List of machineries imported		HS Code	Duty tax rate (in per cent)					
Types	Description		CD	SD	VAT	AIT	RD	AT
Solar PV Module	Solar PV module with accessories	85414300	1	0	15	5	0	5
Solar inverter	Inverter with accessories	85044090	10	0	15	5	0	5
Interconnection cables and connectors	DC cables: panel to inverter	85446000	25	0	15	5	3	5
Structure	Rooftop structure RCC part	76109090	25	0	15	5	3	5
Others	Rooftop structure tin shed rail joiner	76109090	25	0	15 t	5	3	5
Others	Walkway for rooftop Solar power plant	73089099	25	0	15 t	5	3	5
Others	Cleaning materials	96039000	25	0	15	5	3	5

Source: Authors' compilation based on data from Bangladesh Customs (Bangladesh Customs, 2024).

The cumulative tax rate on solar inverters, including customs duty, VAT, advance income tax, and advance tax, should be decreased. The 15 per cent VAT on solar-based machinery and appliances should be reconsidered to make them more affordable. The 1 per cent customs duty on solar-powered water distillation plants and the 10 per cent duty on solar water heaters with insulated storage tanks should be eliminated.

Private sector power generation companies in Bangladesh can access tax exemptions and benefits outlined in specific statutory regulatory orders (SROs) if they have power sale or purchase agreements with the government. The stipulation 'Power Generation Companies who have achieved Commercial Operation' and grant the tax 'exemption to any companies' should be removed.

According to the Net Metering Policy, companies can sell surplus solar power to local utilities via tripartite agreements, meeting the conditions for tax facilities provided by SRO-70-AIN/2020. Additionally, companies operational by June 30, 2024, are tax-exempt on income from power generation, while those operational by June 30, 2025, can access various tax exemptions if they comply with the Private Sector Power Generation Policy. Any Company Generating or Producing Electricity through Renewable Energy under the Net Metering Guideline 2018 to be inserted into the SRO. Any Company Generating or Producing Electricity through Renewable Energy under the Net Metering Guideline 2018 is fully exempted from income tax. There is, however, a discrepancy in how solar modules and related equipment are classified under the income tax rules, leading to issues with customs.

Despite amendments to SROs and income tax rules stating that certain imported goods, like capital machinery, are exempt from Advance Income Tax (AIT), customs do not recognise solar power components as such, necessitating immediate clarification. Customs should acknowledge solar modules, inverters, structures, and DC Cables as capital machinery.

2.5.2 Fiscal measures for clean energy use in the industrial sector

The industrial sector, particularly the garment and textile sectors, is progressively adopting solar energy to reduce operational costs and comply with global environmental standards. Currently, 1,941 rooftop solar installations are primarily in the industrial sector, with a notable achievement of 84.6 MW through net metering. Solar energy adoption could lead to substantial savings, with an estimated 2,000 MW of rooftop solar potentially saving the government BDT 52.3 billion to BDT 110.32 billion annually (IEEFA). The garment and textile sector alone could generate 400 MW of power through efficient solar energy use (IDCOL, 2020).

Revision is needed for the current Net Energy Metering (NEM) policy, which currently limits capacity to 70 per cent of the sanctioned load, with a cap not exceeding 10 MW. Implementation of guidelines that promote streamlined and standardised net metering processes across all regions, ensuring transparency and efficiency is needed. Conducting a comprehensive mapping exercise to assess the solar energy potential across all industrial sectors is vital. Aligning the customs duty on solar inverters with that of solar panels, reducing it from 37 per cent to 1 per cent (Table 2.8) is necessary. Establishing a uniform, low TTI for all solar-related products and equipment, targeting a TTI of 1 per cent to 5 per cent needs to be done (Table 2.8). Offering subsidies or tax exemptions for the initial costs of installing solar systems with a focus on supporting SMEs is needed. Installation items include aluminium structures for solar systems, photosensitive solar devices, glass fibre required for solar installation, DC cables, and automatic regulating controlling instruments.

Table 2.8

Duty structure of solar equipment in Bangladesh (2024)

HS Code	Description	Customs Duty (CD)	Supplementary Duty (SD)	Value-added Tax (VAT)	Advanced income tax (AIT)	Regulatory Duty (RD)	Advanced Trade Vat	Total Tax Incidence (TTI)
85414900	Photosensitive semiconductor devices, Light-emitting diodes (LED), NES	5	0	15	5	0	5	31
85414100	Photosensitive semiconductor devices, including Light-emitting diodes (LED)	5	0	15	5	0	5	31
85414200	Photovoltaic cells not assembled in modules or made up into panels	0	0	15	5	0	5	25
85414300	Photovoltaic cells assembled in modules or made up into panels	1	0	15	5	0	5	26.2

(Table 2.8 contd)

(Table 2.8 contd)

HS Code	Description	Customs Duty (CD)	Supplementary Duty (SD)	Value-added Tax (VAT)	Advanced income tax (AIT)	Regulatory Duty (RD)	Advanced Trade Vat	Total Tax Incidence (TTI)
85030010	Parts Of Photovoltaic Generators of hHeading No 85.01 Or 85.02	1	0	15	5	0	5	26.2
85017210	Photovoltaic DC generators	1	0	15	5	0	5	26.2
85018090	Photovoltaic AC generators	1	0	15	5	0	5	26.2
85044090	Other Static converters	10	0	15	5	0	5	37
85044010	Mobile battery less than 6V (charger)	25	0	15	5	3	5	58.6
85049010	Electrical transformers, static converters, tap changer	5	0	15	5	0	5	31
85049090	Parts Of transformers, inductors and static converters, nes	25	0	15	5	3	5	58.60
85131010	Solar-powered lanterns/ lamps have no provision for electrical power	0	0	15	5	0	5	25
85161010	Solar water heater with insulated storage tank	10	0	15	5	0	5	37
84194020	Solar power-operated water distillation plant	1	0	15	5	0	5	26.20

Source: Authos' compilation based on data from Bangladesh Customs(Bangladesh Customs, 2024).

2.5.3 Fiscal measures for clean energy use in the agriculture sector

Bangladesh heavily relies on 1.34 million diesel and more than 430,000 electric pumps for irrigation, costing over USD 1 billion annually in diesel expenses, with government subsidies. Farmers' irrigation costs with diesel or electric pumps range from BDT 3,000 to BDT 4,000 per bigha, whereas solar irrigation presents a more economical option at BDT 2,500 to BDT 2,800 (Kanojia, 2019). Transition to solar irrigation is slow - 2,971 Solar Irrigation Pumps (SIPs) operate with an installed capacity of 55.063 MWp, representing just 0.22 per cent of total pumps (SREDA). The IDCOL has been involved in replacing diesel pumps with Solar Irrigation Pumps (SIPs) with the

target of deploying 45,000 solar irrigation pumps by 2031. A faster installation of solar irrigation pumps will require more funds to replace the remaining diesel-based power pumps.

A low customs duty of 1 per cent on essential solar pump components is beneficial, but added VAT, AIT, and other taxes increase the overall cost, discouraging widespread adoption (Table 2.9). While government policies favour solar over non-solar pumps through lower duty rates, the Total Tax Incidence (TTI) of over 23 per cent still poses a significant barrier. Tax duty structure for Solar Irrigation Pump (SIP) equipment should be revised, including waiver of customs duties, exemption of VAT on pumps, and providing relief from advanced income and trade taxes on solar panels and pumps to potentially lower the Total Tax Incidence (TTI) to 1-5 per cent (Table 2.9).

Table 2.9

Duty structure for solar irrigation-related products (2024)

HS Code	Description	Customs Duty (CD)	Supplementary Duty (SD)	Value-added Tax (VAT)	Advanced income tax (AIT)	Regulatory Duty (RD)	Advanced Trade Vat	Total Tax Incidence (TTI)
84137000	Other centrifugal pumps	1	0	15	2	0	5	23.20
84138100	Other liquid elevators pumps	1	0	15	5	0	5	26.20
84136000	Rotary positive displacement pumps	1	0	15	5	0	5	26.20

Source: Authors' compilation based on data from (Bangladesh Customs, 2024).

Tax rates should be standardised across all components and products necessary for solar irrigation systems, such as PV panels, converts, pumps, etc. Grid-integrated Solar Irrigation Pumps (SIPs) should be promoted to enable energy export during non-irrigation periods. Mechanisms should be established mechanisms to subsidise grid connection costs for smaller and poorer farmers, covering ancillary services and security management. Battery energy storage systems should be introduced as optional equipment for grid-connected solar systems post-2031 to enhance grid stability and provide ancillary services.

Currently, the National Board of Revenue (NBR) classifies solar irrigation products under broader definitions in a few HS codes subject to a higher duty structure (Table 2.9). It could be beneficial to design separate duty structures with explicit 8-digit Harmonised System (HS) codes for solar irrigation products, as is the practice in certain countries, such as in India (Table 2.10).

Table 2.10

HS code for solar irrigation pumps and accessories practised in India (2024)

HS Code	Description
84135029	SF-1 solar PV irrigation pump version: 1.5 (900 ltr/hr @ 6mtr lift) pump unit
84137010	Solar submersible pump set (solar ssp4000-120-8-380v(4x4)38mm solar cont. (4.0hp3p (w/og) poly crystal

(Table 2.10 contd)

(Table 2.10 contd)

HS Code	Description
84137099	Rotomag 2 HP solar surface pumps model MBP 60, 1800sp
84137010	Solar submersible pump accessories(poly crystalline solar panel (250w)) solar submersible pump
84137010	Solar submersible pump accessories (solar stand for four plates)

Source: (Zauba, n.d.).

2.5.4 Fiscal measures for clean energy use in the transport sector

In the current market structure, most Bangladeshi buyers opt for completely built-up (CBU) imported reconditioned cars, mainly from Japan. Reconditioned cars generally have worse emission standards and fuel efficiency than new vehicles. There are discrepancies in the duty structure of CBU internal combustion (ICE) cars compared to hybrid vehicles in terms of promoting green technologies (Table 2.11 and 2.12). A customer shift towards hybrid vehicles from reconditioned and newly imported ICE vehicles can reduce short-term carbon emissions.

Table 2.11

SD on Motor vehicles (ICE) and other motor cars, including Station Wagon, CBU

Engine size	Current SD
Up to cylinder capacity 1600cc	45 per cent
1601-2000 cc	100 per cent
2001cc-3000cc	250 per cent
3001cc- 4000cc	500 per cent
4001cc and higher	500 per cent
<i>Microbus</i>	
1801cc-2000cc	20 per cent
2000cc and above	45 per cent

Source: Authors' compilation based on data from (Bangladesh Customs, 2024).

Table 2.12

SD on Hybrid Motor vehicles and other motor cars, including Station Wagon

Engine size	Current SD
Up to cylinder capacity 1800cc	20 per cent
1801-2000 cc	45 per cent
2001cc-2500cc	60 per cent
2501cc- 3000cc	100 per cent
3001c-4000cc	150 per cent
Higher than 4000cc	350 per cent
<i>Microbus</i>	
1801cc-2000cc	30 per cent
2000cc and above	60 per cent

Source: Authors' compilation based on data from (Bangladesh Customs, 2024).

The next budget should focus on promoting imported new hybrid cars, which have better emission standards and fuel efficiency than internal combustion engine cars (new or reconditioned). SD on hybrid vehicles needs to be further reduced to create parity with the cost of ICE cars, especially the reconditioned ones. Gasoline cars emit more than 350 grams of CO₂ per mile driven over their lifetimes, whereas hybrid and plug-in hybrid versions score around 260 grams per mile of carbon dioxide.

The current regulation states that imported reconditioned cars cannot be older than four years. This should be decreased to 3 years from 4 years to discourage further reconditioned car imports. The SD on hybrid minibuses is 30 per cent and 60 per cent for vehicles with engine sizes of 1801cc-2000cc and over 2000cc, respectively. These figures are still higher than those of their ICE counterparts (20 per cent and 45 per cent respectively). The SD on hybrid minibuses should be lowered compared to ICE minibuses. Euro standard five should be uniformly introduced as the emission standard for the transport sector vehicles.

In Bangladesh, the current tax structure for electric vehicles (EVs) is determined by the BRTA Electric Motor Vehicle Registration and Operation Guidelines 2023. The Guidelines equate 1 KW of electric motor capacity to 20cc of internal combustion engine for annual tax purposes (Table 2.13). This comparison has resulted in a tax disparity that affects affordability. For instance, affordable EVs have engines ranging from 100KW to 150KW. Furthermore, Bangladesh's total tax incidence on lithium batteries is 89 per cent, double that of India, which hinders the country's potential as an EV assembler and manufacturer. The existing tax incidence on EV imports, including a 99 per cent import duty, 20 per cent supplementary duty (SD), and a fixed advance income tax of BDT 3 lakh per unit, brings the total cost of EV ownership close to traditional vehicles in the same price range, providing little incentive for consumers to switch to EVs.

Table 2.13

Annual tax structure of EV

Engine or Motor Capacity (1 kw = 20cc)	Current annual tax (BDT)
Up to 1500 cc or 75kw	25,000
1500 – 2000 cc or 75-100kw	50,000
2000 – 2500 cc or 100-125kw	75,000
2500 – 3000 cc or 125-150kw	1,25,000
3000 – 3500 cc or 150-175kw	1,50,000
Above 3500 cc or 175kw	2,00,000

Source: (Hossain, 2023).

Aligning the 'cc to KW' rate in EVs to align with the purchasing power between EV and ICE/ Hybrid vehicle owners, lowering the TTI on lithium batteries to encourage local assembly and manufacturing of EVs, reducing the 99 per cent import duty on EVs to align with regional competitors, evaluating BDT 3 lakh per unit AIT on EVs to ensure it does not disproportionately affect the consumers and restructuring the annual tax for EVs so that it is within the price range of existing 1000-2000cc ICE vehicles will incentivise consumers to purchase EVs.

2.5.5 Financing clean energy

Ensuring energy financing would be crucial for Bangladesh to achieve its clean energy target of 40 per cent by 2041. According to a report of (Change Initiative, 2023), Bangladesh would require

an amount of USD 26.5 billion to achieve this target of 2041. However, from 2016 to 2022, the country received only USD 6.71 billion. The report also mentions that the country has the potential to secure funding of around USD 38.4 billion.

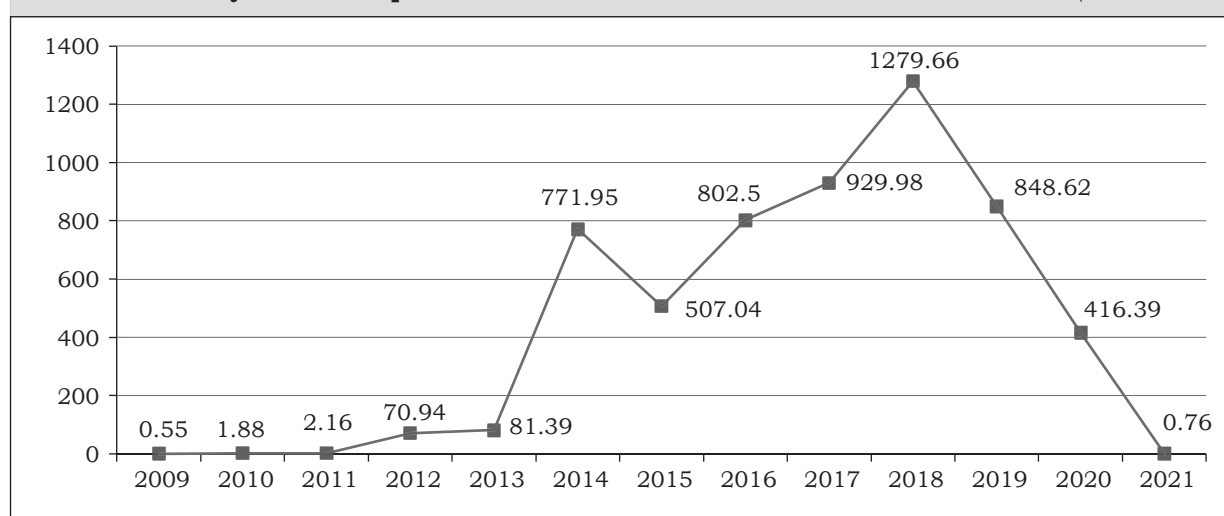
Table 2.14**Subsector-wise ODA disbursement in the power sector since the year 2000**

Sub Sector	No of projects	Amount (USD)	per cent
Distribution	7	583.60	9.55
Generation	8	1,149.17	18.80
New and Renewal Sources of Energy	13	754.56	12.34
Not Applicable	17	2,324.59	38.02
Transmission	5	901.90	14.75
<i>Funding channelled through</i>			
Govt. Sector	44	4,885.94	79.92
Non Govt. Sector	5	676.03	11.06

Source: Authors' compilation based on data from (ERD, 2024).

Since 2000, Bangladesh has received support for its power sector from different development partners (DPs). In the last 23 years, the power sector received USD 5,562 million from the development partners in the form of grants or loans, of which only USD 754 million went to the renewable energy-based power sector (Table 2.14). Figure 2.11 indicates a notable surge in development partner support for the power sector in the earlier years, mainly in fossil-fuel-based electricity sector development, followed by a consistent decline since 2018.

Past data indicates that various development partners have funded diverse projects within the power sector, encompassing renewable and clean energy initiatives. ADB and JICA, two major development partners, mainly disbursed funds for non-renewable energy development (Table

Figure 2.11**Disbursed ODA by DPs in the power sector***(in million USD)*

Source: Authors' illustration based on data from (ERD, 2024).

2.15). Thirty-nine per cent of the committed support from the DPs for the power sector is still to be disbursed (Table 2.15).

Table 2.15**DP-wise disbursement of support in the power sector since the year 2000**

Name of the development partners	Total commitment (in million BDT)	Total disbursed (in million BDT mil) up to 2023	Per cent disbursed for clean and renewable energy	Per cent disbursed for efficiency	Per cent disbursed for other
Asian Development Bank	3096.5	1601.90	0	77	23
Department for International Development	27.88	26.86	100	0	0
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	5.41	4.72	100	0	0
European Union/European Commission	8.04	2.80	0	100	0
French Development Agency	112.27	73.28	0	100	0
Global Environment Facility	4.73	5.11	87	13	0
Japan Fund for Poverty Reduction	2.00	0.80	0	100	0
Japan International Cooperation Agency	3398.00	2006.07	5	3	92
Korea International Cooperation Agency	2.69	2.33	100	0	0
Kreditanstalt Fuer Wiederaufbau	245.25	54.62	14	13	73
Norwegian Agency for International Development	3.87	0.60	0	0	100
OPEC Fund for International Development	30.00	2.34	0	0	100
United Nations Development Programme	5.13	0.11	0	0	100
United Nations Industrial Development Organization	0.05	0.05	0	0	100
World Bank	1536.55	1356.66	18	0	82

Source: CPD compilation based on data from (ERD, 2024).

In the upcoming year, the government must ensure the disbursement of the remaining support and explore additional funding sources. The government should intensify negotiations to secure funds from bilateral, multilateral, and regional sources, as outlined in the following table (Table 2.16). Different global climate funds, clean energy, and green technology funds should be the government's priorities.

Table 2.16**Different Climate Funds Available for Bangladesh**

Name of the fund	Type of fund	About
Green Climate Fund (GCF)	Multilateral	The fund was established under the UNFCCC to support climate mitigation and adaptation projects in developing countries.
Global Environment Facility (GEF)	Multilateral	The fund provides grants to developing countries for projects that benefit the global environment, including climate change mitigation and adaptation.
Climate Investment Funds (CIFs)	Multilateral	Through concessional financing, the fund supports climate resilience and low-carbon development in developing countries.
Adaptation Fund	Multilateral	The fund provides funding for concrete adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol.
Clean Technology Fund (CTF)	Multilateral	It supports the demonstration, deployment, and transfer of low-carbon technologies in developing countries.
The World Bank's International Development Association (IDA)	Multilateral	The fund provides concessional loans and grants to the world's poorest countries to support development projects related to climate change.
The World Bank's Energy Sector Management Assistance Program (ESMAP)	Multilateral	The fund provides technical assistance and knowledge sharing to help countries transition to sustainable energy solutions.
Renewable Energy Performance Platform (REPP)	Multilateral	It facilitates private investment in renewable energy projects in developing countries.
The United Nations Development Programme (UNDP) Climate Change Adaptation Fund	Multilateral	Supports adaptation projects in vulnerable communities, focusing on building resilience to climate change impacts
The European Union's Climate Finance Instruments	Multilateral	The fund financially supports developing countries for climate change mitigation and adaptation projects.
The Global Energy Efficiency and Renewable Energy Fund (GEEREF)	Multilateral	GEEREF invests in specialist renewable energy and energy efficiency private equity funds in emerging markets.
The Asia-Pacific Climate Finance Fund (APCF)	Multilateral	The fund supports developing and implementing innovative, scalable, and commercially viable financial risk management products that increase investments in climate change mitigation, adaptation, and disaster risk management in ADB's DMCs.
The Nordic Development Fund (NDF) Climate and Energy Fund	Multilateral	The Nordic Development Fund provides financing and expertise for climate change mitigation and adaptation projects in developing countries.
The Japan International Cooperation Agency (JICA) Climate Change Mitigation Fund	Multilateral	JICA provides financial and technical assistance to developing countries to support various projects related to climate change mitigation, adaptation, and resilience building

(Table 2.16 contd)

(Table 2.16 contd)

Name of the fund	Type of fund	About
The German Federal Ministry for Economic Cooperation and Development (BMZ) Climate Finance Program	Bilateral	BMZ's Climate Finance Program aims to support developing countries in their efforts to mitigate and adapt to climate change
The Climate Resilience and Adaptation Finance and Technology Transfer Facility for South Asia (CRAFT)	Regional	This facility supports climate resilience and adaptation efforts in South Asian countries.
New Development Bank (NDB)	Multilateral	The NDB focuses on financing projects in key sectors such as transportation, energy, water resource management, urban development, and environmental protection.
Belt and Road Initiative (BRI) Green Investment:	Multilateral	Within the broader BRI framework, China has allocated funds for green projects, including renewable energy infrastructure, sustainable transportation, and environmental conservation initiatives along the Belt and Road routes.

Source: Authors' compilation.

2.6 FISCAL POLICY FOR PROTECTING PUBLIC HEALTH

Key Findings

1. Bangladesh's health budget allocation has been below 1 per cent of GDP for the past 20 years, making it one of the lowest among 44 LDCs in 2020.
2. Total health budget utilisation decreased from 94 per cent in FY2012 to 78 per cent in FY2022.
3. The country's out-of-pocket health expenditures are alarmingly high, comprising 74 per cent of current health spending in 2020, indicating a growing burden on individuals.

Key Policy Recommendations

1. The budget for FY2025 should increase the health budget allocation to prevent people from being pushed into poverty due to out-of-pocket health expenditures.
2. Simple, specific, and universal excise duties are needed to reduce the consumption of cigarettes, other tobacco products, soft and energy drinks.
3. Improved governance is required to increase the efficiency of utilisation of the health budget.

The total budget allocation for health has increased only by three (3) per cent, from BDT 36,864 in FY2023 to BDT 38,050 in FY2024, which included a 17 per cent increase in the development budget and a 24 per cent increase in the non-development budget. Regrettably, the share of development budget allocation in total health budget allocation decreased from 51 per cent in FY2023 to 41 per cent in FY2024, and the share of the revised development budget allocation in total health budget allocation decreased from 47 per cent in FY2022 to 41 per cent in FY2023. The actual expenditure on health increased by 16 per cent from BDT 21,647 crore in FY2021 to BDT 25,028 crore in FY2022. Unfortunately, the utilisation of the health budget, defined as the actual expenditure as a percentage of revised budget allocation, has worsened over the past decade. Total health budget utilisation decreased from 94 per cent in FY2012 to 78 per cent in FY2022.

Moreover, the non-development budget utilisation decreased from 99 per cent in FY2012 to 79 per cent in FY2022, while the development budget utilisation decreased from 86 per cent in FY2012 to 76 per cent in FY2022. Worryingly, over the past several years, non-development health budget utilisation has been consistently higher than development health budget utilisation.

The allocation for health as a share of the total budget increased slightly from 4.5 per cent in FY2023 to 4.99 per cent in FY2024. On the other hand, the allocation for health as a share of gross domestic product (GDP) has increased from 0.67 per cent in FY2023 to 0.76 per cent in FY2024. Such an allocation is only marginally higher than the average of 0.71 per cent of GDP from FY2016 to FY2024.

In Bangladesh, the budget allocation for the health sector has been less than one (1) per cent of GDP for the past 20 years, indicating that health was never a priority sector for the government. On the contrary, in 2020, at least 44 LDCs spent more than one (1) per cent of the GDP on healthcare (World Bank, 2022). Bangladesh's government expenditure on health as a share of GDP was the fourth lowest among 44 LDCs in 2020, with only Djibouti, Benin, and Gambia spending less on health than Bangladesh in 2020 (World Bank, 2022). On top of this, Bangladesh's out-of-pocket expenditure on health per capita at purchasing power parity was the seventh highest among 44 LDCs in 2020. Bangladesh's out-of-pocket expenditure as a percentage of current health expenditure was 74 per cent in 2020, showing an increasing trend for the past two decades. In contrast, the trend decreased in its neighbouring countries, including India, Pakistan, Bhutan, Nepal, and Sri Lanka.

Within this context, augmenting the financial resources allocated to the health sector and enhancing the effective utilisation of those resources is essential. It is also essential to enact various fiscal policies to foster enhanced public health and thus optimise societal well-being. The following exposition proposes fiscal measures for a limited number of selected items.

2.6.1 Tax on tobacco and related products

In Bangladesh, the price strategy of the tobacco industry promotes the use of cigarettes that are comparatively more affordable. The intricate tiered tobacco tax system facilitates the implementation of varying prices. Differential pricing undermines the original objective of taxes, which was to get favourable public health results. Therefore, it is necessary to simplify Bangladesh's tobacco tax system. The affordability of cigarettes should be decreased by implementing higher taxes, leading to price rises. The government should replace the current tiered taxing structure for tobacco and tobacco-related items with a unified scheme. In addition, it is recommended that the ad valorem tax, which is calculated based on a percentage of the retail price, be replaced with a specific tax set per pack. Implementing a standardised and targeted excise tax system on tobacco would significantly streamline the government's administrative process. Additionally, it would allow the government to transfer control of the management of cigarette recommended retail prices (RRPs), which is causing a burden on the tax authorities. The government lacks the resources necessary to oversee and implement RRP nationwide. The tobacco business exploits this absence of oversight to optimise its financial gains. Therefore, it is recommended that the government let the market determine the appropriate pricing and generate tax income by implementing a uniform specific tax that is not influenced by the price of the tobacco product but based only on the number of sales.

We propose implementing a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes in FY2025 (Table 2.17). This tax should be increased by at least BDT 5 per stick yearly to account for annual inflation and income growth.

Table 2.17

Proposed tax structure for cigarettes (per pack of 10 cigarettes)

Current tax structure for cigarettes in FY2024						Proposed tax structure in FY2025				
	Retail Price		SD				Retail Price		Specific excise duty	
Tier	Pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in per cent)	Per pack of 10 (in BDT)	Per stick (in BDT)	Tier	Per pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in BDT)	Per stick (in BDT)
Low	45	4.5	58	26.10	2.61	Universal	Market-based	Market-based	100	10
Medium	67	6.7	65	43.55	4.35					
High	113	11.3	65	73.45	7.34					
Premium	150	15.0	65	97.50	9.75					

Source: CPD compilation data from the Ministry of Finance.

In line with the proposed tax structure for cigarettes, the tax structure for Bidi, Jarda, and Gul should also be reformed. This will protect low-income groups from health hazards and reduce the burden of health expenditure on the government. Instead of the current tier classification of Bidi into filtered and non-filtered, and additional groupings based on the size of the pack, we propose a specific excise tax of BDT 3 per stick for all Bidi to be implemented in FY2025 and allow the price of Bidi to be determined by the market (Table 2.18). Such a uniform specific tax on all Bidi should be increased by at least BDT 1 each year to account for annual inflation and income growth.

Table 2.18

Proposed tax structure for Bidi

Current tax structure in FY2024						Proposed tax structure in FY2025				
	Retail Price		SD				Retail Price		Specific excise duty	
Type of bidi	Per pack (in BDT)	Per stick (in BDT)	Per pack (in per cent)	Per pack (in BDT)	Per stick (in BDT)	Type of bidi	Per pack (in BDT)	Per stick	Per pack (in BDT)	Per stick (in BDT)
Non-filtered 25-stick handmade bidi	18	0.72	30	5.40	0.22	All	Market-based	Market-based	75	3
Non-filtered 12-stick handmade bidi	9	1.33	30	2.70	0.23				36	
Non-filtered eight-stick handmade bidi	6	1.33	30	1.80	0.23				24	
Filtered 20-stick handmade bidi	19	1.05	40	7.60	0.38				60	
Filtered 10-stick handmade bidi	10	1.00	40	4.00	0.40				30	

Source: CPD compilation data from the Ministry of Finance (Kamal, 2021).

Finally, the existing tax structure on Jarda and Gul should also be reformulated in cognisance of the severe health risks posed by the long-term consumption of such items. We propose a BDT 6 specific excise duty per gram (gm) of Jarda and Gul to be implemented in FY2025 and to allow the price of Jarda and Gul to be determined by the market (Table 2.19). Such a specific tax on Jarda and Gul should be increased by at least BDT 1 each year to account for annual inflation and income growth.

Table 2.19**Proposed tax structure for Jarda and Gul**

Current tax structure in FY2024						Proposed tax structure in FY2025				
Type of product	Retail Price		SD			Type of product	Retail Price		Specific excise duty	
	Per 10gm (in BDT)	Per gm (in BDT)	Per 10 gm (in per cent)	Per 10 gm (in BDT)	Per gm (in BDT)		Per 10gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)
10gm jarda	45	4.5	55	24.75	2.47	10gm jarda	Market based	Market based	60	6
10gm gul	23	2.3	55	12.65	1.26	10gm gul				

Source: CPD compilation from the Ministry of Finance (Kamal, 2021) data.

The Health Development Surcharge Management Policy 2017 states that a 1 per cent surcharge must be charged to tobacco companies in Bangladesh, which is also by the WHO Framework Convention on Tobacco Control (FCTC), to which Bangladesh is a ratified member (NTCC, 2017). The Statutory Regulatory Order (SRO) issued by the Bangladesh government provides more information on how the funds collected via the Health Development Surcharge should be used. CPD advocates for a further increase in the Health Development Surcharge to strengthen the National Tobacco Control Cell (NTCC) in achieving the goals and reaching the goal of a tobacco-free Bangladesh by 2040. In this connection, we propose that the Health Development Surcharge on cigarettes and other tobacco products be increased from 1 per cent to 5 per cent and the VAT on cigarettes and other tobacco products be increased from 15 per cent to 20 per cent in FY2025 (Table 2.20).

Table 2.20**Proposed Health Development Surcharge and VAT on cigarettes and other tobacco products**

Items	Current Tax Structure for FY2024		Proposed Tax Structure for FY2025	
	Health Development Surcharge (in per cent)	VAT (in per cent)	Health Development Surcharge (in per cent)	VAT (in per cent)
Cigarettes	1	15	5	20
Biri	1	15	5	20
Jarda	1	15	5	20
Gul	1	15	5	20

Source: CPD compilation.

CPD believes corporate taxes should be increased incrementally to achieve a tobacco-free Bangladesh by 2040. On the contrary, we find that the effective tax rate of the largest tobacco company in Bangladesh decreased by around one percentage point in 2022 (British American

Tobacco Bangladesh, 2022). In FY2024 budget, companies manufacturing tobacco products were subject to 45 per cent corporate tax, the same corporate tax rate as non-publicly traded mobile operator companies. Since companies manufacturing tobacco products are directly causing severe public health hazards, it is necessary to ensure that such companies pay corporate tax at a rate which is above the corporate tax rate for all other types of companies.

Therefore, in addition to the aforementioned tax reforms, we propose increasing the corporate tax on all companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, jarda, and gul, from 45 per cent in FY2024 to 50 per cent in FY2025. The associated surcharge will be increased from 2.5 per cent in FY2024 to 5 per cent in FY2025 (Table 2.21).

Table 2.21**Corporate tax on tobacco product manufacturing companies**

Type of company	Current tax structure in FY2024		Proposed tax structure for FY2025		Proposed tax structure for FY2026	
	Corporate tax (in per cent)	Surcharge (in per cent)	Corporate tax (in per cent)	Surcharge (in per cent)	Corporate tax (in per cent)	Surcharge (in per cent)
All companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, jarda, and gul	45	2.5	50	5	55	7.5

Source: CPD compilation from the Ministry of Finance (Kamal, 2021) data.

To achieve the government's long-term goal of a tobacco-free Bangladesh, we propose increasing the corporate tax on all companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, and Jada, to 55 per cent. The associated surcharge will increase to 7.5 per cent in 2026 when Bangladesh graduates from the LDC group.

According to the report on national estimates of land use and production of Drugs and Narcotics from the Yearbook of Agricultural Statistics 2021, the tobacco industry used 99600.24 acres of fertile cultivable land to produce tobacco leaf in Bangladesh (BBS, 2022). The tobacco companies in Bangladesh are exploiting favourable agricultural policies to produce tobacco leaves in massive quantities and export them to other countries where such production is more restricted. The export of tobacco leaf from Bangladesh has almost doubled from 272 crores BDT in 2021 to 559 crore BDT in 2022 for one of Bangladesh's largest tobacco market shareholders (British American Tobacco Bangladesh, 2022).

There has been a significant increase in the prices of essential commodities like rice, wheat, and other food goods in Bangladesh's local market. Given the considerable impact of inflation on disadvantaged individuals, evaluating the opportunity cost associated with the extensive production of tobacco leaves in Bangladesh is crucial. The government has repeatedly and clearly stated its intention to fully use all available cultivable land in the nation to guarantee food security. Nevertheless, a substantial amount of cultivable land is used to grow tobacco.

If 99600.24 acres of land, which is currently being used for tobacco leaf production, was used for Boro rice cultivation, assuming the average yield rate is independent of geographical location and technical knowledge of farmers, then 167,434.394 metric tonnes (MT) of additional Boro rice

could be produced to meet the local demand. This additional quantity of Boro rice produced could meet the demand of an additional 12.5 lakh people for a whole year. Alternatively, if the land was used for wheat production, then 133012.603 MT of additional wheat could be produced to meet the local demand. Similarly, the additional 133012.603 MT of wheat production could sustain the wheat demand of an additional one crore 84 lakh people for a whole year. This is vital for a country with a more than 165 million population and a net food-importing country. Hence, substituting the production of tobacco leaves with more productive major crops can reduce the stress of food imports. CPD believes the 25 per cent tax waived for tobacco companies operating at EPZs must be reinstated in FY2025.

For tobacco taxation policy to succeed, controlling the industry's activities within our society is crucial. The underlying meaning of imposing such exorbitant tariffs should be clearly and precisely articulated, permeating every aspect of social life. If the general environment favours tobacco corporations, imposing high tax rates will not accomplish the main objective. For example, granting permission to the e-commerce platform 'Buy Here Now' to sell cigarettes and nicotine products online, endorsing certain events and the NBR granting social acknowledgement to tobacco firms and persons involved in the industry based on the amount of tax they have paid does not convey the right message.

The tobacco industry's primary strategy is to introduce new ideas and consistently stay ahead of governmental decision-makers. The mainstream discourse on tobacco control lacks the inclusion of the subject of e-cigarettes. Electronic nicotine delivery systems (ENDS), including electronic cigarettes, use heat to vaporise a liquid, producing an aerosol that the user inhales. The liquid comprises nicotine and other substances that have the potential to be detrimental to human health (WHO). People passively exposed to e-cigarettes aerosol absorb nicotine (measured as cotinine), with one study showing levels comparable to passive smokers of conventional cigarettes. There is little research on direct health effects, but one study shows short-term pulmonary impact and evidence of cytotoxicity in animal and human in vitro test systems (Marques & Sanz, 2021).

The demand for e-cigarettes is rising at an alarming rate in Bangladesh. According to data from Tobacconomics, 6.7 per cent of adults in the country use e-cigarettes (Tobacconomics, n.d.). E-cigarettes have significantly enhanced the overall convenience of nicotine usage. The creation of e-cigarettes sought to replace all the characteristics or features of cigarettes that were disliked in society. For instance, e-cigarettes circumvent the unpleasant odour of traditional cigarettes by using various chemically flavoured liquids to attract new clientele. CPD contends that there is no justification for treating e-cigarettes or ENDS differently from tobacco firms when it comes to tax regulations. The CPD suggests that instead of implementing a total prohibition on e-cigarettes or ENDS, the government might choose to control the industry and levy substantial tariffs to discourage their use and create income for the government.

2.6.2 A hard tax for soft drinks

Carbonated soft drinks and energy drinks are a significant health concern in Bangladesh. Such beverages have a substantial amount of sugar, which is a significant cause of obesity, diabetes, and tooth decay. Typically, a single soft drink can, around 355 millilitres, contains 39 grams of sugar (Coca-Cola Company, n.d.). This is equivalent to roughly 10 teaspoons of sugar. At the same time, the World Health Organization (WHO) recommends that adults not consume more than six teaspoons of sugar daily to lead a healthy lifestyle (WHO, 2017). Currently, the beverage and carbonated industry is subjected to a 25 per cent SD for carbonated soft drinks and 35 per cent SD for energy drinks, with a 15 per cent VAT applicable for both (NBR, 2018). In Bangladesh,

carbonated soft and energy drinks are widely available. Hence, it is necessary to decrease the consumption of such beverages to reduce the associated health risks.

Therefore, CPD recommends that the government should remove the supplementary duty on both soft drinks and energy drinks and replace it with a specific excise duty of BDT 0.10 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in the FY2025 (Table 2.22). Since sweetened beverages are a demerit good, placing a specific excise duty will reduce their consumption and provide the government with substantial revenue. CPD also recommends that the government stop giving high tariff protection to local sugar-sweetened beverages (SSB) manufacturers through VAT exemptions for imported raw materials (SRO148/2016). This will be a respite to our shrinking fiscal space.

Furthermore, limiting sugary beverage intake will help Bangladesh minimise the risks of related diseases and health expenditures of the general population. This will also allow the economy to achieve SDG target 3.4, which aims to reduce non-communicable diseases by one-third by 2030 (UN, 2015). Additionally, we also propose that the VAT on soft drinks and energy drinks should be increased from 15 per cent in FY 2024 to 20 per cent in FY2025.

Table 2.22

Proposed tax structure for soft drinks and energy drinks

Beverage	Current Tax Structure for FY2024		Proposed Tax Structure for FY2025	
	SD (in per cent)	VAT (in per cent)	Specific excise duty (BDT per litre)	VAT (in per cent)
Soft drinks	25	15	100	20
Energy drinks	35	15	100	20

Source: CPD's compilation based on data from the National Board of Revenue (NBR, 2018).

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

Menstrual hygiene is a fundamental right and need for women and girls worldwide. However, this right is violated when menstrual hygiene products are subjected to value-added tax (VAT) and other duties. Safe hygiene practice is strongly connected to Sustainable Development Goal (SDG) 3, which aims to ensure good health and well-being for all (United Nations 2015). Even though sanitary products are a necessity for women and girls to maintain proper hygiene, their price is beyond the reach of most women and girls from low-income groups in Bangladesh.

Locally produced sanitary napkins, towels, and similar sanitary products for women and girls in Bangladesh are subjected to high prices because of the high incidence of tax, including VAT, Customs Duties (CD), Supplementary Duty (SD), Regulatory Duty (RD), and Additional Tax (AT) on imports of raw materials. The imposition of local VAT on production and sometimes sales tax is also reflected in the price of these products (WaterAid, 2019). SD on imported raw materials, such as air-laid paper, is 20 per cent. Additionally, all raw materials used in the production of sanitary napkins were subjected to 15 per cent and 5 per cent, respectively, in FY2022 (Bangladesh Customs, 2021). In the budget speech of FY2023, it was initially proposed that the VAT and SD at the local manufacturing stage for producing sanitary napkins would be exempted to ensure the health protection of women and girls (Kamal, 2021). However, such an exemption was not implemented later.

We, therefore, propose that the total tax incidence (TTI) on imported raw materials used to produce sanitary napkins and diapers should be made zero by exempting all forms of VAT, CD, SD AIT, RD and AT to ensure affordable sanitary napkins for women and girls from all levels of income. The TTI on imported sanitary napkins and diapers in FY2022 was 127.72 per cent, which we recommend be reduced to 31.93 per cent. This is equivalent to one-fourth of the existing value (Table 2.23). Given the importance of the product to women and girls, it should receive tax exemption and should not be treated like other products.

Table 2.23**Proposed tax structure on import of sanitary napkins and related raw materials**

Current tax structure in FY2024									Proposed
HS code	Product Description	CD (per cent)	SD (per cent)	VAT (per cent)	AIT (per cent)	RD (per cent)	AT (per cent)	TTI (per cent)	TTI (per cent)
96190000	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar items	25	45	15	5	3	5	127.72	31.93
48239094	Air-laid paper imported by VAT-registered sanitary napkin manufacturers	25	20	15	5	3	5	85.00	0
35052000	Glues based on starches, dextrans or other modified starches	5	0	15	5	15	5	49.00	0
35069110	Adhesives based on rubber or plastic (including artificial resins)	25	0	15	5	3	5	58.60	0
39069000	Acrylic polymers, in primary forms and other polyesters, in primary forms.	10	0	15	5	0	5	37.00	0
39199020	Performance tape or closure or side tape	25	0	15	5	0	5	55.00	0
39201020	Other plates, sheets, film, foil and ethylene imported by VAT-registered personal hygiene products manufacturing industries	25	0	15	5	3	5	58.60	0
40021100	Latex of styrene-butadiene or carboxylate styrene-butadiene rubber	5	0	15	5	0	5	31.00	0
47032100	Semi-bleached or bleached coniferous chemical wood pulp, soda	0	0	15	0	0	5	20.00	0

(Table 2.23 contd)

(Table 2.23 contd)

Current tax structure in FY2024									Proposed
HS code	Product Description	CD (per cent)	SD (per cent)	VAT (per cent)	AIT (per cent)	RD (per cent)	AT (per cent)	TTI (per cent)	TTI (per cent)
48119090	Other paper, paperboard, cellulose wadding and webs of cellulose fibres	25	0	15	5	3	5	58.60	0
54024400	Other yarn, single, untwisted or with a twist not exceeding 50 turns per metre	5	0	15	5	0	5	31.00	0
56031110	Nonwovens of man-made filaments weighing less than or equal to 25 grams per square metre	25	0	15	5	3	5	58.60	0
63079000	Made-up articles (including dress patterns)	25	0	15	5	3	5	58.60	0

Source: CPD compilation based on data from Bangladesh Customs (Bangladesh Customs, 2021).

2.6.4 Tax on medicines given Bangladesh's LDC graduation

In Bangladesh, the expenditure on pharmaceutical products and health services accounts for a large proportion of people's monthly income. The out-of-pocket spending on healthcare as a share of current health expenditure increased from 61 per cent in 2000 to 72.68 per cent in 2019 (The World Bank, 2022). Moreover, the proportion of the population pushed below the USD 1.90 poverty line due to out-of-pocket expenditure on healthcare increased from 2.84 per cent in 2005 to 6.98 per cent in 2016 (World Bank, 2021). Under the new VAT and Supplementary Duty Act 2012, the government imposed 2.4 per cent VAT on pharmaceuticals, including medicines at the local trading stage and 15 per cent on the import of pharmaceutical products and raw materials for the production of medicines (GoB, 2019). Moreover, as an LDC, Bangladesh's pharmaceutical industry is enjoying the facilities under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) pharmaceutical waiver, which exempts from obligations to enforce patents and provide data protection for pharmaceutical products. Unless Bangladesh gets an extension on the transition period of the TRIPS waiver after it graduates from the LDC group in 2026, the waiver will be withdrawn starting from 2026. So, Bangladesh will lose the LDC-specific international support measures under this agreement.

Therefore, we propose that the VAT on medicines should be exempted starting from FY2026 to ensure that medicines continue to be affordable to all, even after the loss of the TRIPS waiver in 2026. Beyond 2026, the government must implement a plan to protect the local pharmaceutical industry and help retain its competitiveness in the global market. This will also benefit people from low-income groups by allowing them to access medicines and other pharmaceutical products at an affordable price.

2.7 FISCAL POLICY FOR INCENTIVISING EDUCATION

Key Findings

1. The Eighth Five-Year Plan aimed to increase the education budget to three (3) per cent of GDP by FY2025, yet it remains under two (2) per cent of GDP in FY2024.
2. Between FY2021 and FY2022, the growth in total actual expenditure on education decreased by 12 per cent.
3. Budget utilisation for education has declined over the years, from 95 per cent in FY2019 to 87 per cent in FY2022.

Key Policy Recommendations

1. Corporate income tax on private universities, medical, dental, engineering colleges, and colleges imparting information technology education should be reduced from 15 per cent to 10 per cent in FY2025.
2. In FY2025, the VAT on tuition fees for all academic institutions, including English-medium schools, and the TTI on imported books should be exempted.
3. The budget allocation of all education stipends should be increased in FY2025.

The education budget as a share of GDP has remained stagnant during recent fiscal years. The education budget as a share of the total budget increased slightly from 10.67 per cent in RBFY2023 to 11.57 per cent in BFY2024 (MoFa 2023). The education budget as a share of GDP increased slightly from 1.59 per cent in RBFY2023 to 1.76 per cent in BFY2024 (MoFa 2023). The Eighth Five-Year Plan states that the education budget should grow from 2.0 per cent of GDP in FY2019 to 3.0 per cent of GDP by FY2025 (GED 2020). However, the education budget was only 1.76 per cent of GDP in FY2024. Bangladesh's average education expenditure as a percentage of GDP from 2016 to 2022 was the fifth lowest among 41 LDCs. On average, at least 35 LDCs spent 2 per cent or more of their GDP on education from 2016 to 2022 (The World Bank 2023). Growth in total actual expenditure on education in Bangladesh decreased by 12 per cent between FY2021 and FY2022 (MoFa 2023). In recent fiscal years, actual development expenditure has been significantly lower than actual non-development expenditure in the education sector. Development expenditure on education as a share of total expenditure on education also decreased from 34 per cent in FY2021 to 29 per cent in FY2022. Education budget utilisation has been reduced over the years, especially for development expenditure. The education budget utilisation decreased from 95 per cent in FY2019 to 87 per cent in FY2022 (MoFa 2023).

The country is now showing signs of a youth bulge, which means it is poised to reap the benefits of a demographic dividend if it can capitalise on the potential of its vast young labour force. Research has shown that each additional year of schooling increases the probability of not entering education, employment or training (NEET) status by 1.16 per cent for male youth and 1.07 per cent for female youth (Khatun and Saadat 2020). A survey of 100 major non-government employers from Bangladesh showed that 40 per cent of employers believed that their workers would need to obtain new skills within 12 months due to the advancement of technology (Khatun, et al. 2022). The ability to use technology has also been linked to greater returns in the labour market. For instance, research has shown that in Bangladesh, workers who have used computers earn 17 per cent more than workers who have not used computers (Khatun and Saadat 2021). Regrettably, in a survey of 500 young graduates of public and private universities in Bangladesh, it was found

that the average score in a basic computer literacy test was only 44 out of 100 (Khatun, et al. 2022) This suggests that education in Bangladesh fails to provide young people with the necessary skill sets to compete in the labour market.

Under these circumstances, it is necessary to increase the budget allocation and budget utilisation of the education sector and implement several fiscal measures to promote improved education and, in turn, maximise welfare for society. The following exposition proposes fiscal measures for English-medium schools, imported books, and female education stipends.

2.7.1 Removal of existing taxes on education

Education is a fundamental human right, and education should be made accessible and affordable for everyone in a country. While the government has exempted schools that follow the national curriculum, and later private universities, from paying VAT on tuition fees, the VAT on English medium schools remains at 5 per cent (NBR 2019). It is often opined that English medium education is a luxury good and that students who study in English medium schools belong to affluent families and do not stay in the country long term. Regardless of source, education is a fundamental right and should not be misconstrued as a luxury good. In their early days, English medium schools might have been suited for the privileged. However, in recent years, the dynamic has changed profusely. The number of English medium schools in Bangladesh has increased over the years. Many middle-income families are admitting their children to English medium schools to allow them to study in the international curriculum and gain a competitive edge in the labour market. Parents presumably prefer English medium education to provide their children with benefits that would not otherwise be available to them (Mousymi and Kusakabe 2017). English medium schools are privatised and not recognised as having a low tuition fee. Hence, the VAT on tuition fees of English medium schools puts an extended burden on the parents of middle-income families. Therefore, CPD recommends that the VAT on the tuition fees for all academic institutions, including English medium schools, be exempted in FY2025, and the exemption should remain in place indefinitely.

Additionally, since English medium schools follow the international curriculum, the books assigned as a part of their syllabus are all imported books written by international authors. Currently, the TTI on foreign printed books is 73.96 per cent. The total tax incidence includes 25 per cent as CD, 10 per cent as SD, 5 per cent as AIT, 15 per cent as VAT, and 3 per cent as RD. Such high duties on foreign books intended to provide children with quality education defeat the purpose of achieving SDG four, which aspires to 'ensure inclusive and equitable quality education and promote lifelong learning and opportunities for all' (UN 2015). As the syllabus is revised, parents must buy new books for their children studying in English medium schools every academic year while bearing such a high tax incidence. These further strains families' incomes, particularly those from middle-income households. Therefore, CPD recommends exempting all taxes and duties on foreign imported books in FY2025 to ensure that education remains affordable for all.

2.7.2 Reduction of corporate income tax on private universities and educational institutions

Currently, a 15 per cent corporate income tax rate applies to private universities, medical colleges, dental colleges, engineering colleges, and colleges imparting information technology education. This rate should be reduced to 10 per cent in FY2025.

2.7.3 Increase in education stipends

We propose an increase in the allocation of all education stipends to be implemented in the budget for FY2025 (Table 2.24).

Name of stipend	Current stipend structure in FY2024			Proposed stipend structure in FY2025	
	Number of beneficiaries (in crore)	Total budget allocation (in crore BDT)	Allocation per beneficiary per year (in BDT)	Total budget allocation (in crore BDT)	Allocation per beneficiary per year (in BDT)
Student stipend for primary education level	1.4	2569.24	1,835	16,800	12,000
Stipends for secondary, higher secondary and madrasah education level students	0.6003	1398.00	2,329	7,204	12,000
Stipends for undergraduate and postgraduate level students	0.013	3.36	258	234	18,000
Stipends for students of technical education institutions	0.0831	451.05	5,428	1,994	24,000
Stipends for physically challenged students	0.01	112.74	11,274	240	24,000
Stipend for improving the livelihood of transgender, Bede and disadvantaged community	0.0031	30.00	9,677	74	24,000
Total for stipend programmes	2.1095	4564.39		26,546	

Source: CPD compilation based on data from the Ministry of Finance (MoFb 2023).

Our proposed stipend reform will benefit more than two crore students at all levels and cost the government an additional BDT 26,546 crore.

2.8 FISCAL MEASURES FOR THE ENVIRONMENT

Key Findings

1. Bangladesh lacks comprehensive fiscal policies to facilitate a green transition. It offers limited tax incentives and green funds to promote sustainable production and consumption.
2. Air pollution is a significant concern in Bangladesh. According to a household survey conducted by CPD, 76 per cent of respondents attested that air pollution in Dhaka had worsened in the past 2-3 years.
3. The persistent issue of plastic waste mismanagement remains unaddressed as existing policies failed to curb the intensity of plastic pollution in Bangladesh.

Key Policy Recommendations

1. All types of equipment for renewable power plants should qualify for VAT exemptions and incentive tariffs, and a 1 per cent surcharge should be charged on goods produced through environmentally harmful means.
2. A 5 per cent to 50 per cent higher Advance Income Tax (AIT) should be added to fossil fuel-driven motor vehicles compared to the AIT on hybrid and fully electric vehicles, encouraging the consumption of green technology.
3. The 5 per cent supplementary duty on plastic bags, initially withdrawn in FY2023, should be reinstated immediately.

Bangladesh must implement green fiscal policies to tackle global warming and successfully shift towards a sustainable economy that benefits all parties involved. By incorporating externalities into pricing, aligning government expenditure with environmental goals, and generating additional revenue, these policies may contribute to achieving the desired results outlined in the Paris Agreement (UN Environment Programme 2022). Massive investments are required to fulfil global climate commitments. To achieve net-zero emissions in the energy sector alone, an estimated yearly expenditure of around USD 3.1 trillion to USD 8.2 trillion would be required from now until 2050 (Lenaerts, Tagliapietra and Wolff 2022). According to the United Nations Environment Programme, removing subsidies for fossil fuels may yield around USD 2.9 trillion year by 2022. This substantial money could be directed towards attaining global climate objectives (UN Environment Programme 2022).

Bangladesh may gain valuable insights from ongoing worldwide initiatives and endeavours to mitigate climate change. The national budget should align with the government's efforts to promote an environmentally sustainable fiscal policy. The government has a compelling motive to encourage green growth as by 2026, it will cease to be classified as a least developed country (LDC), and it further aspires to attain upper middle-income status by 2031. Consequently, due to this transition, there will be an increase in the stringency of environmental restrictions.

Bangladesh's urbanisation is experiencing a significant upward trajectory even though most of the population still resides in rural regions. Bangladesh's economy is undergoing significant structural changes as it progresses towards prosperity. Although beneficial for growth, structural change may harm the environment, including air and plastic pollution. Individuals' carbon footprints are amplified when metropolitan regions see an influx of additional people. The cumulative addition of these larger footprints may significantly impact environmental quality. The process of urbanisation in Bangladesh is linked to increased levels of greenhouse gas emissions and a rise in the average yearly temperature (Murshed and Saadat 2018). Although urban areas occupy a relatively tiny fraction of the earth's surface, they contribute about 70 per cent of the global greenhouse gas emissions. It is estimated that urban areas worldwide have the potential to suffer a loss of 44 per cent of their gross domestic product (GDP), which is equal to USD 31 trillion, as a direct result of the destruction of biodiversity and the environment (World Economic Forum 2022).

2.8.1 Alarming state of air pollution in Dhaka and other cities

Greater industrialisation results in increased urbanisation and elevated energy consumption, contributing to the escalation of carbon dioxide emissions. Air pollution is a major environmental and climate-related concern that the rise in energy use has caused. As of 26 March 2023, the

PM 2.5 concentration in the air of Bangladesh exceeded the World Health Organization's (WHO) acceptable air quality standard by a factor of 13.2 (IQAir 2022). A survey of 500 households in Dhaka conducted as part of CPD's Green Cities Initiative found that more than 76 per cent of respondents thought that air pollution in Dhaka city became much worse in the past 2 to 3 years (Khatun, et al. 2023). The CPD's Green Cities Initiative survey also revealed that, on average, individuals in Dhaka city are stuck in traffic for 46 minutes out of every 2 hours spent on the road (Khatun, et al. 2023). Being stuck in traffic for prolonged periods increased individuals' exposure to Dhaka's highly polluted air. On average, individuals in Dhaka city spent BDT 4,000 per year to diagnose and treat symptoms associated with air pollution, as revealed by the CPD Green Cities Initiative survey (Khatun, et al. 2023).

Bangladesh has committed, as stated in its Nationally Determined Contribution (NDC), to reduce its greenhouse gas (GHG) emissions by 6.73 per cent in five sectors: electricity generation, transportation, industry, waste management, and land use, by the year 2030 (Ministry of Environment, Forest and Climate Change 2021). Bangladesh intends to reduce greenhouse gas emissions by 15.12 per cent, contingent upon receiving international funding and technical assistance (Ministry of Environment, Forest and Climate Change 2021). The government of Bangladesh plans to cut transportation-related emissions by 12.30 per cent on its own by 2030 and by another 10.23 per cent with international assistance. The updated NDC specifies that Bangladesh requires a total of USD 14.6 billion to fulfil its unconditional commitment and USD 89.9 billion to fulfil its conditional obligation, respectively, in the transport sub-sector of the energy sector from 2021-2030 (MoEFCC 2021). Bangladesh must implement certain tax and regulatory policies to decrease greenhouse gas (GHG) emissions to achieve these objectives.

Bangladesh does not have certain fiscal measures that might support a green transition. Only a few tax incentives and green funds are available to promote environmentally friendly and sustainable production and consumption. The Renewable Energy Policy 2008 implemented a 15 per cent value-added tax (VAT) exemption for all renewable energy equipment and its related raw materials. Currently, SRO No. 141-Act/121/138-VAT exempts from VAT for importing and producing photovoltaic cells, solar modules, solar panels, and solar batteries with a maximum capacity of 60 Amperes. The renewable energy policy includes a provision for corporate income tax exemptions specifically for renewable energy producers. These exemptions are valid for five years and may be extended if necessary. The Finance Act of 2014 included a new surcharge to protect the environment. Nevertheless, the environment protection surcharge (EPS) has not been fully implemented (Finance Division 2020). Two Bangladesh Bank funds support the green energy transition in Bangladesh: The Refinance Scheme for banks and financial institutions and the Green Transformation Fund (GTF) for Export-oriented Industries (Bangladesh Bank 2020).

2.8.2 Plastic pollution getting out of hand

The global popularity of disposable plastic is increasing for its flexibility and low cost despite its detrimental effects on the environment and human health. Every day, 646 tonnes of plastic garbage are collected in Bangladesh, with 48 per cent sent to landfills, 37 per cent recycled, 12 per cent dumped into waterways, and 3 per cent littering urban areas (The World Bank 2021). There are 1,212 dump sites in Bangladesh that contribute between 24,032 and 36,047 tonnes of plastic waste annually to the country's rivers (The World Bank, 2021). Both plastic consumption and pollution have soared with rapid urbanisation. In metropolitan regions of Bangladesh, yearly per capita plastic use is projected to reach 9.0 kg in 2020, up from 3.0 kg in 2005. Mismanaged plastic trash in Bangladesh mainly comprises single-use items like shopping bags, packs, and wrappers (The World Bank n.d.). The plastic usage rate in Dhaka is three times greater than the

national average for metropolitan areas. The use of disposable plastics intensifies urban floods since they obstruct drainage systems. The use of single-use plastics poses significant risks to both human health and the environment. A survey of 500 households in Dhaka conducted as part of CPD's Green Cities Initiative found that 73 per cent of respondents thought plastic pollution had worsened significantly in the last 2 to 3 years (Khatun, et al. 2023). In the CPD's Green Cities Initiative survey, 57 per cent of respondents reported that their local neighbourhood exhibited extremely high levels of plastic pollution (Khatun, et al. 2023).

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

COVID-19 has led to a spike in the unsustainable manufacture of single-use plastics and synthetic materials, which have been employed to create personal protection equipment (PPE) such as body suits, masks, and face shields. There has been an alarming increase in disposable plates, cups, and cutlery usage due to concerns about the spread of disease. Between 26 March 2020 and 25 April 2020, roughly 14,165 tonnes of single-use plastic waste were produced in Bangladesh, which comprised 455 million surgical masks, 1,216 million polyethene hand gloves, 189 million surgical hand gloves and 49 million bottles of hand sanitiser (Environment and Social Development Organisation, 2020).

Bangladeshi governments have implemented numerous initiatives to address environmental challenges like pollution. The Bangladeshi authorities have already implemented measures to tackle the problem of plastic usage. In 2002, a regulatory order under the 1995 Environment Act prohibited using plastic shopping bags in Bangladesh. Nevertheless, the limitation proved futile primarily due to its lack of rigorous enforcement. The government enforced the Mandatory Jute Packaging Act in 2010, which had a moderate impact on reducing the nation's plastic use. The National 3R Strategy for Waste Management was established in 2010 to provide directives on reducing, reusing, and recycling plastic. The Eighth Five-Year Plan urged various local stakeholders, such as the Department of Environment, the Bangladesh Plastic Goods Manufacturers and Exporters Association, plastic manufacturers, research industries, and city corporations, to actively engage in implementing the Extended Producer Responsibility (EPR) Policy for plastic management. Bangladesh has pledged to achieve a 30 per cent decrease in plastic waste by 2030 as a component of its National Action Plan (The World Bank 2021). The country has set goals to lower virgin material consumption by 50 per cent by 2030. It also aims to recycle 50 per cent of all plastics by 2025, to reach a recycling rate of 80 per cent by 2030 and phasing out targeted single-use plastics by at least 90 per cent by 2026 (The World Bank 2021). The National Action Plan lays out in detail the measures and methods that will be used to achieve these objectives.

2.8.3 Budget recommendations for reducing air and plastic pollution

In light of the above, the government may adopt the following budgetary measures to minimise air and plastic pollution and support the greening of the economy:

- VAT exemption: The government should fully implement the commitments of the Renewable Energy Policy 2008. VAT exemption exists for solar panels and batteries, but there are no

exemptions for solar inverters, which are a crucial component of solar power plants. Moreover, the import duty on inverters (HS 85044090) was raised to 37 per cent in the budget of FY2022. An extensive policy considering VAT exemption on all types of equipment in a renewable power plant, especially solar power plants, should be considered from FY2025.

- Incentive tariff: According to the Renewable Energy Policy 2008, an incentive tariff can be considered for electricity generated from renewable sources. This tariff allows electricity generated from renewable sources to be priced 10 per cent lower than the highest purchase price of electricity generated from fossil fuel sources.
- Environment surcharge: The Finance Act of 2014 set a one (1) per cent surcharge on goods produced by industries polluting the environment. This environment protection surcharge should be implemented completely in FY2025.
- Phase-out fossil fuel subsidies: The government should phase out fossil fuel subsidies starting from FY2025 in line with recommendations from the IMF. Initially, all fossil fuels may be sold at the international market price, which may be updated monthly. Instead, the government can redirect the funds allocated to fossil fuel subsidies to develop green energy.
- Feed-in tariff: To promote renewable energy in Bangladesh, a formal feed-in tariff policy exclusively for renewable energy must be implemented in FY2025. Currently, an informal version of the feed-in tariff policy exists in Bangladesh. However, such a mechanism does not exclusively promote renewable energy. A clear incentive package has to be present in the policy to reach all potential renewable energy producers regardless of their generation capacity.
- To reduce air pollution originating from the transport sector, the government should reform the advance income tax (AIT) structure on private motor vehicles so that the AIT on fossil fuel-driven motor vehicles is five (5) per cent to 50 per cent higher than the AIT on hybrid and fully electric vehicles, depending on the size the vehicle's engine and electric motor (Table 2.25).

Table 2.25**Proposed advance income tax structure for the owners of private motor cars in FY2025**

Type and engine capacity or electric motor power of motor car	AIT for hybrid and fully electric vehicles (in BDT)	AIT for conventional fossil fuel vehicles (in BDT)
A car or a jeep, not exceeding 1500cc or 75kw	25,000	26,250
A car or a jeep exceeding 1500cc or 75kw but not exceeding 2000cc or 100 kW	50,000	55,000
A car or a jeep exceeding 2000cc or 100 kW but not exceeding 2500cc or 125 kW	75,000	90,000
A car or a jeep exceeding 2500cc or 125 kW but not exceeding 3000cc or 150 kW	125,000	162,500
A car or a jeep exceeding 3000cc or 150 kW but not exceeding 3500cc or 175 kW	150,000	210,000
A car or a jeep exceeding 3500cc or 175 kW	200,000	300,000
A microbus	30,000	36,000

Source: CPD compilation.

- In addition to the AIT on private motor vehicles, the government should also consider imposing an AIT on motorcycles starting in FY2025 (Table 2.26).

Table 2.26**Proposed advance income tax structure for the owners of motorcycles in FY2025**

Type and engine capacity of the motorcycle	Yearly AIT (in BDT)
A motorcycle with an engine of up to 100cc	1,500
A motorcycle with engine from 101cc to 150cc	3,000
A motorcycle with an engine above 150cc	5,000

Source: CPD compilation.

- Introducing a plastic tax: The government should consider bringing plastic products made with less than 30 per cent recycled plastic under taxation. Such a measure will encourage plastic recycling and reduce the use of virgin plastic.
- Reinstating five (5) per cent of supplementary duty on plastic bags: The five (5) per cent supplementary duty on plastic bags, which was withdrawn in FY2023, should be reinstated immediately.
- Increasing customs duty on plastic waste: The relatively low customs duty on plastic waste needs to be raised. This will raise the cost of importing plastic waste, causing plastic makers to find their raw materials domestically and boosting domestic plastic recycling.
- The budget for FY2025 should allocate additional funding for the Joint Rivers Commission to establish a bilateral plastic waste reduction initiative with India. The Government of India should also contribute to this initiative with funding and technical and logistical support to reduce plastic waste in the 54 transboundary rivers shared between Bangladesh and India.

2.9 CONCLUSION

The national budget for FY2025 will be placed at a critical juncture, as the country is currently grappling with formidable challenges in several areas. Restoring macroeconomic stability is the primary challenge facing by the policymakers, who must urgently grasp the present economic realities and swiftly identify concrete measures to address the attendant challenges. The macro-budgetary framework for FY2025 must urgently focus on curtailing inflation and stabilising the exchange rate. Instead of the GDP growth, protecting the interests of vulnerable and disadvantaged groups should take the central stage. Complementarity between the fiscal and monetary policies will need to be ensured by the Ministry of Finance and Bangladesh Bank. The government will also need to urgently focus on deep-rooted structural issues, given that the improvement in macroeconomic performance is contingent upon the solution to these issues.

The key indicators of significant stress within the Bangladesh economy are evident in the developments seen during FY2024. This is manifested in several ways, including inadequate revenue mobilisation, sluggish execution of ADP, heightened dependence on bank borrowing for deficit financing - especially from the central bank, rapidly rising prices of essential commodities, deteriorating liquidity conditions of banks, declining external sector balance, and foreign exchange reserves.

While understanding the current economic realities and designing appropriate measures are crucial initial steps, the real challenge lies in implementing these measures and executing the necessary reforms. The success of these policies in achieving their intended effects is heavily dependent on good governance and discipline. Policymakers will inevitably face tough decisions, particularly in the first year of a political government's five-year tenure. This period often presents the best opportunity to make unpopular but necessary choices.

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Chapter 3

State of the Bangladesh Economy in FY2022–23 *(First Reading)*

EXECUTIVE SUMMARY

Bangladesh's economy is facing significant challenges on both the local and international fronts, and the outlook for the near future is uncertain. While the country had begun to recover from the economic fallout of the COVID-19 pandemic, the conflict between Russia and Ukraine interrupted this recovery, exacerbating existing vulnerabilities. Global disruptions, including the rise in commodity prices, supply chain interruptions, and the tightening of monetary policies across major economies, have put immense pressure on Bangladesh's economy. Compounding these issues are domestic structural weaknesses, long-standing policy deficiencies, slow reform processes, and a failure to implement necessary domestic changes. These underlying challenges have become increasingly visible as the country grapples with rising inflation, fiscal imbalances, external weaknesses, and a fragile banking sector.

The economic strain is evident across multiple sectors. Bangladesh is contending with persistently high global prices for essential goods, a deteriorating balance of payments, tightening liquidity in the banking sector, and a weakening foreign exchange reserve. The situation has been exacerbated by the slow rate of revenue mobilisation, the high costs of essential commodities, and the large volume of non-performing loans (NPLs) within the banking system. Strikes related to the minimum wage of readymade garment (RMG) workers have further complicated the economic landscape, drawing attention from international partners who have historically been crucial to the sector's growth. Some key reforms have been delayed as elections approach, making the economic situation even more precarious. These issues underscore the urgent need for policymakers to address the current risks and challenges facing by the Bangladesh's economy.

The government's fiscal position has become increasingly strained, with revenue collection falling behind targets and public expenditure needing to be restrained. Data from the Ministry of Finance (MoF) has been slow to emerge, complicating assessments of the fiscal situation. Although the National Board of Revenue (NBR) reported a modest increase in tax collection during the early months of FY2024, the overall revenue target is unlikely to be met, particularly given the poor performance of indirect tax collection at the import level. This is largely due to regulatory measures aimed at curbing imports and the continued depreciation of the Bangladeshi Taka (BDT). Compounding these fiscal challenges is the low implementation rate of the Annual Development Programme (ADP), which reached its lowest point in five years during the July-November period of FY2024. It remains unclear whether this is due to the government's cost-cutting measures or its inability to carry out projects because of the foreign exchange crisis. The heavy reliance on non-bank borrowing to finance the budget deficit has also raised concerns, particularly as National Savings Certificate (NSC) sales have remained negative, putting additional pressure on the banking system to fill the gap.

Despite some progress, such as meeting several performance targets the International Monetary Fund (IMF) set at the end of FY2023, there are significant gaps in the government's fiscal strategy. While the IMF conditionalities focus on developing policy frameworks and strategic documents, they lack specific quality assurance criteria. Moreover, key areas, such as ensuring value for public investment, remain unaddressed. A medium- and long-term revenue strategy is being developed to enhance revenue mobilisation over the next five years. Still, its success will depend on completing ongoing reforms and improving the country's data ecosystem.

Inflation has become a persistent and growing problem, particularly for low-income households. The prices of essential goods have risen sharply in recent years, with some items costing significantly more than in neighbouring countries. While the war in Ukraine and global supply chain disruptions

have contributed to these price hikes, domestic factors, such as market distortions caused by cartels and collusion, are also to blame. Analysis shows that Bangladesh's consumer price index (CPI) and inflation rates may not fully reflect the true extent of price increases, particularly for food and other essential goods. The lack of competition in the consumer goods market and monopolistic practices have enabled price manipulation and supply control, leading to persistent price inflation. Even before the Ukraine conflict, the prices of basic staples such as rice, flour, and edible oil had steadily increased, highlighting the presence of domestic forces driving inflation.

The banking sector is also precarious, as evidenced by the rising volume of non-performing loans (NPLs) and repeated incidents of financial irregularities. News reports reveal that major financial irregularities between 2008 and 2023 amounted to more than BDT 92,261 crore, equivalent to two (2) per cent of the country's GDP in FY2023. This situation results from several systemic issues, including weak regulatory oversight, legal loopholes, and governance failures. The central bank's autonomy has been compromised by political interference, while state-owned commercial banks have consistently failed to meet capital adequacy requirements. Specialised banks are also under-capitalised, and the problem of NPLs has worsened over the last decade, with the total volume increasing more than threefold between FY2012 and FY2023. The liquidity crisis in some Islamic Shariah-based banks has further strained the banking system. These problems can largely be attributed to poor governance, regulatory failures, and a lack of transparency within the sector.

Comprehensive banking sector reforms are urgently needed to restore stability and rebuild trust in the financial system. The government should empower the central bank to act independently and in the best interest of the depositors. Transparency and accountability must be strengthened across all financial institutions, focusing on improving the availability and accuracy of financial data. A goal-specific, time-bound, and independent Citizen's Commission on Banking could play a crucial role in bringing transparency to the sector and offering credible recommendations for long-term reform.

Labour rights remain a contentious issue in Bangladesh, particularly within the RMG sector, which has long been a cornerstone of economic growth. Strikes and protests over minimum wage disputes have drawn attention from global stakeholders, who closely monitor the government's response. In light of the current high inflation and rising cost of living, there is a pressing need for the government to reassess its approach to wage regulation and labour rights protections. Ensuring fair wages and safe working conditions in this sector will contribute to social stability and maintain Bangladesh's competitiveness in global markets.

In conclusion, Bangladesh's economy is at a critical juncture. The multiple pressures of inflation, fiscal imbalances, a weakening external sector, and a troubled banking system demand immediate and coordinated policy responses. While the government has made some progress in addressing these challenges, particularly through its engagement with the IMF, much work remains to be done. Policymakers must prioritise the implementation of reforms that address structural weaknesses, improve governance, and strengthen institutional capacity. If these issues are not addressed promptly and effectively, Bangladesh risks falling into deeper economic instability, with severe consequences for its long-term development.

3.1 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 exogenous 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 faced by the Bangladesh economy. The pressure points became expressly visible through, inter alia, the 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 the fast depleting foreign exchange reserve. While the required steps have been identified and are at the forefront of policy discourse, many have been put on hold, citing the upcoming national elections as the key reason.

It must also be noted that the revision of the minimum wage for the RMG workers occurred amid the macroeconomy's disquieting trends. This was followed by considerable worker unrest and violence towards workers. The global community has taken a strong position against this and has maintained a keen interest in the issue ever since.

Against 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 public finance, inflation, banking sector, external sector and debt sustainability, and labour rights issues. The present report tracks the key trends using the latest available data from official and credible international sources. It identifies the major risks and challenges associated with the aforementioned five areas. Finally, the report offers a set of recommendations for the policymakers to consider, given the identified risks and challenges.

3.2 PUBLIC FINANCE

Key Findings

1. If the trends of the July-October FY2024 period are considered, then the overall revenue collection target for FY2024 is unlikely to be met.
2. Implementation of the Annual Development Programme (ADP) during the July-November FY2024 period was the lowest in the last five years.
3. Budget deficit financing highly depended on non-bank borrowing despite negative National Savings Certificate (NSC) sales during July-October FY2024.

Key Policy Recommendations

1. The revenue collection system should be further digitalised, making it easy to pay taxes through digital systems.
2. The government may need to restrain public expenditure to keep the budget deficit in check.
3. The data ecosystem must be improved, and data should be made transparent.

3.2.1 Brief overview of public finance scenario in FY2023

As a share of GDP, major public finance correlates were lower than the previous year

According to data from the Ministry of Finance (MoF), the revenue-Gross Domestic Product (GDP) ratio of 8.2 per cent in FY2023 fell short of the budgetary target of 9.8 per cent. Regrettably, the revenue-GDP ratio in FY2023 also declined compared to the corresponding figure for FY2022 (Table 2.1). Total public expenditure as a share of the GDP also showed a similar trend. Within the components of public expenditure, annual development programme (ADP) expenditure as a share of GDP fell by 0.4 percentage points. The budget deficit (excluding grants) reached BDT 198,059 crore in FY2023 against the target of BDT 245,064 crore. As a share of the GDP, these figures were 4.5 per cent and 5.5 per cent, respectively (Table 3.1). A similar pattern was also observed in the case of FY2022, where the budget deficit remained below its programmatic target.

Table 3.1

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

Elements	Share of GDP (per cent)				Implementation rate (per cent)	
	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: Authors calculations from the MoF and Bangladesh Bureau of Statistics (BBS) data.

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

Budget implementation slowed down

Total revenue collection recorded a 9.1 per cent growth in FY2023 (2.0 per cent in FY2022) against the target of 29.2 per cent. Most of the attained growth in FY2023 can be attributed to improved income tax and value-added tax (VAT) collection amid subdued import duty collection. Despite the higher growth in revenue mobilisation, total revenue shortfall (i.e., the gap between targeted

and actual total revenue collection) has increased in FY2023, reaching BDT 67,142 crore from BDT 53,791 crore in FY2022.¹ This implies that the implementation rate of revenue mobilisation decreased from 86.2 per cent in FY2022 to 84.5 per cent in FY2023 (Table 3.1).

The implementation rate of total public expenditure decreased to 83.2 per cent in FY2023 from 86.0 per cent in FY2022. Implementation rates for both ADP and non-ADP expenditure have slowed down. While the former declined to 77.5 per cent in FY2023 from 82.6 per cent in FY2022, the latter decreased to 86.4 per cent in FY2023 from 88.0 per cent in FY2022 (Table 2.1). In this connection, it needs to be noted that there is a discrepancy between the figures reported by the MoF and the Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning (MoP). According to the IMED data, the ADP implementation rate in FY2023 was 78.2 per cent.

Some compositional shifts were observed within the domains of public finance

The share of the National Board of Revenue (NBR) in total revenue declined in FY2023 compared to FY2022. Within public expenditure, the share of ADP expenditure fell to 33.8 per cent in FY2023 from 35.9 per cent in FY2022. The broad composition of budget deficit financing has remained largely the same in FY2023. While foreign sources financed 39.2 per cent of the budget deficit in FY2023 (36.0 per cent in FY2022), 60.8 per cent was financed through domestic sources (64.0 per cent in FY2022). However, within domestic sources, a significant shift was observed. While borrowing from the banking system constituted nearly two-thirds of the domestic borrowing in FY2022, this share reached almost 100 per cent in FY2023. Non-bank borrowing was utilised sparingly in FY2023. Indeed, the government's net borrowing from the issuance of national savings certificates, the major source of non-bank borrowing, was negative² (BDT [-] 3,347 crore) in FY2023, as opposed to the budgetary target of BDT 35,000 crore.

3.2.2 Public finance situation in the early months of FY2024 and outlook

The timely availability of data has been a major impediment to assessing the public finance situation in FY2024, as MoF data is unavailable. As of December 2023, data from the MoF, which provides the most comprehensive picture of the fiscal framework, is available only until June 2023.³ While alternative sources (e.g., the National Board of Revenue [NBR], IMED, Bangladesh Bank) provide public finance data timelier, this often comes at the cost of data accuracy and congruency (Bhattacharya et al., 2022). These limitations constrain the analyses of the present section.

According to NBR data, NBR's tax collection increased by 14.4 per cent during the July-October period of FY2024.⁴ This is a marginal increase from the corresponding figure for July-October FY2023, which stood at 14.2 per cent. The growth in the ongoing fiscal year was driven primarily by VAT and supplementary duty (SD) at the local level and income tax (Table 3.2). The higher price level prevailing in the domestic economy is perhaps pushing for collecting VAT and SD at the local level. At the same time, import compression induced by government regulatory measures has resulted in

¹In this connection, it must be mentioned that in December 2022 CPD had made a projection as regards total revenue shortfall reaching BDT 64,000 crore in FY2023 (CPD, 2022). This projected figure for FY2023 was updated to BDT 75,000 crore in March 2023 (CPD, 2023).

²This implies that the government paid back more than it borrowed.

³The June 2023 issue of the MoF's Monthly Report on Fiscal Position was published online on 28 November 2023 – indicating a lag of nearly five months.

⁴Latest NBR figures reported by the newspaper showed that the attained growth during the July-November FY2023 period was 14.3 per cent.

an underwhelming performance of indirect taxes collected at the import level despite a considerable depreciation of the Bangladeshi Taka. Given the revenue-related conditionalities imposed by the IMF, whether the pace of NBR's tax collection is adequate remains a critical question.

Table 3.2**Growth situation of tax collected by NBR during July-October FY2024**

Components	Collection (in crore BDT)			Growth (in per cent)	
	Jul-Oct FY22	Jul-Oct FY23	Jul-Oct FY24	Jul-Oct FY23	Jul-Oct FY24
A. Indirect taxes at the import and export level	26,351.8	29,936.9	32,675.8	13.6	9.1
a.1 Import duty	10,443.6	12,030.2	13,022.9	15.2	8.3
a.2 VAT at import level	13,131.6	14,575.5	16,170.3	11.0	10.9
a.3 SD at import level	2,776.0	3,328.5	3,482.6	19.9	4.6
a.4 Export duty	0.7	2.7	0.0	303.0	-99.6
B. Indirect taxes at the local level	29,395.9	34,197.1	40,048.9	16.3	17.1
b.1 Excise duty	222.1	5,194.4	605.3	2,239.3	-88.3
b.2 VAT at local level	19,880.1	19,926.8	27,993.8	0.2	40.5
b.3 SD at the local level	9,061.4	8,800.9	11,148.5	-2.9	26.7
b.4 Turnover tax	0.3	0.1	0.4	-55.6	191.7
b.5 Others	232.2	274.9	300.9	18.4	9.4
C. Income and travel tax	23,874.8	26,783.5	31,259.2	12.2	16.7
c.1 Income tax	23,745.0	26,339.1	30,640.0	10.9	16.3
c.2 Travel tax	129.7	444.5	619.2	242.6	39.3
Total NBR revenue (a+b+c)	79,622.5	90,917.5	103,983.8	14.2	14.4

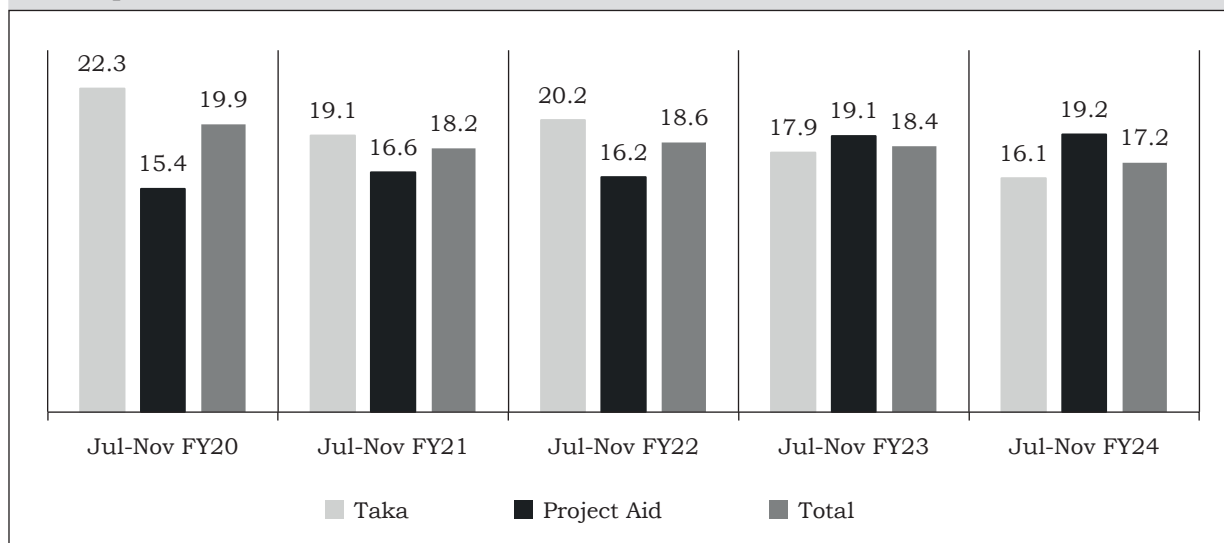
Source: Authors' calculation from NBR data.

As the IMED data shows, the implementation rate of the ADP was 17.2 per cent during the July-November period of FY2024. This implementation rate was the lowest in the last five years (Figure 3.1) owing to the sluggish utilisation of the 'Taka' component (i.e., the part of ADP financed by domestic resources). In this context, the crucial question is whether this resulted from the government's cost-cutting efforts or the inability to carry out projects due to the foreign exchange crisis. On a positive note, within the components of ADP, project aid utilisation (19.2 per cent) was the highest in the last five years. This is particularly praiseworthy given the ongoing foreign currency situation.⁵

Six of the top 10 ministries/divisions, constituting 70.2 per cent of the ADP allocation for FY2024, could not use their respective allocations at the average level. These include the Road Transport and Highways Division, Secondary and Higher Education Division, Ministry of Science and Technology, Health Services Division, Ministry of Primary and Mass Education, and Ministry of Water Transport.

As per Bangladesh Bank data, budget deficit financing during the July-October FY2024 period was overwhelmingly dependent on non-bank borrowing. Non-bank borrowing increased substantially

⁵Curiously, it is not reflected in the foreign aid receipt data (up to October 2023) report by Bangladesh Bank and Economic Relations Division (ERD).

Figure 3.1**ADP implementation rate***(in per cent)*

Source: Authors' calculations from IMED data.

from BDT 2,749 crore during July-October FY2023 to BDT 12,167 crore during July-October FY2024. The net sale of national savings certificates (NSCs) was negative to the tune of BDT (-) 2,305 crore during the July-October period of FY2024. Net foreign financing decreased by 24.8 per cent to BDT 10,566 crore during the period under review.

The outlook for the rest of the months suggests that the revenue collection target for FY2023 is unlikely to be met. The IMF has already slashed the target for tax collection for FY2024 by more than BDT 55,000 crore while setting the corresponding indicative target compared to the programmed national budget target. Consequently, public expenditure must be restrained to keep the budget deficit in check. More importantly, non-bank borrowing will likely be well below target as NSD sales may continue sub-par owing to lower savings with people and creeping interest rates for bank deposits. Hence, bank borrowing will be under pressure to service the budget deficit. Given 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. Hence, the government may need to continue a restrained fiscal approach to maintain discipline in the macroeconomic management.

3.2.3 Progress on IMF conditionalities concerning public finance

As part of the IMF conditionalities, Bangladesh must meet several performance criteria (PC), indicative targets (ITs), structural benchmarks (SBs), and reform measures (RMs) in a time-bound manner. Besides these, several related policy recommendations were suggested by the IMF. At the end of FY2023 (i.e., June 2023), Bangladesh could meet the PC on primary balance as public expenditure slowed. The continuous PC regarding external payments arrears was also met. While the IT on tax revenue mobilisation was missed, the targets on priority social spending and capital spending for the end of June 2023 were attained. The SB of MoF adopting tax revenue measures yielding an additional 0.5 per cent of GDP in the FY2024 budget was also met (IMF, 2023).

Bangladesh must meet several PCs, ITs, and SBs and implement policy recommendations during FY2024. Table 3.3 summarises these.

Table 3.3**IMF conditionalities concerning public finance relevant for FY2024**

Conditionalities	Comments
Floor on primary balance (PC) As of December 2023: BDT (-) 905.2 billion As of June 2024: BDT (-) 1,383.6 billion	Given the revised economic outlook, the December 2023 target of BDT (-) 1,141.1 billion has been adjusted, and policy measures have already been taken.
The floor on tax revenue (IT) As of December 2023: BDT 1,436.4 billion As of June 2024: BDT 3,945.3 billion	If the June 2024 target is to be met, tax revenue collection must increase by 20.4 per cent. For this to happen, tax collected by NBR will need to grow by 22.6 per cent during the November-June period of FY2024 (according to NBR data) - a feat improbable to be achieved.
Floor on priority social spending of the Government of Bangladesh (IT) As of December 2023: BDT 309.9 billion As of June 2024: BDT 1,449.5 billion	Priority social spending (domestically financed) will need to increase by 15.9 per cent if the June 2024 target is to be met.
Floor on capital investment undertaken by the Government of Bangladesh (IT) As of December 2023: BDT 222.8 billion As of June 2024: BDT 1,445.4 billion	Capital investment (domestically financed) will need to increase by 16.9 per cent if the June 2024 target is to be achieved.
NBR staffs Compliance Risk Management Units (CRMUs) in the customs and VAT wings (SB) By December 2023	NBR's customs wing has staffed a CRMU; another is being established in the VAT wing's Audit and Intelligence Directorate.
MoF reports tax expenditures for PIT, CIT and VAT as part of the FY25 budget (SB) By June 2024	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. The analysis will 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) By June 2024	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 ¼ of total net domestic financing by FY26 (SB) By December 2023	Net NSC issuance entered negative territory in FY2023 due to regulatory measures and a cost-of-living squeeze. The government has developed a formal plan to keep net NSC issuance below one-fourth of net domestic financing by FY2026.
Government to adopt a periodic formula-based price adjustment mechanism for petroleum products (SB) By December 2023	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 remaining outside the TSA and on the sequencing of TSA enhancements (SB) By December 2023	MoF is conducting a census of all bank accounts held by central government institutional units outside the TSA. It will develop a policy note to guide decisions on the integration and sequencing of TSA enhancements.

(Table 3.3 contd)

(Table 3.3 contd)

Conditionality	Comments
MoF publishes an updated Medium Term Debt Management Strategy (MTDMS) covering FY25-FY27 (SB) By June 2024	With technical assistance from the IMF, the government will update the MTDS annually, starting with a third MTDS covering FY2025 to FY2027. It will complement this with a quarterly debt bulletin and an annual borrowing plan.
Government to adopt a National Disaster Risk Financing Strategy while integrating social assistance measures (RM) By June 2024	The government will develop a National Disaster Risk Financing strategy integrating 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 for improving 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 FY2021-2026. The Universal Pension Scheme (UPS) was officially launched on August 17, 2023.
Publish fiscal risk statement covering major risks from state-owned enterprise (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 Public-private partnerships (PPPs), as well as quantitative analysis of macro-fiscal risks related to climate change and natural disasters.

Source: Authors' compilation from IMF (2023).

Among the conditionalities set by the IMF concerning public finance, most of the SBs are related to strategy/plan documents and policy notes, which are 'relatively easy to meet'. Regrettably, the IMF document does not adequately specify the quality assurance aspects of these documents. The plan to reduce dependence on NSCs goes well with the present dynamics. The IT regarding tax revenue mobilisation is likely to be missed by the end of FY2024 and may have a negative impact on maintaining the PC on the primary balance unless the public expenditure is adequately downsized. Hence, missing the target related to tax collection might adversely affect the ITs on priority social spending and capital investment, as emphasising such public expenditure would require incremental revenue. Some 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.

3.2.4 Recommendations for the upcoming medium and long-term revenue strategy

The revenue-GDP ratio is arguably the most disappointing indicator in the context of Bangladesh's development trajectory. The key challenges in this context are the inability to implement the planned reforms promptly, establish good governance, and improve tax administration. The government has recently implemented long-overdue reforms to secure the IMF loan, sometimes without adequate stakeholder discussions. A medium-and long-term revenue strategy (MLTRS) is currently being developed and is expected to chart a pathway to enhance revenue collection over the next five years or so. The strategy is expected to be adopted by June 2024. The strategy will be a successor to many such past strategies, including the previous NBR modernisation plan, Customs Modernization Strategic Action Plan 2019-2022, VAT Improvement Program (VIP) 2015-2021 and ongoing Public Finance Management (PFM) Reform Action 2024-2028. The strategy should take the following recommendations into cognisance.

First, the strategy must prioritise the unfinished agenda, including the actions required to operationalise the aforesaid reforms (e.g., installing electronic fiscal devices, enhancing the number of registered taxpayers and promoting digital methods such as e-TDS, e-return, e-BIN, iVAS, VAT Calculator, e-payment, A-Challan, etc.). The stakeholders' concerns regarding the latest reforms, including the Income Tax Act 2023 and the Customs Act 2023, should be discussed for further professional scrutiny involving multi-stakeholders. Similarly, revisiting the prevailing tax exemptions through detailed data analysis should be high on the agenda to ensure policy predictability.

Second, the strategy needs to recognise the frontier taxation issues in Bangladesh, such as meaningfully taxing property and wealth and the expanding digital economy. CPD has recently undertaken two studies (Bhattacharya, 2023; Rahman, 2023) in these areas. The recommendations in these studies can benefit the formulation of the MLTRS.

Third, improving the data ecosystem should be at the heart of the new strategy. Data constraints present challenges in addressing tax evasion and estimating tax expenditures and exemptions. Hence, the issue of data interoperability, not only within an agency such as NBR but also across regulatory agencies, should be taken into cognisance. The strategy concerning revenue data should be linked with other aspects of PFM, including public expenditures and debt management.

Fourth, the strategy should uphold the curbing illicit financial flow (IFF) agenda. The tax authorities have often undermined IFF at the operational level. The National Strategy for Preventing Money Laundering and Combating Financing of Terrorism was last formulated from 2019 to 2021, with the Bangladesh Financial Intelligence Unit (BFIU) being the coordinating agency, which identified 11 strategies and 137 action items involving dozens of regulatory agencies. The first identified strategy was addressing IFF, where NBR was recognised as a key agency. It needs to recognise that many of the actions planned under the strategy were not fully implemented. The MLTRS must revitalise and upgrade these actions, taking an appropriate multi-agency approach.

Fifth, the strategy should focus on digitalising the entire revenue system. Digitalisation has been recognised as a priority reform agenda for some time now.⁶ Regrettably, the progress has remained less than satisfactory. Technological upgrades in tax administration are critical to this end. The digitalisation process should also be sustainable, considering the required flexibility and putting adequate resources—both financial and human resources.

Sixth, the scope of the MLTRS should be adequately defined. NBR is in the driving seat in developing the strategy. However, a comprehensive revenue strategy should recognise the role of other sources and agencies beyond NBR's remit. This includes government agencies, state-owned enterprises and local government entities.

Seventh, two sets of evidence and learnings should inform the MLTRS formulation process. While revenue mobilisation is the strategy's primary objective, the economy-wide implications and equity concerns should not be undermined. Also, an assessment of past reform initiatives that identifies the reasons behind lacklustre progress and learnings for the present strategies should accompany the MLTRS.

⁶CPD is currently conducting a study on 'The Digitalisation of the Taxation System in Bangladesh' with a view to reviewing the progress of current digitalisation efforts (e.g., investments in digital infrastructure, reforms, and development of hardware and software) and identifying challenges encountered and proposals for future plans and strategies.

Finally, the entire strategy development process should be carried out with openness and transparency. The concerns of all stakeholders should be taken into consideration and addressed. It may be assumed that the strategy will trace out a time-bound action plan where the roles of the involved agencies are well identified, and the monitoring mechanism and accountability process should also be clearly stated. The adoption of this strategy will indeed require political buy-in not only from high-level policymaking but also from the operational level. Besides developing MLRTS, the government should review public expenditure, particularly considering the high cost of public investment projects and formulate a strategy to ensure value for public money.

3.3 HIGH PRICES – THE CAUSE OF SORROW AND SUFFERING

Key Findings

1. The consumer price index and inflation rate do not adequately reflect the rapidly rising prices of essential items.
2. Over the last five years, the prices of essential goods have increased relentlessly, causing immense suffering for ordinary people.
3. Prices of several essential items in Bangladesh have been consistently higher than in other countries, indicating that the causes of inflation may be domestic and may include market distortion by cartels or through collusion.

Key Policy Recommendations

1. The Bangladesh Competition Commission's role in the essential consumer goods market should be significantly strengthened, and the Competition Act 2012 should be revised to address monopolies.
2. Given the high cost of living, the minimum wage board should consider increasing it in all industries.
3. The government should enhance social protection for low-income families to help them survive high prices.

The rising prices of essential goods have become a prominent concern in Bangladesh, attracting considerable attention from policymakers and the public. The primary problem faced by Bangladesh's economy in recent times is the discernible upward trajectory of prices for essential goods. Bangladesh is undergoing a period of heightened inflationary pressure, a phenomenon that commenced before the onset of the Ukraine crisis. In recent times, Bangladesh has experienced significant movements in energy prices, thereby intensifying the existing predicament. 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. It has been observed that several essential commodities, whether domestically produced or imported from more economically advanced nations, tend to have higher prices in Bangladesh compared to other countries in the developing or developed category. As the cost of goods and services rises, lower-income households face significant challenges in effectively managing their financial obligations. Numerous households, encompassing individuals employed across various industries and earning minimum wages, encounter substantial challenges in achieving financial stability.

Inflationary pressure is associated with adverse outcomes for various stakeholder groups. The escalation of prices of essential commodities in Bangladesh has elicited considerable concern

among the general populace, who experience the impact of these fluctuations in their dual roles as consumers and producers. The persistent upward trajectory of prices has been observed to have a noticeable effect on the actual purchasing power of consumers, specifically those who fall within the low-income segment of the population. It has been observed that households characterised by low-income levels tend to allocate a significant proportion of their overall income towards purchasing food items. Consequently, these households often encounter a more pronounced impact of inflation than households from higher-income brackets. Bangladesh's ongoing cost of living crisis has had detrimental effects on individuals with fixed and flexible incomes. Due to the upward trajectory of the cost associated with the consumption basket, producers have been confronted with pressure from their workers for increased remuneration in the form of higher wages and salaries.

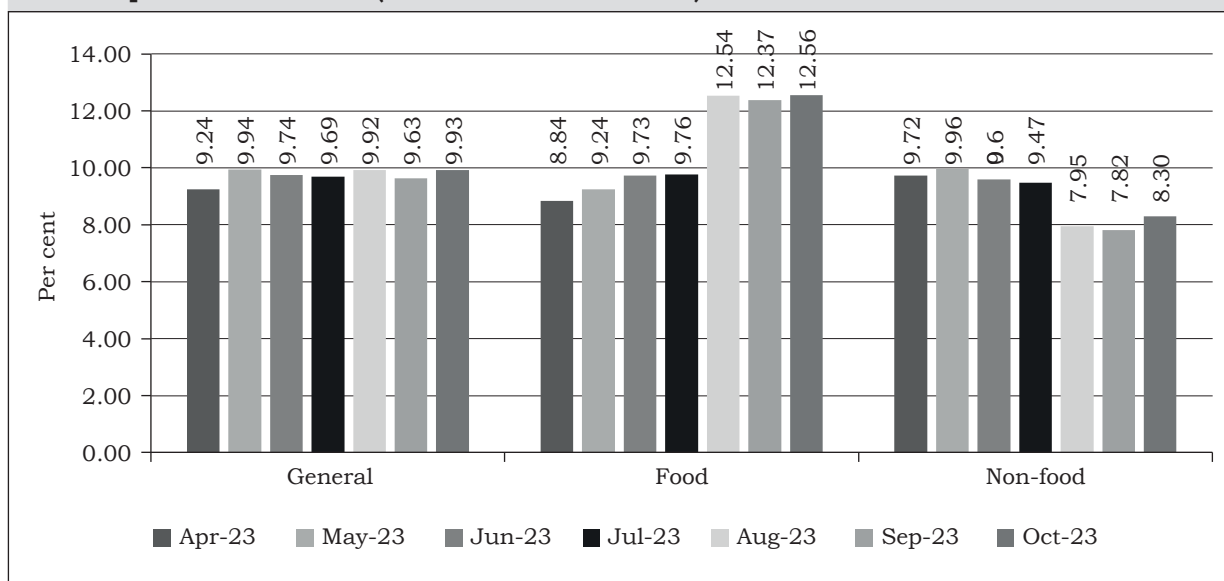
The impact of high energy prices on inflation in Bangladesh is a significant area of concern that warrants further investigation. The magnitude of capacity payments disbursed to independent power producers (IPPs), encompassing rental and quick rental power plants, has experienced a significant escalation. The government's apparent objective has been to generate revenue by increasing energy prices for consumers and producers. The pressure by the IMF to eliminate subsidies is concurrently compelling the government to raise energy prices during a period characterised by an already high cost of living. Energy price escalation has been observed multiple times after 2021, exerting a notable influence on the overall inflationary tendencies. The current state of natural gas availability, which serves as a crucial energy source for power generation, has been characterised by a notable scarcity. This scarcity can be attributed to the gradual reduction in domestic supply levels. The existing deficit has been mitigated through increased importation of liquefied natural gas (LNG) to meet the unfulfilled demand. The power and energy sectors in the country have experienced a notable lack of public investment despite the presence of geological surveys that have indicated the potential for gas discoveries.

Policymakers persist in attributing the rise in prices to external factors, specifically the high import prices of essential commodities. The current trajectory of global prices has consistently declined over the past few months. Therefore, it can be concluded that the inflation in Bangladesh is no longer solely attributable to high import costs. There has been a persistent escalation of prices for domestically manufactured goods despite abundant local production. The actions of market manipulators, who have deliberately induced a supply crisis and the apparent lack of efficacy in policy interventions, have resulted in adverse consequences for the general public. This is particularly evident in the stagnation of wages, which have failed to keep pace with the rising inflationary pressures. This section presents an overview of the recent trends in inflation in the country and proposes a few policy recommendations to rectify the situation.

3.3.1 The new CPI base does not adequately reflect the rapidly rising prices

In the new base index, where the consumer price index (CPI) in 2021-22 is assumed to be 100, there is currently data available for point-to-point inflation rates for the general inflation rate, food inflation rate, and non-food inflation rate over seven months from April 2023 to October 2023 (Figure 3.2).

In April 2023, the general inflation rate was 9.24 per cent, with food inflation slightly lower at 8.84 per cent and non-food inflation at 9.72 per cent. In May 2023, the general inflation rate significantly increased, reaching 9.94 per cent. Both food and non-food inflation also experienced upward trends at 9.24 per cent and 9.96 per cent, respectively.

Figure 3.2**Point-to-point inflation rate (Base Index 2021-22=100)**

Source: Authors' illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023).

June 2023 saw a slight dip in the general inflation rate to 9.74 per cent, while food and non-food inflation rates remained relatively stable at 9.73 per cent and 9.6 per cent, respectively. In July 2023, the general inflation rate further decreased to 9.69 per cent, with food and non-food inflation rates showing similar trends at 9.76 per cent and 9.47 per cent, respectively.

However, August 2023 saw a significant spike in the general inflation rate, reaching 9.92 per cent, primarily driven by a substantial increase in the food inflation rate, which soared to 12.54 per cent. Non-food inflation, on the other hand, decreased to 7.95 per cent. This trend persisted into September 2023, with the general inflation rate at 9.63 per cent, food inflation at 12.37 per cent, and non-food inflation at 7.82 per cent.

In October 2023, the general inflation rate again increased to 9.93 per cent, with food and non-food inflation rates showing upward movements at 12.56 per cent and 8.3 per cent, respectively.

The data indicates fluctuations in inflation rates over the specified period, with notable increases in the general and food inflation rates during certain months, while the non-food inflation rate exhibited more moderate variations. High inflation rates hovering around the 10 per cent 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.

3.3.2 Apprehensions about cartels and collusion

In economics, essential commodities are usually considered interchangeable with the same or similar items. In this case, the producers of these goods have little control over the price and cannot significantly influence the product's market price. Nevertheless, Bangladesh's marketing and distribution system for essential goods is complex and diverse. The lack of competition in the market for essential goods enables the practice of collusion. There is a scarcity of wholesalers

for many items manufactured inside the country, yet many retailers exist because of various intermediaries. Given this backdrop, concerns of cartels, acts of sabotage, and hoarding were sometimes voiced, although verifying such allegations is typically tricky. There are concerns about possible barriers to entry for some participants in the value chain.

Within the essential goods market, there is a significant concentration of market power, which a small group of firms mostly holds. This situation may potentially result in anti-competitive behaviour, such as price manipulation, control over market supply, and purposeful creation of scarcity by hoarding products to make excessive profits. This might be accomplished by using highly structured cartels or, at the very least, some unspoken agreement.

The market is characterised by a diversified distribution of market power, resulting in a complex interaction and interdependence among the participants. For example, when there are just a few importers of specific commodities, there is potential for oligopolistic behaviour among those importers. Comprehending the economic factors that drive the activities of market intermediaries in the value chain of essential goods is crucial since these intermediaries substantially influence the final retail price. An immediate need exists to thoroughly examine the process of monitoring and analysing price fluctuations for a specific group of goods throughout the entire product life cycle. This examination should involve identifying the factors contributing to price increases, scrutinising the behaviour of the various actors involved in the product value chain, and formulating policy interventions to address the associated issues through remedial actions. Regrettably, neither the BBS nor the Competition Commission has undertaken recent research on the persistent escalation of prices of goods.

3.3.3 Trends in prices of essential food items over the five years 2019-2023

Analysis of the average daily prices of different varieties of rice in Dhaka over the period 1 January 2019 to 20 December 2023 shows that the average prices of Miniket, Pijam, and Coarse rice have increased noticeably over time (Figure 3.2). For instance, the average price of Miniket rice increased by 12 per cent from BDT 58 per kg to BDT 65 per kg, the average price of Pijam rice increased by 9 per cent from BDT 48 per kg to BDT 53 per kg, and the average price of Coarse rice increased by 23 per cent from BDT 40 per kg to BDT 49 per kg, between 1 January 2019 to 20 December 2023 (Figure 3.3).

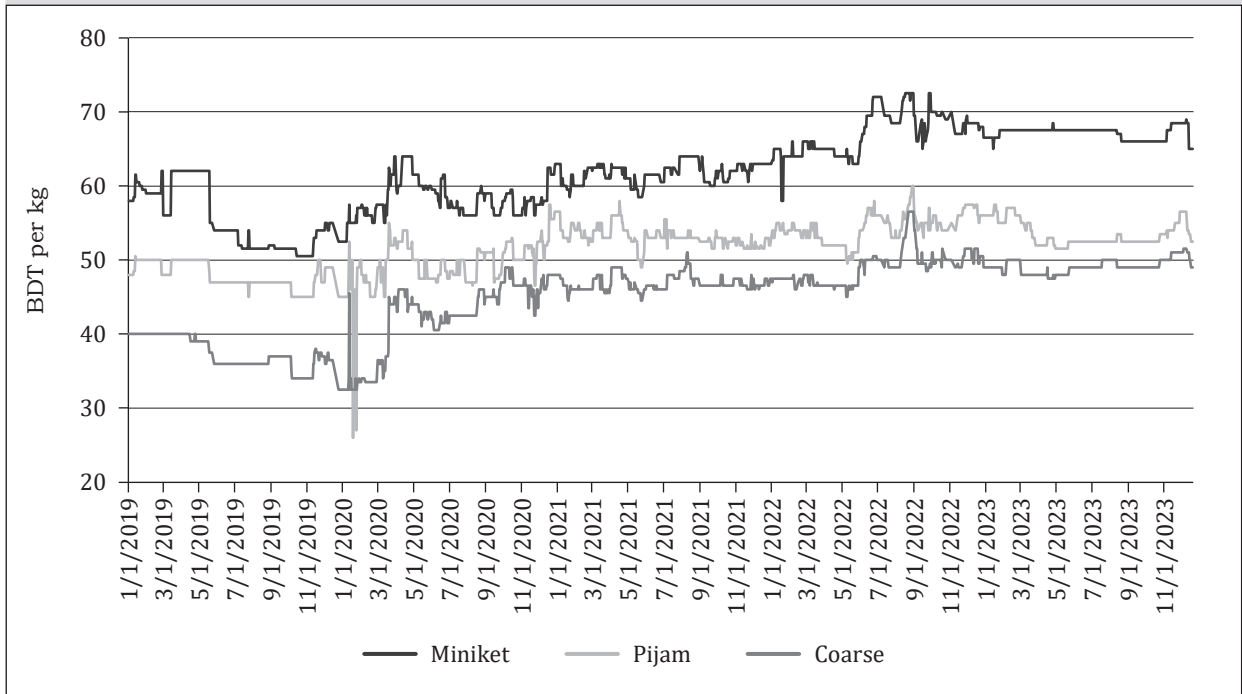
In its earlier reports, CPD showed that the price of three common types of rice in Dhaka has been consistently higher than that of Thai and Vietnamese rice. Previous research has shown that in Bangladesh, in the event of a rise in the wholesale price of rice, consumers are subjected to an immediate increase in the retail price. In contrast, in the event of a decline in the wholesale price of rice, consumers do not experience a corresponding reduction in the retail price (Rahman, Bhattacharya, Shadat, & Deb, 2008).

The price of dal, or lentils, another staple food in the Bangladeshi diet, has also increased over the years. Figure 3.4 shows that the average price of Moshuri dal (big) increased by 95 per cent from BDT 55 to BDT 108, the average price of Moshuri dal (medium) increased by 96 per cent from BDT 63 to BDT 123, and the average price of Moshuri dal (small) increased by 56 per cent from BDT 85 to BDT 133 from 1 January 2019 to 20 December 2023.

Figures 3.5 and 3.6 show that the prices of unprocessed flour (Aata) and processed flour (Maida) increased in Dhaka before the start of the conflict in Ukraine. This indicates that there may be other domestic causes of the increase in the prices of unprocessed flour (Aata) and processed flour

Figure 3.3

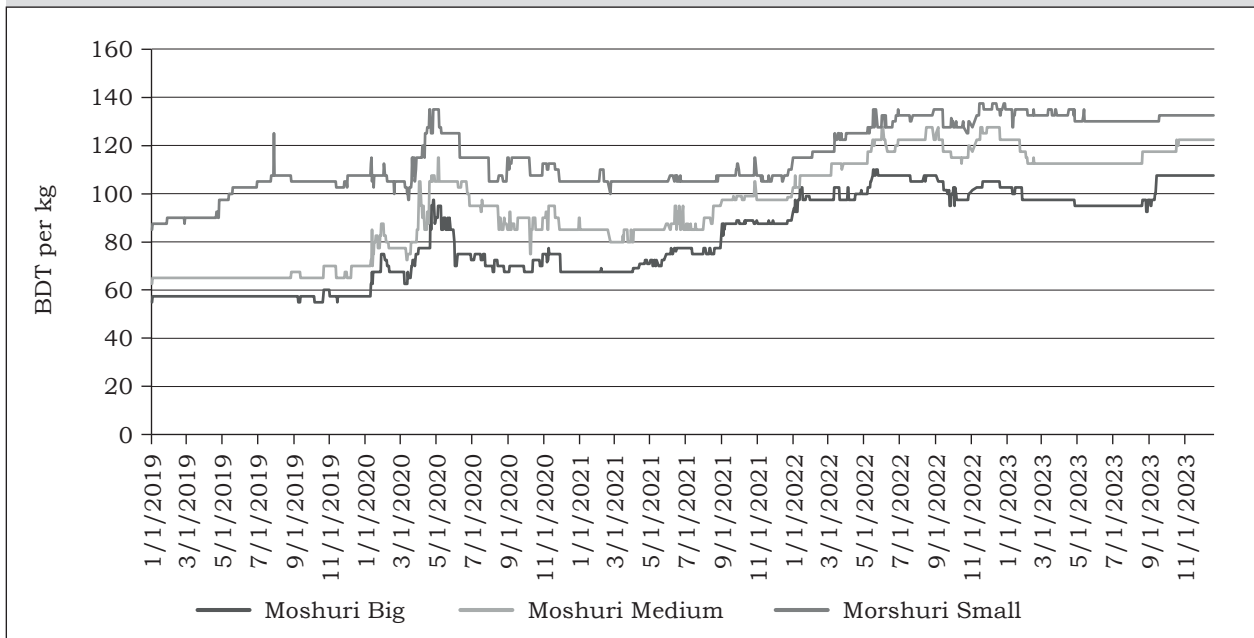
Average daily price of rice in Dhaka from 1 January 2019 to 20 December 2023



Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Figure 3.4

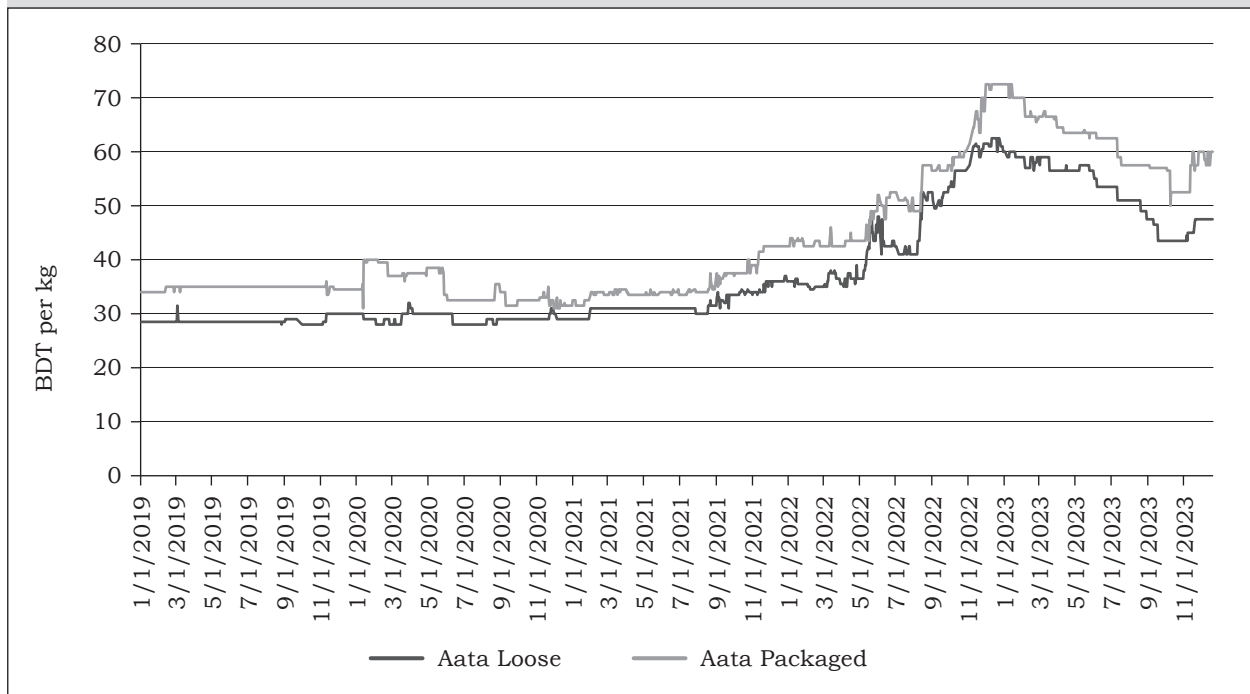
Average daily price of dal (lentils) in Dhaka from 1 January 2019 to 20 December 2023



Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Figure 3.5

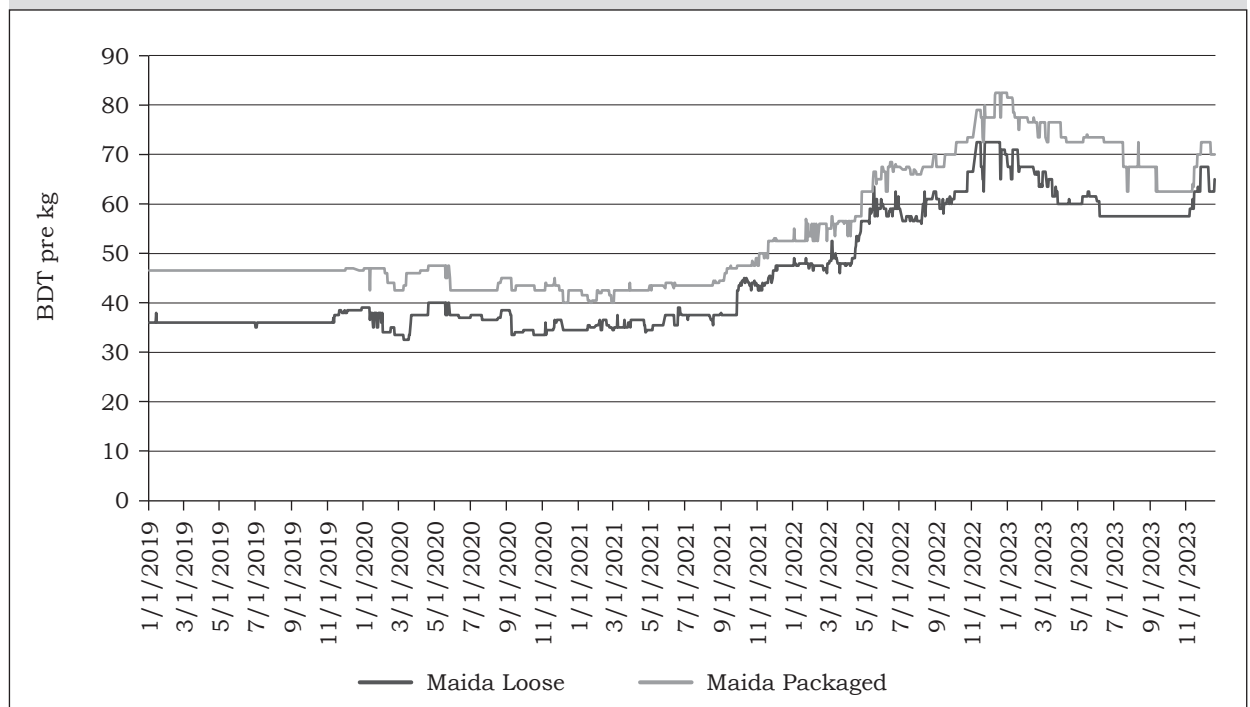
Average daily price of unprocessed flour (Aata) in Dhaka from 1 January 2019 to 20 December 2023



Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Figure 3.6

Average daily price of processed flour (Maida) in Dhaka from 1 January 2019 to 20 December 2023



Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

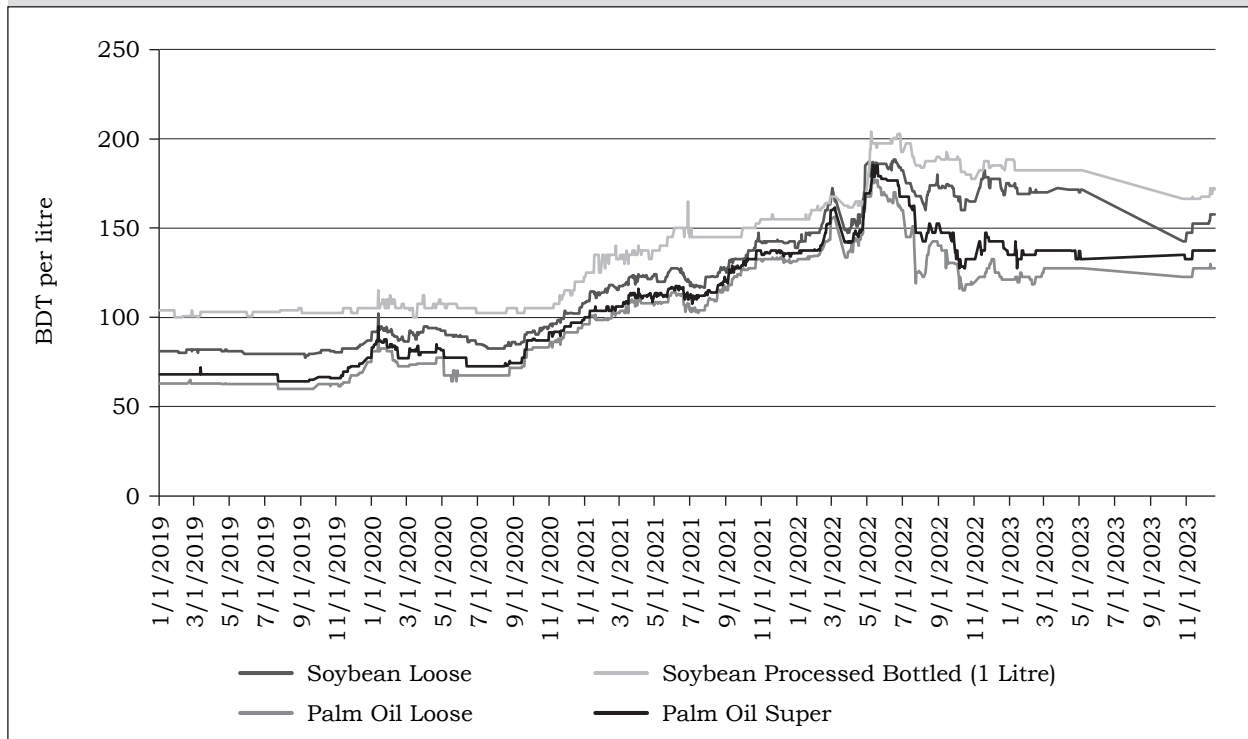
(Maida), which warrant a comprehensive investigation by the Bangladesh Competition Commission. The data shows that the average price of loose unprocessed flour (Aata) increased by 67 per cent from BDT 29 per kg to BDT 48 per kg. The average price of packaged unprocessed flour (Aata) increased by 76 per cent from BDT 34 per kg to BDT 60 per kg from 1 January 2019 to 20 December 2023 (Figure 3.5). On the other hand, the average price of loose processed flour (Maida) increased by 81 per cent from BDT 36 per kg to BDT 65 per kg, and the average price of packaged processed flour (Maida) increased by 51 per cent from BDT 47 per kg to BDT 70 per kg, from 1 January 2019 to 20 December 2023 (Figure 3.6).

Figure 3.7 shows that the price of edible oil started increasing in Dhaka before the conflict in Ukraine began. This indicates that there may be other domestic causes of the increase in the price of edible oil, which warrants a comprehensive investigation by the Bangladesh Competition Commission. The data shows that the average price of loose soybean oil increased by 94 per cent from BDT 81 per litre to BDT 158 per litre, and the average price of bottled soybean oil increased by 65 per cent from BDT 104 per litre to BDT 172 per litre from 1 January 2019 to 20 December 2023 (Figure 3.6). On the other hand, the average price of loose palm oil increased by 102 per cent from BDT 63 per litre to BDT 128 per litre, and the average price of palm oil super increased by 102 per cent from BDT 68 per litre to BDT 138 per litre, from 1 January 2019 to 20 December 2023 (Figure 3.7).

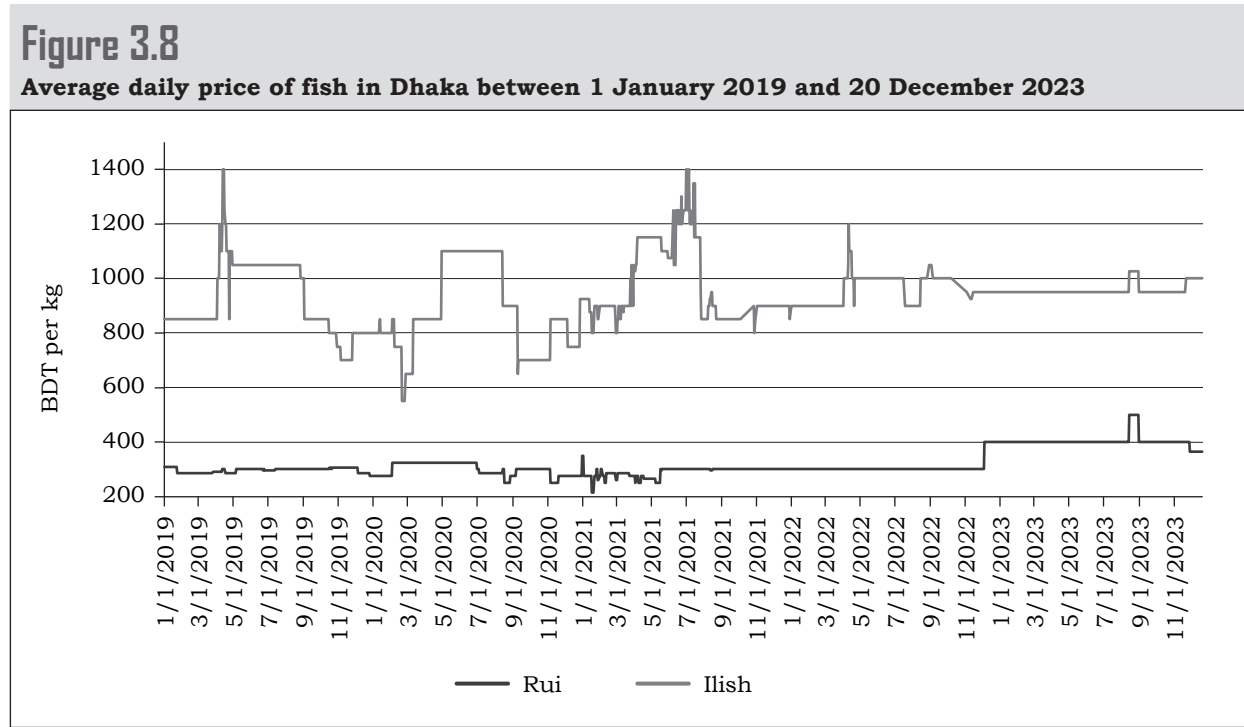
CPD reports have previously shown that soybean oil prices have been consistently higher in Bangladesh than in the world market from January 2019 to October 2022. As of October 2023, the price of soybean oil in the world market was BDT 125 per litre, which was lower than the prevailing price in the Bangladesh market at the same time (World Bank, 2022).

Figure 3.7

Average daily price of edible oil in Dhaka between 1 January 2019 and 20 December 2023



Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).



Source: Authors’ illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

The price of common types of fish, such as Rui and Ilish (Hilsha), has increased over the past five years. The data shows that the average price of Rui fish increased by 18 per cent from BDT 310 per kg to BDT 365 per kg, and the average price of Ilish (Hilsha) fish increased by 18 per cent from BDT 850 per kg to BDT 1000 per kg from 1 January 2019 to 20 December 2023 (Figure 3.8).

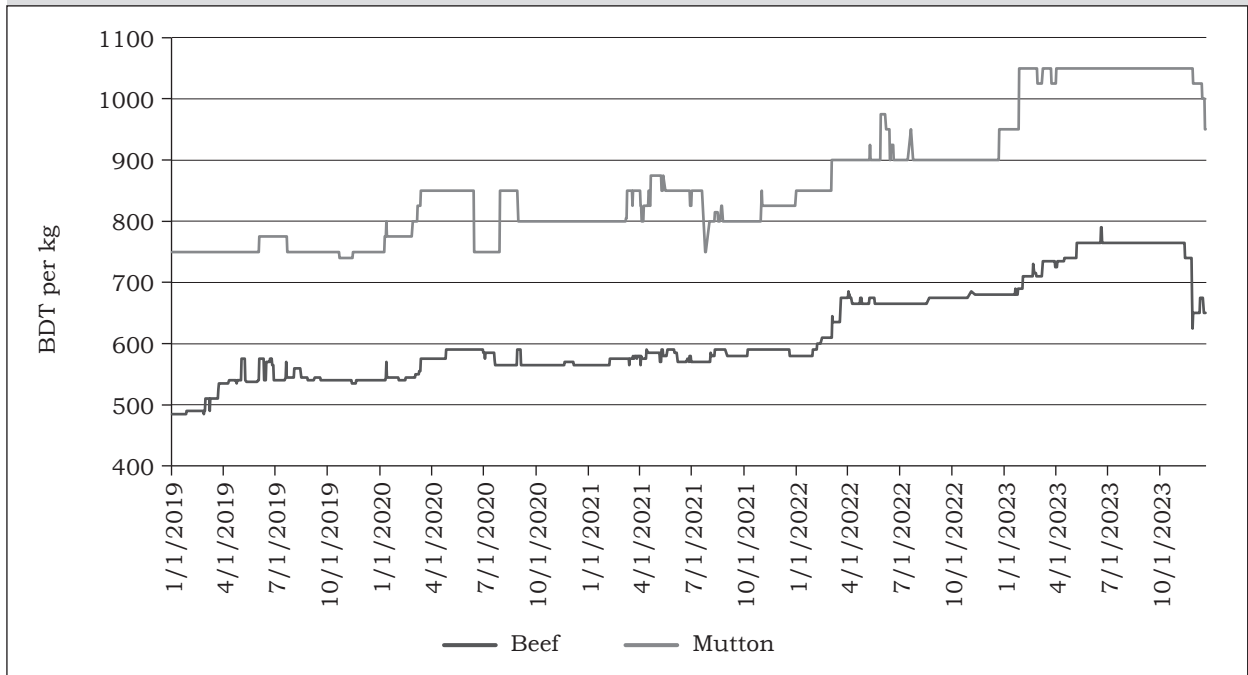
The price of beef and mutton has skyrocketed in Dhaka over the past few years, almost elevating the status of these basic food items from essential goods to luxury goods. The data shows that the average price of beef increased by 34 per cent from BDT 485 per kg to BDT 650 per kg, and the average price of mutton increased by 27 per cent from BDT 750 per kg to BDT 950 per kg from 1 January 2019 to 20 December 2023 (Figure 3.9).

A comparison of the price of beef in Bangladesh and the world market shows that the price of beef has been consistently higher in Bangladesh than in the world market from January 2019 to October 2022. For instance, in October 2022, the price of beef was BDT 528 per kg in the world market but BDT 718 per kg in Bangladesh. Moreover, the price of beef in the world market fell from June 2022 to October 2022, but the price of beef in Bangladesh increased during the same time (World Bank, 2022). 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 (World Bank, 2022).

The price of chicken has also increased over the past five years. The data shows that the average price of broiler chicken has risen by 33 per cent from BDT 135 to BDT 180, and the average price of local chicken has increased by 34 per cent from BDT 410 to BDT 550 from 1 January 2019 to 20 December 2023 (Figure 3.10).

Figure 3.9

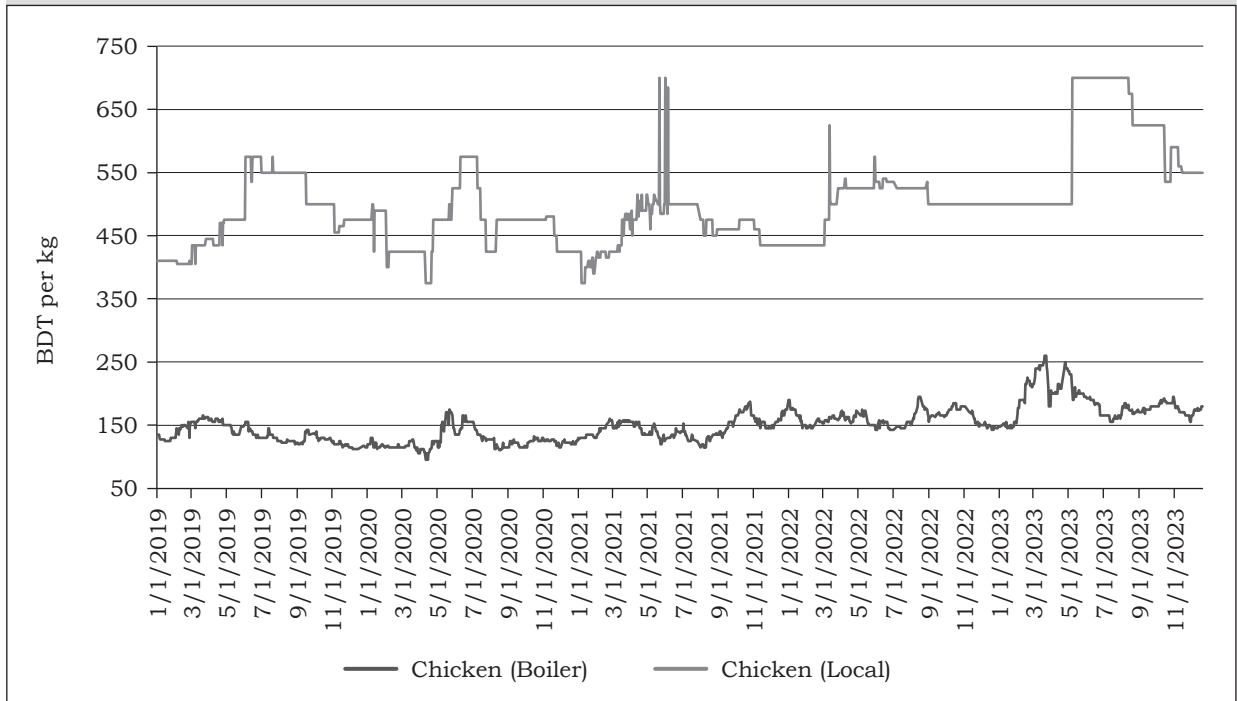
Average daily price of beef and mutton in Dhaka between 1 January 2019 and 20 December 2023



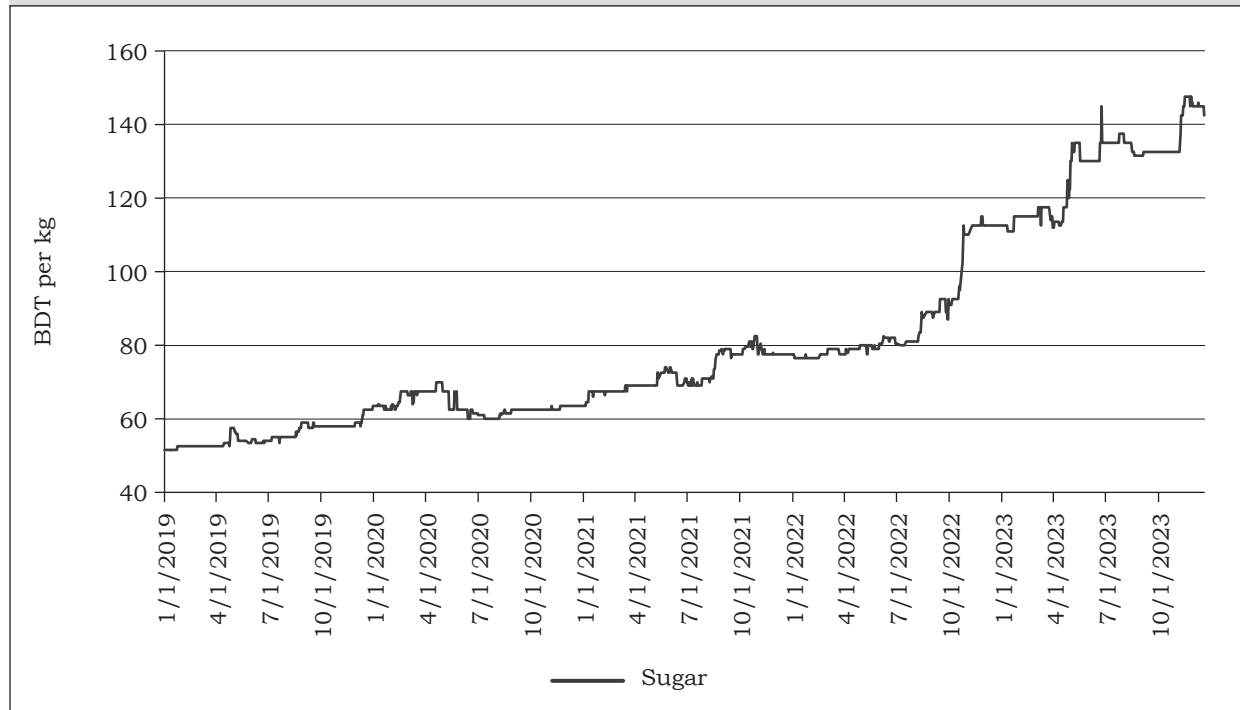
Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Figure 3.10

Average daily price of chicken in Dhaka between 1 January 2019 and 20 December 2023



Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

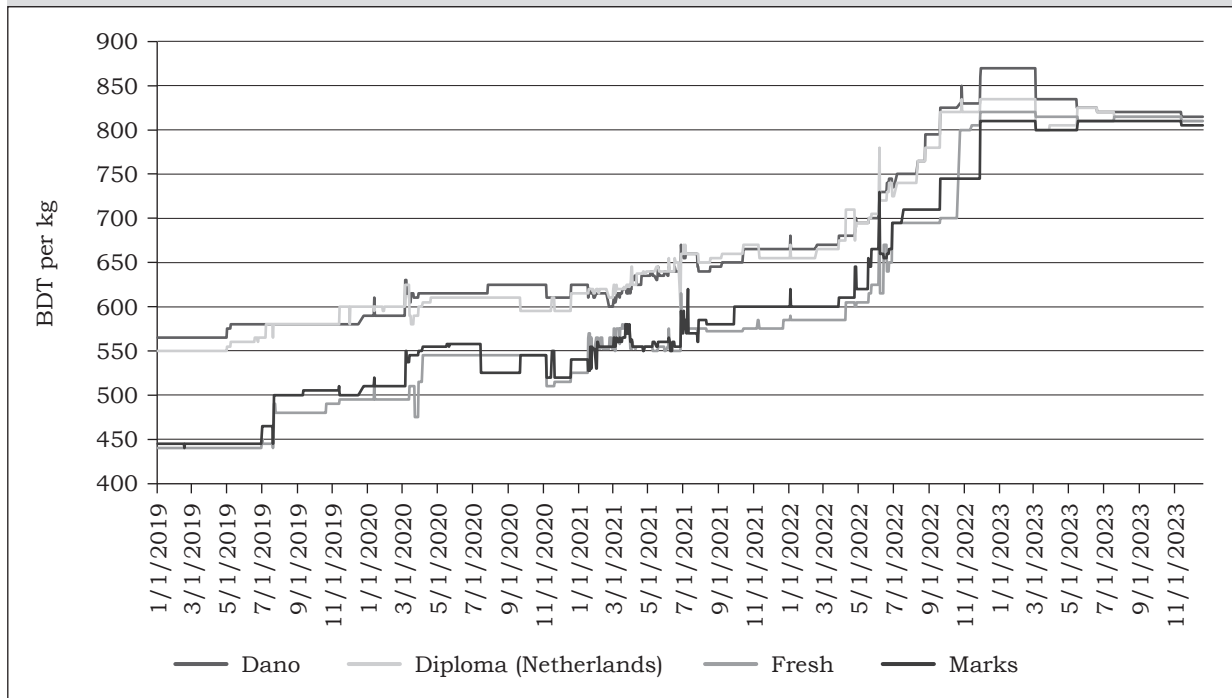
Figure 3.11**Average daily price of sugar in Dhaka from 1 January 2019 to 20 December 2023**

Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Over the past few years, the price of sugar in Dhaka has increased dramatically. The data shows that the average price of sugar increased by 177 per cent from BDT 52 per kg to BDT 143 per kg from 1 January 2019 to 20 December 2023 (Figure 3.11).

A comparison of the price of sugar in Bangladesh and the price of sugar in the EU, US, and world markets shows that the price of sugar has been consistently higher in Bangladesh than in the world market from January 2019 to October 2022. For instance, in October 2022, the price of sugar was BDT 31 per kg in the EU market, BDT 37 per kg in the world market, and BDT 74 per kg in the US market (World Bank, 2022), but BDT 98.75 per kg in Bangladesh (BBS, 2022). Moreover, while the price of sugar remained largely stable in the world market from June 2022 to October 2022, the price of sugar in Bangladesh increased during the same time. 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 (World Bank, 2022).

The prices of all four commonly available brands of powdered milk have, in some cases, nearly doubled over the past five years. The data shows that the average price of Dano brand powdered milk increased by 44 per cent from BDT 565 per kg to BDT 815 per kg, the average price of Diploma brand powdered milk increased by 47 per cent from BDT 550 per kg to BDT 810 per kg, the average price of Fresh brand powdered milk increased by 84 per cent from BDT 440 per kg to BDT 810 per kg, and the average price of Marks brand powdered milk increased by 81 per cent from BDT 445 per kg to BDT 805 per kg (Figure 3.12).

Figure 3.12**Figure 3.12: Average daily price of four brands of powdered milk in Dhaka from 1 January 2019 to 20 December 2023**

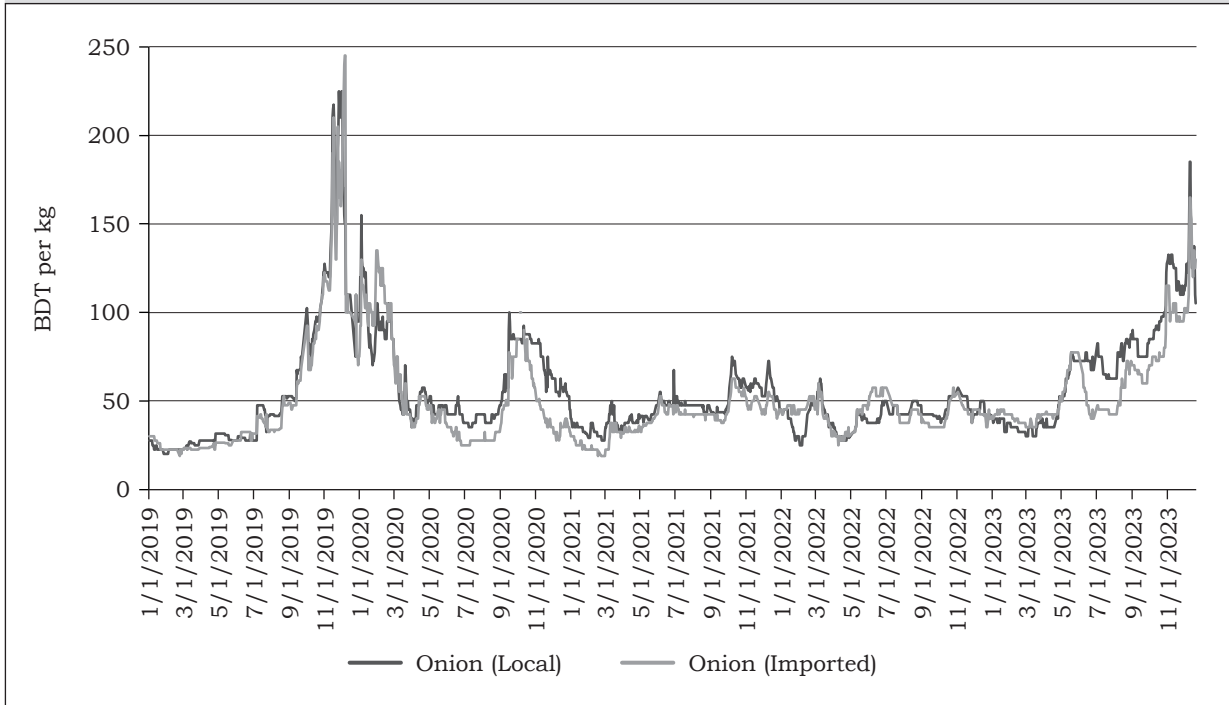
Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

The prices of commonly consumed vegetables, condiments, and spices have increased significantly over the past five years. The data shows that the average price of local onions increased by 282 per cent from BDT 28 per kg to BDT 105 per kg, the average price of imported onions increased by 333 per cent from BDT 30 per kg to 130 per kg, the average price of local garlic increased by 400 per cent from BDT 40 per kg to BDT 250 per kg, the average price of imported garlic increased by 214 per cent from BDT 70 per kg to BDT 220 per kg, the average price of dried chillies increased by 123 per cent from BDT 200 per kg to BDT 445 per kg, the average price of turmeric powder increased by 38 per cent from BDT 200 per kg to BDT 275 per kg, and the average price of ginger increased by 118 per cent from BDT 110 per kg to BDT 240 per kg from 1 January 2019 to 20 December 2023 (Figures 3.13 to 3.17).

For ordinary people, such sharp rises in the prices of all essential food items mean that their nutrition is being compromised, their food security is being threatened, and their lives are being filled with misery and suffering. Table 3.4 summarises the price rise of 34 essential food items, showing the absolute change and percentage between 1 January 2019 and 20 December 2023.

Figure 3.13

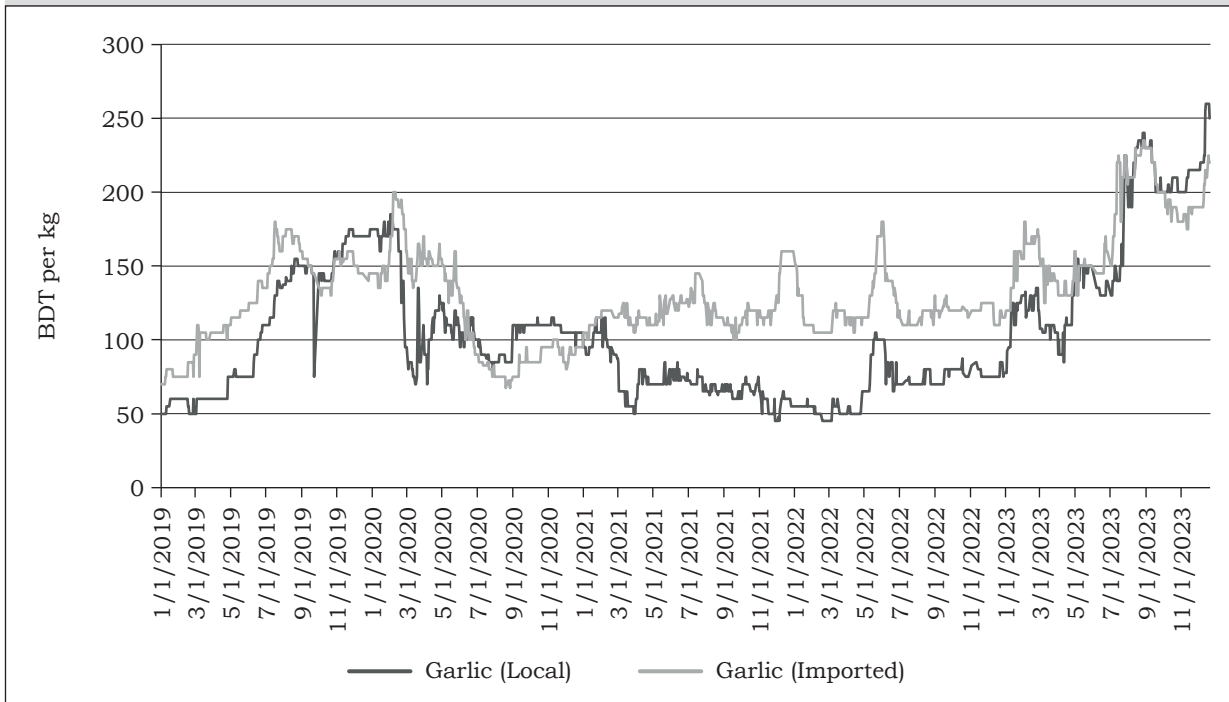
Average daily price of onions in Dhaka from 1 January 2019 to 20 December 2023



Source: Auhtors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Figure 3.14

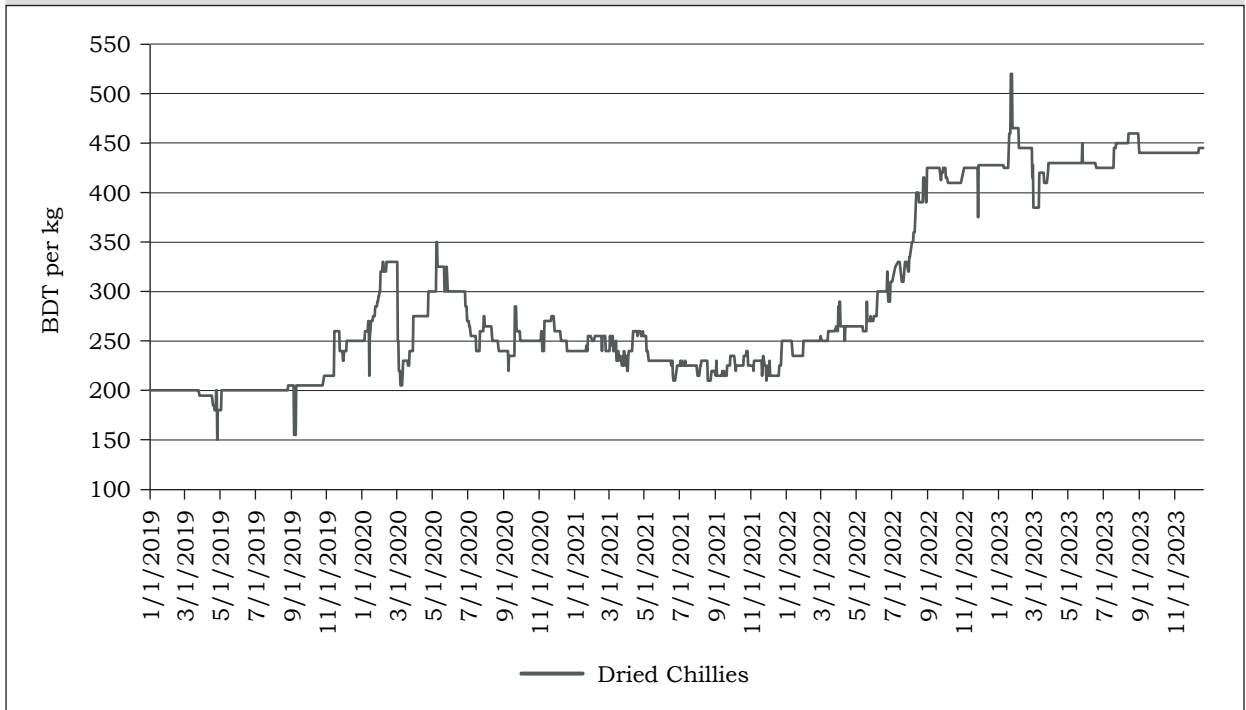
Average daily price of garlic in Dhaka from 1 January 2019 to 20 December 2023



Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Figure 3.15

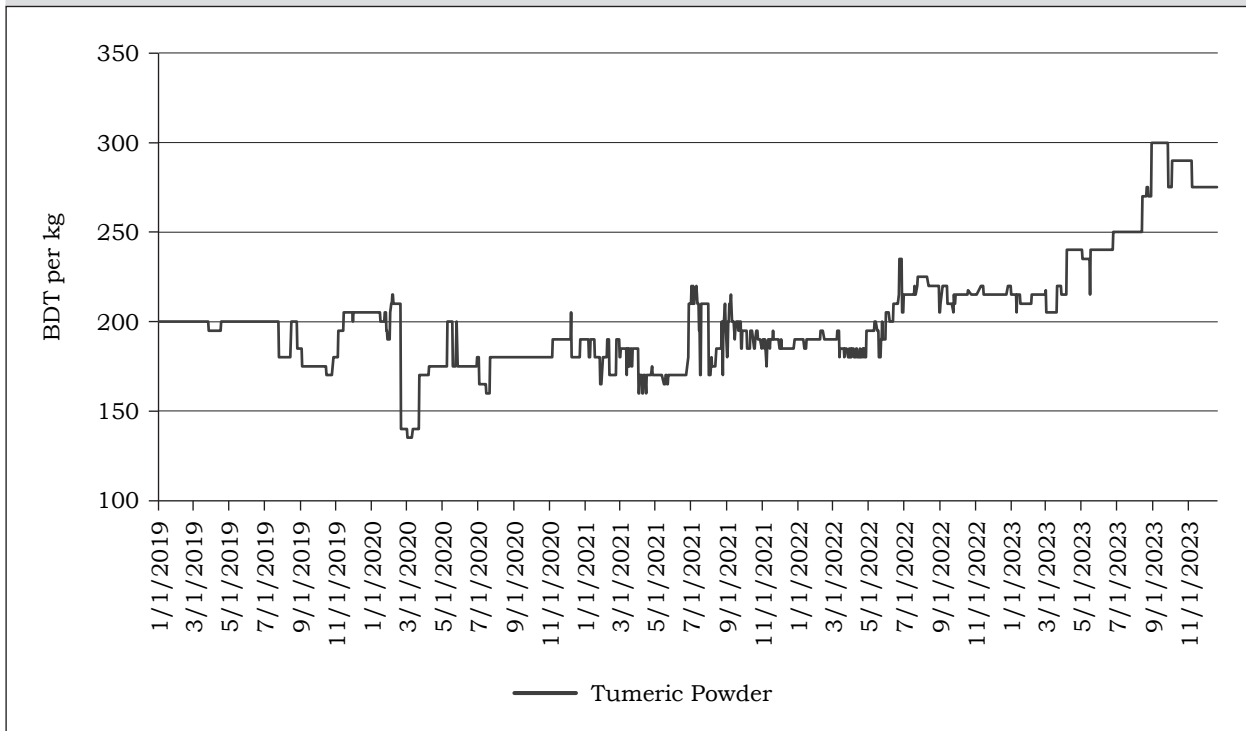
Average daily price of dried chillies in Dhaka from 1 January 2019 to 20 December 2023



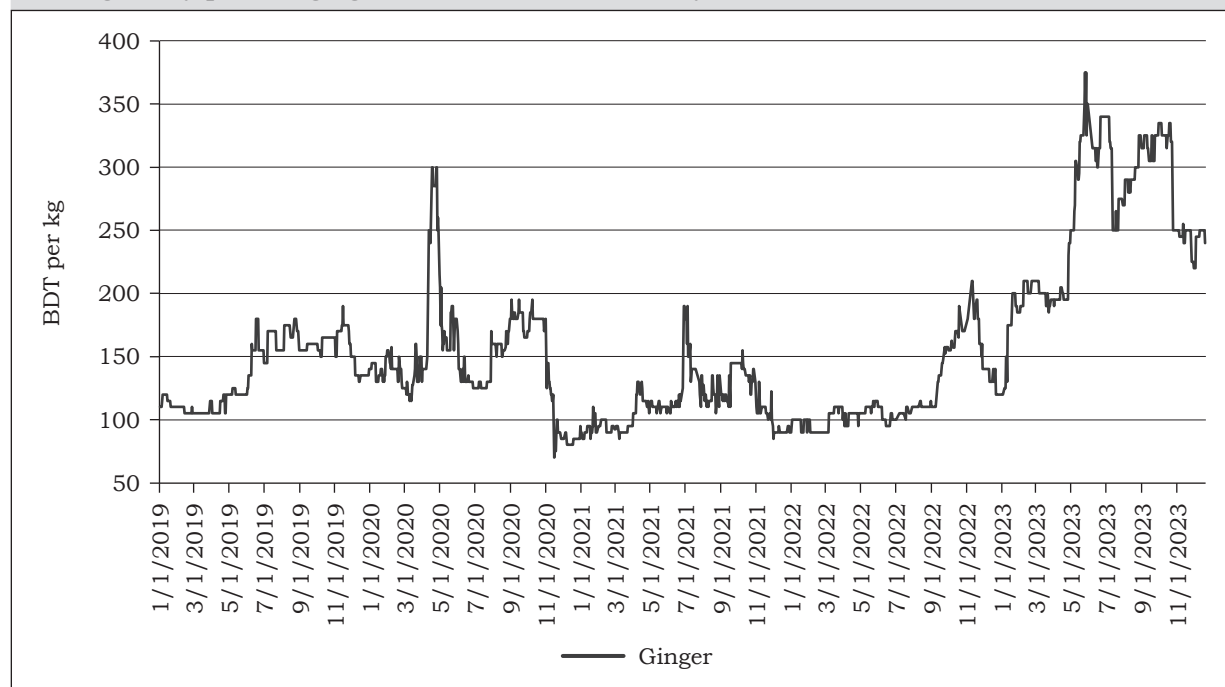
Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Figure 3.16

Average daily price of turmeric powder in Dhaka from 1 January 2019 to 20 December 2023



Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Figure 3.17**Average daily price of ginger in Dhaka from 1 January 2019 to 20 December 2023**

Source: Authors' illustration based on data from Trading Corporation of Bangladesh (TCB, 2023).

Table 3.4**Increase in price of essential food items from 1 January 2019 to 20 December 2023**

Sl.	Food Items	Price on 1 Jan 2019 in BDT	Price on 20 Dec 2023 in BDT	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
17	Garlic (local) (1 kg)	50	250	200	400

(Table 3.4 contd)

(Table 3.4 contd)

Sl.	Food Items	Price on 1 Jan 2019 in BDT	Price on 20 Dec 2023 in BDT	Absolute change in BDT	Percentage change
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

Source: CPD compilation based on data from Trading Corporation of Bangladesh (TCB, 2023).

3.3.4 Ineffectiveness of government measures to tackle inflation

Bangladesh has been grappling with the persistent challenge of containing elevated inflation levels, which has proven to be a formidable task thus far.

In contrast to numerous other nations that have effectively mitigated inflationary pressures by implementing monetary policy instruments, Bangladesh's policymakers have shown reluctance to pursue a similar course of action. The primary focus during periods of significant inflationary pressure should revolve around managing and regulating the money supply. By implementing a policy of increasing interest rates, the central bank effectively employs a mechanism to dissuade individuals from seeking loans, thereby mitigating the potential for excessive money circulation within the economy. This policy is classified as a contractionary measure primarily aimed at regulating and moderating individuals' expenditure patterns.

Indeed, it is evident that high lending rates present several challenges. An elevated borrowing cost can escalate production expenses and diminish profitability, potentially dampening private investment. It is worth noting that ordinary citizens seeking to obtain loans may encounter specific difficulties. Moreover, it is plausible that the magnitude of their loan repayment instalments could be higher than that of other groups. In the given scenario, it is anticipated that the economy will attain a state of stability at a diminished level, consequently impacting the overall growth trajectory. However, it should be noted that the current situation can be considered a transient challenge. During periods of high inflation, policymakers must reassess their objectives, as economic growth may no longer be viable. The central bank can gradually decrease interest rates once inflation has been effectively managed and controlled.

In April 2020, Bangladesh Bank implemented regulatory measures by imposing specific limits on lending and deposit rates. These prescribed rates were set at nine per cent for lending and six per cent for deposits. Economists supported removing interest rate caps, allowing market forces to determine interest rates. However, a persistent challenge emerged in opposition from influential business entities, who vehemently expressed their disapproval of high lending rates. Their argument centred around the notion that such high interest rates would inevitably curtail private investment and impede economic growth. However, it is intriguing that despite implementing a 9 per cent interest rate cap, there was no observable surge in private investment. This is because interest rates do not solely determine private investment, which is also influenced by many additional factors. These factors encompass, inter alia, robust infrastructure, advanced technology, skilled human resources, the absence of bureaucratic complexities, consistent policy implementation, political stability, and effective governance. In Bangladesh, the availability of cheap capital did not significantly increase private investment. On the contrary, implementing this policy resulted in a notable expansion of the monetary base within the economy.

Another significant contributor to Bangladesh's money supply was the government's substantial borrowing from the central bank. This phenomenon undoubtedly contributed to the escalation of inflationary pressures. The government also resorted to borrowing from commercial banks as a source of borrowing, and its actions have decreased excess liquidity. Consequently, this has raised concerns regarding potential constraints on private-sector borrowing. Despite stellar economic growth, private sector credit growth targets have not been met since FY2019. In response to low private sector credit growth, the central bank had to reduce its monetary policy targets for several years. Weak private sector credit growth in an economy indicates low private sector investment.

The government's reliance on borrowing from the central bank has become necessary due to the challenges of effectively mobilising higher tax revenues through expanding the tax net and reducing tax avoidance. The tax structure exhibits a greater dependence on indirect taxation, a regressive form of taxation that disproportionately impacts individuals with lower incomes relative to those with higher earnings.

In addition, it is worth noting that a significant amount of currency is currently in circulation, facilitating the acquisition of funds with relative ease. The accumulation of substantial financial resources by brokers, intermediaries, and rent seekers across diverse sectors of the economy, in the absence of direct engagement in productive endeavours, is detrimental to the economy. Corruption and deliberate loan default may contribute to the escalation of living expenses. It has been observed that individuals who default on their loans tend to exhibit a lack of interest in investing in industries or engaging in any productive ventures that have the potential to generate employment opportunities. A portion of the funds defaulted is illicitly transferred to other countries for money laundering. The remaining part is allocated towards personal indulgences within Bangladesh, exacerbating inflationary pressures.

The Bangladesh Bank, in its Monetary Policy Statement for the period of July-December 2023, has announced its intention to shift from a monetary-targeting framework to an interest rate-targeting framework. The central bank has implemented a significant policy change by removing the lending rate cap and transitioning towards a market-driven lending rate. An expansionary fiscal policy may compromise the efficacy of monetary policies. Despite high inflation and limited fiscal space, there is a notable absence of discernible implementation of austerity measures. During the period leading up to a national election, it is plausible that there may be a potential rise in public expenditure. Therefore, the efficacy of the monetary policy remains uncertain. Establishing effective coordination between monetary and fiscal policies is essential for an economy's optimal

functioning. To address the issue of inflationary pressure on poor and low-income households, it is suggested that the government prioritise allocating resources towards enhancing support for these vulnerable groups. The government can effectively alleviate inflation's burden on the most financially disadvantaged by redirecting funds from non-essential expenditures towards social protection programmes. This approach aims to ensure that the impact of rising prices is mitigated for individuals and families who are already struggling to make ends meet. If a prolonged period of high inflation ensues, it is anticipated that the existing level of inequality in Bangladesh may rise.

3.3.5 Recommendations

The price of essential food items in Bangladesh has increased exponentially over the past few years. Due to the high food prices, the general people of Bangladesh are experiencing severe struggle and compromise.

- 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.
- The distribution of essential commodities sold through the open market sale (OMS) must be managed effectively and without corruption so that 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.

3.4 HOPE FOR A SOUND BANKING SECTOR FADING AWAY FAST

Key Findings

1. Published reports, from 2008 to 2023, reveal 24 major irregularities in the banking sector, amounting to over BDT 92,261 crore, which is equivalent to 2 per cent of the GDP of FY2023 and 12 per cent of the national budget FY2024
2. The total volume of NPL has increased more than threefold between FY2012 to FY2023.
3. The high volume of NPLs is due to institutional weaknesses, regulatory failures, legal loopholes, and data unavailability.

Key Policy Recommendations

1. The central and commercial banks must be reformed to strengthen their governance, and the central bank should be allowed to operate autonomously.
2. A conducive legal and judicial environment should be created, and the reports and data of banks and financial institutions should be published and made available to the public.
3. A goal-specific, time-bound, inclusive, transparent, unbiased, and independent Citizen's Commission on Banking should be established.

The banking sector in Bangladesh has encountered numerous challenges over an extended period. Its weaknesses have been consistently exposed through high loan default rates and sub-par performance across various indicators. Bangladesh's banking sector has consistently demonstrated vulnerability, primarily because of a lack of good governance and a dearth of reforms. 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 to reach their goal of financial oligarchy. Unfinished financial sector reforms are holding back the improvement of the economic outlook. This section briefly presents the performance of some key indicators in recent periods and makes a few recommendations to overcome the challenges.

3.4.1 Instances of reported irregularities in banks

During the last several years, the banking sector has encountered several irregularities perpetrated by numerous business conglomerates and individuals, resulting in the misappropriation of substantial sums of money from several banks, amounting to BDT thousands of crores. CPD has compiled published news reports of 24 major irregularities in the banking sector from 2008 to 2023, which add up to an astronomically large amount of more than BDT 922.61 billion or more than BDT 92,261 crore, which is equivalent to 2 per cent of GDP of FY23 (BBS, 2023) and 12 per cent of the national budget FY24 (MoF, 2023) (Annex Table 4.1). Notably, the budget deficit for FY24 was BDT 257,885 crore, implying that the money lost due to irregularities in banks accounts for 36 per cent of the national budget deficit (MoF, 2023).

The potential recovery of the aforementioned funds remains uncertain, with the possibility of non-recovery looming large and a plausible scenario involving the funds being illicitly transferred abroad through money laundering activities. Regrettably, the relevant authorities have observed instances of lending irregularities. The decision and disbursement of a significant number of loans are made under the guidance and directives of higher authorities within the bank. Loans are observed to be allocated to business groups and individuals in a manner that appears to circumvent established rules and regulations, purportedly under the guidance of influential individuals. The absence of mechanisms to hold loan defaulters accountable for their actions and fraudulent behaviours has demoralised and frustrated honest borrowers. The provision of undue privileges is exclusively reserved for borrowers with substantial loan amounts. Unfortunately, it has been observed that small borrowers have been subjected to legal consequences, including imprisonment, in instances where they fail to fulfill their financial obligations. However, large defaulters continue to remain unscathed.

Implementing effective measures to combat large-scale unlawful lending is often hindered by many of these borrowers either holding ownership stakes in the banks or possessing influential support from powerful entities. The banking sector has exhibited instances of monopolisation, leading to a decline in its governance. The phenomenon in question has additionally given rise to a form of capitalism called crony capitalism, wherein financial institutions are utilised to extract resources or wealth by a group of people favoured by the authorities.

The current state of the banking industry is precarious as fraudulent activities and irregularities plague it. The incidents indicate a notable lack of proactive measures by the authorities to address the issue and establish a sense of order within the sector. The observed escalation in defaulted loans and ongoing instances of embezzlement within the banking sector failed to demonstrate any urgency on the government's part in addressing this issue.

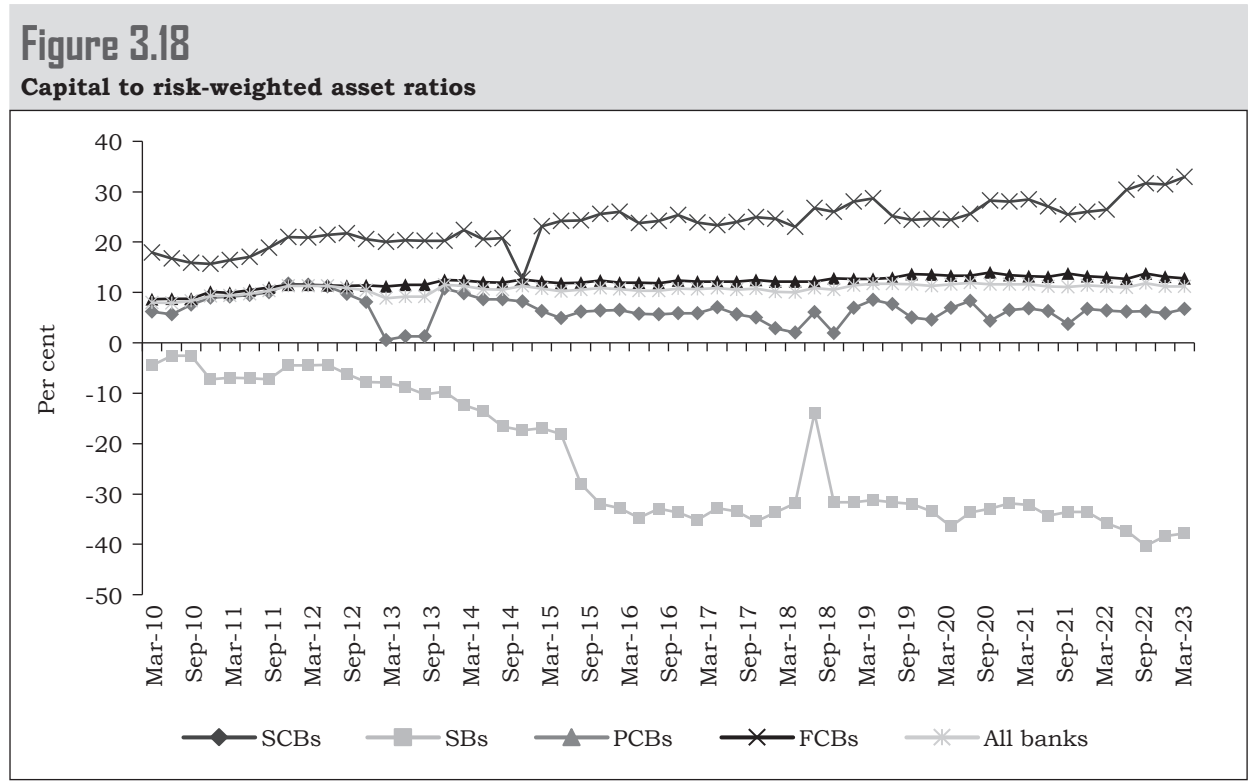
3.4.2 Lack of independence of the central bank

The central bank, which has the principal duty of supervising the banking sector, must be able to act with complete independence if it is expected to play any meaningful role in upholding discipline among banks. Bangladesh Bank, the central bank of Bangladesh, has a wide gamut of macroprudential regulations designed to limit systemic risk and reduce the incidence of disruptions in the financial system that may jeopardise the real economy. Broad regulations such as countercyclical capital buffers, capital conservation buffers, limits on leverage ratios and caps on credit growth apply to the banking sector. There are also regulations for the household sector, such as a cap on credit growth to the household sector, a cap on loan-to-value ratio, a cap on debt service-to-income ratio, a limit on amortisation periods, restrictions on unsecured loans and exposure caps on household credit. Corporate lending is regulated by monitoring banks' indebtedness to large corporate borrowers. The liquidity coverage ratio, net stable funding ratio, loan-to-deposit ratio, cash reserve ratio and statutory liquidity ratio are used to regulate the liquidity position of banks. The central bank also has tools such as the Interbank Transaction Matrix and Bank Health Index, which it uses to examine the threat of systemic risks and financial contagion. Despite being armed with such a potent regulatory arsenal, Bangladesh Bank has been unable to reduce the rise in the volume of NPLs in Bangladesh's banking sector. This indicates that policies cannot result in favourable outcomes without good governance and the central bank's independence.

The Central Bank Strengthening Project was initiated in 2003 to establish a robust and efficient banking regulation and supervisory framework. The Bangladesh Bank (Amendment) Act, 2003, was enacted in parliament, granting the central bank the authority to function independently. Regrettably, the Bangladesh Bank has progressively lost its autonomy and become weaker over time despite possessing such a mandate. An explicit illustration of how the Bangladesh Bank's sovereignty is disrupted by the Financial Institutions Division (FID) of the Ministry of Finance (MoF) is observed in the mandate of the FID, which clearly states the primary function of FID is the 'administration and interpretation of the Bangladesh Bank Order, 1972 (P.O. No. 127 1972) and orders relating to the specialised banks and other matters pertaining to state-owned banks, insurance and financial institutions' (MoF, 2017). By asserting this function in its mandate, the MoF has established its authority to oversee the governance of the Bangladesh Bank.

3.4.3 Capital inadequacy of banks

Bangladesh Bank's Guidelines on Risk-Based Capital Adequacy state that banks must maintain a minimum total capital ratio of 10 per cent (or minimum total capital plus capital conservation



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023a).

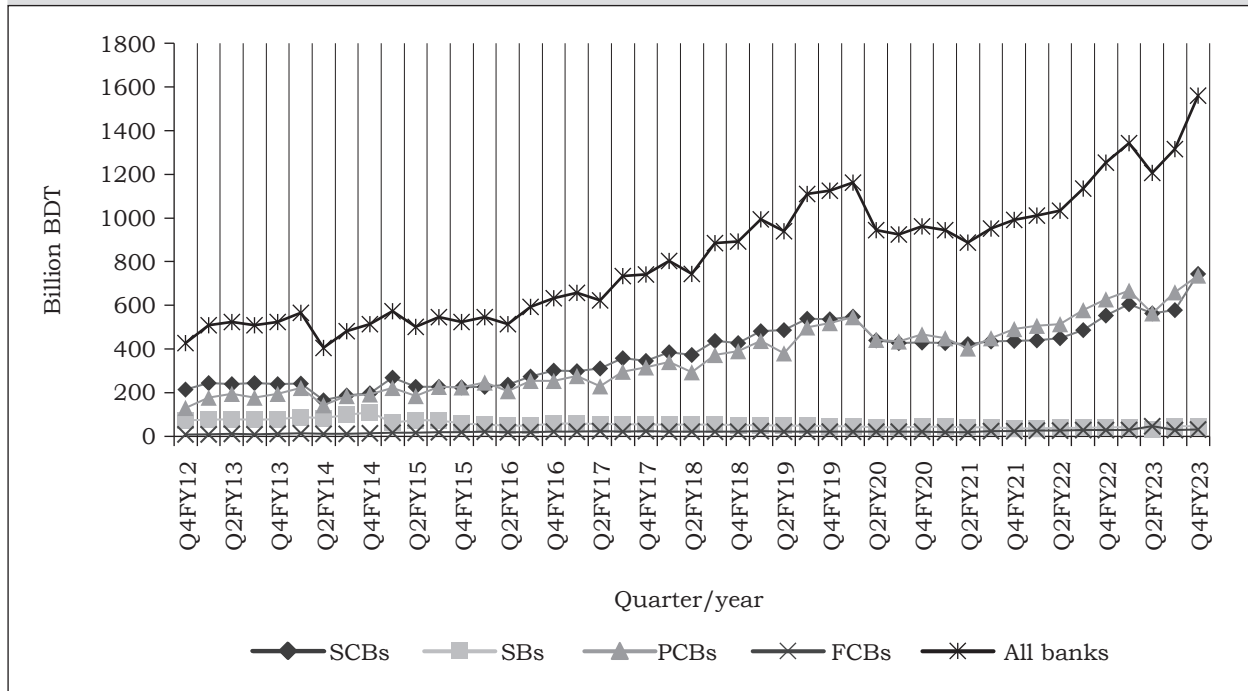
buffer of 12.5 per cent) by 2019, which aligns with BASEL III. However, state-owned commercial banks⁷ (SCBs) have failed to maintain minimum capital adequacy requirements for the past ten years (Figure 3.18). On the other hand, the specialised banks (SBs) have remained critically under-capitalised. Without reducing NPLs, capital adequacy cannot be improved since higher levels of NPLs lead to increased provisioning requirements, which results in capital shortfall.

3.4.4 High volume of non-performing loans (NPLs)

NPLs are a direct threat to a country’s financial health and development. NPLs may appear innocuous, occurring merely because borrowers cannot repay loans associated with high interest. However, studies have shown that, in general, high interest rates are not causally related to high levels of NPLs in Bangladesh (Ahmed & Islam, 2006) (Mujeri & Yunus, 2009) (Hossain, 2012). For small and medium enterprises (SMEs), high interest rates could be a reason behind NPLs (Jahan, 2016).

The reality is that NPLs originate from uncertainty and corruption, both of which have detrimental effects on the growth of a country’s banking sector (Park, 2012) (Moshirian & Wu, 2012) (Lin, 2012) (Serwa, 2010). Research has shown that the reasons behind the high amount of NPLs in Bangladesh include political instability, corruption, poor governance, and weak rule of law (Banerjee, et al., 2017) (Alam, Haq, & Kader, 2015). Poor management of state-owned commercial banks, coupled with malpractices and corruption, has contributed to the high levels of NPLs (CPD, 2018a and CPD, 2018b). Contrary to all established banking norms, state-owned commercial banks (SCBs) have been awarding loans purely on political grounds (Habib M. N., 2017). Consequently, these banks do not routinely assess the potential risks associated with the borrower. Creditworthiness

⁷Specialised banks in Bangladesh are sometimes referred to as development finance institutions (DFIs).

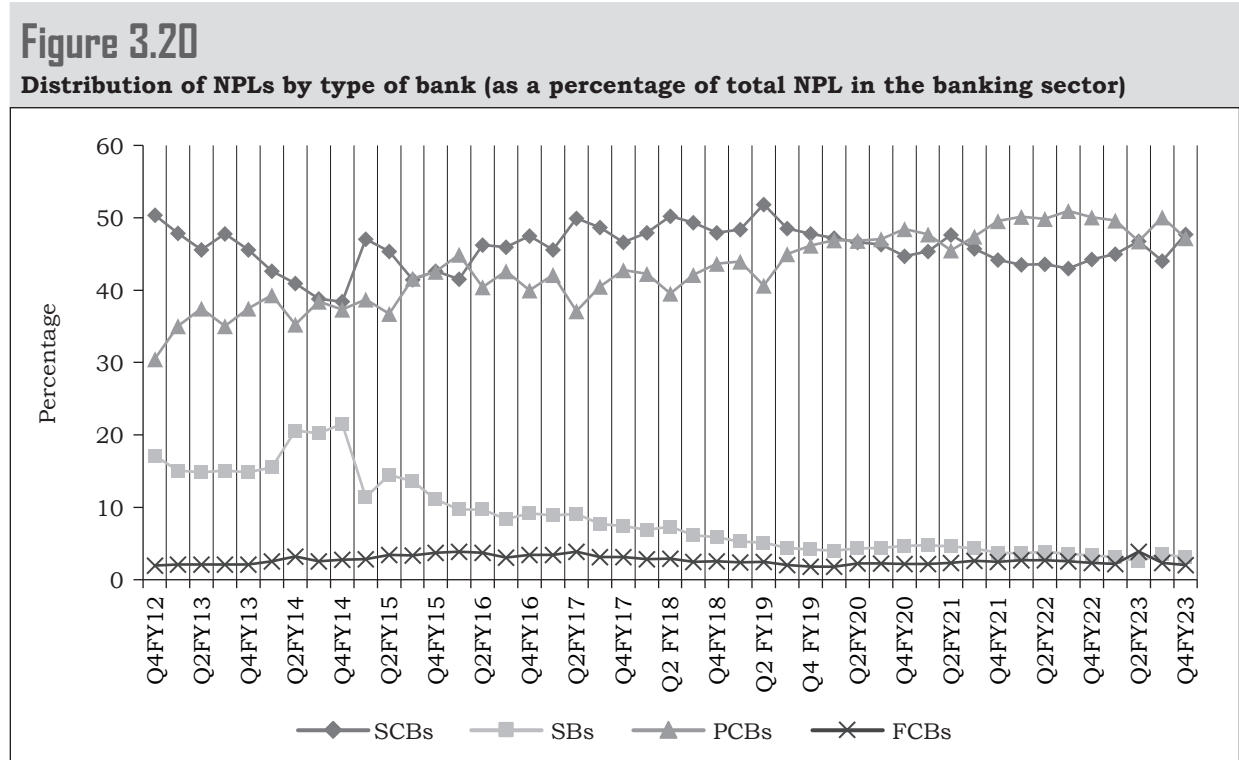
Figure 3.19**Total classified loans**

Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023b).

is judged by political worthiness. As a result, having good political connections is perceived to be adequate for obtaining large loans. Additionally, the government's tendency to fund loss-making state-owned enterprises through SCBs has aggravated the problem of NPLs even further. Research has shown that, on average, only 33 per cent of first-time and 30 per cent of third-time rescheduled loans were recovered during 2011–2014 (Habib M. N., 2017). The study also mentioned that loans worth BDT 455.274 billion were written off over the same period by the banking sector. Evidence has also emerged that only 14 per cent of bank officials consider the borrower selection process extremely effective (Habib M. N., 2017).

The total volume of NPLs has increased more than threefold in the last 10 years, from BDT 427.25 billion in Q4FY12 to BDT 1560.4 billion in Q4FY23 (Figure 3.19). However, actual NPLs will be much higher if distressed assets, loans in special mention accounts, loans with court injunctions, and rescheduled loans are included.

Disaggregation of the absolute volume of NPLs shows that over the years, the volume of NPLs in SCBs as a percentage of the total NPL of the banking sector has decreased slightly from 50 per cent in Q4FY12 to 48 per cent in Q4FY23. However, a sharper decline was observed for SBs, where the volume of NPLs in SBs as a percentage of the total volume of NPLs in the banking sector decreased from 17 per cent in Q4FY12 to 3 per cent in Q4FY23. Regrettably, the volume of NPLs in the PCBs as a percentage of the total NPLs in the banking sector increased from 31 per cent in Q4FY12 to 47 per cent in Q4FY23 (Figure 3.20). 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.



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023b).

Policymakers in Bangladesh have been ignoring the severity of high NPLs for far too long. Pertinent stakeholders have voiced consistent apprehensions regarding the persistent decline in banking performance and its potential ramifications for the sector’s long-term viability. The country’s predominant reliance on banks within its financial sector implies that any deterioration in the sector’s condition will inevitably negatively affect overall economic growth. Hence, addressing and rectifying the aforementioned issues without further delay is imperative.

3.4.5 Reasons behind NPLs

Based on the review of the past literature and analysis of the developments in the banking sector, a conceptual framework explaining the reasons behind high NPLs in the banking sector was developed. Under this conceptual framework, the factors influencing NPLs were classified under four categories: i) institutional, ii) regulatory, iii) legal, and iv) data and informational (Figure 3.21).

Factors driving NPLs under the institutional category included: i) bank directors, CEOs and senior officials placed and controlled by the government (Islam, 2017) (Alo, 2018) (Khatun, 2012) (Khatun & Saadat, 2019); ii) loans sanctioned on political grounds (Parven, 2011) (Khatun, 2012) (Habib M. N., 2017); iii) rescheduling of loans despite the poor record of repayment (Habib M. N., 2017) (Khatun, 2018) (CPD, 2019); iv) writing off loans to reduce the tax burden and clean balance sheets (Khatun, 2018) (CPD, 2019); v) weak internal control and compliance risk management of banks (Chowdhury, 2010) (Khatun, 2012) (Habib S. M., 2019); and vi) the inability of some banks to comply with BASEL III requirements (Habib S. M., 2019) (Khatun, 2018) (CPD, 2019).

Factors driving NPLs under the regulatory category included: i) dual regulation by the Financial Institutions Division and the Central Bank (Reaz & Arun, 2006) (Khatun, 2012) (Khatun, 2018) (CPD, 2019); ii) lack of independence of the central bank (Reaz & Arun, 2006) (Khatun, 2012)

Figure 3.21**Reasons behind the high volume of non-performing loans in Bangladesh**

Institutional	Regulatory	Legal	Data and information-related
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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

Source: CPD illustration based on a review of secondary literature.

(Khatun, 2018) (CPD, 2019); iii) privileges given to defaulters by the central bank (CPD, 2019); iv) bank licences given arbitrarily to crony capitalists (Nabi, 2016) (Khatun, 2018); v) recapitalisation of banks by the government (Khatun, 2018) (CPD, 2019); and vi) quasi-monopolistic power of a few bank oligarchs (Haque, Jalil, & Naz, 2007) (Reaz & Arun, 2006) (Khatun, 2018) (Khatun & Saadat, 2019).

Factors driving NPLs under the legal category included: i) amendments to the Banking Company Act to favour vested interests (Khatun, 2018) (CPD, 2019); ii) weaknesses in the Financial Loan Court Act (Adhikary, 2006) (CPD, 2019); iii) loopholes in the Bankruptcy Act (Ahmed, Zannat, & Ahmed, 2017) (CPD, 2019); iv) lenient legal stance against wilful defaulters and corrupt bank officials (Islam, 2018) (Habib S. M., 2019); v) insufficient number of judges dealing with loan cases (Khatun, 2018) (CPD, 2019); and vi) delays in the judicial process and long backlog of cases (Adhikary, 2006) (Khatun, 2018).

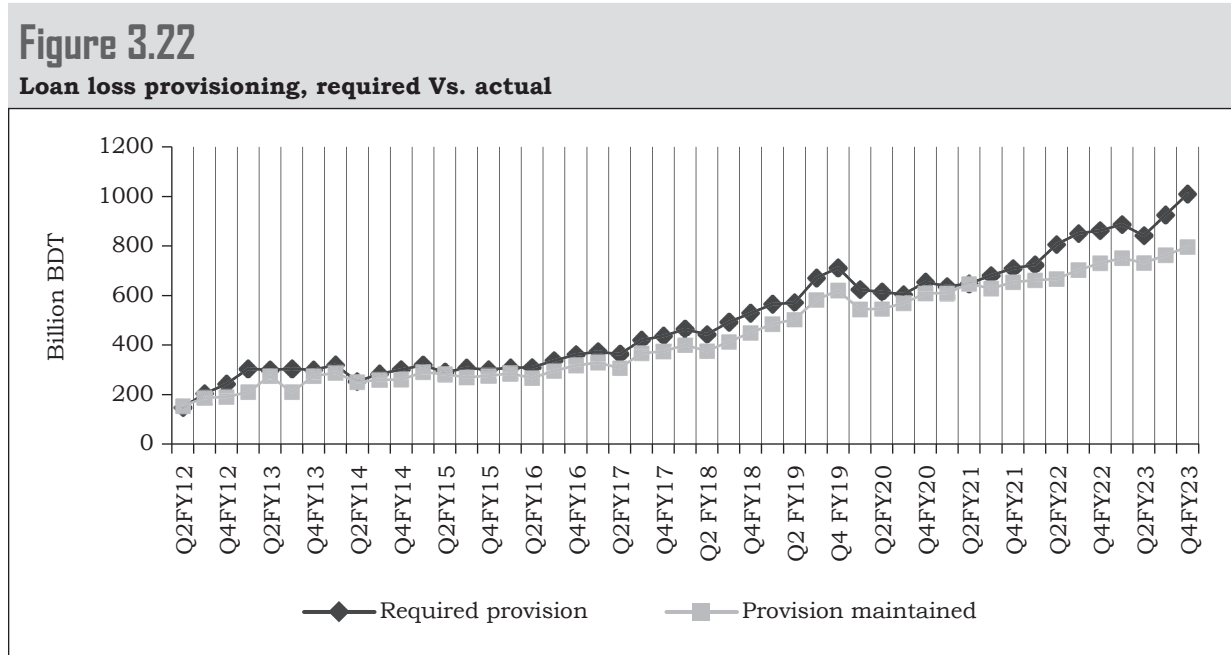
Factors driving NPLs under the data and informational category included: i) limited access to timely data (Chowdhury, 2010) (CPD, 2019); ii) apprehensions regarding the quality of data (Habib S. M., 2019) (CPD, 2019); iii) absence of disaggregated data (Chowdhury, 2010) (CPD, 2019); iv) low reflection of the use of data in decision-making and policy measures; v) lack of transparency about the use of data in the decision-making process; and vi) false information, forged documents and fake companies used for obtaining loans (Khatun, 2012) (Habib S. M., 2019).

4.6 The shortfall in loan loss provisioning requirements

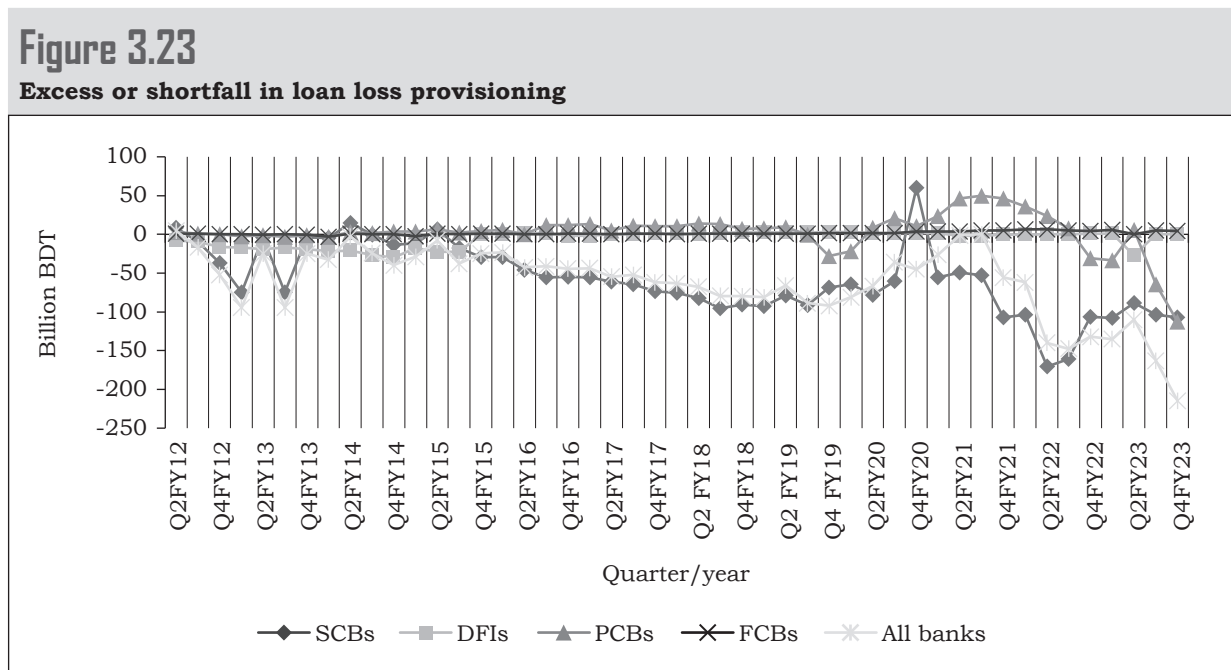
Provisions are assets put aside on a bank's balance sheet to cover losses expected to occur in the future. As of Q4FY23, the required loan loss provisioning was BDT 1010.3 billion, whereas the

actual loan loss provisioning maintained was only BDT 795.7 billion, which is 78.8 per cent of the requirement (Figure 3.22). The rise in the required loan loss provisioning and the gap between the required loan loss provisioning and the actual provisioning are equally worrying.

In Q4FY23, the banking sector’s loan loss provisioning shortfall was BDT 214.6 billion, including a BDT 106.9 billion shortfall in SCBs and a BDT 112.7 billion shortfall in PCBs (Figure 3.23).



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023b).

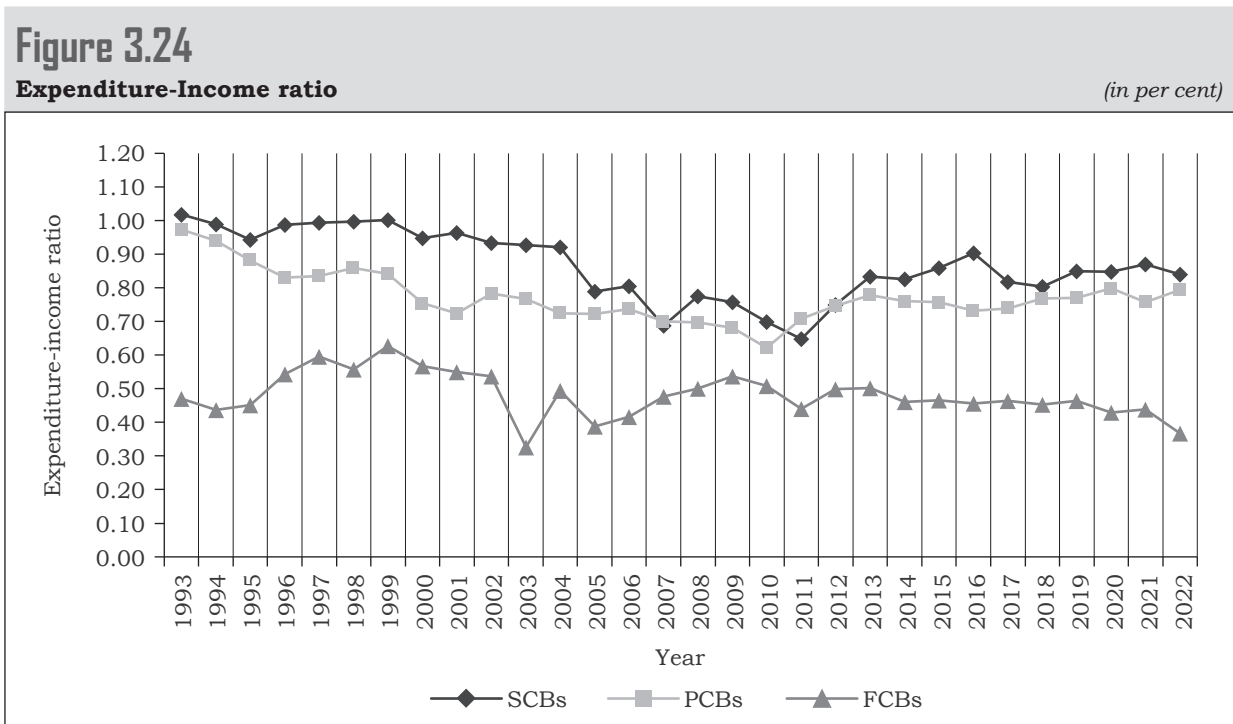


Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023b).

Notably, the recent surge in the shortfall in the banking sector has been driven by the loan loss provisioning shortfall in the PCBs.

3.4.7 Management of commercial banks

From 2008 to 2022, the average expenditure-income ratio in SCBs was 0.81 and 0.74. This reveals the poor management effectiveness of both SCBs and PCBs, even before the pandemic (Figure 3.24). Regrettably, PCBs have maintained an expenditure-income ratio above 0.70 over the past 10 years, indicating that their management has been consistently poor.



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023c).

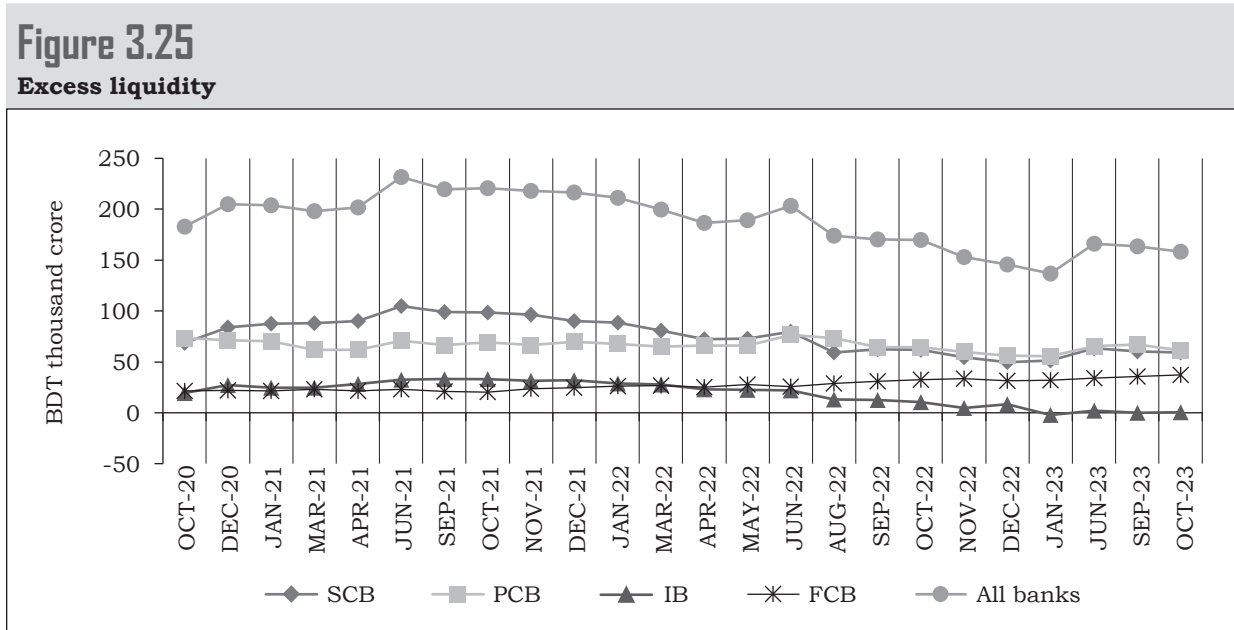
3.4.8 The decline in liquidity of banks

Excess liquidity in the banking sector has declined from BDT 169 thousand crore in October 2022 to BDT 158 thousand crore in October 2023 (Figure 3.25).

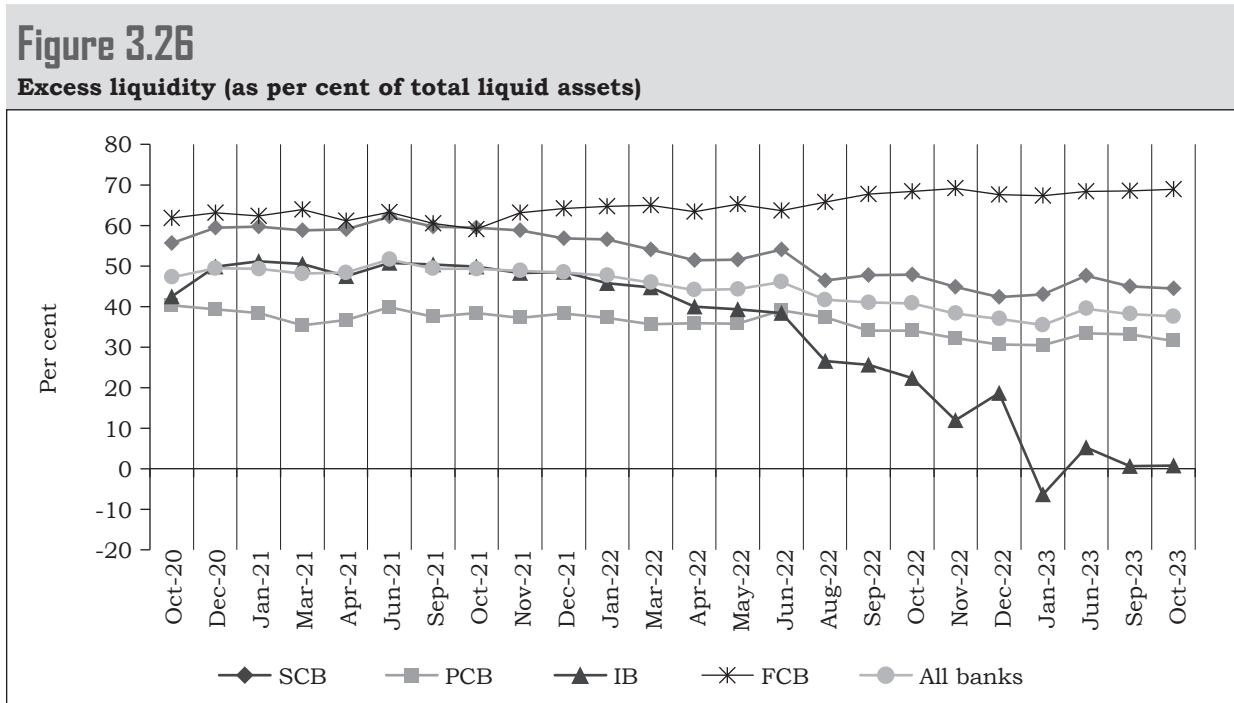
Excess liquidity as a share of the banking sector's total liquid assets declined from 41 per cent in October 2022 to 37 per cent in October 2023 (Figure 3.26).

This fall in excess liquidity has been mainly driven by the liquidity crisis in five of 10 Islamic Shariah-based PCBs, plagued by poor governance since the ownership change of the bank. 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 per cent but fell to 26 per cent between March 2017 and October 2023 after the change of ownership of Islami Bank in January 2017 (Bangladesh Bank, 2023c) (Figure 3.27). Before the ownership change of Islami Bank, IBs had excess liquidity of BDT 10112.63 crore in December 2016 (Bangladesh Bank, 2023c). However, after the ownership change of Islami Bank, IBs suffered a liquidity shortfall of BDT 2218.23

crore in January 2023 (Bangladesh Bank, 2023c). The central bank should investigate the reason behind such a significant shortfall.



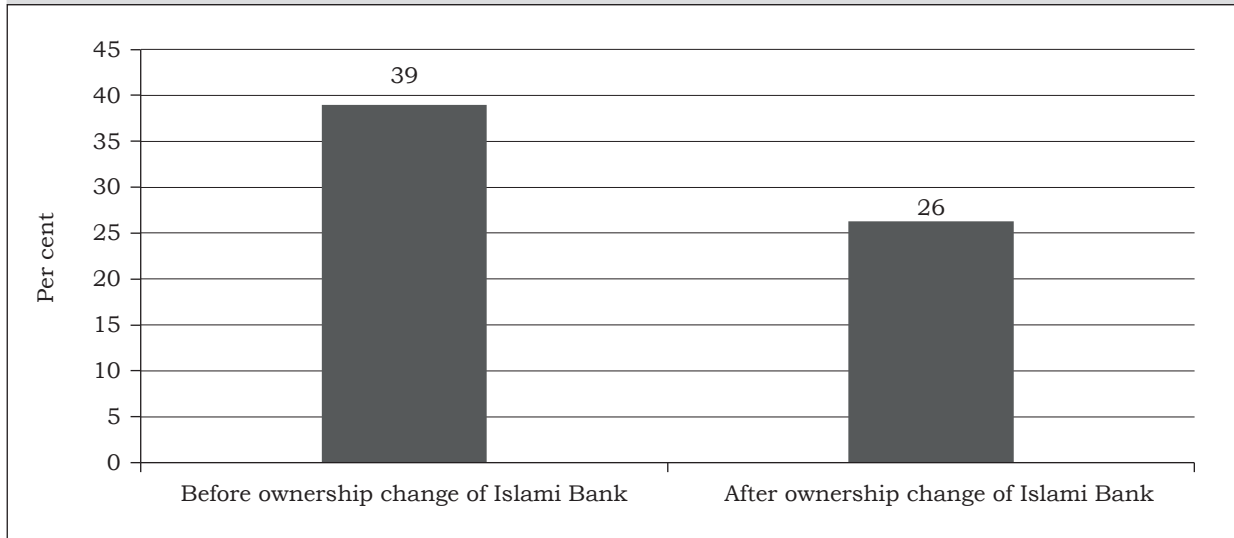
Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023d).



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023d).

Figure 3.27

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



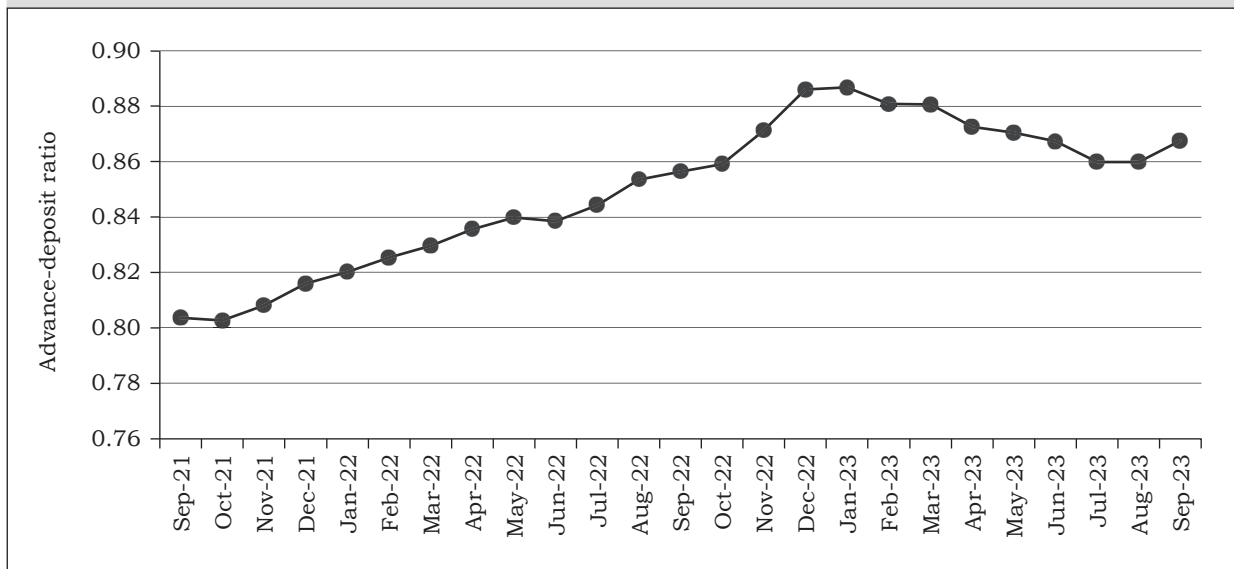
Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023d).

3.4.9 Increase in advance-deposit ratio.

Banks are experiencing pressure on their liquidity positions. Since the 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 0.80 in September 2021 to 0.87 in September 2023 (Figure 3.28).

Figure 3.28

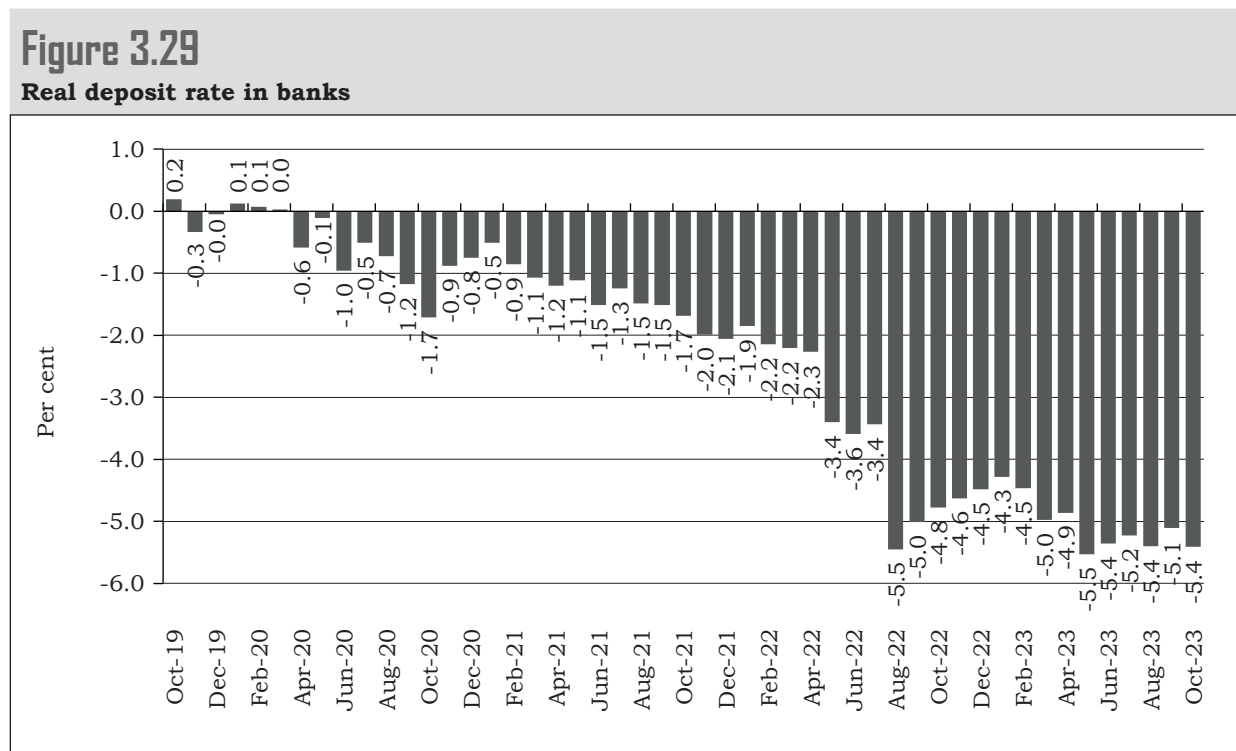
Advance-deposit ratio



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2023c).

3.4.10 Negative real interest rate on bank deposits

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 -4.78 per cent in October 2022 to -5.41 per cent in October 2023 (Figure 3.29). The negative real interest rate on bank deposits means that a depositor becomes a net loser by keeping money in the bank.



Source: CPD illustration based on data from Bangladesh Bank. (Bangladesh Bank, 2023d).

3.4.11 Recommendations

Pursuing a hasty solution to Bangladesh’s complex and challenging banking situation is unlikely to result in any positive outcome for the banking industry and the broader economy. There are apprehensions that the culture of deception, dishonesty and distrust fostered in the banking sector will cancerously spread to other sectors of the economy and further degrade the state of good governance in the economy. If immediate action is not taken to resolve the problems, the nation’s long-term progress will be limited by the banking sector, which has consistently shown itself to be a vulnerable sector of the economy.

This section discussed some of the pressing issues of the banking sector based on the limited data available at the time of writing. If the banking sector is expected to play any constructive role in the economic recovery, its performance must be improved drastically. Based on the findings of this report, the following policy recommendations are put forward:

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 licences 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: i) 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; and ii) 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.

3.5 EXTERNAL SECTOR PERFORMANCE: CONTINUING VULNERABILITIES AMID GROWING UNCERTAINTIES

Key Findings

1. Bangladesh's imports have significantly decreased, which may have adverse macroeconomic consequences.
2. Foreign direct investment (FDI) has fallen, and remittance flow has also decreased, which explains the negative balance on the financial accounts in the balance of payments.
3. There is a discrepancy in data concerning external sector-related variables such as export earnings.

Key Policy Recommendations

1. Apparel export has become very volume-driven, so there is a need for intra-ready-made garments (RMG), extra-RMG and market diversification.
2. The exchange rate should be determined by market forces and not fixed by the government.
3. Bangladesh must maintain good partnerships with global brands in the RMG business.

3.5.1 The backdrop

It was pointed out in CPD's IRBD Third Reading (May 2023) that a significant share of Bangladesh's ongoing macroeconomic challenges originated in the dismal performance of the external sector and the uncertainties faced by the external sector balances, and that a recovery of the economy will need to be triggered, to a large extent, where these problems originated in the first place- the external sector and the external balances. Regrettably, the hoped for recovery from the then prevailing scenario is yet to be visible. Although over the past several months key policymakers engaged with external sector management have been trying to project a bullish stance, with forecasts about getting out of the ongoing situation over the subsequent periods of every 2-3 months, these have proved to be rather optimistic. The volatilities and uncertainties have continued to persist and sustain.

Key external sector performance correlates such as the state of exchange rate stability, adequate forex reserves, robust export performance, availability of required forex for L/C openings, remittance flows in view of the outflow of migrant workers, and other relevant indicators, all transmit the signal that the disquieting developments experienced in FY2023 have continued to inform the external sector performance during the early months of FY2024 as well.

True, the Bangladesh Bank has taken a number of measures to improve the balance of payments situation and arrest the falling forex reserves, including the pre-emptive measure of negotiating the USD 4.7 billion IMF loan. However, the measures are yet to deliver the expected results. And, also, at times, the very signals transmitted by policymakers have been rather contradictory. Whilst the trade and current account balances have posted some improvements in the early months of FY2024, this has primarily been driven by a drastic reduction in imports. This was, however, attained at a cost- Bangladesh Bank's conscious policy measure to discourage imports of selected items through various restraining measures, dearth of availability of foreign currency to open L/Cs and high price of the scarce dollar. It needs to be kept in mind that the fall in imports will likely have a knock-on adverse impact on investment, employment, production, and GDP growth over the near term. Several agencies, including ADB, IMF, and the World Bank, have already reflected

this concern in their lower GDP forecasts for FY2024. Several targets set out in the IMF support programme as a condition for releasing the second tranche could not be met. These included the gross (BPM6) and net forex reserves and moving to a market-aligned exchange rate management. Energetic steps to forestall capital flight have been missing, with signs of continuing transactions through informal channels and hundi/hawala routes. In addition to the uncertainties, the reliability of external sector-related data has emerged as a concern.

While Bangladesh’s external debt situation is within the IMF-World Bank parameters of sustainability and medium-term debt carrying capacity threshold, the debt servicing liabilities of the country over the near and mid-term future are likely to significantly rise in the backdrop of higher interest costs, a larger share of non-concessional loans in the borrowing portfolio, and increasingly stringent terms of loans incurred in recent times. The rising debt servicing liabilities will likely put further pressure on the country’s falling forex reserves. Unless external balances are stabilised and external sector performance is placed on the rails of historical trends, arresting and reversing the sharp drawdown of the forex reserves will not be possible. Macroeconomic management will remain challenging under the prevailing scenario, and the economy will continue to face increasing uncertainties and risks.

The following sub-sections present some major challenges afflicting the external sector performance during July-November FY2024 and offer policy measures to address the attendant challenges going forward.

3.5.2 Balance of Payment scenario: A reversal is yet to be seen

The BOP scenario has continued to experience serious difficulties during July-October FY2024, when the corresponding period of 2023 is taken as the comparator. While some improvements are discernible in the current account, this was driven primarily by the sharp decline (of 20.5 per cent) in import payments (Table 3.5).

Table 3.5

Balance of Payments FY2023 VS FY2024 (July-October)

(million USD)

Items	July-October	
	FY2023	FY2024
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 Bangladesh Bank (2023).

Undoubtedly, falling imports will have adverse consequences on key macroeconomic performance indicators and GDP growth in FY2024, as noted above. Given low FDI and portfolio flows and higher payments of trade credit, the financial account has fallen into negative territory, marking a significant after many years of positive performance. During July-October, FY2024, the financial account witnessed a decline of USD 5.2 billion, which contributed significantly to the falling forex reserves.

Overall, foreign exchange reserves (as per BPM6) have come down by about USD 7.4 billion, from USD 27.5 billion to USD 20.7 billion, between the end of October 2022 and the end of October 2023. The net reserves at present are estimated to be around USD 16.0 billion. Forex reserves are equivalent to 5.1 months of imports, taking the current average monthly import as the reference. If this is estimated by taking the average monthly imports of FY2023 as the reference, the reserves would be equivalent to only 3.5 months. If the net reserves (as noted, about USD 16.0 billion) are considered, the purchasing power in terms of import equivalence and debt servicing capacity leaves room for serious concern.

3.5.3 Export performance scenario: Conflicting signals

Exports have been exhibiting quite erratic behaviour in recent months. If in FY2023 export growth was primarily driven by the RMG sector (18.8 per cent) growth, in FY2024 (July-November), the sector has experienced a significant deceleration in the growth over the corresponding period of FY2023 (-2.7 per cent). This, for obvious reasons, has resulted in the low growth of overall export earnings during the first five months of FY2024 (1.3 per cent), as seen in Table 3.6. At a time of falling reserves, this trend is rather discouraging.

Table 3.6

RMG, Non-RMG and overall export growth rates (in billion USD)

Export Items	July-November			
	FY2021	FY2022	FY2023	FY2024
RMG (Knit and Woven)	12.9 (-1.5%)	15.9 (23.0%)	18.8 (18.8%)	18.3 (-2.7%)
Non-RMG	3.0 (12.7%)	3.9 (29.9%)	3.1 (-20.9%)	3.9 (25.4%)
Overall	15.9 (0.9%)	19.8 (24.3%)	21.9 (10.9%)	22.2 (1.3%)

Source: Authors' estimation based on EPB (2023).

Note: Growth rate in parentheses.

The terms of trade (defined here as the import earning capacity of the price of exports of one dozen RMG in terms of the average import price of selected imported commodities) evince a mixed picture. In the cases of palm oil and soybean oil, the purchasing power (of one dozen RMG) was lower in FY2024 (July-November) compared to the corresponding period of FY2023. On the other hand, there has been some improvement in crude oil, rice, and other commodities (Table 3.7).

The export performance data reinforces the need to move into the higher value segment of the RMG market to improve the terms of trade. Intra-RMG diversification (focusing on non-cotton items such as MMF, Synthetic and polyester-based items), as well as extra-RMG diversification (assembling plant, pharmaceutical, leather goods, electronics, etc.), along with market diversification must be given the highest priority towards this. Attracting investment (both local and FDI) in the Special Economic Zones should be one of the main ways forward. To take advantage of the emerging export opportunities in the markets of the neighbourhood regions, triangulation of investment, multi-modal transport, and trade connectivity will be required.

Table 3.7**Terms of Trade for selected commodities taking RMG price per dozen (July-October) in the USA as reference**

Commodities	Units	FY2022	FY2023	FY2024
Crude oil, average	(USD/bbl)	2.18	1.40	1.77
Palm oil	(USD/mt)	22.33	22.09	17.29
Soybean oil	(USD/mt)	36.00	27.20	23.11
Rice, Thai A.1	(USD/mt)	9.51	7.25	12.02
Wheat, US HRW	(USD/mt)	9.34	6.17	6.53
Cotton, A Index	(USD/kg)	0.06	0.04	0.04
LNG, Japan	(USD/mmbtu)	0.49	0.21	0.26

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

As Table 3.8 testifies, Bangladesh exports are becoming increasingly volume-driven rather than price-driven.

Table 3.8**Changes in trade values, quantity and price/unit of RMG exports of Bangladesh to the USA and EU: FY2024 vs FY2023 (July-October)**

Year	Overall, RMG Exports to the USA (RMG Price/Dozen)			Overall RMG Exports to EU (RMG Price/Kg)		
	Changes in Values (%)	Changes in Quantity (%)	Changes in Prices (%)	Changes in Values (%)	Changes in Quantity (%)	Changes in Prices (%)
FY2021	2.1	16.5	-12.4	-12.4	-7.5	-5.2
FY2022	23.4	20.0	2.8	9.0	7.9	1.0
FY2023	28.3	4.9	22.4	64.3	26.4	29.9
FY2024	-22.5	-15.5	-8.3	-29.6	-18.0	-14.1

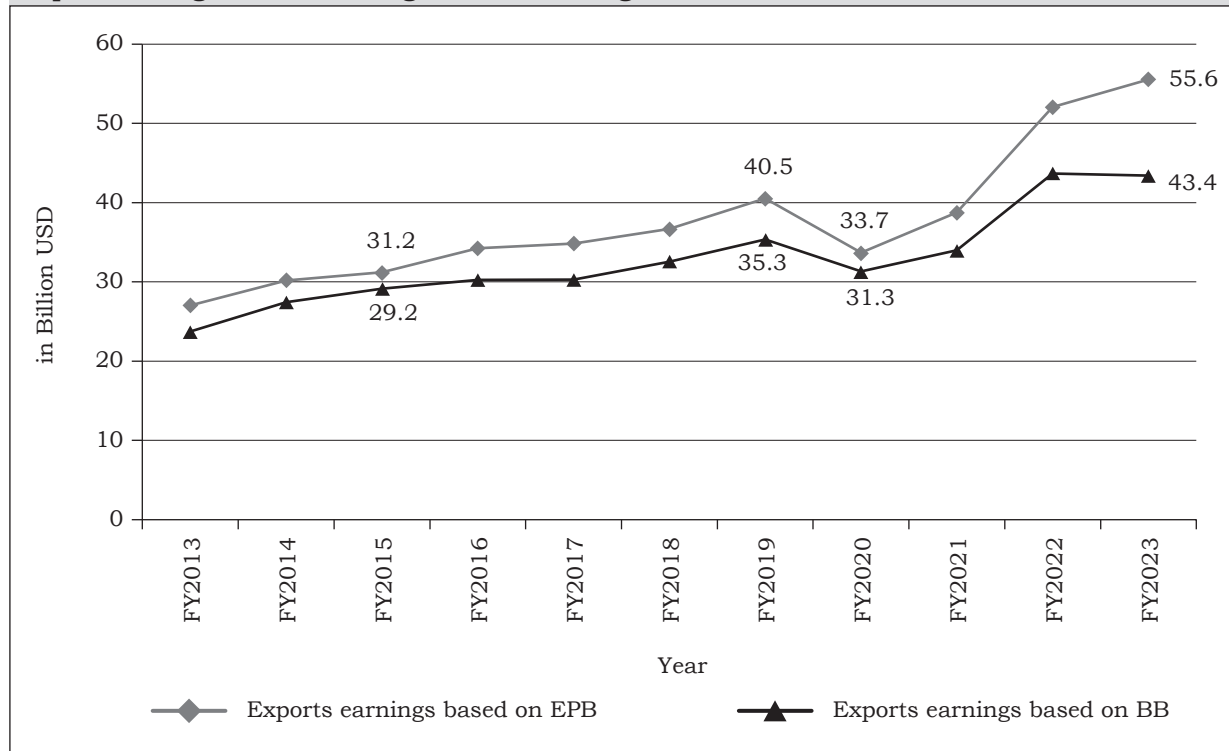
Source: Authors' estimations based on Dataweb USITC 2023) and Database Eurostat (2023).

The Export Promotion Bureau (EPB) Figures for the first four months of FY2024 show a negative growth of 3.1 per cent in RMG earnings from the US compared to the corresponding period of FY2023. In contrast, US import figures show a significant decline of (-) 22.5 per cent! Similarly, the EPB figure for the first four months of FY2024 shows an increase of 3.1 per cent in RMG earnings from the EU market compared to the corresponding period of FY2023. In contrast, the EU import figure shows a (-) 29.6 per cent decline! Note that the difference in export earnings arising from the conceptual distinction between the Freight on Board (FoB) value of the EPB and the Cost, Insurance and Freight (CIF) value of the reporting country can hardly explain these significant gaps in export earnings. Neither is the time difference between exports from source countries and import arrivals in destination countries (should be cancelled over time).

The anomalies in export earnings figures must be examined very closely. The Bangladesh Bank, the EPB, and the NBR should work together to address this issue, reconcile the figures, and produce actual export earnings figures.

One disconcerting development is the gap between the EPB data and the Bangladesh Bank data on export earnings, which has also been increasing at an alarming pace in recent years, from USD 2.1 billion in 2015 to USD 12.1 billion in FY2023 (Figure 3.30). At a time when every dollar counts,

Figure 3.30
Export of Bangladesh according to EPB and Bangladesh Bank



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

this substantial gap should be a reason for concern on the part of Bangladesh's policymakers. This high difference cannot be explained by discounts asked by brands and buyers or cancellation of orders (or the factors mentioned earlier). The widening gap should be a reason for heightened concern. Is repatriation of Bangladesh's export earnings being deferred because of anticipated further depreciation of the BDT? Does it reflect capital flight through trade mispricing (under-invoicing)?

Given the extensive reports regarding the significant capital flight from Bangladesh, primarily through trade mispricing, in the range of USD 6.0-9.0 billion on average annually over the past ten years, concerned authorities must look into this matter with the urgency it deserves.

3.5.4 Growing debt servicing liabilities

In the backdrop of Bangladesh's graduation from middle-income status, interest rates on the country's foreign borrowings have experienced a significant rise. The share of non-concessional loans in the loan portfolio has been growing. The terms of borrowings are becoming more stringent (grace periods and maturity periods are coming down, and loans are coming with surcharges and service charges). Principal plus interest payments on Bangladesh's medium to long-term loans was USD 5.3 billion in 2021, which rose to USD 6.2 billion in 2022 (16.9 per cent growth). The corresponding figure was only USD 3.7 billion in 2020. Also, some of the foreign borrowings of Bangladesh are being incurred in flexible LIBOR/SOFR rates (e.g., a loan from Islamic Trade Finance Corporations (ITFC) was incurred at the interest rate of SOFR+2 per cent). As is known, LIBOR/SOFR rates have significantly increased in recent years (Table 3.9).

There is every indication that debt servicing liabilities will register a notable rise in the near and medium term future (Rahman et al., 2024).

Table 3.9**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).

Major credit rating agencies have downgraded Bangladesh's credit ratings in recent times due to the challenges faced by Bangladesh regarding macroeconomic management and the balance of payments situation (Table 3.10). Going forward, this could lead to higher borrowing costs. However, the credit agencies will revisit these ratings if and when the situation improves.

Table 3.10**Bangladesh's credit rating by major rating agencies**

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, given 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 that 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).

The above calls for designing a well-crafted external sector management strategy and a future road map for strategic debt management.

3.5.5 Remittance flows: A low-hanging fruit

Remittance flows could have been a saving grace and salvation for Bangladesh, given the falling forex reserves and the consequent woes. However, despite about 3.9 million people leaving the

country since January 2019 (till November 2023), this is not reflected in the remittance that flows to the country (Table 3.11). Over the first five months of FY2024 (July-November; 2023), remittance growth was only a lowly 1.1 per cent. Indeed, for the first three months, the growth rate was negative compared to the corresponding period of FY2023. To recall, the amount was more than USD 2.0 billion lower than for the corresponding period of FY2021.

Table 3.11

Country-wise overseas employment (2019-November 2023) and remittance inflows (July-November) in Bangladesh

Country	Overseas Employment (lac) (Jan 2019-Nov 2023)	July to November			
		FY2021 (million USD)	FY2022 (million USD)	FY2023 (million USD)	FY2024 (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. SA.	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
The UK.	0.11	866.8	734.0	760.4	1087.2
USA	0.00	1369.0	1423.8	1538.3	915.1
Others	0.81	678.3	593.3	666.1	900.8
Total (growth rate)	38.81	10904.4 (29.2%)	8608.9 (-21.1%)	8792.9 (2.1%)	8823.9 (0.4%)

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

Note: Growth rate in parentheses.

Although more than 2.0 million migrant workers went to Saudi Arabia during January 2021 and November 2023, remittance inflows have decreased from USD 2.6 billion in FY2021 (January-November) to USD 1.26 billion in FY2024 (January-November). A similar pattern also holds for Kuwait, Qatar, and, to some extent, Malaysia. This raises a serious question: Why? There are clear indications that significant leakages of remittance are taking place through transfer to informal channels.

True, anecdotal information suggests that an increasingly large number of migrant workers are being issued out passes or facing extradition and returning home. Despite this, the large net outflow of migrant workers over the recent period cannot be denied.

There are indications that the significantly high difference between Bangladesh Bank-determined rates and the rates offered in the informal channels has created incentives for large remittance flows from formal to informal channels. This is also reinforced by the fact that when, in October 2023, an additional 2.5 per cent incentive for remittances was introduced (to be provided by the receiving banks, over and above the government-provided 2.5 per cent), there was an immediate spurt in remittance flows through formal channels during October and November of 2023. Other measures to incentivise the sending of remittances through formal channels must be put in place (introduction of credit cards for workers coming home, savings scheme, speedy transfer, reduced

cost of sending, facilitation of transfers of money, recognition of the contribution of remitters to the country’s economy).

Along with market signals, there is a need to strengthen law enforcement and break up the power of hundi/hawala syndicates since no extent of BDT depreciation will dissuade capital flight-related transaction activities carried out by tax dodgers, wilful defaulters and those who want to get their ill-gotten and corruption money outside of the country.

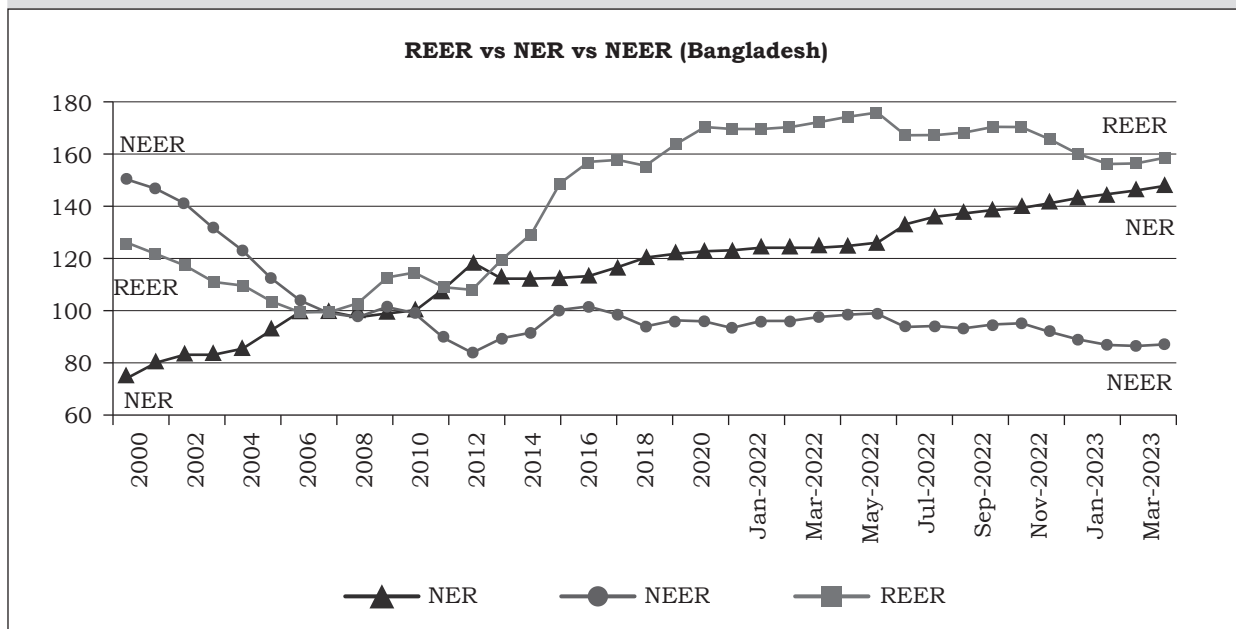
3.5.6 Move towards an aligned exchange rate

Analysis carried out by the authors in May 2023 indicated that there was a significant gap between the then-prevailing Bangladesh Bank-determined exchange rate (of USD 1 = BDT 104.0) and the equilibrium rate (high bound). The estimates showed the need for further depreciation of the BDT in the range of 15 per cent. Since then, BDT has depreciated by 8.0 per cent. Our more recent analysis, following our previous estimation method, indicates a further scope for depreciation of BDT in the range of about 7.0 per cent. As is known, the Bangladesh Bank has gradually depreciated the BDT over the past several months. Consequently, the difference between NER and REER has come down significantly (Figure 3.31). There is space for further depreciation and a need to unify the prevailing multiple exchange rates. This will narrow the difference between the formal and kerb market rates and dampen the expectation pressure surrounding the exchange rate movement (further depreciation).

One understands why the Bangladesh Bank is pursuing a cautious policy concerning exchange rate management (the apprehension about higher imported inflation and higher debt servicing costs for taka-denominated repayment of foreign borrowings). On the other hand, depreciation should incentivise remitters and increase exporters’ competitiveness. The trade-offs must be carefully weighed to move towards an optimum equilibrium rate. The BDT exchange rate will need

Figure 3.31

REER vs NER vs NEER in Bangladesh



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

to approximate a market-determined rate, possibly within a corridor supported by the Bangladesh Bank intervention, as and when necessary.

3.5.7 Going forward: Required policy initiatives

- A targeted initiative will need to be taken to streamline the discrepancies in the data concerning external sector-related correlates, particularly relating to export earnings. There is a need to investigate the reasons driving the wedge between the Bangladesh Bank and EPB data. The reasons being put forward must be thoroughly investigated. As noted, a higher flow of remittances could significantly improve the country's BoP situation over the short term. The incentive to undertake this exercise on the part of policymakers should thus be very high. External sector data should be made more open and transparent to identify anomalies expeditiously.
- The move towards a market-aligned exchange rate of BDT should be expedited, even if within a band. This will incentivise forex flows on account of exports (thanks to higher competitiveness) and remittances (transfer from informal to formal channels) and help bring down the demand for foreign exchange via market signals rather than administrative measures. Monetary policy will need to be well-coordinated with fiscal policy towards sound exchange rate management and the management of the impact of depreciation, given imported inflation and macroeconomic implications.
- The multiple exchange rates confuse market players and have proved difficult to implement. Incentivising remittance flows also raises the fiscal burden on the government and places an additional financial burden on the dealing banks. Both may prove to be unsustainable.
- Bangladesh's apparel exports are becoming increasingly volume-driven. The need to move upmarket has thus emerged as an urgent necessity. Incentives must be recalibrated to encourage intra-RMG diversification and stimulate a move towards the growing market segment for non-cotton-based exports.
- Sustainable debt servicing will likely emerge as a challenge for Bangladesh over the near and medium term, particularly given the ongoing drawdown on forex reserves. The government should pursue a cautious policy regarding foreign borrowings by curtailing hard-term borrowings, properly prioritising foreign loan-dependent projects, and ensuring good governance in implementing foreign-funded public projects. Negotiating capacity to deal with foreign borrowings must be strengthened. A well-thought-out strategy concerning external borrowings and debt servicing must be crafted to avoid future problems. Bangladesh must avoid falling into a debt trap.
- Any disruption in market access will seriously affect export sector performance and, consequently, the economy. Bangladesh should take the necessary steps given the concerns voiced by key export destination countries in the areas of labour rights, wages, environment and CO2 emission standards, governance, and management of production processes. At the same time, a concerted effort by RMG-related business associations will be required to negotiate higher prices with global brands and buyers for Bangladesh's apparel products. Pressure must be exerted so that brands and buyers agree to establish distributive justice along the global value chain. Bangladesh's entrepreneurs and workers should join global movements, such as Fair Trade, in this effort.

Going forward, much will depend on how quickly Bangladesh can stabilise its external sector balances and correlates. policymakers concerned must pursue evidence-based policies to pull the external balances out of the current conundrum. Institutions such as the Central Bank should be allowed to perform their mandated functions independently by keeping the interests of macroeconomic stability, inflation and interest rate targets, and higher GDP growth at the centre of their attention and activities.

3.6 LABOUR RIGHTS IN BANGLADESH—COMMITMENTS AND CONCERNS

Key Findings

1. Bangladesh’s labour rights issue has regained fresh attention lately as its major trade partners (the United States of America and the European Union) continue to adopt trade policies incorporating labour rights compliance as a key conditionality for trading and associated trade preferences.
2. Despite progress in a few areas over the past 7 to 8 years, several labour rights-related issues, such as violence against workers, arrests and detentions, dismissals, anti-union discrimination, threats, and prosecutions, remain unresolved in Bangladesh.

Key Policy Recommendations

1. Revising the minimum wage in all overdue sectors, especially RMG, is necessary.
2. The law should penalise workplace discrimination, anti-union discrimination, and barriers to forming trade unions.
3. More projects that employ minorities must be undertaken, and insurance schemes, unemployment benefits, and other welfare structures targeted to them should be revisited.

3.6.1 Background

Labour rights violations have been a persistent concern for Bangladesh. The pathetic state of labour rights in the country was exposed particularly in 2013 after the collapse of Rana Plaza, which killed over a thousand of garment workers. Despite efforts from the government, the country’s 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 United States of America and the European Union) continue to adopt trade policies incorporating labour rights compliance as a key conditionality for trading and associated trade preferences. In the most recent move, on 16 November 2023, USA President Joe Biden signed a memorandum directing his administration to adopt a comprehensive government-wide strategy in advancing worker empowerment and organising workers’ rights and labour standards worldwide (The White House, 2023). This announcement means organisations or individuals in the USA’s partner countries globally will be subject to trade sanctions, visa restrictions, and other diplomatic measures in case of violations of labour rights. On the other hand, in November 2023, the Council of EU Member States and the European Parliament signed an amendment regarding its existing Generalised Scheme of Preferences (GSP) (European Commission, 2023). In the amendment, the existing GSP regulation, which was to expire in 2023, has been extended for 2024-2027. This means compliance with internationally recognised human and labour rights will remain a key eligibility criterion for accessing trade preferences in the EU market for exporting countries, including Bangladesh.

In fact, 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 Least Developed Country (LDC) status in 2026. However, the recent concerns from the USA and EU regarding the violation of labour rights have risked the continuation of the trade eligibility and existing trade facilities for Bangladesh. These concerns from the USA and EU regarding the violation of labour rights have been reflected in their official statements, evaluation reports, meeting agendas, etc. Along with the pressure from the partner countries, labour rights violations have

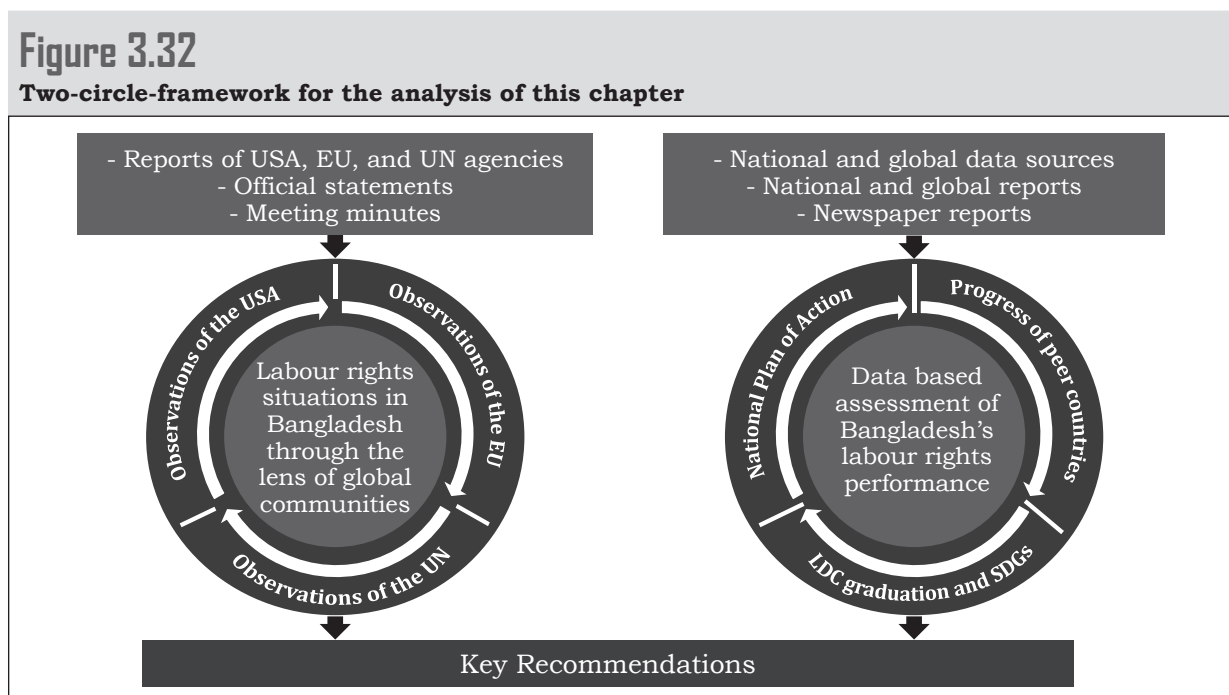
drawn significant domestic attention due to several sequential events. Most recently, in November 2023, undermining collective bargaining and workers’ freedom of expression was discussed as the Readymade Garment (RMG) workers protested against unpaid wages or demands for a higher minimum wage. This resulted in the killing and injuries of garment workers, the closing of RMG factories, the ceasing of new worker recruitments, and the filing of around 34 lawsuits against 16,000 protesters (The Business Standard, 2023).

Meanwhile, Bangladesh is getting closer to the timeline of fulfilling its national and international commitments to labour rights. These include the incumbent government’s electoral commitment to protecting workers’ rights by 2023, implementation of the National Action Plan (NAP) on the Labour Sector by 2026, Sustainable Development Goals of achieving full and productive employment and decent work for all women and men by 2030, etc. Therefore, the issue of ensuring labour rights in Bangladesh is and will remain a core area of focus in the upcoming decades.

Against this backdrop, this chapter highlights the country’s most recent status of labour rights compliance. The chapter endeavours to identify the major areas of concern regarding labour rights, particularly through the lenses of the US, the EU, and the UN. In addition, it measures and compares Bangladesh’s performance in labour rights compliance with that of other peer-developing countries based on available literature, reports, and indexes. Finally, the chapter attempts to provide a pathway for the country to fulfil the objectives of protecting labour rights and continuing the growth in its exports.

3.6.2 Analytical structure

This chapter employs a customised two-circle framework (Figure 3.32) for the analysis. By 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



Source: Authors' illustration.

of Bangladesh. Furthermore, the authors conducted a data-based evaluation of Bangladesh’s compliance with labour rights, specifically assessing its progress against the National Action Plan (NAP) on the Labour Sector of Bangladesh (2021-2026); targets to be met before graduating from the LDCs; Sustainable Development Goals (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. These suggestions aim to support the ongoing initiatives of the government of Bangladesh to enhance the labour rights situation within the country.

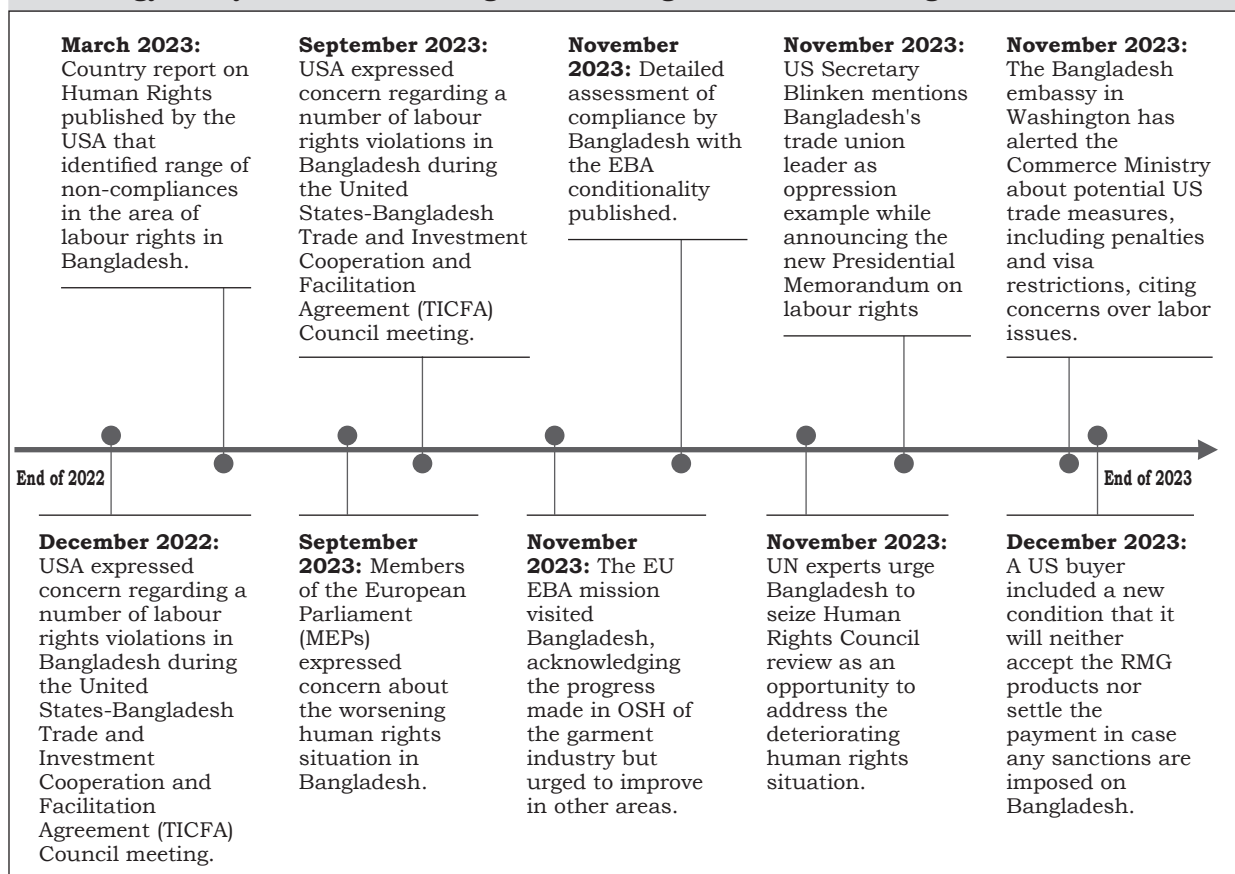
3.6.3 Bangladesh’s labour rights situation: Through the lens of global partners

Through a short sequence of events (Figure 3.33), the issue of labour rights compliance came back to the forefront of major discussion. These events involved expressing concerns and publishing reports from the US, the EU, and the UN regarding the labour rights situation in Bangladesh.

The concern from the US was raised during the United States–Bangladesh Trade and Investment Cooperation and Facilitation Agreement (TICFA) Council meetings in December 2022 and September 2023. In these meetings, representatives from the USA expressed concerns regarding Bangladesh’s legal and operational compliance in freedom of association, collective bargaining, child labour, and forced labour (US Embassy in Bangladesh, 2023). In addition, studies of different

Figure 3.33

Chronology of key events surrounding the labour rights situation in Bangladesh



Source: Authors’ illustration based on different newspapers.

US agencies (such as the US Department of State and the US Department of Labor) highlighted the gaps in Bangladesh in fulfilling labour rights obligations. More importantly, in November 2023, US Secretary of State Antony Blinken referred to the example of the oppression of a Bangladeshi trade union leader while announcing the new Presidential Memorandum on labour rights. The fear of Bangladeshi entities receiving trade and visa restrictions heightened when, in December 2023, a US buyer included the condition of not processing work orders or payments in case any sanction was imposed.

On the other hand, the concerns from the EU regarding the labour rights situation in Bangladesh have also been surfacing in parallel with those of the US. In September 2023, Members of the European Parliament (MEPs) expressed concern about worsening human rights, including the labour rights situation in Bangladesh (European Parliament, 2023). In November 2023, the European Union's Everything But Arms (EBA) review mission visited Bangladesh. It raised concerns as Bangladesh's progress against the targets of NAP was below the expected level (The Business Standard, 2023a). Their concerns particularly included issues related to the inadequate investigation of police harassment and violence against workers and the need to train industrial police on peaceful handling of workers' protests and strikes. Similar concerns are reflected in the EU report assessing Bangladesh's compliance with EBA conditionality.

It is important to note that while there are overlapping concerns among the EU, the USA, and the UN, there are variations in the scope and priority of these concerns. Consequently, in addressing the raised concerns, it is crucial to comprehend their perspectives on Bangladesh and pinpoint specific actions to mitigate them. The following section attempts to identify these concerns from the lens of these countries and the United Nations.

Perspectives of the USA

Given these substantial economic ties between Bangladesh and the USA⁸, any actions taken by the USA, especially in trade, could have significant implications for the Bangladeshi economy. Bangladesh must carefully consider and align with the newly adopted policy, as outlined in US President Joe Biden's memorandum (Figure 3.34), which aims to safeguard labour rights globally.

According to the memorandum, the United States will consider using a comprehensive array of diplomatic measures, such as implementing financial sanctions, trade penalties, and visa restrictions on entities found responsible for undermining labour rights globally. Additionally, US agencies operating abroad, including in countries like Bangladesh, will actively collaborate with governments, workers, labour organisations, trade unions, civil society, and the private sector to safeguard and promote internationally recognised labour rights. These collaborative efforts will involve various activities, including but not limited to, meetings with democratically elected trade union leaders, workers, advocates for labour rights, and labour defenders. Diplomatic channels will be utilised to advocate for labour issues, express concerns about addressing labour violations, and extend invitations to labour experts and external stakeholders to participate in events and conferences related to international trade, commerce, climate, energy, and financing.

⁸The United States stands as the primary destination for Bangladesh's exports, constituting 17.5 per cent of the country's total exports in 2022 (ITC Trade Map, 2023). Furthermore, the foreign direct investment (FDI) from the USA in Bangladesh reached at USD 575 million in 2022 (USTR, 2023). Additionally, the USA plays a crucial role in contributing to Bangladesh's remittance earnings, with 17 per cent of the total remittances in the fiscal year 2022 originating from the USA (Bangladesh Bank, 2023).

Figure 3.34**Activities of the USA emphasised in the newly issued memorandum in promoting labour rights**

Possible actions of the USA	Activities of the US agencies operating in foreign countries	
Visa restriction	Express concerns in support of addressing labour violations	Promotion of trade policies contributing to inclusive economic growth at every level of the supply chain
Trade penalty	Extend invitations to labour experts and external stakeholders to participate in events and conferences related to international trade, commerce, climate, energy, and financing	Assessment of US agencies' interventions to fortify labour rights
Financial sanction	Elevating the role of workers and unions in just energy transition initiatives	Meetings with democratically elected trade union leaders, workers, advocates for labour rights, and labour defenders
Other diplomatic measures	Advocate for labour issues	Maintain appropriate engagement with multilateral organisations
	Enhancing capacities to comprehend and report on critical labour issues worldwide	

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

The memorandum also emphasises the assessment of US agencies' interventions to fortify labour rights, elevating the role of workers and unions in just energy transition initiatives and enhancing agencies' capacities to comprehend and report on critical labour issues worldwide. Furthermore, appropriate engagement with multilateral organisations such as the International Labour Organization (ILO), UN agencies, the Organisation for Economic Co-operation and Development (OECD), the G7, the G20, and other regional entities will be pursued to advance global labour standards. Promoting trade policies that contribute to inclusive economic growth at every level of the supply chain is also a key objective.

As per the memorandum, the USA will promote internationally recognised labour rights. These mainly include 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, a prohibition on the worst forms of child labour and other labour protections for children and minors; the elimination of discrimination concerning employment and occupation; acceptable working conditions of work with regard to minimum wages, hours of work, and occupational safety and health.

The following are the key concerns the USA raised regarding safeguarding these rights in Bangladesh. These concerns have been compiled from a) the Department of State's Trafficking in Persons Report; b) the Human Rights Country Report 2022; c) the United States–Bangladesh Trade and Investment Cooperation and Facilitation Agreement (TICFA) Council meeting minutes; d) Child Labour and Forced Labour Reports of the Department of Labour (DoL) USA.

Worst forms of child labour: The concerns related to the worst forms of child labour include:

- a) The Bangladesh government shut down schools run by Rohingya, warned of seizing UNHCR-issued ID cards from Rohingya teachers, and relocated them to the flood-prone island of Bhasan Char. This overall interrupted the education access of Rohingya children.
- b) Children in Bangladesh continue to suffer from the most severe types of child labour, such as commercial sexual exploitation, often due to human trafficking and forced labour, especially in industries such as fish drying and brick production.
- c) Children are also involved in hazardous work in the manufacturing of garments and leather goods.
- d) Penalties for child labour violations can only be imposed through a sluggish legal process. Even when courts impose penalties, the fines are insignificant in discouraging violations of child labour-related laws. The maximum fine for violating child labour laws is approximately BDT 5,000.
- e) Bangladesh's existing legal framework falls short in defending children from the worst forms of labour, including commercial sexual exploitation.
- f) The hazardous work list in the existing laws of Bangladesh does not cover domestic work, leaving children vulnerable to long working hours, violence, and sexual assault.
- g) The Bangladesh Labour Act 2006 falls short of international standards of eliminating child labour as it excludes certain sectors, such as maritime workers, ocean-going vessels, agriculture farms with fewer than 10 workers, and domestic work.
- h) Bangladesh's laws do not criminalise child involvement in pornographic operations, nor does it explicitly prohibit their recruitment by non-state armed groups. Although the law addresses children transporting drugs, it falls short by not criminalising their participation in drug production.
- i) Compulsory education at age 10 is yet to be implemented in the country as the act has not yet become a gazette. Even if it were implemented, it would make children aged between 10 and 18 vulnerable to child labour, as they would not be required to be in school.

Collective bargaining and freedom of association: The concerns related to collective bargaining and freedom of association include:

- a) The labour law allows the right to join and form unions with government approval but excludes workers in the informal sector.
- b) The legal definition of workers does not include managerial, supervisory, and administrative personnel.
- c) Unions are not allowed for civil servants, firefighters, security guards, and employers' confidential assistants, and are prohibited in Export Processing Zones (EPZ) as well.
- d) The labour law allows union members to strike in case a settlement is not reached; however, it imposes boundaries, as it requires at least 75 per cent of union workers' support for a strike to be legally valid.
- e) The government has the authority to forbid a strike considered to cause 'serious hardship to the community' and can legally terminate any strike continuing for more than 30 days;
- f) The labour laws do not permit strikes for the initial three years of commercial production in factories constructed with foreign investment or owned by foreign investors.
- g) As per the law, a factory only having more than 50 workers to have a participation committee mandatorily;
- h) As per the law, a participation committee is not required if a trade union exists in the enterprise. However, employers frequently appoint workers to participation committees as per their choice instead of adhering to the legal requirement of conducting worker elections for those positions.
- i) The law does not permit workers working in the EPZs to organise and bargain collectively.

- j) EPZ workers can form Worker Welfare Associations (WWA), but they are under the control of the Bangladesh Export Processing Zones Authority (BEPZA). The law allows BEPZA to ban any strike identified as detrimental to the public interest within the EPZs.
- k) Although the law stipulates the establishment of the EPZ labour tribunals, appellate tribunals, and conciliators, these institutions are not yet established. Instead, the EPZ cases are dealt with by 13 labour courts and one appellate labour court.
- l) A federation in one EPZ requires approval from over 50 per cent of WWAs, and they are prohibited from having connections with external political parties, unions, federations, or Non-Government Organisations (NGOs).
- m) Penalties for unfair labour practices and anti-union discrimination are disproportionately lesser than penalties for other laws related to denying civil rights. These penalties are often imposed targeting workers rather than employers.
- n) Workers are not permitted to directly lodge unfair labour practices or anti-union discrimination cases with labour courts under the law. Instead, they must initially file complaints with the DoL regarding alleged unfair labour practices.
- o) As per the law, a minimum of 20 per cent of the total workforce within an enterprise must consent to form a union before the DoL can approve the registration of the union.
- p) There have been cases of police intimidating unions in the RMG sector by repeatedly visiting their meetings and offices, photographing or recording meetings, and monitoring NGOs supporting trade unions.

Forced or compulsory labour: The concerns related to forced or compulsory labour include:

- a) Although the law directs the government to provide access to shelter and protective services for victims of forced labour, such services are not always offered, and victim identification procedures are not consistently followed either.
- b) There are no government-owned shelters for adult male victims.
- c) Kiln operators and their agents often target poverty-stricken villages and urban slums to recruit unskilled labourers.
- d) Traffickers exploit workers in forced labour across different industries, including shrimp and fish processing, tea estates, aluminium, garment factories, brick kilns, dry fish production, and shipbreaking.
- e) The border security forces, and local police officials often allow traffickers to recruit and operate at India-Bangladesh border crossings and maritime embarkation points.
- f) The Rohingyas in refugee camps, lacking formal schooling or livelihoods, remain vulnerable to forced labour and exploitation by local criminal networks.

Discrimination concerning employment and occupation: The concerns related to discrimination concerning employment and occupation include:

- a) The legal framework of Bangladesh does not include a penalty for discrimination.
- b) There was a gap in the implementation of the law, and the penalties were lower than similar offences.
- c) In the RMG industry, women have limited participation in supervisory and managerial roles, and they generally earn less than their male counterparts, even when carrying out similar responsibilities.
- d) The labour law does not have a provision for equal pay for work of equal value.
- e) Women workers in the tea industry experience discrimination, as male workers receive rice rations for their wives, while the spouses of female tea workers are not provided with rice rations.
- f) While the government offers training and employment opportunities to assist third-gender persons in gaining employment, these take place at a very limited scale.

Acceptable conditions of work (wage and working hours): The concerns related to acceptable conditions of work (wage and working hours) include:

- a) The government did not extend the minimum wage regulation to include any new industrial sectors in 2022.
- b) Despite stipulated in labour law to revise the minimum wage every five years, minimum wages in several sectors have remained stagnant for an extended period.
- c) Wages in sectors that do not have a strong presence of trade unions or labour organisations received minimal attention.
- d) The labour law does not mention any penalty for forced overtime or non-payment of overtime wages.
- e) Employers often required workers, including pregnant women, to work 12 hours a day or more to meet quotas and export deadlines, but they do not always properly compensate for overtime. Employers, in many cases, delayed workers' pay or denied full leave benefits.
- f) Legal limits on hours of work were routinely violated.

Acceptable conditions of work (occupational health and safety): The concerns related to acceptable conditions of work (occupational health and safety) include:

- a) The Department of Inspection for Factories and Establishments (DIFE) labour inspectors do not have the authority to make unannounced inspections in establishments of the EPZs.
- b) The DIFE is not allowed to file cases in the labour courts for violations in the EPZs.
- c) DIFE resources are inadequate to inspect and remediate problems effectively.
- d) Although increased focus on the RMG industry improved safety compliance in some factories, resources, inspections, and remediation were not adequate across other sectors.
- e) Many RMG employers failed to comply with legal requirements, including adequately training workers on safety and hazardous materials, providing required equipment, or setting up functioning safety committees.

Acceptable working conditions (informal sector): The concerns related to acceptable working conditions (informal sector) include:

- a) Almost half of the workers in the informal sector received no schooling.
- b) Informal sector workers are not covered by the same wage, hour, Occupational Safety and Health (OSH), and other labour laws and inspections that prevail in the formal sector.
- c) Workers in the informal sector mostly do not have fixed wages, set work hours, or written contracts.
- d) Legal protection for workers in the informal sector remains illusory, although most OSH incidents occur in the informal sector.
- e) Overwork increases the number of workplace injuries among informal sector workers.

Table 3.12 below shows the comparison and concerns raised by the USA and the EU.

Table 3.12**A comparison of concerns raised by the USA and the EU**

Area	Issue	Concerns of the USA	Concerns of the EU
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 for Rohingya children	√	×
Compliance with 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 the informal sector	√	×
	- Unions are prohibited for certain sectors and managerial employees	√	×
	- Legal obstacle to striking	√	×
	- Low penalty for anti-union discrimination	√	×
	- Police intimidation	√	√
Forced labour	- Presence of forced labour	√	√
	- Lack of government support	√	×
	- Vulnerability of the Rohingyas to forced labour and exploitation	√	×
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 unions 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 aforementioned sources

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

Perspectives of the EU

The European Union (EU) has been closely monitoring and actively engaging with Bangladesh concerning labour rights issues as part of its commitment to promoting and safeguarding fundamental human rights globally. In the 'EU joint staff working document report on EU Enhanced Engagement with three Everything But Arms beneficiary countries – Bangladesh, Cambodia, and Myanmar'—significant attention is given to the labour rights scenario in Bangladesh.

The EU's primary focus is ensuring that Bangladesh aligns its labour laws with international standards and creates an environment where workers can exercise their rights freely and without impediments. The report underscores the importance of trade union establishment, addressing obstacles hindering their operation, and promoting inclusivity, particularly in the EPZs. Furthermore, concerns about occupational safety, anti-union discrimination, child and forced labour, and the capacity of the labour inspectorate are highlighted as critical areas requiring urgent attention.

While acknowledging Bangladesh's positive steps, such as the ratification of ILO Convention No. 138 and the formulation of the National Action Plan on the Labour Sector (NAP), the EU stresses the need for sustained efforts and improvements. Legislative amendments, trade union registration processes, and the implementation of the NAP are areas where the EU urges Bangladesh to demonstrate an ongoing commitment to tangible progress.

Concerns from the 2023 EU Report on EBA

Examining Bangladesh's labour rights scenario through the lens of EU standards and concerns underscores the pivotal role labour rights play in shaping the nation's post-LDC graduation trajectory. As Bangladesh strives to navigate its future, particularly in retaining the Everything But Arms (EBA) deal with the EU and securing the coveted Generalized Scheme of Preferences Plus (GSP+) benefits, addressing and aligning with EU labour rights frameworks becomes imperative. The concerns articulated by the EU highlight critical areas that demand immediate attention and concerted efforts for reform. From aligning with international standards and ensuring the establishment of trade unions to addressing issues of discrimination, child labour, and occupational safety, the EU's concerns and recommendations provide a roadmap for Bangladesh's journey toward achieving fairness and justice in labour rights. Following are the concerns raised by the EU regarding the labour rights situation in Bangladesh:

Alignment with international standards: The EU emphasises Bangladesh's critical need to comply fully with international standards in its labour laws. While the ratification of ILO Convention No. 138 on minimum age in 2022 is a positive step, further alignment is required to ensure comprehensive adherence to international labour norms.

Trade union establishment and operation: EU concerns highlight legal obstacles hindering the right to establish trade unions, elect union representatives, and freely organise union activities. To address this, Bangladesh must remove barriers, such as minimum membership requirements and limitations on union establishment in specific sectors, fostering an environment where workers can exercise their rights without impediments.

Export Processing Zones (EPZs): The absence of trade unions in Export Processing Zones (EPZs) remains a significant concern for the EU. To promote inclusivity and workers' rights, concerted efforts should be made to facilitate the establishment of trade unions within EPZs, ensuring that labour protections are extended to all sectors of the economy.

Occupational safety and health standards: Gaps in implementing occupational safety and health standards in factories and workplaces persist. The EU underscores the necessity for Bangladesh to address these shortcomings promptly. Strengthening the regulatory framework, enhancing oversight mechanisms, and ensuring swift enforcement of safety measures are crucial steps towards safeguarding the well-being of the workers.

Anti-union discrimination: EU concerns about discrimination against unions, including instances of violence, harassment, dismissal, and arrest of workers, necessitate immediate attention. Bangladesh should intensify efforts to investigate and prosecute cases related to anti-union discrimination, ensuring that perpetrators are held accountable and that workers can exercise their rights without fear of reprisal.

Labour inspectorate capacity: Shortcomings in the labour inspectorate's capacity and ability demand focused attention. The EU recommends that Bangladesh identify and address these deficiencies, providing the necessary resources and training to enhance the inspectorate's effectiveness in enforcing compliance with labour standards.

Child and forced Labour: The persistence of child and forced labour is a key concern for the EU. Bangladesh should intensify efforts to eradicate these practices, aligning with its commitment under the ratified ILO Convention No. 138. Strengthening monitoring mechanisms, enhancing penalties for violations, and raising awareness are essential components of a comprehensive strategy to eliminate child and forced labour.

Legislative amendments and trade union registration: While acknowledging the legislative amendments made in 2018 and 2019, the EU calls for sustained efforts to bring further improvements. Bangladesh should continue refining the trade union registration process, ensuring it aligns seamlessly with international standards. The government's roadmap, submitted to the ILO in 2021, provides a positive foundation, and ongoing commitment is essential for sustained progress.

National Action Plan (NAP) implementation: The EU acknowledges the publication of Bangladesh's National Action Plan on the Labour Sector (NAP 2021-2026) in alignment with the ILO roadmap. Continued commitment to the NAP, including addressing child labour and fulfilling the commitments beyond the ILO roadmap, is crucial. Regular reporting and transparent communication on progress will foster trust and demonstrate the government's dedication to labour rights improvement.

Labour inspectorate and factory safety: The EU appreciates Bangladesh's commitment to establishing additional posts for labour inspectors. However, the filling of existing vacancies needs expedited attention. Moreover, follow-up on the business plan for remediating factories under the national safety initiative is essential to ensure that workplaces meet the required safety standards.

Human rights advancements: While recognising the positive step of repealing the Digital Security Act in response to EU concerns, Bangladesh must continue aligning its legal framework, including the Cyber Security Act, with international human rights standards. Efforts to address delays in investigating and providing justice for alleged human rights abuses, including torture, ill-treatment, extrajudicial killings, and enforced disappearances, should be intensified.

EU's analysis of Bangladesh's National Action Plan (NAP) on Labour Rights: Progress and EU concerns

The European Union (EU) has thoroughly examined Bangladesh's National Action Plan on the Labour Sector (NAP) as part of its global commitment to fostering improved labour rights. This comprehensive analysis delves into the progress made by Bangladesh in aligning its labour laws with international standards and addresses key concerns raised by the EU. The NAP, finalised in 2021, reflects Bangladesh's commitment to enhancing labour rights, focusing on the ratification of ILO Convention No. 138 and aligning the NAP with an ILO roadmap. Key areas of focus include the elimination of child labour, amendments to labour laws, and the effectiveness of institutional frameworks. The EU's concerns are presented in light of the progress made, shedding light on areas where further improvements are essential. It also scrutinises the institutional commitments outlined in the NAP, identifying responsible national institutions and assessing the extent to which the commitments align with international standards:

Legislative and ratification milestones

In 2022, Bangladesh ratified ILO Convention No. 138 on minimum age, showcasing a commitment to international labour standards. The enhanced engagement process led to finalising the National Action Plan on the Labour Sector (NAP) in 2021, signalling progress in labour rights initiatives. Regular reporting every six months on NAP implementation highlights transparency and accountability.

Legislative amendments for labour rights

Amendments to the Labour Act in 2018 and the EPZ Labour Act in 2019 addressed concerns raised by the ILO Committee of Experts and the EU, demonstrating a responsive approach to international recommendations.

National Action Plan (NAP) and institutional commitments

Published in September 2021, the NAP aligns with an ILO roadmap, aiming to bring the Bangladesh Labour Act and Export Processing Zone Labour Law into compliance with ILO conventions. The NAP identifies responsible national institutions and extends commitments beyond the roadmap, including the ambitious goal of eliminating child labour by 2025. However, the revision and adoption of Bangladesh Labour Rules and EPZ Labour Rules in 2022 fall short of certain international labour standards, indicating room for improvement.

Child labour and education initiatives

The NAP outlines commitments to eliminate child labour by 2025 and hazardous forms of child labour by 2021. A revised list of hazardous work in 2022 is a positive step, but concerns persist about neglected sectors. The NAP needs to address these gaps comprehensively. Notably, the NAP lacks adequate emphasis on education, a critical component for eradicating child labour.

EU Debate Comments on the NAP from the 2021 Verbatim Report of Proceedings

The EU acknowledges Bangladesh's detailed timeline but expresses concern about the less ambitious target date of June 2025 for adopting amended laws. Continued engagement is pledged to expedite these processes. The EU emphasises the urgency of ensuring workers exercise their fundamental rights to associate and form trade unions as soon as possible.

Specific EU concerns and recommendations:

- a) The EU highlights concerns about the timeline for adopting amended laws, urging faster steps to ensure the prompt realisation of workers’ rights.
- b) Specific attention is drawn to eliminating child labour by 2025, with recommendations for more exhaustive measures in updating hazardous job lists.
- c) The EU underscores the need for practical implementation of measures against violence, harassment, and anti-union discrimination, stressing the importance of preventive actions, effective investigations, and dissuasive penalties.
- d) The success rate of applications for trade union registration is a concern, so the EU urges Bangladesh to streamline the process.
- e) Strengthening labour inspection is acknowledged, but the EU emphasises the urgency of expediting this process, filling vacant positions, and creating new posts.
- f) The issue of remediation of faulty factories, including possible closure notices, is highlighted, and timely actions are recommended.
- g) Ratifying ILO Convention No 138 on minimum age and Protocol of 2014 to ILO Convention No 29 on forced labour by December of the current year is urged for alignment with international labour standards.

While progress has been made in Bangladesh’s NAP, it is crucial to address the highlighted concerns, ensuring that the ambitious goals are met within timelines and that comprehensive measures are in place for effective labour rights implementation. The EU’s continued engagement fosters improvements and upholds international labour standards.

Perspectives of the UN

Adhering to the United Nations (UN) and ILO framework of labour rights is paramount for Bangladesh to achieve fair and just labour rights for its workers. The UN and ILO have established fundamental principles and rights at work to ensure the well-being of workers globally. Bangladesh, as a member of the ILO and a signatory to many of these conventions, is obliged to promote and protect rights at the national level. First and foremost, adherence to the UN-ILO framework of labour rights is essential to uphold the fundamental principles and rights at work, as outlined in the ILO conventions. These principles include freedom of association, elimination of forced labour, abolition of child labour, non-discrimination in employment, and the right to a safe and healthy working environment. By aligning its labour laws and practices with these international standards, Bangladesh can create a conducive environment for protecting workers’ rights and welfare.

Moreover, aligning with the UN-ILO labour rights framework is essential for promoting social justice and decent work, which are fundamental to sustainable development. By ensuring that workers are provided with fair wages, safe working conditions, and the right to organise and bargain collectively, Bangladesh can contribute to the overall well-being of its workforce and the nation’s prosperity.

The UN-ILO framework of labour rights

The United Nations (UN) defines worker and labour rights through various principles and conventions to ensure fundamental rights and fair conditions for workers globally. The ILO has established fundamental principles and rights at work, which include:

1. **Freedom of association and collective bargaining:** This principle emphasises the freedom of association and the effective recognition of the right to collective bargaining.

2. **Elimination of forced labour:** The effective elimination of all forms of forced or compulsory labour is a fundamental right at work.
3. **Abolition of child labour:** The ILO is committed to effectively abolishing child labour.
4. **Non-discrimination in employment and occupation:** This principle emphasises the elimination of discrimination in employment and occupation.
5. **Safe and healthy working environment:** Workers have the right to a safe and healthy working environment.

These principles are supported by various conventions and recommendations developed by the ILO. The ILO has identified eight 'fundamental' conventions, covering subjects considered fundamental principles, followingly:

1. Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
2. Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
3. Forced Labour Convention, 1930 (No. 29)
4. Abolition of Forced Labour Convention, 1957 (No. 105)
5. Minimum Age Convention, 1973 (No. 138)
6. Worst Forms of Child Labour Convention, 1999 (No. 182)
7. Equal Remuneration Convention, 1951 (No. 100)
8. Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

These conventions are legally binding international treaties that member states may ratify. They lay down the basic principles to be implemented by ratifying countries and create legally binding obligations for state parties.

In addition to the ILO, the UN Global Compact promotes respect for labour rights and compliance with these principles. The UN Global Compact upholds the principles outlined in the ILO Declaration on Fundamental Principles and Rights at Work, which guide businesses to protect workers' rights.

Bangladesh has ratified several ILO conventions and amended its labour law to align with international standards. However, there are still areas of concern, such as the informal economy, minimum wage, gender equality, and the implementation of gender-responsive legislation. This section will discuss the UN and ILO labour rights framework and the concerns raised about Bangladesh's labour rights scenario from the 2023 UN Universal Periodic Review.

United Nations committee recommendations from the Universal Periodic Review 2021

The United Nations Committee on Economic, Social and Cultural Rights and other UN entities have made several recommendations to Bangladesh to improve human rights and labour conditions. Key recommendations include:

Ratification of conventions: The committees recommended ratifying several International Labour Organization (ILO) conventions, including the Indigenous and Tribal Peoples Convention, 1989 (No. 169), the ILO Domestic Workers Convention, 2011 (No. 189), the ILO Occupational Safety and Health Convention, 1981 (No. 155), the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187), the Violence and Harassment Convention, 2019 (No. 190), the ILO Migration for Employment Convention (Revised), 1949 (No. 97), and the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143).

Prohibition of slavery and trafficking: The Special Rapporteur on Trafficking in Persons, especially Women and Children, highlighted concerns regarding trafficking in women and girls for sexual exploitation, child marriage, and child labour, and its connection to child trafficking. The committees recommended ensuring a human rights-based approach to combat trafficking for purposes of sexual exploitation and taking urgent action to prevent child trafficking.

Right to work and just conditions of work: The Committee on Economic, Social and Cultural Rights expressed concern about workers working in the informal economy without social and labour protection. It recommended regularising the informal economy, establishing a national minimum wage, raising existing minimum wages, reducing the gender pay gap, incorporating the principle of equal pay for work of equal value into labour legislation, addressing legal and practical obstacles to women's employment, promoting women's access to equal opportunities in formal employment and decision-making positions, and ensuring that all victims of occupational accidents and their families were provided with adequate compensation.

Prohibition of forced labour and improvement of working conditions: The committees recommended eradicating abuse and exploitation in the workplace, improving working conditions for all workers, establishing independent and effective labour complaint mechanisms, investigating forced labour cases, and redoubling efforts to reduce and prevent occupational accidents.

Gender equality and empowerment: The committees asked Bangladesh to address patriarchal attitudes and gender stereotypes, enhance women's economic empowerment, promote their access to equal opportunities in formal employment and decision-making positions, and encourage girls and women to choose non-traditional fields of study and occupations.

Implementation of gender-responsive legislation: The United Nations country team recommended implementing gender-responsive legislation, policies, and guidelines supported by budgetary allocations.

Minimum age of employment and education: The United Nations Educational, Scientific and Cultural Organization (UNESCO) recommended raising the minimum employment age to at least 15 years and ensuring students complete their schooling.

Concerns raised regarding Bangladesh in the 2023 UN Universal Periodic Review

The United Nations Committee on Economic, Social and Cultural Rights recommendations highlight specific concerns and areas requiring attention in Bangladesh's labour rights landscape. The call for ratification of additional ILO conventions, particularly those addressing indigenous and tribal people, domestic workers, occupational safety and health, violence and harassment, and migration for employment, underscores the need for a comprehensive approach to labour rights. Issues such as slavery, trafficking, informal labour, and gender inequality remain significant challenges. The recommendations to combat trafficking, regularise the informal economy, establish a national minimum wage, promote gender equality, and improve working conditions reflect a multifaceted agenda for addressing these concerns.

In essence, while progress has been made, there is a clear imperative for Bangladesh to intensify its efforts to fulfil its international obligations and commitments to labour rights. The UN recommendations provide a roadmap for comprehensive reforms, urging the government to enact policies that meet international standards and address the nuanced challenges faced by workers in diverse sectors. A concerted effort to implement these recommendations will enhance the well-

being of the labour force and contribute to Bangladesh's overall social and economic development. A commitment to upholding and advancing labour rights is indispensable for building a just and equitable society.

3.6.4 Bangladesh's labour rights performance: Reflection in data and reports

In recent years, the Bangladesh government has implemented various initiatives, especially following the NAP, 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. Reports indicate that Bangladesh still has work to do in several fundamental areas to improve its outlook on labour rights.

Since 2017, the International Trade Union Confederation (ITUC) has produced the Global Rights Index, offering country-specific insights into labour rights situations. Unfortunately, the index consistently identifies Bangladesh among the 10 worst countries for workers' rights in all of its reports (Table 3.13). Furthermore, the index composition reveals that several longstanding issues,

Labour Rights Issues ↓	2017	2018	2019	2020	2021	2022	2023
The 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
The 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).

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. New concerns have surfaced in recent years, including state attacks on peaceful protests and the introduction of regressive laws (Table 3.13).

The struggle of Bangladesh to uphold labour rights is evident in the data provided by various national NGOs that work for labour rights in the country. According to their findings, 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. Conversely, while Bangladesh has made notable progress in enhancing workplace safety, particularly in the RMG industry, the overall workplace situation remains bleak, especially in non-RMG sectors. In 2021 and 2022, a total of 1,053 and 1,034 workers, respectively, lost their lives due to workplace accidents in Bangladesh (Table 3.14). 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 3.14). However, the peril extends beyond the workplace, with 213 workers losing their lives in 2022 due to oppression and violence outside of work settings (Table 3.14).

Table 3.14

Status of selected labour rights-related indicators

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

Source: BILS (2023).

On a different note, the BBS surveys present a mixed picture regarding progress in eliminating child labour. Their findings reveal a 4.7 per cent increase in the number of children engaged in child labour in 2022 compared to 2013. However, there is also some positive news, with a noticeable reduction of 16.4 per cent in the involvement of children in hazardous work over the past decade (2013-2022) (Table 3.15).

Table 3.15

Most recent child labour scenario in Bangladesh

Category ↓	In 2013	In 2022
Total number of children (Aged between 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.

It is evident that Bangladesh's performance in upholding labour rights somewhat indicates progress below expectations. However, comparing relative to peer countries would provide more

accurate insights into its overall performance. It is to be noted that labour rights violations occur in almost every country worldwide to different degrees. Yet, a strong inspection body with the necessary authoritative power can contribute to improving the state of labour rights compliance. Comparing Bangladesh's responsibility and inspection authority for labour rights with those of their counterparts in other countries reveals that in terms of budget and authority power, Bangladesh lags behind these nations. The data shows that the Ministry of Labour and Employment received the lowest budgetary allocation in FY24 compared to India and Sri Lanka (Table 3.16)⁹. More importantly, unlike many other countries, Bangladesh's authoritative body for labour rights, the Department of Inspection for Factories and Establishments (DIFE), has only the power to file a case in court (Table 3.16).

Table 3.16**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% (Fiscal Year 24)	N/A	N/A	0.29% (Fiscal Year 24)	0.09% (Fiscal Year 24)
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. They can also promptly intervene if there's an imminent danger to workers' health or safety, temporarily suspending operations if necessary.	Penalties for labour law violations include written warnings, fines, work stoppages, and license withdrawals. Labour inspectors issue orders to employers; if non-compliance persists, they escalate to court cases.	Inspectors' powers are limited to filing court complaints for labour law violations, with potential fines and 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. The Director General of Inspection is a quasi-judicial authority and 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.

⁹However, all these ministries of these countries do not have same scope of work. Therefore, budget allocation may vary based on that too.

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, which assesses the legal framework for ensuring the 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 leave, social security, and fair treatment (Table 3.17).

Table 3.17

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).

3.6.5 Conclusions and Recommendations

Over the years, Bangladesh has made progress in several areas related to labour rights. First, the RMG industry has made remarkable progress in improving its safety status. Second, child labour in the hazardous sector decreased compared to the past. Besides, the manpower of the DIFE has increased compared to the previous time. Three new labour courts have been established, digital factory licencing and inspection have been introduced, and employment injury insurance schemes at a pilot scale have also been introduced. However, poor performance persists in the 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. The presence of forced labour and regressive laws is also concerning. Under this circumstance, the following actions should be considered.

Actions Required in Short and Medium-term

Operational

1. A coordinated and immediate approach involving the Ministry of Commerce, Employment, and Foreign Affairs would be required, particularly targeting the start of Government-to-Government (G2G) negotiations. The aim would be to seek time and assistance to avoid facing trade penalties, visa restrictions, sanctions, or the 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 legal actions filed specifically against the protesting workers; provide compensation to the worker's family killed during the protest.
3. Reconsider revising the minimum wage in the garment industry by 2025; establish new wage boards for sectors overdue for a new minimum wage; and extend the minimum wage's coverage to include new sectors.
4. Immediately instruct the industrial police not to create obstacles when workers protest against violating their rights and entitlements.
5. The 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. The objective is to minimise 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 the DIFE.

Legal

1. The draft Labour Law amendment 2022 should be open for further in-country review by 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 offence should be made imprisonment along with the higher penalty.
3. The law amendments should include workplace and anti-union discrimination penalties and remove the barriers to forming trade unions and arranging a strike.
4. The ongoing efforts to increase DIFE's workforce must continue; the budget allocation for this department needs to be increased in the upcoming national budgets.
5. The rules for EPZs should be revised to align with the Bangladesh Labour Act (BLA), ensuring that EPZ workers are not subject to discrimination compared to non-EPZ workers.
6. The Cyber Security Act should be revised to ensure workers do not face intimidation when voicing concerns about unfair labour practices.

Actions Required in Long-term

Operational

1. The industrial police must be trained to avoid acting against workers protesting labour rights violations.
2. The number of labour courts should be further increased, and necessary amendments to the laws/rules relating to them should be made to make them effective.
3. Enforce all court directives against the petitions filed with the High Court Division of the Bangladesh Supreme Court regarding Child Labour (available here).
4. Adopt more projects targeting workers' welfare, particularly for minorities; consider fully implementing schemes like unemployment insurance and workplace injury insurance.

Legal

1. The coverage of labour laws should be extended gradually to include workers in the informal sector and managerial roles.
2. Gradually endorse and implement all International Labour Organisation (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.

3.7 CONCLUSIONS

As the country prepares to welcome 2024, economic issues should continue to engage the attention of Bangladesh's policymakers. As is known, the economy is going through unprecedented challenges, and these will not recede to the back front even after the national elections, which are scheduled for 7 January 2024.

Given the ongoing economic challenges emanating from various fronts, policymakers' key task is restoring macroeconomic stability by considering the current economic realities and identifying concrete measures to address these. In doing so, the government must address immediate issues such as controlling high inflation, increasing revenue collection, stabilising exchange rate volatility and improving forex reserves. This implies that policymakers must do away with their obsession with GDP growth and look at the underlying factors that led to an impressively functioning economy falling into this macroeconomic conundrum. In the recent past, the policymakers of Bangladesh emphasised GDP growth to highlight economic achievement. However, increased inequality and current vulnerabilities informing macroeconomic management have questioned the overindulgence of GDP and GDP growth.

Even though the economy faced strong headwinds towards the end of FY2023, the government had projected a GDP growth of 7.5 per cent for FY2024. However, subsequent developments had overtaken lofty ambitions. Various international organisations have downgraded Bangladesh's GDP growth in FY2024, as they have done for many other countries. The IMF has projected the GDP growth in Bangladesh to be 6.0 per cent, while the World Bank estimates project a GDP growth of 5.6 per cent for Bangladesh in FY2024. The government should revisit its GDP growth target given the emergent scenario. It will be advisable to bring this down. Achieving even a lower target will depend on the performance of key sectors such as agriculture, industry, exports and services. 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 important institutions, including the National Board of Revenue 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 involved in illicit financial flows is almost absent. High inflation is eating away at the purchasing power of low-income people, and market manipulation and syndication are exacerbating the situation. These undermine the impressive progress in socioeconomic indicators, for which Bangladesh has genuinely taken credit. Similarly, lack of accountability has led to overpriced and wasteful public expenditure. Establishing good governance through reform measures will be difficult as the vested interest groups are strong, and the oligarchs have captured public institutions. While the IMF may come up with many 'conditionalities' or 'recommendations', one can say that ownership over the reforms and a strong political drive to implement these 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 take the difficult path of reforms and actions to rescue the economy and deal with the risks and uncertainties looming.

In the various sections of the IRBD, CPD has tried to identify the key challenges in a select set of areas and offers concrete actions to address these. The aim is to restore macroeconomic stability, which should be the core objective of policymakers at this particular juncture.

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ANNEX

Annex Table 3.1

News compilation of major irregularities in banks during 2008-2023

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
1. Sonali, Janata, NCC, Mercantile and Dhaka Bank (2008 -2011)	The proprietor of Fahim Attire Limited borrowed BDT 5.89 crores with forged land documents (Dhaka Tribune, 2013a) (The Daily Star, 2013a)	On 1 August 2013, the ACC filed cases against Sonali Bank, Fahim Attire Limited and some individuals. (Dhaka Tribune, 2013b) (Dhaka Tribune, 2013a)	Suspicious Transaction Report (STR)/Suspicious Activity Report (SAR), according to section 2(z) of the Money Laundering Prevention Act, 2012, as per the definition of Bangladesh Bank (Bangladesh Bank, 2012). Generally, STR/SAR means a formatted report of suspicious transactions/ activities where there is reasonable ground to believe that funds are the proceeds of crime or may be linked to money laundering or terrorist financing, insider trading, and market manipulation-related activity, or the transactions do not seem to be usual as per Bangladesh Bank's definition (Bangladesh Bank, 2012).
2. BASIC Bank (2009-2013)	Embezzlement of BDT 4,500 crores through fake companies and dubious accounts. (The Daily Star, 2013b) (Dhaka Tribune, 2018) (Prothom Alo, 2015)	In September 2015, the ACC filed 56 cases against 120 people in charge of swindling. (New Age, 2018) (Daily Star, 2017) (Prothom Alo, 2016) The Anti-Corruption Commission (ACC) has so far filed 60 cases concerning the scam. (The Daily Star, 2022b)	According to the Credit Risk Management Guidelines by Bangladesh Bank, the bank violated the law of obtaining Credit Report of its borrower as per definition of Bangladesh Bank (Bangladesh Bank, 2016).
3. Sonali Bank (2010-2012)	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 (The Business Standard, 2020)	In October 2012, the ACC filed 11 cases against 27 people, including the chairman of Hallmark Group and Sonali Bank's 20 former and present officials. (Dhaka Tribune, 2018) (The Daily Star, 2016b)	Trade-Based Money Laundering as per the definition of Bangladesh Bank (Bangladesh Bank, 2019).

(Annex Table 3.1 contd)

(Annex Table 3.1 contd)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
4. Janata Bank (2010–2015 & 2013 - 2018)	Fraudulence by Crescent and AnonTex involving BDT 10,000 crores. (Dhaka Tribune, 2018) (Dhaka Tribune, 2018a) (The Asian Age, 2018) (The Daily Star, 2018)	On 30 October 2018, an inquiry committee headed by a BB executive Director submitted a report to the BB on the scam. (Dhaka Tribune, 2018) (The Daily Star, 2018e)	The guidelines of loan application must go through five layers of scrutiny, which was not followed. Additionally, Janata's loans to AnonTex Group accounted for more than 25 per cent of the state-owned bank's capital base, violating the single borrower exposure limit set in the Bank Company Act 1991. (The Daily Star, 2018b).
5. Janata Bank, Prime Bank, Jamuna Bank, Shahjalal Islami Bank Ltd and Premier Bank (June 2011–July 2012)	Embezzlement and laundering of BDT 1,174.46 crore by Bismillah Group and its fake sister concerns. (The Daily Star, 2016a) (New Age, 2016) (The Daily Star, 2013)	On 3 November 2013, the ACC filed 12 cases against 54 people over the scam. (The Independent, 2018) (Dhaka Tribune, 2013) (The Daily Star, 2018f) (The Daily Sun, 2016)	Trade-Based Money Laundering as per definition of Bangladesh Bank. (Bangladesh Bank, 2019). (Dhaka Tribune, 2020).
6. AB Bank (2013–2014)	Money laundering of BDT 165 crores. (The Daily Star, 2018a) (The Daily Sun, 2018) (The Daily Star, 2017b)	On 25 January 2018, the ACC filed a case against former AB Bank chairman and officials. (The Daily Star, 2018) (The Financial Express, 2018) (Dhaka Tribune, 2018) (The Daily Sun, 2018)	According to the Prevention of Money Laundering Act 2002, Money Laundering means illegal transfer, conversion, concealment of location or assistance in the above act of the properties acquired or earned directly or indirectly through legal or illegal means as per definition of Bangladesh Bank (Bangladesh Bank, 2012).
7. Sonali Bank (26th January 2014)	Miscreants decamped with at least BDT 16 crore in cash from Sonali Bank's main branch in Kishoreganj (New Nation, 2014)	One of the masterminds behind Sonali Bank's burglary in Kishoreganj was arrested a month after over BDT16 crore was looted from the branch.	Theft.
8. AB Bank (2014 – 2016)	Money laundering, to the tune of about BDT 236 crore, by using its offshore banking service (New Age, 2020)	On 26 November 2020, the Anti-Corruption Commission filed three cases against 24 current and former officials of AB Bank Ltd, mainly from a past board, including the bank's chairman, M Wahidul Haque, and an individual in charge of siphoning BDT 236 crore. (New Age, 2020)	Money laundering as per the definition of Bangladesh Bank (Bangladesh Bank, 2012).

(Annex Table 3.1 contd)

(Annex Table 3.1 contd)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
9. NRB Commercial Bank (2013-2016)	Gross irregularities over disbursing loans of BDT 701 crores (New Age, 2017) (The Financial Express, 2018) (The Independent, 2017) (Dhaka Tribune, 2017c)	On 29 December 2016, the central bank appointed an observer to restore discipline and corporate governance. (Dhaka Tribune, 2017b) (bdnews24.com, 2017) (Prothom Alo, 2017)	Mercantile Bank chairman Shahidul Ahsan holds the shares 'illegally', as documented by NRBC Bank directors Shaki and Mannan. M Rahman Steel Mills Ltd managing director Maksudur Rahman holds the shares shown as held by director Amir. Regarding Maksudur's shady holdings, the BB probe found that he opened 'fake' accounts in the name of Amir with the Gulshan branches of Mercantile Bank and NRBC Bank. The inspection reports said the two persons sent money to purchase their shares in NRBC Bank from Dubai, United Arab Emirates, through the Wall Street Exchange. Sakhi was also a 'loan defaulter,' but NRBC Bank appointed her as a bank board member, concealing the loan defaulting information. The bank sanctioned BDT 301 crore in loans to him (Ahsan), violating the single-borrower exposure limit. (New Age, 2017) The central bank has removed NRB Commercial Bank's Managing Director (MD) and Chief Executive Officer (CEO) Dewan Mujibur Rahman on charges of violating rules and regulations in sanctioning loans. (The Financial Express, 2017).
10. NRB Bank (November 2014 -January 2018)	Regent Hospital Chairman Mohammad Shahid and three others misappropriated about BDT 1.51 crore between November 2014 and January 2018 (The Daily Star, 2020b)	ACC's Assistant Director Sirajul Haque filed the case against them (The Daily Star, 2020b)	Mohammad Shahid did not have any prior transaction history with the NRB bank. The bank did not take enough collateral for the loan. Misappropriation: Illegal utilisation of other's money. (The Daily Star, 2020c).

(Annex Table 3.1 contd)

(Annex Table 3.1 contd)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
11. Janata Bank (2013-2016)	Thermax Group received LC benefits worth BDT 816 crores (The New Nation, 2018)	In October 2018, Thermax requested to reschedule the entire loan (previously restructured in 2015) again. Janata Bank's board endorsed this proposal by Thermax and sent it to the BB for approval. (The Daily Star, 2018c)	Thermax's LC limit against its three entities is BDT 264 crore, but it received over three times the ceiling. The bank exceeded the single borrower exposure ceiling of 15 per cent set by the Bangladesh Bank (The New Nation, 2018).
12. Farmers Bank (2013-2017)	Fund embezzlement by 11 companies, including NAR Sweaters Ltd and Advanced Development Technologies, involving BDT 500 crores. (The Daily Star, 2018d) (The Daily Star, 2018) (Dhaka Tribune, 2017d)	In January 2018, the BB directed Farmers Bank to conduct a functional audit on credit accounts with outstanding amounts of at least BDT one crore in its Motijheel branch. (The Daily Star, 2018d) In April 2018, the Anti-Corruption Commission (ACC) arrested four accused, including the Farmers Bank's former Audit Committee chairman. (The Independent, 2018) (The Daily Star, 2018) (The Daily Sun, 2018)	Farmers Bank became the subject of raging controversy when it was revealed that a substantial chunk of its loans was given without any application or that money was disbursed to dubious companies even before loans were approved. The bank also concealed information on the defaulted loans to show an inflated profit, breaching the Banking Company Act 1991. (The Daily Star, 2018d).
13. Farmers Bank (2015)	Regent Hospital Chairman Mohammad Shahed, former chairman of Farmers Bank audit committee Mahbulul Haque Chisty, and two others misappropriated BDT 2.71 crore in 2015. (The Daily Star, 2020a)	In July 2020, the Anti-Corruption Commission (ACC) filed a case against them for their involvement in misappropriating BDT 2.71 crore in 2015. (The Daily Star, 2020a)	Shahid was accused of not paying BDT 2.71 crore he owed to The Farmers Bank Limited on 29 January 2019, which was renamed Padma Bank Limited after detecting several loan scams. (New Age, 2022).
14. Bangladesh Bank (February 5, 2016)	The heist of BDT 679.6 crores by international cyber hackers from the treasury account of Bangladesh Bank with New York's US Federal Reserve Bank. (The Daily Star, 2017a) (Al Jazeera, 2018)	On 19 March 2016, the government formed a three-member investigation committee headed by Dr Farashuddin, the Central Bank's former governor. (The Daily Star, 2017a) (The Independent, 2016) (Dhaka Tribune, 2017a)	Bank robbery.

(Annex Table 3.1 contd)

(Annex Table 3.1 contd)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
15. Bangladesh Commerce Bank Ltd (BCBL) (2018)	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 the Bangladesh Bank Remittance Award 2018, which was later awarded on 7 October 2018, despite being a loan defaulter. (The Daily Star, 2022c) (Dhaka Tribune, 2019)	The Bangladesh Bank (BB) has fined Bangladesh Commerce Bank Limited (BCBL) BDT 2 lakh for not informing the central bank about the default loan record of a remittance award recipient (Dhaka Tribune, 2019).	Money laundering as per definition of Bangladesh Bank (2012) (Bangladesh Bank, 2012). Mis-invoicing fake export as per the definition of Bangladesh Bank (Bangladesh Bank, 2019). Fake LC (Bangladesh Bank, 2019) (The Daily Sun, 2019) Section 25 (1)(a) of the Money Laundering Prevention Act, 2012 (MLPA, 2012) requires all reporting institutions to obtain complete and correct information regarding the client's identity of those with whom they deal (referred herein to this Guideline as verification of identity). Unless complete and correct information regarding the identity of potential Clients is obtained at a suitable time, the business relationship should not proceed as per the definition of Bangladesh Bank (Bangladesh Bank, 2012).
16. Dhaka Bank (2018-2019)	A loan officer of Dhaka Bank embezzled BDT 7.8 crore from the accounts of around 38 clients between 2018 and March 2019. (The Daily Star, 2019a)	Anti-Corruption Commission (ACC) has arrested a principal officer of Dhaka Bank's Feni branch. (The Daily Star, 2019a)	Theft.
17. Mutual Trust Bank (MTB) (2019)	The manager at the privileged centre of MTB embezzled about BDT 4.97 crore from a client's account by forging her signature. (The Daily Star, 2019b)	ACC Assistant Director Shafi Ullah lodged the case with its integrated district office, accusing Jahid and his wife, Farhana Habib, of committing forgery and laundering the money. (The Daily Star, 2019b)	Theft.

(Annex Table 3.1 contd)

(Annex Table 3.1 contd)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
18. Janata Bank (2020)	Extended credit beyond the permissible amount of about BDT 1,248.3 crore to S Alam Refined Sugar Industries, a subsidiary of the S Alam Group, and BDT 1,070.7 crore to Global Trading Limited. (The Daily Star, 2023)	The high court directed the Anti-Corruption Commission (ACC) and the Bangladesh Financial Intelligence Unit (BFIU) to investigate the matter (The Business Standard, 2023b)	It exceeded the single-borrower exposure limit. (The Daily Star, 2023).
19. Global Islami Bank (Formerly known as NRB Global Bank) (2021)	Former managing director of NRB Global Bank Proshanta Kumar Halder, also known as PK Halder, is accused of embezzling BDT 11,000 crore, which includes misappropriating more than BDT 3,000 crore from three financial institutions. (Business Inspection, 2022) (The Daily Star, 2022a)	Since January 2021, the ACC has filed 37 cases against him. (The Daily Star, 2022a)	Suspicious Transaction Report (STR)/Suspicious Activity Report (SAR) (Business Inspection, 2022) (Prothom Alo, 2020).
20. Islami Bank Bangladesh Ltd. (2021)	Four bank officials embezzled money over BDT 0.023 crore from the Islami Bank's Shibganj branch in Chapainawabganj. (The Daily Star, 2022e)	On 20 March 2021, the Anti-Corruption Commission filed a case with its Rajshahi office against four Islami Bank Bangladesh Limited officers and a businessman for embezzling BDT 0.023 crore from the bank. (New Age, 2022)	Illicit financial operation as per the definition of (Bangladesh Bank, 2019).
21. Social Islami Bank Ltd(i) (2021)	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 (bdnews24.com, 2022a). (bdnews24.com, 2022b) (The Business Post, 2022a) (The Business Post, 2022b)	Zafar Alam, managing director of SIBL, said the bank was considering filing a case against the customers and contemplating collecting the funds by selling off their properties. (bdnews.com, 2022) According to the bank, it is a false claim. Sharp now owes the bank BDT 163 crore, including profits. (bdnews24.com, 2022a) (bdnews24.com, 2022b) (The Business Post, 2022a) (The Business Post, 2022b)	Mis-invoicing fake export Fake LC, as per the definition of (Bangladesh Bank, 2019).

(Annex Table 3.1 contd)

(Annex Table 3.1 contd)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
22. Islami Bank Bangladesh Ltd. (2022)	The Chattogram-based S Alam Group has taken out about BDT 30,000 crore in loan form, which is way beyond what they are entitled to, BDT 215 crore. (New Age, 2022)	On 30 November 2022, the High Court (HC) asked a lawyer to file a writ petition regarding Islami Bank's alleged lending to ghost companies, as he brought media reports in this regard to the court's notice-seeking directives. (The Business Standard, 2022)	Loan scam. Trade-Based Money Laundering, as per the definition of (Bangladesh Bank, 2019).
23. Islami Bank Bangladesh Ltd. (March -November 2022)	BDT 7,246 crore loans to 9 firms: BB probing 'breach of rules' at Islami Bank (The Daily Star, 2022f)	The court directed Bangladesh Bank's Bangladesh Financial Intelligence Unit (BFIU), Anti-Corruption Commission (ACC) and Bangladesh Police's Criminal Investigation Department (CID) to submit the probe report. The court also ordered the bank authorities to submit the list of bank officials involved in approving loans worth thousands of crores of taka. (Business Insider, 2022)	Islami Bank Bangladesh Ltd for disbursing BDT 7,246 crore in loans to nine companies this year, grossly violating banking rules. Most of the nine companies were sister concerns of the Rajshahi-based Nabil Group. The information about the firms was false. (The Daily Star, 2022f).
24. Social Islami Bank (SIBL) and First Security Islami Bank (2022)	The ghost companies availed another BDT 2,320 crore loans (The Business Standard, 2022)	The High Court (HC) directed the authorities concerned to investigate reports of lending irregularities by Islami Bank Bangladesh Ltd (IBBL), Social Islami Bank Ltd (SIBL), and First Security Islami Bank Ltd (FSIBL) within four months. (The Business Standard, 2022)	Loan scam. (The Daily Star, 2022g) (The Daily Star, 2022d) Trade-Based Money Laundering, as per the definition of (Bangladesh Bank, 2019).
The total amount in billion BDT			922.61
The total amount in crore BDT			92,261
Total amount as a share of GDP FY23 in per cent (BBS., 2023)			2
Total amount as a share of National Budget FY24 in per cent (MoF, 2023)			12

Source: CPD compilation based on published news reports cited in the table.

Note: (i) CPD is aware that the SIBL authority sent a rejoinder to bdnews24.com and The Business Post, mentioning that the information was misleading. However, in response to the rejoinder from SIBL, bdnews24.com published a response stating, 'bdnews24.com's report is based on the Bangladesh Financial Intelligence Unit's investigation. The BFIU has also informed the Customs Intelligence and Investigation Directorate. The SIBL admitted to allowing the companies to open back-to-back

(Annex Table 3.1 contd)

LCs, and the number of LCs mentioned by the bank almost matched the one found by the BFIU. The bank said it started a case over the dues, but there is a huge difference between the amounts mentioned by the SIBL and the BFIU. The SIBL said Sharp exported goods worth BDT 1.44 billion and BDT 906.5 million. In that case, the companies do not have any dues over the LCs as the bank claimed the companies owe BDT 1.85 billion over the LCs. The BFIU said it did not find goods matching the LCs' accounts in the companies' warehouses. The SIBL did not touch upon the matter'.

(<https://bdnews24.com/business/vr5q3opjsp>). After the response from bdnews24.com, SIBL did not provide any subsequent clarification on this matter.

Similarly, The Business Post responded to the rejoinder from SIBL by stating, 'The facts in our article came from official documents of the regulator. The Financial Integrity and Customer Services Department (FICSD) of the central bank sent two letters to the Director General of the Customs Intelligence & Investigation Directorate on April 21 and June 8 this year regarding inspection reports on SIBL's Banani and Mirpur branches. The report 'How can an ailing company bleed \$1.6 billion from SIBL?' is based on two letters issued by the central bank, of which The Business Post has obtained copies. Those letters clearly mention that the SIBL's Banani and Mirpur branches provided back-to-back LCs worth nearly \$1.6 billion, or BDT 16,500 crore when converted to local currency. As per the letters, the central bank inspection team had found that the SIBL had issued hundreds of back-to-back LCs to the Sharpe Knitting & Dyeing Industries and Blithe Fashion under the duty concession facility despite those companies having no valid bonded warehouse licences. This is a clear violation of existing regulations. We, therefore, stand by our report'

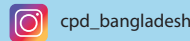
(<https://businesspostbd.com/economy/banking/rejoinder-our-reply>).

After the response from The Business Post, SIBL did not provide any subsequent clarification on this matter.



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

- Bangladesh Economy in FY2022–23: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2021–22: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2020–21: Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy and National Elections 2018: Priorities for Electoral Debates
- Bangladesh Economy in FY2017–18: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2016–17: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2015–16: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2014–15: Third Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2013–14: Third Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2012–13: Second Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2011–12 and Outlook for FY2012–13
- Bangladesh Economy in FY2011–12: Third Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2010–11 and Outlook for FY2011–12
- Bangladesh Economy in FY2010–11: Second Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in 2009–10 and Outlook for 2010–11
- বাংলাদেশের অর্থনীতি পর্যালোচনা ২০০৮–০৯
- Bangladesh Economy in FY2009–10: An Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2008–09 and Outlook for FY2009–10
- Development of Bangladesh with Equity and Justice: Immediate Tasks for the New Government
- Bangladesh Economy in FY2008–09: An Interim Review of Macroeconomic Performance
- বাংলাদেশের অর্থনীতি: বিশ্লেষণ ২০০৭–০৮ এবং অন্তর্বর্তীকালীন পর্যালোচনা ২০০৮–০৯
- State of the Bangladesh Economy in FY2007–08 and Outlook for FY2008–09
- Recent Inflation in Bangladesh: Trends, Determinants and Impact on Poverty
- Bangladesh Economy in FY2007–08: An Interim Review of Macroeconomic Performance
- Emerging Issues in Bangladesh Economy: A Review of Bangladesh's Development 2005-06
- বাংলাদেশের অর্থনীতি পর্যালোচনা ২০০৭-০৮



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