Unedited version

Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2017-18

First Reading

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Contents

CPD IRBD 2018 Team

Dr Debapriya Bhattacharya and *Professor Mustafizur Rahman,* Distinguished Fellows, CPD were in overall charge of preparing this report as Team Leaders.

Lead contributions were provided by *Dr Fahmida Khatun,* Executive Director; *Dr Khondaker Golam Moazzem*, Research Director; and *Mr Towfiqul Islam Khan*, Research Fellow, CPD.

Valuable research support was received from *Mr Md. Zafar Sadique,* Senior Research Associate; *Mr Estiaque Bari*, Senior Research Associate; *Mr Mostafa Amir Sabbih*, Senior Research Associate; *Mr Muntaseer Kamal*, Research Associate; *Ms Sherajum Monira Farin*, Research Associate; *Mr Md Kamruzzaman*, Research Associate; *Ms Mastura Safayet*, Programme Associate; *Ms Jishan Ara Mitu,* Programme Associate; *Mr Suman Biswas,* Programme Associate; *Mr Subroto Dey,* Programme Associate; *Mr Muntasir Murshed,* Programme Associate*, Mr Syed Yusuf Saadat*, Programme Associate; and *Ms Tasniya Jahan*, Research Intern*,* CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2018 Team.

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In line with CPD IRBD tradition, CPD had organised an Expert Group Consultation on 28 December, 2017. The working document prepared by the CPD IRBD 2018 Team was shared at this meeting with a distinguished group of experts. The CPD Team is grateful to all of those present at the consultation for sharing their views, insights and comments on the draft report. A list of participants of the meeting is provided below (in alphabetical order):

Mr Ranjit Kumar Chakraborty	Former Additional Secretary Ministry of Finance
Dr A B Mirza Azizul Islam	Former Advisor to the Caretaker Government Ministries of Finance and Planning
Dr Ahsan Habib Mansur	Executive Director Policy Research Institute of Bangladesh
Dr Muhammed Muqtada	Former Director Policy Planning Employment Sector, ILO

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The CPD IRBD 2018 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

State of the Bangladesh Economy in FY2017-18

First Reading

SECTION I. INTRODUCTION

The present report is the first reading of the State of the Bangladesh Economy in FY2018. This report has been prepared under the flagship programme of the Centre for Policy Dialogue (CPD) titled *Independent Review of Bangladesh's Development* (IRBD). The purpose of this report is to provide an assessment of the performance of the key sectors of the Bangladesh economy, and to trace the trends in crucial macroeconomic correlates during the first half of FY2018. Looking from the vantage point of the half-way mark of FY2018, the review puts under scrutiny the quality of macroeconomic management and identifies strengths and weaknesses of the economy. The report makes use of the latest available data and information from domestic and international sources. Insights from key informants are also taken into cognisance to strengthen the analyses further.

Following this introduction, Section II reassesses the major macroeconomic trends in FY2017 to establish the benchmarks to evaluate the performance in FY2018 in a comparative setting. In Section III, performance of key macroeconomic variables is examined for the early months of the ongoing fiscal year. Section IV deals with a select set of contemporary issues including the *Rohingya* crisis, recent flood damage and post-flood management, and crisis in the banking sector. Finally, the report closes with some concluding remarks and anticipates possible outlook for the remainder of FY2018.

SECTION II. FY2017 REVISITED

As part of its regular annual assessment, CPD had earlier reviewed the performance of the Bangladesh economy in May 2017, just prior to the announcement of the national budget for FY2018. According to our analysis of the time, the macroeconomic trends transmitted a number of disquieting signals including increasing public debt burden, persisting weakness in the banking sector performance, sluggish capital market, lower growth in export earnings, and decline in remittance inflow (CPD, 2017). The report was based on data available primarily for the first three quarters of FY2017. Our analysis was undertaken in the context of the budget for FY2018 which was programmed on the basis of the revised budget estimates for FY2017. As the revised and final full fiscal data for FY2017 for all the indicators are now available, macroeconomic correlates need another round of assessment to set the benchmark for FY2018.

2.1 Economic Growth and Investment

For the first time in the recent past, BBS published the final estimates of the growth of gross domestic product (GDP) of the outgoing fiscal year, FY2017, within the first half of the subsequent fiscal year. According to the BBS final estimates, the real GDP growth in FY2017 increased by 0.17 percentage points to register 7.28 per cent growth. This is the highest ever growth achieved considering the new base year of 2005-06 for estimating national accounts. This is also for the second successive time that the final estimates of GDP growth by the BBS surpassed the planned target, which was set at 7.2 per cent for FY2017.

An analysis of contribution to GDP growth and a comparison with the previous fiscal year's performance (7.11 per cent GDP growth) shows that the incremental growth owed primarily to an increased contribution from the services sector, and in particular, from the wholesale and retail trades sector (Table 2.1). Growth contribution from financial intermediations also improved significantly in a year that was marked by deteriorating performance of the banking sector of the country. In contrast, in FY2016, industries (broad) sector was the lead contributor to the GDP growth of 7.11 per cent. In FY2017, industries sector's contribution has dropped due to lower contribution by both manufacturing and electricity sectors.[1] In case of agriculture (broad) sector, the contribution was revised to lower than that reported in the provisional estimates as it incorporated the substantial loss of crop due to flash flood in *haor* areas in April 2017.

[1] On the contrary, Quantum Index of Industrial Production (QIIP) data showed that electricity production growth has significantly increased by 11.0 per cent in FY2017, which was only 4.8 per cent in FY2016.

Table 2.1: Incremental Contribution to GDP Growth (%) in FY17

Sectors	FY16	FY17 (p)	FY17
Agriculture Sector	**0.43**	**0.50**	**0.44**
Crops & horticulture	0.07	0.14	0.08
Industries Sector	**3.24**	**3.18**	**3.10**
Manufacturing	2.26	2.21	2.21
Electricity	0.16	0.17	0.11
Services Sector	**3.21**	**3.31**	**3.41**
Public administration and defense	0.38	0.34	0.32
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	0.88	0.92	0.99
Transport, storage & communication	0.67	0.73	0.73
Education	0.26	0.26	0.26
Health and social works	0.13	0.13	0.13
Financial intermediations	0.25	0.25	0.30
GDP growth	**7.11**	**7.24**	**7.28**

Note: (p) stands for provisional estimates.
Source: CPD calculation from BBS (2017) data.

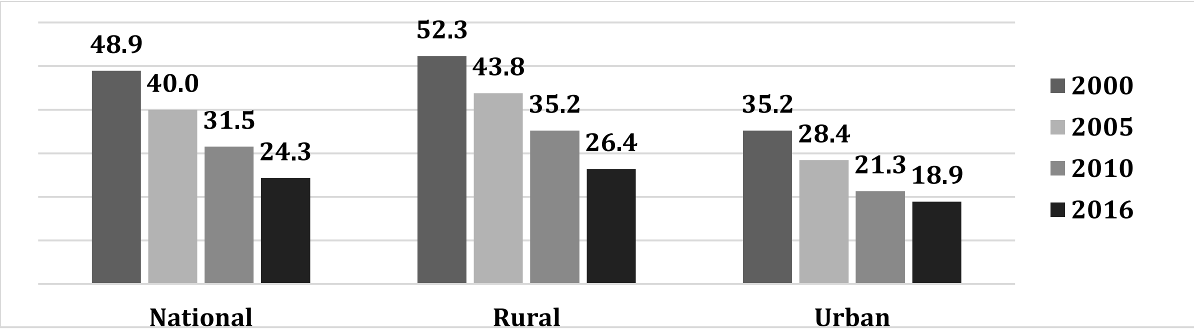
Nonetheless, as BBS data showed, industries sector has continued to grow at double digit (10.2 per cent) with significant contribution from the large and medium scale manufacturing industries (11.0 per cent growth). Quantum Index of Industrial Production (QIIP) data suggests that a number of large scale industries posted significant growth in FY2017 including leather and related products (53.4 per cent growth) inspite of the production dislocation due to shifting of factories from the Hazaribagh area, textile (21.2 per cent), pharmaceuticals and medicinal chemical manufacturer (32.1 per cent) and manufacture of other non-metalic mineral products (32.3 per cent). Combined weight of these four industries was about one-third of the total industrial production. However, this high growth recorded by large scale industrial production failed to get reflected in the export figures. Indeed, export earnings eventually registered only 1.7 per cent growth in FY2017 and in particular the RMG exports posted only 0.2 per cent growth. It is also pertinent to note that, in FY2017, export earnings of leather and leather products increased by only 6.3 per cent. The export figures do corroborate the high growth of the manufacturing sub-sectors, putting under doubt the reliability of the production data.

Private investment as share of GDP, in the backdrop of some rise in the past, remained more or less at the same level, rising to 23.1 per cent from 23.0 per cent in FY2016. Private sector credit growth was consistent throughout the period and recorded 15.6 per cent growth against the 16.5 per cent target growth as of June 2017. On the other hand, public investment has increased by a not insignificant 0.7 percentage points to reach 7.4 per cent of GDP in FY2017. Gross national savings as a share of GDP has declined to 29.6 per cent which was 30.8 per cent in FY2016. Per capita GNI has increased to USD 1610 per capita in FY2017 from USD 1,464 in FY2016, a rise of 9.9 per cent.

2.2 New Trends in Poverty and Inequality

The new estimates of Household Income and Expenditure Survey (HIES) 2016 (survey being conducted during April 2016 – March 2017) has brought forth a number of interesting trends in poverty and inequality. The poverty head count rate, calculated by using the Cost of Basic Needs (CBN) method, declined to 24.3 per cent in 2016 at the national level from 31.5 per cent in 2010 (Figure 2.1). Over the same timeframe, rural poverty reduced to 26.4 per cent from 35.2 per cent while urban poverty went down to 18.9 per cent from 21.3 per cent over the aforesaid period. Despite the improvement, poverty reduction continues to be a major challenge with poverty being an important feature in the rural areas with its relatively higher incidence when compared to the urban counterparts. One encouraging note in this regard is that the difference between the rural and urban poverty incidence has been on gradual decline over time. In 2000, the difference was about 17 percentage points which had come down to 7.5 percentage points in 2016.

Figure 2.1: Poverty Rate in Bangladesh Based on the Upper Poverty Line (%)



Source: BBS (2017).

Despite this being the most important national target, pace of poverty reduction has been exhibiting a declining trend at all levels. The Seventh Five Year Plan (7FYP) recognized accelerated poverty reduction as the key objective during the Plan (2016-20) period. During the 2010-16 period, national poverty rate declined by 1.2 percentage points per annum; in contrast, the decline was 1.8 and 1.7 percentage points per annum respectively for the 2000-05 and 2005-10 periods. Despite rural poverty decline being above 1.5 percentage points per annum for the aforementioned three periods, urban poverty reduction has been consistently at slower pace – this was only 0.4 percentage point per annum during 2010-16.

Poverty and employment estimates pose questions in context of the benefits of the attained economic growth. Indeed, it is perplexing that reduction in poverty level decelerated at a time when Bangladesh's GDP was growing at an annual average of 6.5 per cent. One key reason behind this phenomenon could be the composition (quality) of the attained growth. In recent years, growth was mainly driven by the manufacturing and services industries. On the other hand, contribution of agriculture to growth has been on the decline. It must be noted that agriculture still accounts for over 42 per cent of the total employment in Bangladesh. Concurrently, employment growth has been quite dismal in recent years. During 2010-16, the growth in average annual employment was 1.9 per cent, which was 2.7 per cent during 2005-10 (Table 2.2). Lower employment growth rate coupled with declining share of national income from agriculture may well have contributed to low pace of labour income growth in comparison to the GDP growth. As a result, income of poor people – which typically depend on labour income– has been growing at a sluggish pace compared to that of the relatively richer ones.

Table 2.2: GDP Growth, Employment Growth, and Poverty Reduction Trends in Bangladesh

Average annual	2000-05	2005-10	2010-16
GDP growth (%)	5.1	6.1	6.5
Employment growth (%)	3.3	2.7	1.9
Poverty reduction (percentage point)	1.8	1.7	1.2

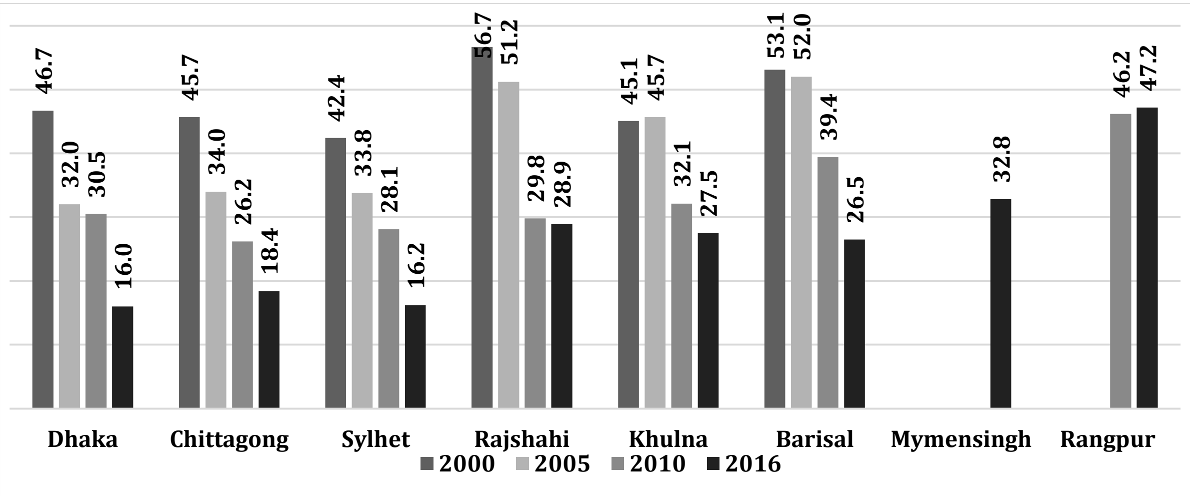
Source: CPD calculation from BBS data.

Note: Compounded annual growth rate (CAGR) was deployed to calculate average annual growth of GDP and employment. For employment growth, figures from Bangladesh Labour Force Survey-1999-00; 2005-06; 2010; and 2015-16 was used.

The emerging scenario sends a cautionary note to the effect that poverty reduction in Bangladesh will become progressively challenging. Addressing the attendant tasks will call for improved targeted programmes favouring the more marginalised groups, creating jobs for them and expansion of the social safety net programmes. Along with this, the emergence of the urban poverty incidence inertia must also be thoroughly analysed and corrective steps should be taken.

The East-West divide in Bangladesh poverty scenario appears to have reappeared. Regional disparity in poverty incidence has been a longstanding feature in the economy of Bangladesh. The Eastern Divisions of Bangladesh (Chittagong, Dhaka and Sylhet) have traditionally fared well compared to their Western counterparts (Barisal, Khulna, Rajshahi) in the context of poverty incidence (Figure 2.2). The picture is about the same as regards the rate of poverty reduction in these Divisions. During the 2010-16 period, all the Eastern divisions experienced significant decline in their respective poverty rates. At the same time, the Western regions – except Barisal – managed to ensure marginal poverty reduction. This scenario was in stark contrast to the 2005-10 period when the Western divisions outpaced the Eastern ones with respect to poverty reduction. The newly formed Divisions, Mymensingh and Rangpur, for which long time series data is not available – also exhibit parallel dynamics.

Figure 2.2: Poverty Rates in Different Divisions of Bangladesh Based on Upper Poverty Line (%)



Source: BBS (2017).

Note: Mymensingh was under the Dhaka Division at the time of HIES 2010. Prior to 2010, Rangpur Division was part of Rajshahi Division. The poverty estimates of Rangpur Division for 2016 is not directly comparable with 2010 due to methodological differences.

On a positive note, standard of living indicators displayed some signs of progress over the corresponding period. In general, people's access to amenities – better housing material, drinking water source, sanitation, electricity, mobile and internet facilities – has improved over the 2010-16 period. Literacy rate has also portrayed improvement at national, rural and urban levels during 2010-16. However, the pace of progress in the urban areas was rather slow, and this holds for both male and female demographics.

Income growth has not been able to match expenditure growth. Household income has increased during 2010-16 at national, rural and urban levels. However, the pace of household expenditure growth has outpaced that of income at national and rural levels. During 2016, the expenditure for rural households has surpassed their income. To this end, it must be noted that rural households have witnessed a 47 per cent increase in expenditure between 2010 and 2016 while this figure was 27 per cent for the urban households. Income growth for both types of households was about 37 per cent.

The evidence of income concentration at the top is both disquieting and overwhelming. During the 2010-16 period, income inequality in Bangladesh was on the rise at national, rural and urban levels. Over the same time frame, consumption inequality was fairly constant. It was discussed earlier that income growth of the poor people was sluggish compared to that of the non-poor people. This factor is triggering an increase in income inequality. The share of income of the lowest 5% households has dropped down to 0.23 per cent in 2016 from 0.78 per cent in 2010. In contrast, the income share of the top 5% households has gone up to 27.89 per cent in 2016 from 24.61 per cent in 2010. This is another indication of income concentration at the top which has also contributed to increased income inequality.

The abovementioned scenario becomes even more depressing if household income distribution is investigated at the decile level. If monthly (nominal) income per household is considered, it appears that the bottom 5 per cent and 10 per cent households, at all levels, have suffered significant decline between 2010 and 2016. Meanwhile, the situation was favourable for households in other deciles – particularly in the top 5 per cent and 10 per cent levels (Table 2.3). However, the situation was more equitable between 2005 and 2010. Based on the above analysis, the unambiguous conclusion that can be inferred is that the rich are getting richer while the poor are getting poorer.

Table 2.3: Decile Distribution of Average Household Income

Household distribution	2005			2010			2016			Growth *(%)		
	N	R	U	N	R	U	N	R	U	N	R	U
Bottom 5%	1,109	1,073	1,402	1,791	1,698	2,504	733	668	1,219	-59.1	-60.7	-51.3
Decile-1	1,441	1,371	1,883	2,296	2,152	3,262	1,610	1,415	2,618	-29.9	-34.2	-19.7
Decile-2	2,348	2,212	3,160	3,696	3,406	5,091	4,512	4,006	6,747	22.1	17.6	32.5
Decile-3	2,953	2,767	4,049	4,706	4,332	6,508	6,442	5,782	9,432	36.9	33.5	44.9
Decile-4	3,602	3,303	4,823	5,740	5,239	8,254	8,180	7,304	11,260	42.5	39.4	36.4
Decile-5	4,293	3,919	5,922	6,899	6,204	10,396	9,934	8,853	13,336	44.0	42.7	28.3
Decile-6	5,165	4,650	7,094	8,403	7,381	12,587	11,975	10,616	16,179	42.5	43.8	28.5
Decile-7	6,288	5,650	8,925	10,400	8,982	15,322	14,542	12,605	18,842	39.8	40.3	23.0
Decile-8	7,967	7,003	10,651	13,201	11,095	19,556	17,747	15,730	23,671	34.4	41.8	21.0
Decile-9	10,855	9,405	15,150	18,298	14,993	26,492	23,662	20,684	30,034	29.3	38.0	13.4
Decile-10	27,112	20,674	42,982	41,141	32,697	57,284	60,846	46,522	93,509	47.9	42.3	63.2
Top 5%	38,795	28,074	63,552	56,500	44,246	77,070	88,941	64,762	144,958	57.4	46.4	88.1

Note: N, R and U imply National, Rural and Urban respectively. '*' indicates growth in 2016 over 2010.
Source: Authors' calculation from BBS (2017).

Wealth inequality depicts an even direr picture. Bhattacharya *et al*. (2017) attempted to calculate wealth inequality for Bangladesh based on 2005 and 2010 HIES data.[2] Rich population's share in total wealth (in terms of value) surged from 2005 to 2010 at the country, rural and urban levels while the scenario was exactly the opposite for the poor (Table 2.4). This situation is reflected on the upward movement in the Gini coefficient. Indeed, national Gini coefficient, which is 0.74, reflects a significantly high level of inequality by any standard.

Table 2.4: Percentage Share of Wealth at Household Level (%), and Gini Coefficient

Household distribution	National		Rural		Urban	
	2005	2010	2005	2010	2005	2010
Bottom 1%	0.00	0.00	0.00	0.00	0.00	0.00
Bottom 5%	0.06	0.04	0.01	0.08	0.02	0.02
Top 5%	47.99	51.32	35.24	35.75	51.67	53.64
Top 1%	24.00	28.87	13.63	16.22	24.32	30.09
Gini Coefficient	0.72	0.74	0.63	0.62	0.78	0.79

Source: Bhattacharya *et al*. (2017)

2.3 Fiscal Framework

CPD, in its immediate reaction to the national budget for FY2018, had observed that the widening gap between planned and realised budget was becoming a common feature, and weakness, concerning the public finance framework. At the end of the FY2017, both from income and expenditure sides, the ambitious targets set for FY2017 did not materialise; rather, the gap has widened further when juxtaposed to that of FY2016. This is particularly true in case of resource mobilisation and public expenditure targets.

Revenue earnings. Since FY2014, the government had to revise the revenue targets, particularly National Board of Revenue (NBR) targets, downward, for four years in a row now. In FY2017, NBR's budgetary targets were slashed by Tk. 18,152 crore (7.5 per cent of the budgetary targets) from the original plan. With no exception to the previous years, NBR had put up a special effort to infuse momentum in revenue collection during the last quarter of FY2017; however, it has failed by a significant margin. At the end, NBR fell short even of its revised target by Tk. 13,502 crore. According to the MoF data, overall revenue earnings (i.e. NBR tax, non-NBR tax and non-tax) in FY2017 experienced a shortfall of about Tk. 42,000 crore from the original target. It may be noted here that, CPD had estimated that the total revenue earnings may fall short of the target by about Tk. 38,000 crore in FY2017 (CPD 2017). Hence, revenue growth target for FY2018, which was already set at the higher level of 31.8 per cent based on the revised budget for FY2017, in effect resulted in the unrealistic growth target of 43.5 per cent. Final figures of FY2017 revealed that realised revenue collection growth was only 16.1 per cent (Table 2.5), with 82.7 per cent of the revenue collection target having been achieved in FY2017. This was quite similar to the attainment rate of 83 per cent in FY2016. Consistent falling of income tax's share in the revenue in recent years has emerged as a nagging concern. Share of income tax in FY2017 was only 29.5 per cent of total revenue income, declining from its peak of about 34.0 per cent in FY2014.

[2] In this calculation, wealth was defined as the sum of value of agricultural assets, non-agricultural enterprises, owner-occupied houses, consumer durable goods, other land and properties, and other assets.

Table 2.5: Shifts in the Fiscal Framework: Growth Targets and Achievements in FY2017

Indicators	FY17B over FY16RB	FY17B over FY16A	FY17RB over FY16A	FY17A over FY16A	Attainment rate (%)	
					FY16	FY17
Revenue collection	**36.8**	**40.4**	**26.3**	**16.1**	**83.0**	**82.7**
NBR tax revenue	35.4	38.9	26.5	17.3	82.9	84.4
Non-NBR tax revenue	34.3	28.4	28.6	11.6	96.1	86.9
Non-tax revenue	47.0	53.6	24.6	9.0	80.4	71.0
Total expenditure	**28.7**	**42.4**	**32.6**	**9.3**	**81.1**	**76.8**
ADP	21.6	38.3	38.3	-3.5	82.5	69.8
Non-ADP	32.5	44.4	29.7	15.7	80.4	80.1
Month when change reported	*Jun'16*	*Sep'16*	*Mar'17*	*Sep'17*		

Note: FY17B refers to budgetary target growth in FY17;
FY17RB refers to revised budgetary target growth in FY17;
FY17A refers to actual growth in FY17
Source: CPD calculation from MoF (2017) data.

Expenditure. On the expenditure side, actual budgetary expenditure was rather poor when compared to the revenue earnings. Actual expenditure in FY2017 was only 76.8 per cent while the same was 81.1 per cent in FY2016. More importantly, spending on development projects was slower than the non-development expenditure in FY2017 and suffered from heavy spending towards the closing months, undermining the quality of work commonly known as the 'last quarter syndrome'. According to MoF data, implementation of ADP projects was found to be only 69.8 per cent of the original allocation. Indeed, the MoF data shows that actual spending in absolute term in FY2017 was also lower than that of FY2016.

It deserves to be noted here that, actual ADP implementation rate reported by the IMED was 91.1 per cent of the original allocation; this was significantly higher than MoF data. Indeed, the difference is about Tk. 23,575 crore. Similar difference is also evident in case of revenue earning data reported by the NBR and the MoF. Thus, greater inter-ministerial coordination and consultation is called for to reconcile the final figures reported by these concerned government agencies.

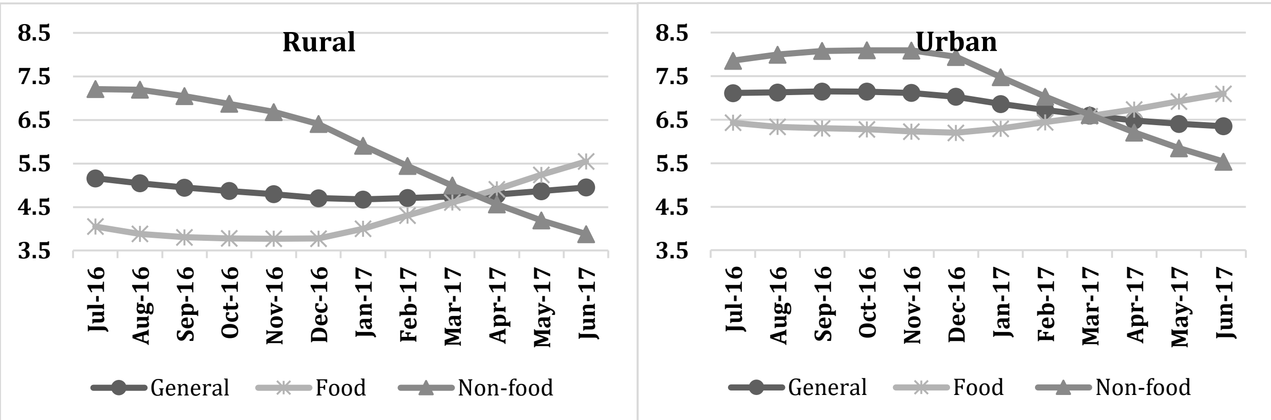
Budget deficit. In the backdrop of persistent low levels of attainment of budgetary targets in FY2017, the budget deficit remained well within the target. Budget deficit turned out to be much lower at 3.1 per cent of GDP against a target of 5.0 per cent of GDP for FY2017. Yet again, heavy reliance was on domestic sources which accounted for about 87.0 per cent of total financing in FY2017. One predominant source of financing throughout the fiscal was net sales of National Savings Deposit (NSD) certificates mainly because NSDs offer significantly higher interest rates than the banking system. At the end of FY2017, net sale of NSD certificates surpassed the original target of Tk. 19,610 crore by a significant margin with the accumulated figure turning out to be to the tune to Tk. 51,590 crore. At the end of FY2017, government's net borrowing from the banking system was (-) 8,515 crore indicating net repayment of earlier borrowing.

Evidently, the targets for FY2018 were set under the assumption that the revised targets for FY2017 will be attained when all accounts were closed. The year closing final figures now reveal that the revenue collection and public expenditure figures that were taken as reference numbers for preparation for the fiscal framework were on the high side and by significant margin. Taking note of the past trends, and interest rate on bank deposits being at low levels, one may apprehend that the financing plan for budget deficit in FY2018 will also diverge significantly in favour of high cost sources.

2.4 Inflation

According to BBS data, the annual average inflation in June 2017 was 5.4 per cent – well contained within the target of 5.8 per cent envisaged in the Monetary Policy Statement of Bangladesh Bank. Indeed, inflation has steadily come down to 5.4 per cent in January 2017 and remained there until the end of FY2017. Non-food inflation started to drop from 7.5 per cent in September and stayed at 4.6 per cent in June 2017. On the other hand, food inflation started to move up from 4.5 per cent in December 2016 and reached 6.0 per cent in June 2017 primarily due to higher global food prices and various natural disasters. The *haor* flash flood in April caused significant loss of *boro* crops. This, coupled with government's failure to achieve procurement targets of food grains and inability to ensure timely import of rice, resulted in high food inflation. Indeed, from April 2017 onward, food inflation started to climb above the national average, while non-food inflation went below the national average. The rural-urban dynamics of inflation was rather interesting in FY2017. For both food and non-food commodities, inflation was lower in rural areas throughout the FY2017 (Figure 2.3). However, as the Figure 2.3 depicts, rural areas tend to succumb to inflationary pressure in a more intense manner compared to urban areas.

Figure 2.3: Inflationary Trends in FY2017

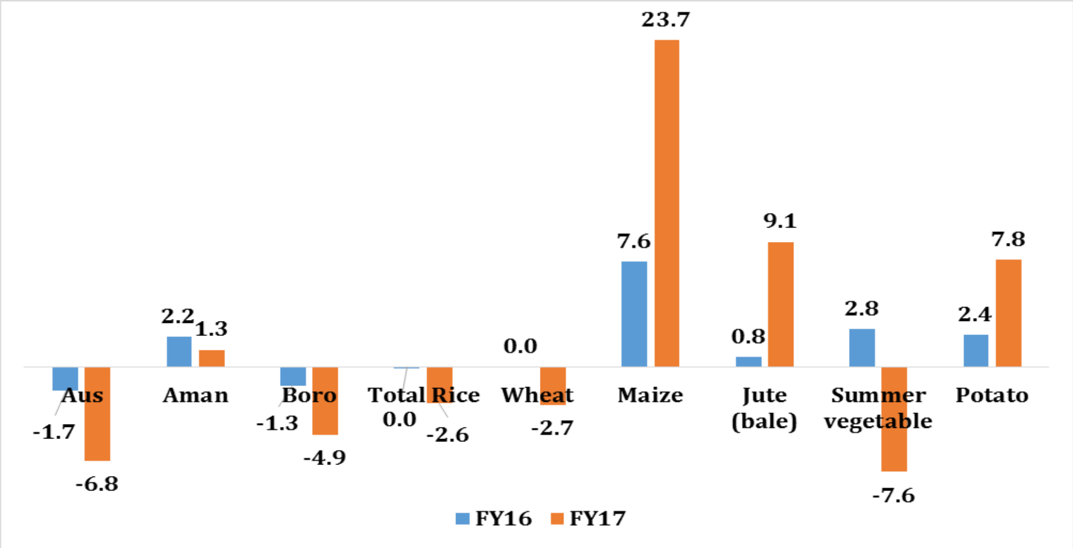


Source: Based on BBS Data.

Production of both rice and wheat came down in FY2017. Indeed, foodgrains production was almost the same for the preceding two years (FY2016 and FY2015). In FY2017, foodgrains production declined by (-) 2.6 per cent. Indeed, production of rice declined by 9.4 lac MT and wheat production dropped by 0.4 lac MT. The production shortfall of rice was mainly attributable to the loss of boro rice during the early flash flood in haor areas. According to the BBS, about 9.8 lac MT boro rice was damaged during that flood. However, CPD, on the basis of analysis of the data of Department of Disaster Management (DDM), estimated that, the amount of damaged boro rice production was higher (15.8 lac MT) than the official estimates. Similarly, summer vegetable crop was damaged by the early flash flood. Among the three main rice crops, only aman rice production posted a positive growth figure of 1.3 per cent (Figure 2.4).

In addition to production losses, weak management of public food stock exacerbated the food situation in FY2017. During the boro crop season of FY2017, government managed to procure only 20 per cent of targeted amount of rice from millers and paddy from the farmers. At the same time, public food stock replenishment through import of rice was inadequate to stabilize the market price. The combined factors of significant boro crop loss in haor areas, government's failure to procure planned amount paddy/rice, delayed decision as regards duty reduction on rice import and unsuccessful attempts to import rice through public channels eventually transmitted wrong signals to the market. Consequently, the price of rice and hence, food inflation, surged significantly.

Figure 2.4: Growth of Major Crop Production (%)



Source: CPD calculation from BBS data.

In contrast, high profitability of maize cultivation continued to incentivise the farmers to produce more maize. Production of maize rose significantly, registering a 23.7 per cent growth. Other than maize, the production growth rates of jute, potato, onion and winter vegetables were 9.1 per cent, 7.9 per cent, 7.7 per cent and 5.6 per cent respectively. Production growth rates of pulses, chilies, oilseeds were more or less as per business-as-usual.

2.5 Monetary Growth and Financial Institutions

Growth rates of different monetary aggregates in the elapsed fiscal year remained varied compared to their respective annual targets. Growth rate of broad money hovered around 13-14 per cent throughout the fiscal year and at the end of June 2017 ended up at only 10.9 per cent while the target limit was 15.5 per cent (Table 2.6). Credit expansion to the public sector was negative during the reporting period as the government made repayments to banks in the backdrop of lower demand for bank borrowings to service fiscal deficit. Growth of private sector credit was very consistent, about 16 per cent, and closed the year with 15.7 per cent growth while annual target was set at 16.5 per cent. Volatility in exchange rate during the last quarter of FY2017 contributed to limit the excessive flow of net foreign assets which gradually declined to 14.4 per cent as of June 2017. However, the growth was still higher than the programmed level of 10.1 per cent.

Table 2.6: Growth (%) of Monetary Aggregates in FY2017

Monetary Aggregates	Actual FY16	Target FY17	Actual FY17
Net foreign assets	**23.2**	**10.1**	**14.4**
Total domestic credit	14.2	16.4	11.2
Credit to public sector	2.6	NA	-12.0
Credit to private sector	16.8	16.5	15.7
Net other assets	14.4	NA	19.7
Net domestic assets	**14.2**	**17.3**	**9.7**
Broad money	**16.3**	**15.5**	**10.9**

Source: Bangladesh Bank Data.

In the backdrop of consistent private investment, the classified loans in Bangladesh banking sector had come down during the first half of FY2017 (to 9.23 per cent of total loans outstanding) due to several provisioning and rescheduling measures concerning bad loans. However, at the end of June 2017, the figure once again stood at double digit level (10.1 per cent of total loans outstanding).

Banking sector experience was a major setback for the Bangladesh economy in FY2017. A number of new scams were exposed, which pushed the sector deeper into risky terrain in FY2017. Rise of NPL, lower capital adequacy and the overall lack of governance evinced banking sector's growing weaknesses in FY2017. State-owned commercial banks (SCBs) faced serious capital deficit which in turn created additional fiscal pressure for the government. Government had to spend Tk. 1,585 crore for recapitalisation of the SCBs; however, the default loan situation of the SCBs failed to improve. It goes without saying that, there is hardly any justification to use public money towards compensating for the greed of bank defaulters and inefficient management of the sector. A number of private commercial banks have joined the ranks of those affected by poor banking governance. Inspite of repeated calls to strengthen its supervisory-regulatory role, the central bank was not able to make any tangible dent in terms of improving the performance of the banking sector and state of financial sector governance. (Section 4.1 will discuss in details on governance in the banking sector.)

2.6 External Sector

While in FY2016 export earnings were able to achieve the target growth, export growth in FY2017 was rather disappointing. Throughout the FY2017, export performance was sluggish, finally registering only 1.7 per cent growth against the 8.0 per cent target growth. While annual growth of RMG sector was only 0.2 per cent, non-RMG products, in aggregate, was able to achieve the annual target (Table 2.7). Export growth to EU market[3] slowed-down gradually throughout FY2017, but managed to register 3.5 per cent growth. The other two traditional markets (USA and Canada) experienced negative growth (-6.0 per cent and -3.0 per cent respectively) mainly due to underperformance of the RMG sector.[4] The non-traditional market growth was 4.2 per cent.

[3] EU market accounted for 55.5 per cent of total export earnings in FY2017.

[4] Indeed, non-RMG exports to USA and Canada markets registered higher growth compared to the EU market.

Table 2.7: Comparison of Growth of Export Earnings (%) in FY2016 and FY2017

Product	Growth Target FY16	Actual Growth FY16	Growth Target FY17	Actual Growth FY17
RMG	**7.4**	**10.2**	**8.1**	**0.2**
Knit	6.8	7.5	6.1	3.0
Woven	8.0	12.8	10.0	-2.3
Non-RMG	**7.2**	**7.8**	**7.4**	**8.5**
Raw Jute	0.4	55.2	5.1	-3.1
Leather	0.6	-30.1	0.8	-16.3
Home Textiles	5.7	-6.4	2.9	6.1
Frozen Food	1.8	-5.7	1.0	-1.7
Total Export	**7.3**	**9.8**	**8.0**	**1.7**

Source: CPD calculation from the Export Promotion Bureau (EPB) data.

Following a strong comeback in the second half, net foreign aid disbursement was about USD 2.6 billion in FY2017, posting a growth of 2.1 per cent. Indeed, it was during the last two months of the fiscal year when the bulk, about USD 1 billion aid, was disbursed. In the first half of FY2017 the net disbursement had experienced considerable volatility with (-) 12.7 per cent growth. Inflow of remittance had experienced a repeat major setback in FY2017 and recorded a double digit negative growth for the first time in the history ((-) 14.5 per cent). The gross remittance inflow of USD 12.8 billion in FY2017 was the lowest since FY2011. Curiously, during the same period overseas employment has continued to surge and registered a strong 32.3 per cent growth in FY2017, thanks to more than half the total migrant workers going to Saudi Arabia.

On the payment side, import growth was relatively steady and posted 9.0 per cent growth at the end of FY2017. A distinguishing feature of import in FY2017 was the import of high growth of consumer goods (i.e. edible oil, pulses and sugar). At the same time, some import substitution was also evident as raw cotton import was significantly high (12.7 per cent), while import of yarn (0.2 per cent) and textile articles ((-) 2.9 per cent) had seen a decline in growth. However, import of capital goods (with 24.4 per cent contribution) remained the major driver of the incremental growth in imports.

In the backdrop of high trade deficit (USD (-) 9,472 million in FY2017, which was USD (-) 6,460 million in FY2016), current account balance entered into the negative terrain (USD (-) 1,480 million) since FY2012. With lower trade credit (net) and commendable FDI inflow in the financial account, Bangladesh's overall balance of payment managed to keep a surplus of USD 3,169 million in FY2017 which was, indeed, USD 5,036 million in FY2016. To keep the balance intact, accumulated forex reserves played an important role. At the end of June 2017, forex reserves stood at USD 33.4 billion, which was USD 30.2 billion at the end of FY2016. However, after maintaining stability for a significant period of time, exchange rate of BDT against USD crossed the 80 BDT/USD mark in May 2017, after January 2013, to close FY2017 with a depreciation of 2.8 per cent.

SECTION III. MACROECONOMIC PERFORMANCE IN FY2018: EARLY SIGNALS

3.1 State of the Public Finance

CPD (2017) had earlier predicted that, since the revised budget for FY2017 was unlikely to be realised, all major parameters of fiscal framework programmed in the budget for FY2018 would eventually require to register higher than planned growth rates. This apprehension has indeed turned out to be the reality following the publication of the final figures of FY2017. Indeed, for all indicators except for net borrowing from non-bank sources, the actual growth targets for FY2018 were found to be significantly higher than the targets set, taking the revised budget for FY2017 as reference point. For example, the total revenue growth target for FY2018, which was set at 31.8 per cent based on the revised budget for FY2017, rose to 43.5 per cent. Also, growth target of public expenditure increased to 53.1 per cent from 26.2 per cent (Table 3.1). ADP expenditure in FY2018 will need to be almost twice the actual ADP expenditure in FY2017, the growth target for which was set at 38.5 per cent. Overall, budget deficit has been projected at 5.0 per cent of GDP (same as the revised budget for FY2017) while the actual deficit excluding grants for FY2017 was only 3.1 per cent. This has caused the deficit target to increase by 84.8 per cent in FY2018. Net foreign financing will need to be 5.6 times of FY2017 to reach the anticipated gross foreign aid flow of USD 7.6 billion. To compare, the highest corresponding figure in Bangladesh's history was USD 3.5 billion in FY2016.

Table 3.1: Fiscal Framework for FY2018: Target vs. Reality of Growth (%)

Sources	Budget FY18 over Revised Budget FY17	FY18 over FY17 Actual
Revenue Collection	**31.8**	**43.5**
NBR Tax Revenue	34.2	44.7
Non-NBR Revenue	**18.8**	**36.0**
Total Expenditure	**26.2**	**53.1**
Annual Development Programme (ADP)	38.5	98.4
Non-ADP	19.6	34.0
Overall Deficit (excl. Grant)	**13.8**	**84.8**
Net Foreign borrowing and grant	80.5	557.3
Domestic Borrowing	-13.7	14.3
Bank Borrowing (Net)	18.0	431.2
Non-Bank Borrowing (Net)	-30.1	-47.6

Source: CPD calculation from Ministry of Finance (MoF) data.

Box 3.1: Data paradox continues

Data discrepancy continues to hinder a proper assessment of the public finance management system. Divergence between data provided by several government agencies, *viz*. NBR, IMED, Bangladesh Bank, and the iBAS reported by the MoF, has been a case in point in recent years recurring case (Table 3.2, 3.3 and 3.4). CPD (2017) has drawn attention to the divergence in the practices of different agencies – in terms of methodology; data collection tools and techniques; and accounting practices – to be key reasons behind this. It was also mentioned that, compared to the other available estimates, MoF figures are more reliable and methodical. Nonetheless, the prevailing scenario impedes budgetary monitoring and compromises the quality of fiscal and budgetary planning. Additionally, deployment of contingency measures based on contradictory data could be misleading. In this backdrop, CPD once again urges policymakers for reconciliation and consolidation of data between these estimates in order to enhance the monitoring mechanism and ensure the efficiency of public finance management.

Table 3.2: NBR Revenue Collection: Data Discrepancy

Year	MRFP	NBR	Difference	% Departure from MRFP
	In crore Tk.			
FY13	103,332	109,152	5,820	5.6
FY14	111,423	120,820	9,397	8.4
FY15	123,916	135,701	11,785	9.5
FY16	146,240	155,519	9,279	6.3
FY17	171,498	185,004	13,506	7.9
Jul-Aug FY18	28,207	27,162	-1,045	-3.7

Source: Calculated from NBR and MoF data.

Note: MRFP refers to Monthly Report on Fiscal Position which is prepared by the Finance Division of the Ministry of Finance, GoB (Retrieved from: www.mof.gov.bd/).

Table 3.3: ADP Expenditure: Data Discrepancy

Year	MRFP	IMED	Difference	% Departure from MRFP
	In crore Tk.			
FY13	49,474	50,035	562	1.1
FY14	55,328	56,913	1,586	2.9
FY15	60,004	68,524	8,520	14.2
FY16	80,042	83,581	3,539	4.4
FY17	77,265	100,839	23,574	30.5
Jul-Aug FY18	8,204	7,755	-449	-5.5

Source: Calculated from IMED and MoF data.

Table 3.4: Budget Deficit: Data Discrepancy

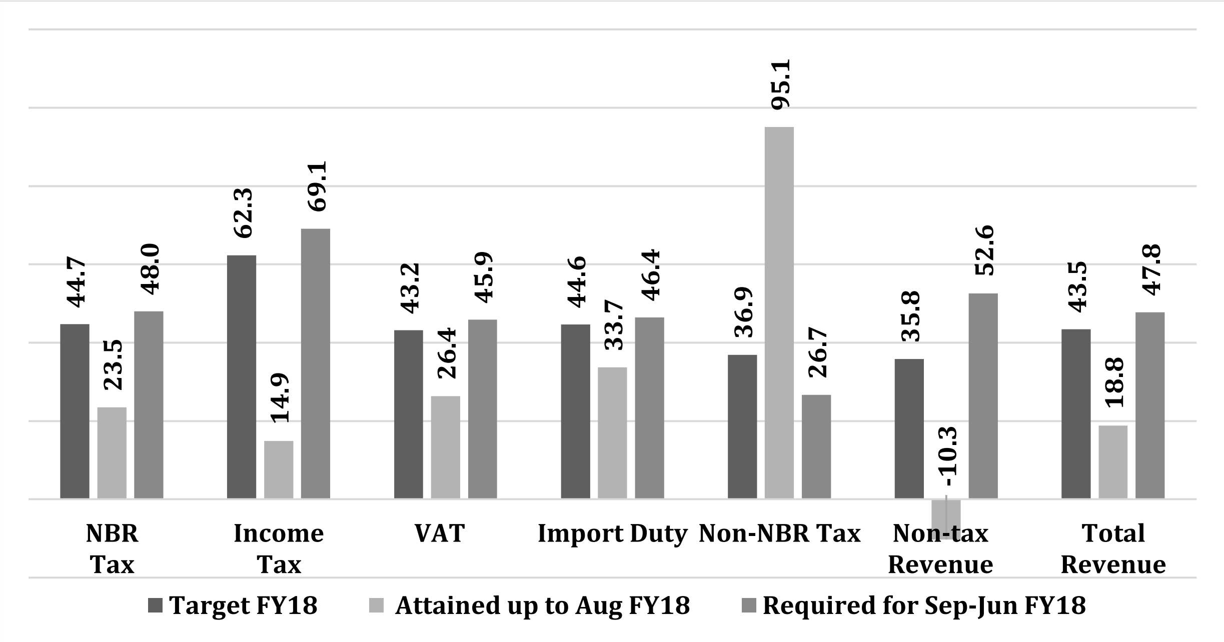
Year	MRFP	BB	Difference	% Departure from MRFP
	In crore Tk.			
FY13	44,647	40,678	-3,969	-8.9
FY14	47,849	36,204	-11,645	-24.3
FY15	53,324	44,420	-8,904	-16.7
FY16	66,318	58,707	-7,611	-11.5
FY17	60,751	57,084	-3,667	-6.0
Jul-Aug FY18	1,077	15,296	14,219	1320.9

Source: Calculated from Bangladesh Bank and MoF data.

3.1.1 Revenue earnings

Revenue mobilisation is anticipated to fall short of target for the sixth consecutive year in FY2018 in the backdrop of the very ambitious level set for attainment and failure of implementing the VAT and SD Act 2012. CPD (2017) had earlier predicted that the revenue shortfall in FY2018 could be between Tk. 43,000 crore and Tk. 55,000 crore. During July-August of FY2018, total revenue mobilisation was 18.8 per cent higher than that of the corresponding period of the preceding fiscal year (Figure 3.1). In order to attain the annual growth target of 43.5 per cent, total revenue will have to increase at a rate of 47.8 per cent for the remainder of the fiscal year – which is highly unlikely to say the least. NBR achieved a growth of 23.5 per cent during the July-August period of FY2018 which was 24.1 per cent during the corresponding period of FY2017[5], well below the annual growth target of 44.7 per cent. The required growth of NBR collection for the rest of FY2018 will have to be 48 per cent. Of the NBR collected revenues, income tax rose only by 14.9 per cent during July-August of FY2018 against the annual growth target of 62.3 per cent – thus requiring a 69.1 per cent growth for the rest of FY2018. Non-tax revenue decreased by (-) 10.3 per cent while Non-NBR tax increased by 95.1 per cent during the first two months of FY2018. The boost in Non-NBR tax will not have a significantly large impact on the total revenue collection as it accounts for only 3.0 per cent of the total collection target. Recently, the Hon'ble Finance Minister informed the Parliament that revenue collection during the first five months of FY2018 increased by about 18 per cent, but also maintained that an early (and drastic) revision of the budgetary targets is not on the cards.

Figure 3.1: Growth Rates of Revenue Collection Components (%)



Source: Calculated from MoF data.

[5] According to data available from NBR, during July-October period of FY2018, revenue mobilised by NBR rose by 18.3 per cent compared to the corresponding period of FY2017. This was driven by modest performance in customs duty and VAT collection. Income tax collection increased by only 16.4 per cent during the aforesaid period, thus requiring a growth of about 43 per cent for the remainder of the fiscal year.

In the backdrop of anticipated shortfall, primarily emerging from the failure to implement the VAT and SD Act 2012, the government should explore alternative avenues of revenue mobilisation. To this end, the collection process of unpaid VAT accruing to the Large Taxpayers Unit (LTU) of the NBR should be prioritised. As has been reported in several media outlets, a number of large companies – including state owned Petrobangla – allegedly owe a large amount of dues in the form of unaccounted VAT. Appropriate use of the Alternative Dispute Resolution (ADR) system could be a useful step in this regard.

Another potential source of revenue could be the forthcoming auction of fourth generation (4G) mobile telecommunications licence by the Bangladesh Telecommunication Regulatory Commission (BTRC). The licenses will have to pay a number of fees, contribution and charges to the commission including: application/processing fee of Tk. 5 lac; license acquisition fee of Tk. 10 crore; annual license fee of Tk. 5 crore; gross revenue sharing and social obligation fund of 5.5 per cent and 1 per cent respectively from annual audited gross revenue; and bank guarantee of Tk. 150 crore. As may be recalled, the base prices for auction of 2100 MHz, 1800 MHz and 900 MHz have been set at USD 27 million. USD 30 million and USD 30 million respectively per MHz of spectrum.

In view of the apprehended shortfall in revenue collection, a number of factors may put considerable stress in the fiscal management of FY2018 from the expenditure side. First, the required amount of resources to assist the persecuted *Rohingya* community could result in overstretching of the fiscal framework (discussed in details in section 4.3). Second, flood and subsequent damage control measures could take up a substantial amount of resources (discussed in details in section 4.2). And finally, public foodgrains import at higher cost from the international market in the backdrop of procurement failure could exacerbate the scenario further (discussed in details in section 3.2).

3.1.2 Non-development expenditure

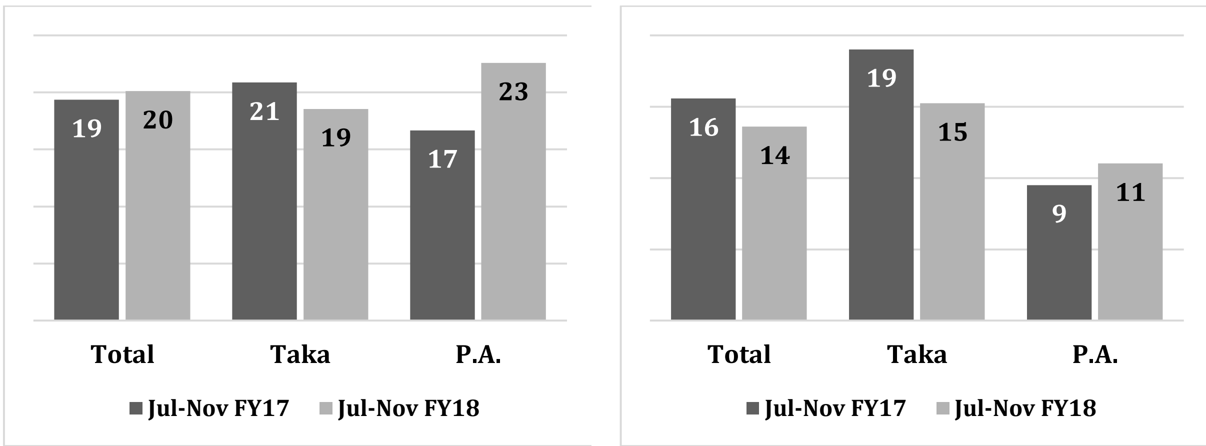
During the first two months (July-August) of FY2018, total public expenditure (including both development and non-development expenditure) increased by 29.7 per cent compared to the corresponding period of FY2017. This is well below the annual growth target of 53.1 per cent. Non-development expenditure increased by 31.7 per cent during the aforementioned timeframe. 'Pay and allowances' registered 53.4 per cent growth during July-August of FY2018. Over the same timeframe, domestic interest payments increased by 26.4 per cent whereas foreign interest payments decreased by (-) 7.9 per cent. Subsidy and transfer expenditure increased by 18.7 per cent during July-August of FY2018 compared to the matching period of FY2017.

3.1.3 ADP expenditure

According to the IMED data, expenditure for ADP showed signs of improvement during the first five months of FY2018. Share of allocation spent over the first five-month period in FY2018 is the highest since FY2013, thanks to higher project aid expenditure. Data for July-November of FY2018 indicates that, actual spending under ADP was 20.1 per cent of the originally planned allocation of Tk. 155,931 crore (Annex Table 3.1). While only 18.5 per cent of allocated local resources (Taka component) was spent, the lowest in the last 10 fiscal years, project aid utilisation (22.6 per cent) is the highest since FY2010 (Annex Table 3.1). Analysis of the top 10 Ministries/Divisions, which account for 73.3 per cent of the total ADP allocation in FY2018, suggests that the expenditure in July-November was the highest (22.8 per cent) in the last five fiscal years, but was mainly driven by the Power Division (47.6 per cent) (Annex Table 3.2).[6] Power Division spent 54.8 per cent of its project aid allocation during July-November period of FY2018. This spending was mainly driven by the largest 15[7] out of 82 power projects for FY2018. Indeed, this has helped to increase both the total ADP expenditure and particularly the project aid utilisation to a large extent. Without Power Division, project aid utilisation and total ADP implementation rates would drop by 12 percentage points and 6 percentage points respectively for the July-November period of FY2018 (Figure 3.2).[8]

Figure 3.2 Total ADP Implementation (%)

(a) With Power Division **(b) Without Power Division**



Source: Calculation from IMED data.

High financial progress but low physical progress concerning the completed projects is a disturbing feature of the ADP. In FY2016, out of 258 completed ADP projects 123 were declared 'completed' despite failing to meet physical implementation target. Out of the aforesaid projects, 33 projects (26.8 per cent) belonged to the Transportation sector and 20 to the Agriculture sector (Table 3.5).[9] Moreover, about three-fourths of these projects were enlisted as Investment projects. The average completion period of these projects was 5.3 years with the highest and the lowest durations being 18 years and less than one year accordingly.

In addition, in FY2016, a total of 134 ADP projects registered zero physical progress (out of 1,557 projects, i.e. 8.6 per cent), despite more than one-fourth of such projects accounting for at least some amount of financial expenditure. As far as the sectoral breakdown is concerned, 48 out of these 134 projects belong to the Transportation sector, followed by the Physical Planning, Water Supply and Housing sector (39 projects). The rest of the projects were shared by the remaining sectors. Moreover, an even more alarming fact is that 29 of these projects had zero physical progress despite more than 50 per cent of their respective allocations having been spent already.

[6] The other Ministries and Divisions that have performed better than average include Road Transport and Highways Division (26.8 per cent), Local Govt. Division (23.8 per cent) and Ministry of Primary and Mass Education (23.7). The remaining ministries and divisions have registered below average performance during the aforementioned period.

[7] These 15 projects with a project aid allocation of 9,017 crore constitute 75.5% of total project aid allocated for power division.

[8] Among 42 Ministries and Divisions that received project aid for FY2018, Power Division accounts for only 21.1 per cent of total project aid.

[9] 11 projects belonged to the Physical Planning, Water Supply and Housing sector and 9 to the Water Resources sector, while the rest were shared amongst other sectors.

For instance, the ‘Construction/Acquisition of 4 no. 108 TEU's Self /Propelled Cellular Container Vessel of 100 TEU's for BIWTC’ project under the Ministry of Shipping, is one out of 14 such projects that already exhausted 100 per cent of their respective allocated funds but still accounted for zero physical progress during the aforementioned fiscal year.

Table 3.5: Characteristics of Projects with High Financial Progress but Low Physical Progress

Projects declared completed without 100% physical progress			
Number of projects 123	**Top 5 Sectors (no. of projects)** Transportation 33 Agriculture 20 Physical Planning, Water Supply and Housing 11 Education and Religion 10 Water Resources 9	**Type of projects** Investment 94 Technical Assistance 27 Self-financed 2	**Completion time (years)** Average period 5.3 Highest completion period 18 Lowest completion period 0.8
Projects with ‘zero’ physical progress			
Number of projects 134	**Top 2 Sectors (no. of projects)** Transportation 48 Physical Planning, Water Supply and Housing 39	**Number of projects with** 50% financial progress, but zero physical progress – 29 100% financial progress, but zero physical progress - 14	

Source: Authors’ calculation based on IMED data.

Cost overrun of projects lead to wastage of public resource. In order to find the cost escalation of projects, CPD conducted an exercise covering all the projects which were declared completed in FY2006 and in FY2016 and which had a financial progress of 80 per cent or more. It was found from the analysis that in FY2016, out of 201 completed projects that had more than 80 per cent financial progress, 93 projects faced cost overrun with a cumulative amount of Tk. 5,640 crore (Annex Table 3.3). This additional amount is equivalent to 13.1 per cent of the costs of all the completed projects in FY2016 which is an increase of 36.1 per cent compared to FY2006. Ministry/Division-wise breakdown suggests that out of 24 Ministries and Divisions that faced cost escalation in FY2016, Local Government Division (Tk. 1,868 crore), Ministry of Communication (Tk. 1,073 crore), Energy and Mineral Resources Division (Tk. 921 crore), Ministry of Food and Disaster Management (Tk. 661 crore), and Ministry of Primary and Mass Education (Tk. 356 crore) were the top five Ministries and Divisions which experienced increased cost escalation compared to FY2006. On a positive note, Power Division could minimize the escalated cost of its completed projects in FY2016 compared to FY2006.

3.1.4 Financing of budget deficit

Till August FY2018, budget deficit was well within the projected limit. Although a shortfall in revenue mobilisation is expected, it should be offset by lower expenditure in the public sector. Deficit financing was primarily driven by the buoyant sale of national savings directorate (NSD) certificates. NSD certificate sale up to August of FY2018 was Tk. 9,045 crore which is 30 per cent of the annual target of Tk. 30,150 crore[10]. On a positive note, foreign financing gained significant momentum during the first two months of FY2018. Higher utilisation of foreign aid in ADP implementation is also corroborating this trend. This is also reflected in the financial account of the balance of payments (Discussed in details in section 3.3).

Higher interest rates compared to bank deposits induced the savers to invest more in the NSD certificates. Table 3.6 presents a typewise distribution of incremental share of selected NSD certificate sale and associated interest rates. As can be seen, most of the sales increase occurred in instruments with higher interest rates from amongst the 19 types available. From the fiscal management perspective this could become a pressure point in the context of debt servicing liability in the medium term.

Table 3.6: Incremental Share of Selected NSD Certificate Sale and their Interest Rates

Name of Scheme	Incremental Share of Sales				Ongoing Interest Rate (%)
	FY14	FY15	FY16	FY17	
5-year Bangladesh Savings Certificate	10.99	10.70	14.92	6.64	9.35-11.28
Family Savings Certificate	7.05	39.30	13.30	33.44	9.50-11.52
3 Monthly Profit Bearing Savings Certificate	63.15	33.71	0.68	32.18	10.00-11.04
Pensioner Savings Certificate	1.49	3.24	29.43	12.72	9.70-11-76
Post Office Savings Bank - Ordinary account	0.07	0.50	3.80	0.63	7.50
Post Office Savings Bank - Fixed deposit account	10.99	10.34	25.28	14.87	10.20-11.28
Wage Earner Development Bond	1.88	1.75	12.06	-0.58	12.00

Source: Authors' calculation from Department of National Savings data.

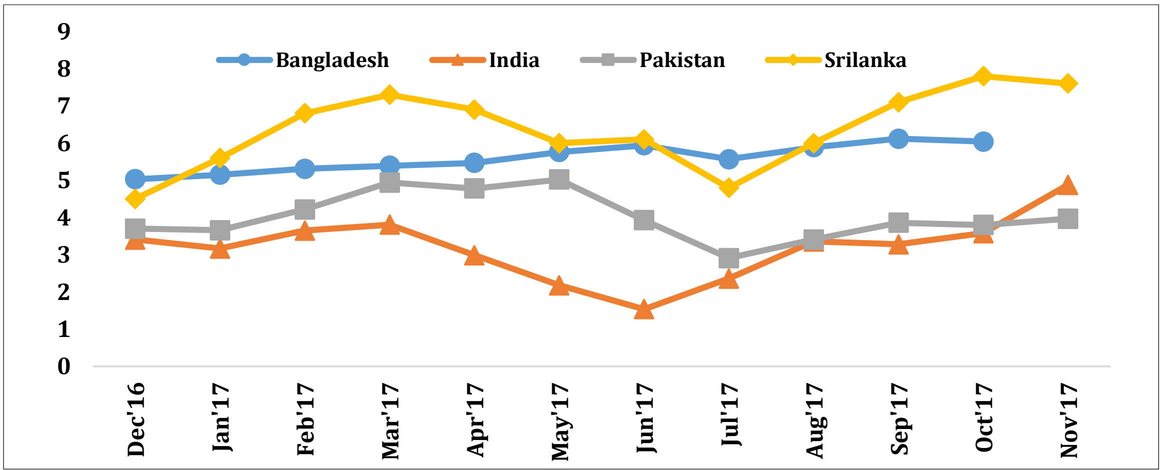
[10] According to Bangladesh Bank data, sale of NSD certificate till October of FY2018 was Tk. 17,315 crore which is 57.4 per cent of the annual target.

3.2 Inflation and Monetary Sector Scenarios

3.2.1 Inflation in Bangladesh and South Asian countries

Since mid-2017, Bangladesh, as is also the case with other South Asian countries, has experienced a rise in inflation (Figure 3.3). Consecutive floods in Bangladesh, and other natural disasters across the region, had adverse effect on domestic food production and food prices, and this was the main reason behind the inflationary pressure. In Bangladesh, the rate of inflation in December 2017 was 5.83 per cent. Though the overall inflation rate was within the MPS target (5.9 per cent for H1, 2018), food inflation was relatively high and rose significantly during this period (7.13 per cent in December, 2017 *vis-à-vis* 5.38 per cent in December, 2016). Rice, the major product in the commodity basket of the CPI, is currently traded at about 23.3 per cent higher price compared to a year ago (Tk. 44-46 per kg for coarse rice in December 2017 against about Tk. 35-38 per kg in December 2016).[11] However, as Table 3.7 indicates, the rise in food inflation across the region during the June, 2016-October, 2017 period did not have a strong relationship with the global food market – domestic food price actually had negative correlation with global food prices. Nevertheless, a lagged response cannot be altogether ruled out.

Figure 3.3: Inflation in South Asia (%)



Source: World Bank, 2017.

Table 3.7: Correlation between Global Food Price Index and Local Food Price Index

	Food Price Index (Global vs Local)	Rice Price Index (Global-Rice vs Local-Food)
Bangladesh	-0.71	-0.83
India	-0.82	-0.80
Pakistan	-0.71	-0.91
Sri Lanka	-0.43	-0.26

Source: Based on data from WFP 2017.

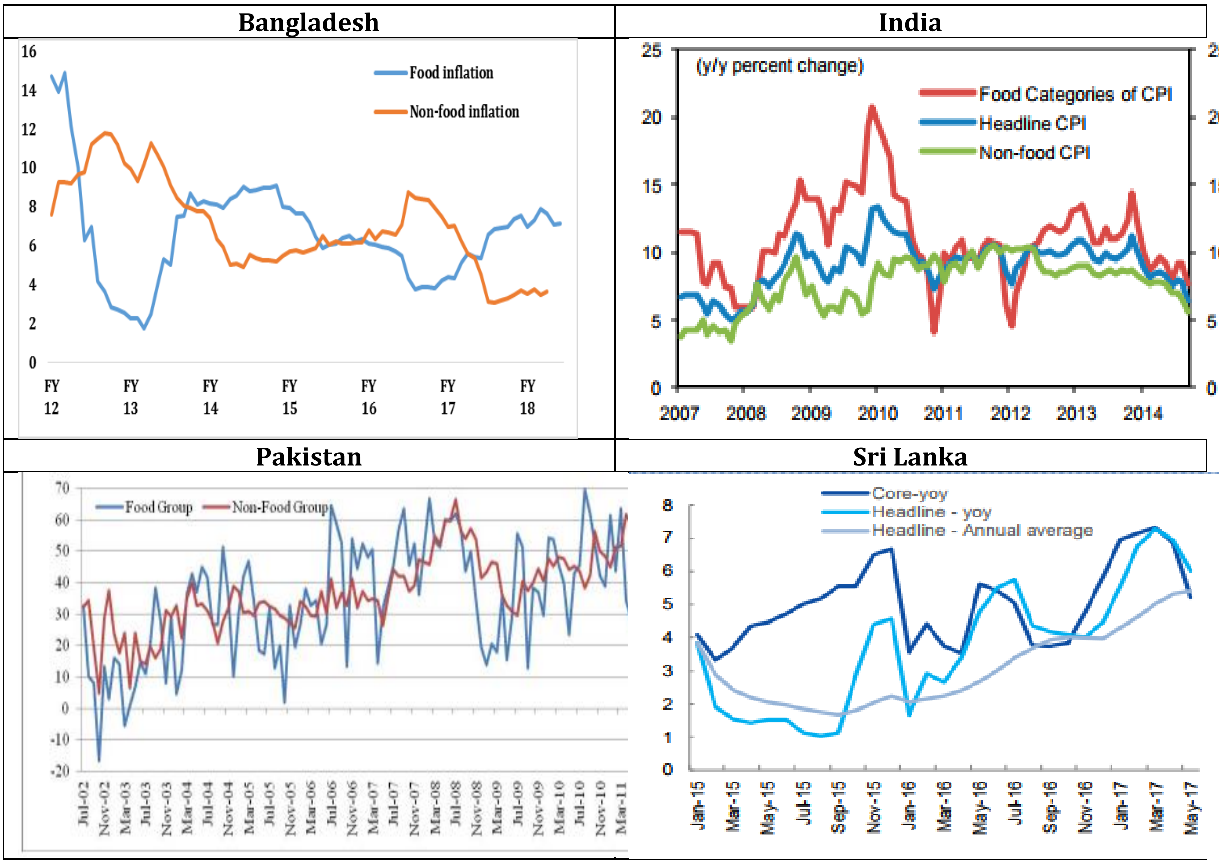
3.2.2 Relation between food and non-food inflation

Bangladesh's food and non-food inflation, unlike those of other South Asian countries, evince a peculiar trend. Food and non-food inflation in Bangladesh maintain a negative correlation (-0.32) which remains negative even in the lagged periods. Literature shows that this inverse

[11] Prices of other variety of rice are also about 21-30 percent higher. Again, the price of wheat in December 2017 is 6.78 percent higher than the price in December 2016.

relationship is not found in case of other South Asian countries and in other developing countries (Figure 3.4)[12]. Since July 2016, prices of most of the components of non-food inflation in Bangladesh have gradually reduced around the time when the food inflation had started to rise (Figure 3.5). Such trends in most of the components of non-food inflation is difficult to match with other available information. For example, the cost of living index of Dhaka (available at: https://www.numbeo.com/cost-of-living/rankings.jsp) – particularly those of non-food indices for mid-2017 – was either unchanged or had marginally increased *vis-à-vis* those of the comparable period of the previous years (Figure 3.6). Hence the official statistics of non-food inflation is not aligned with other relevant information.

Figure 3.4 **Food and Non-Food Inflation**



Source: For Bangladesh: Bangladesh Bank;

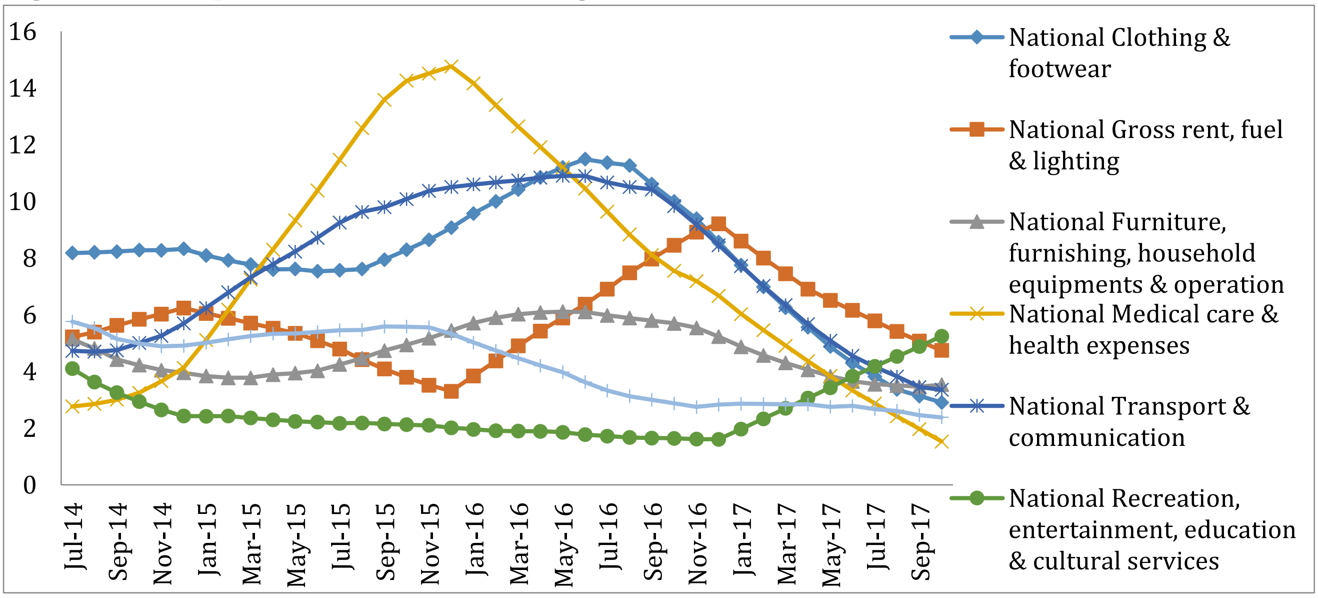
For India: https://www.imf.org/external/pubs/ft/wp/2016/wp1602.pdf

For Pakistan: https://mpra.ub.uni-muenchen.de/45009/1/MPRA_paper_45009.pdf

For Sri Lanka: Department of Census and Statistics, Sri Lanka

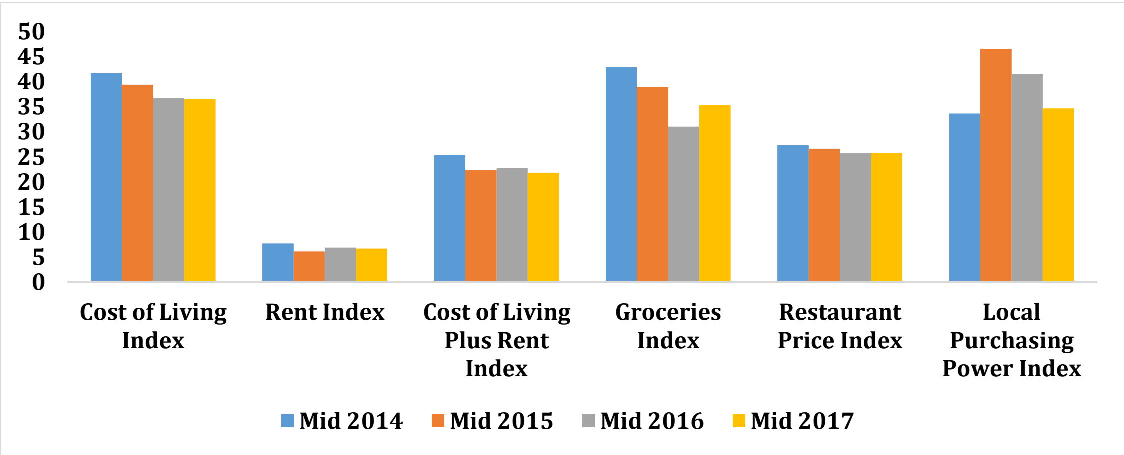
[12] In Bolivia, food and non-food inflation have a strong positive relation with lagged effect.

Figure 3.5: Composition of Non-food Average Inflation



Source: BBS, 2017.

Figure 3.6: Cost of Living Index in Dhaka



Source: Based on the data available at: https://www.numbeo.com/cost-of- (accessed on 8 January, 2018).

3.2.3 Impact of inflation on households and government's initiatives

The burden of the spike in inflation was difficult to accommodate by consumers – particularly those belonging to low-income households. For example, a possible means to compensate for high inflation would have been a rise in nominal wages in various sectors over that of rate of inflation. However, during October, 2017 the wage indices for major economic activities have experienced a rise between 6.1 per cent and 7.5 per cent over the comparable period of the previous year (Table 3.7). The slow growth in wage indices was observed in case of construction (6.1 per cent) and services (6.4 per cent) and relatively high growth was seen in case of fishery (7.1 per cent) and production (7.5 per cent). In other words, slow rise in wages alongside the increase in inflation has left workers of some sectors (such as construction and services) with just enough to meet the bare minimum requirement of household expenses.

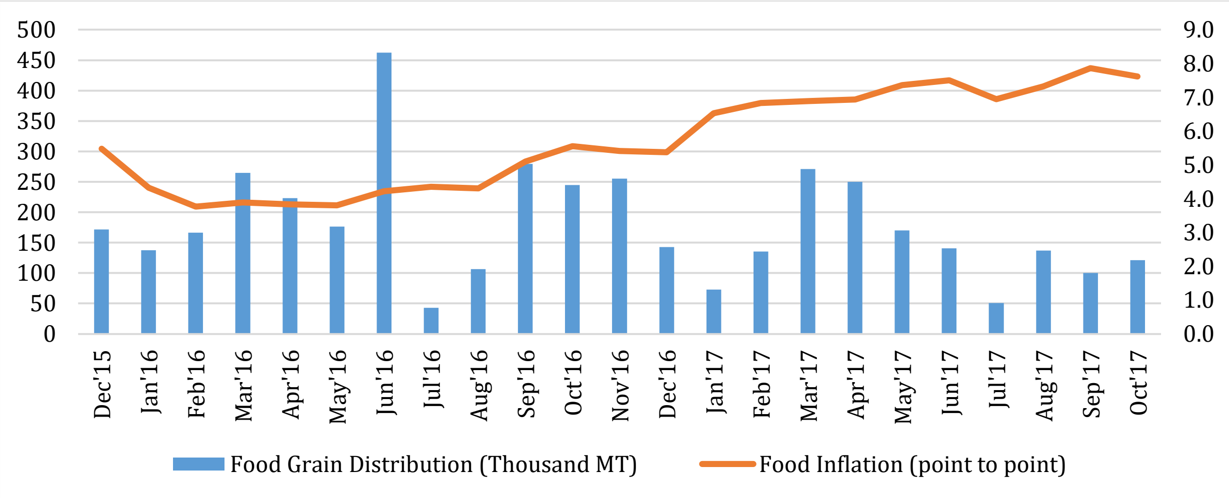
Table 3.7: Changes in Wage Indices in Major Economic Activities

Sectors	Oct. 2016-Oct. 2017
1. Agriculture	6.6
I. Agriculture	6.6
II. Fishery	7.2
2. Industry	6.7
I. Construction	6.1
II. Production	7.5
3. Service	6.4
General	6.6

Source: BBS, 2017.

In view of this adverse situation, government's food and non-food support under the different safety net programmes was expected to provide at least some relief to the low-income households. Regrettably, government's safety net related activities, particularly distribution of foodgrains, was found to be inadequate. During January-November, 2017, total distribution of food was 1.68 million m. ton, which was 28.8 per cent less (2.36 million m. ton) compared to the same period of the previous year. Most importantly, the food distribution was at the lowest level when the inflationary pressure was at its peak (Figure 3.7). Foodgrains distribution was inadequate in second quarter of FY17 and first and second quarters of FY18. This state of poor foodgrains distribution at a time of high food inflation is likely to have adversely impacted on the purchasing power of the low-income people with consequent implications for poverty and food insecurity.

Figure 3.7: Trends in Food inflation and Public Food Distribution



Source: Ministry of Food; WFP, 2017

A major reason behind failure to ensure adequate food supply under the PFDS at a time of high food inflation during FY17 and FY18, is inadequate foodgrains stocks. If the inverse relationship between availability of food stock and food inflation (correlation coefficient: -0.75) is considered, low food stock in FY17 and FY18 may have contributed to a further upward push in the food price. The high food inflation is likely to continue in the coming months which will further erode consumers' purchasing capacity. The situation is exacerbated because of lower production of Aman rice against the targeted amount which had adverse impact on public procurement. A simple exercise of requirement of food stock for distribution under PFDS for the rest of the

FY2018 period shows that there will be a possible shortfall of foodgrains of between 2.12 to 3.47 lac m. ton (Table 3.8). This amount of foodgrain needs to be imported through public channel (without depending on purchase from the private sector from the local market). This would require an additional food budget to the tune of about Tk.700 crore to Tk.1,152 crore. Hence, necessary provision of funds as well as appropriate initiatives for import should be undertaken in the coming months.

Table 3.8: Requirement of Food to Replenish PFDS Stock during H2 of FY2018 (in mln MT)

Particulars	FY18 (Target)	FY 18 (Actual as of 21 Dec, 2017)	Difference between target and actual	Difference between target and actual (assuming Aman procurement target is met)
1. Food distribution	2.44	0.66	1.78	1.78
Rice	1.86	0.52	1.34	1.34
Wheat	0.58	0.14	0.43	0.43
2. Food Procurement (domestic)	1.10	0.60	0.50	0.14
Rice	1.00	0.50	0.50	0.14
Wheat	0.10	0.10	0.00	0.00
3. Public import		0.83		
Rice		0.53		
Wheat		0.30		
4. Requirement of food for distribution (4=1-2-3)			0.35	0.21
Rice			0.31	
Wheat			0.04	
5. Cost of Import (USD)		395		83.58 mil
6. Cost of Import (BDT)		33,180	1,152 cr.	702.10 cr

Source: Based on the Data of the Ministry of Food, Government of Bangladesh.
Note: Import price is considered to be USD395 per MT; Exchange rate 1 USD=BDT84.

3.2.4 Growth of monetary aggregates

By and large, the monetary sector remained at subdued level during the first half (H1) of FY2018. Overall growth of broad money (M2) till November, 2017 was 10.8 per cent against the MPS target of 12.9 per cent for December 2017 (Table 3.9). In recent years, growth of broad money was significantly influenced by one or two components instead of the balanced growth of the involved components. During FY2015 to FY2018 (up to November, 2017), growth of major components of broad money experienced a mixed trend (Figure 3.8) - on the one hand, growth of net foreign assets decelerated (only 6.4 per cent up to October, 2017) and public sector credit significantly declined ((-)14.8 per cent as of November, 2017); on the other hand, credit to the private sector experienced considerably high growth (19.1 percent up to November, 2017) which was even higher than the MPS target for H1 of FY2018 (16.2 percent for December, 2017). Among the South Asian countries, such a mixed trend is observed in case of Sri Lanka (high growth of private sector credit and negative growth of foreign assets and slowdown of government credit) (Figure 3.9). This is happening at a time when performance of Sri Lanka's financial sector has weakened.[13] In this backdrop, it is necessary to examine the structure, and composition of growth

[13] Sri Lanka's ranking in financial development in case of global competitiveness index has slipped in recent years from 72 in 2015 to 96 in 2018. Similar to that, Bangladesh's ranking in the same indicator has declined from 88 in 2015 to 98 in 2018.

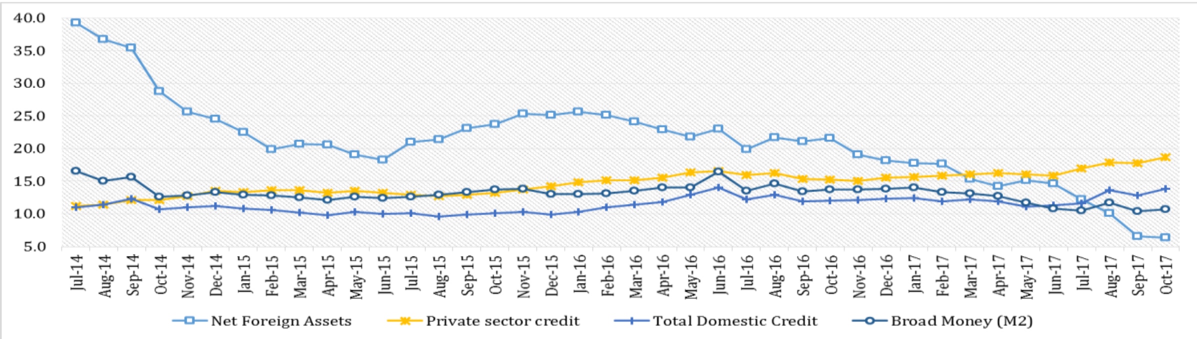
of key components of broad money, with a view to understand the quality of money supply growth in Bangladesh.

Table 3.9: Growth of Monetary Indicators (Outstanding as of November 2017)

Indicator	June 2016 (Actual)	June 2017 (Actual)	December 2017 (Target)	November 2017 (Actual)
Net Foreign Assets	23	14.6	4.7	6.4*
Net Domestic Assets	11.9	11.9	15.9	12.3*
Domestic Credit	14	11.3	14.4	14.5
Credit to the Public Sector	3.6	-14.8	3.8	-14.8
Credit to the Private Sector	16.6	15.9	16.2	19.1
Broad Money	16.4	10.8	12.9	10.8

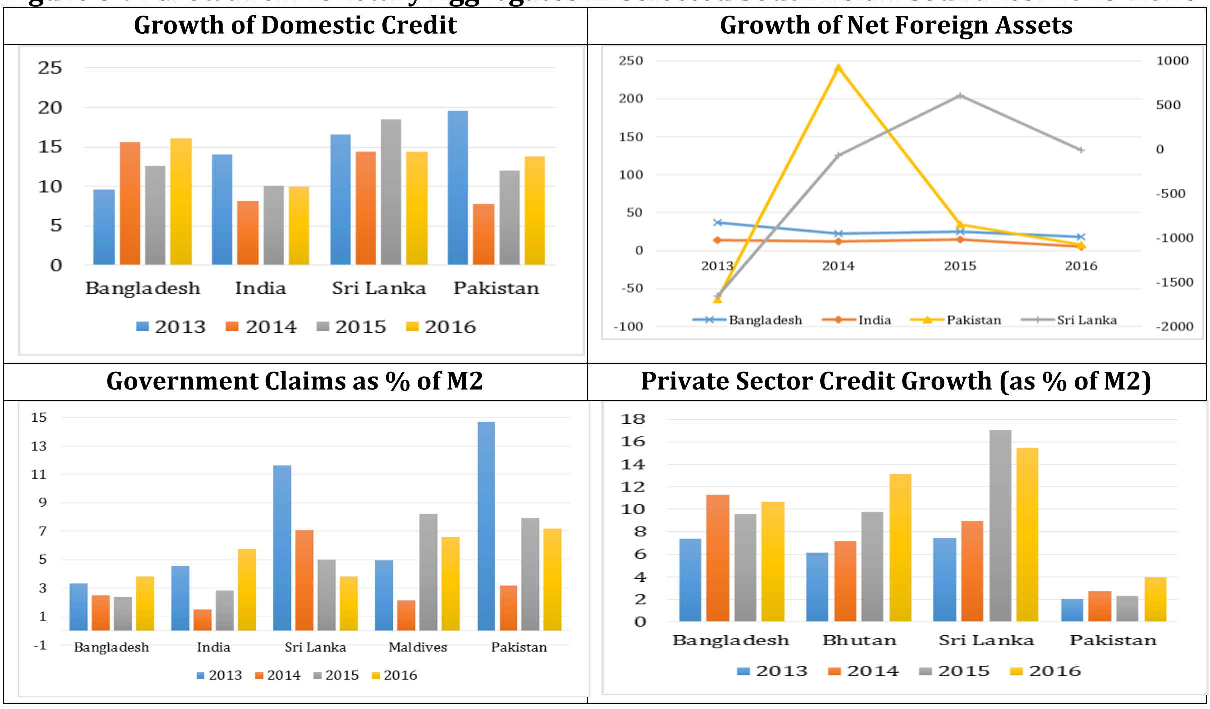
Source: Bangladesh Bank, 2017.
*Note: Figures are outstanding up to October 2017.

Figure 3.8: Growth of Monetary Aggregates: FY2015 to FY2018 (up to October)



Source: Bangladesh Bank, 2017.

Figure 3.9: Growth of Monetary Aggregates in Selected South Asian Countries: 2013-2016



Source: World Bank (https://data.worldbank.org/indicator/FB.AST.NPER.ZS accessed on 6 January, 2018)

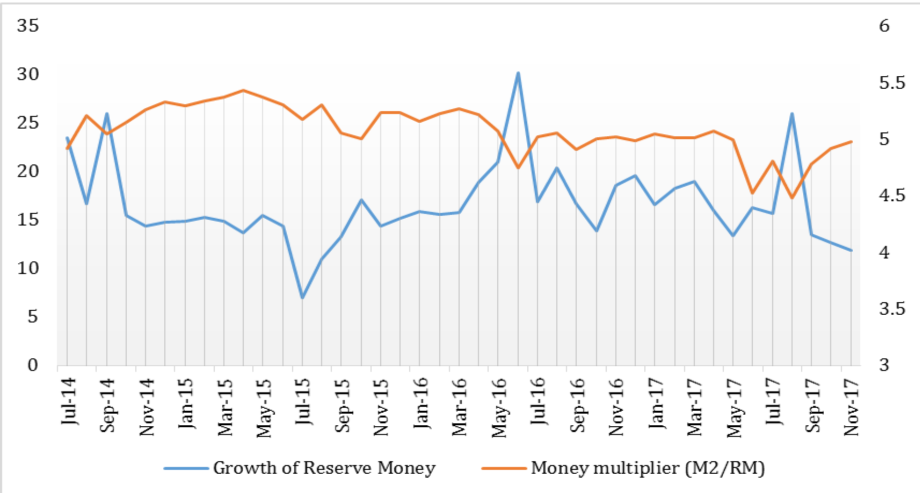
The quality of broad money growth can be examined through various indicators. The income velocity of money, measured by ratio of broad money and GDP, followed a declining trend over the past several years apart from FY2017 when there was a rise – from 1.89 in FY2016 to 1.94 in FY2017 (Table 3.10). A slowdown in income velocity may reduce the speed of transactions of real goods and services. Given the sluggish growth of M2 in FY2018 with a possible higher growth in GDP, velocity of money may experience a further slowdown in FY2018 which would have further adverse effect on transactions in the real sector. Similarly, money multiplier decreased from 5.02 in November, 2016 to 4.98 in November, 2017 which pushed banks to maintain higher reserve money (Figure 3.10). Due to lower demand for credit, liquidity in the banking system remains high. Total liquid asset amounted to Tk. 261 thousand crore as of September 2017, while the minimum requirement was Tk. 169 thousand crore.

Table 3.10: Income Velocity of Money (in billion taka)

Year	GDP at current market prices	Broad money (M2) (end June position)	Income velocity of money
FY10	7975.39	3630.31	2.20
FY11	9158.29	4405.20	2.08
FY12	10552.04	5171.10	2.04
FY13	11989.23	6035.05	1.99
FY14	13436.74	7006.24	1.92
FY15	15158.02	7876.14	1.92
FY16	17328.64	9163.78	1.89
FY17	19758.17	10160.76	1.94

Source: Bangladesh Bank, 2017

Figure 3.10: Growth of Reserve Money and Money Multiplier

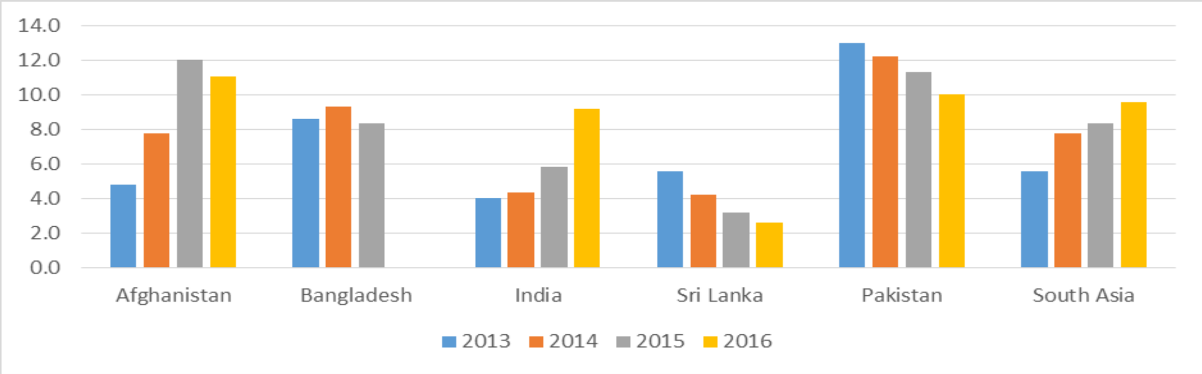


Source: Based on Bangladesh Bank, 2017

Private sector credit

The growth of private sector credit till November, 2017 exceeded the MPS target which apparently is indicative of a buoyant growth of investment in the country. While a part of growth of private sector credit is attributed to investment in major industrial and infrastructure sectors, a part of the rise in private sector credit is linked to other activities. With the rise in private sector credit, some compositional changes in advances were observed where share of advances to some traditional sectors such as trade and commerce was overtaken by the industrial sector. The highest share of advances is now in industrial sector (38.9 per cent) followed by retail trade and commerce (35.6 per cent). More specifically, rise in share in advances was observed in case of term loan and working capital distributed to large, medium and small industries and construction sectors. On the other hand, decline in credit was observed in case of retail trade, export financing and import financing. Such a compositional change is likely to help in industrial growth. However, a high share of non-performing loan in Bangladesh (which is close to the South Asian average), mostly attributed to industrial sector, has put the quality of private sector credit under scrutiny (Figure 3.11).

Figure 3.11: NPL (as % of Gross Loans): 2013-16



Source: World Bank (https://data.worldbank.org/indicator/FB.AST.NPER.ZS accessed on 6 January, 2018).

Excess liquidity in the banking sector contributed to pushing down both deposit and lending rates. The lending rate declined at a slower pace compared to that of the deposit rate.[14] A disaggregated sector-wise analysis showed that decline in lending rates was not at same level in all the sectors (Table 3.11) - despite the reduction. Relatively high lending rates prevailed in case of advances through credit cards (36 per cent), term loans to small industries (18 per cent), working capital to large and small industries (18-19 per cent) and housing loans (17.8 per cent). On the other hand, relatively low lending rate prevailed in case of agriculture (9 per cent) and export (7 per cent). In each sector, the gap between maximum and minimum lending rates were still quite high. Hence, despite a decline in the interest rates, high rates of lending continued to prevail in key sectors, discouraging investors.

[14] The lending rate and deposit rate declined from 9.94 percent and 5.29 percent respectively in November 2016 to 9.30 percent and 4.90 percent respectively in November 2017. At the end of November 2017, the interest rate spread remained at 4.40 percent which decreased by 0.25 percentage points from the previous year.

Table 3.11: 'Maximum' and 'Minimum' Lending Rates by Sectors during Nov., 2013 – Nov., 2017

Activity	Nov, 13		Nov, 14		Nov, 15		Nov, 16		Nov, 17	
	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min
Agriculture	13	4	13	4	11	4	10	2	9	2
Term Loan to Large & Medium Scale Industry	18	10	17.5	8	17	9	16.5	5	16.5	6
Term Loan to Small Industry	23.75	12.5	23.75	10	18	11	20	8	18	8
Working capital to large & medium scale industry	18	11	18	8	18	7	18	3.5	18	5.9
Working capital to small industry	23.75	12.5	23.75	11	24	11	20	8	19	8
Export	7	7	7	7	7	7	7	6.75	7	6.75
Trade Financing	19.5	11	18.5	7.5	18	10	17	9	15.75	9
Housing Loan	19.5	5	19.5	9	18	10	17.75	7	17.75	8
Consumer Credit	23	12.5	23	10	19	12	19	9	19	8.25
Credit Card	31.5	18	30	18	35	18	34.5	18	36	14
Credit to NBFIs	20.5	10	20.5	8	18	8	17	5.25	19	4.75
Others	20.5	4	19	5	20	5	19	2.88	19	2.88

Source: Bangladesh Bank, 2017

The quality of private sector credit can be examined through a number of other indicators. First, there is a growing concentration of bank lending to large and medium scale industries. Both the stress test and resilience test indicate that having a default incurred by 3, 7 and 10 largest borrowers in each bank, the number of banks which could become non-compliant (in maintaining the minimum required CRAR) was 25, 38 and 4 respectively (Bangladesh Bank, 2017). Second, rising share of non-performing loans may put a number of banks at high risks – the rise in NPL by 3, 9 and 15 per cent was likely to put 6, 27 and 37 banks respectively in a situation where they could become non-compliant (to maintain the minimum required CRAR) (Bangladesh Bank, 2017). Thus the quality of private sector credit needs to be monitored very closely and necessary initiatives will need to be taken both by the central bank through strict supervision, and by the commercial banks through better credit and risk management to improve the quality of private sector credit.

Public Sector Credit

Government's dependence on non-bank financial instruments to meet its fiscal requirement continued in FY2018. During July-October period, government's net borrowing from non-bank sources was 18,193 crore which was 9.7 per cent higher than the comparable period of the previous year. During this period (July-October, 2017), government repaid interest payment of Tk. 6,732 crore against the principal amount of Tk. 9,468 crore. The government of Bangladesh (GoB) should be cautious about the repayment burden it is creating owing to the increasingly accumulating borrowings on account of the NSD. It may be recalled that, CPD in its earlier IRBD reports argued for putting a lower ceiling on NSD sales and a downward review of the interest rates. If government could borrow more from the banking system, it would reduce the pressure of excess liquidity.

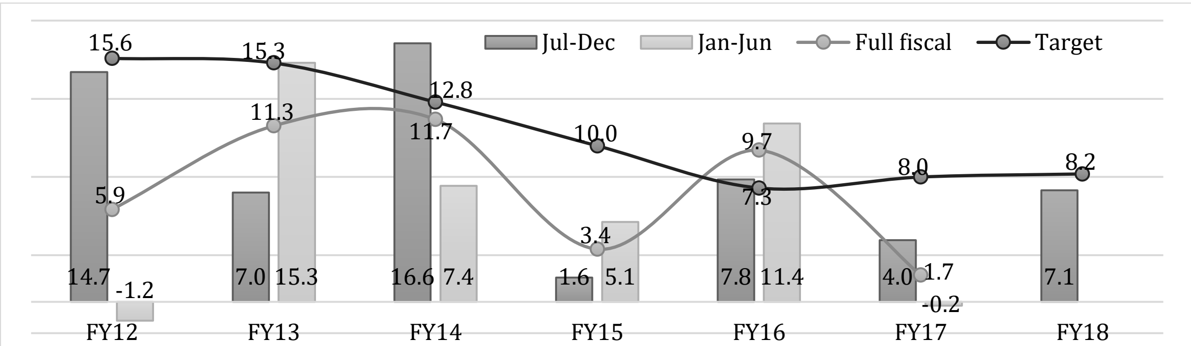
3.3 External Sector Performance

3.3.1 Export earnings

In a departure from the disquieting developments experienced in FY2017, export sector of Bangladesh evinced some positive signals during the first half of FY2018. Exports bounced back and growth rate was aligned with the annual target set for FY2018. Total export earnings during the first half of FY2018 was USD 17.9 billion and the recorded growth rate was 7.1 per cent for July-December of FY2018, against the 4 per cent growth in the corresponding period of FY2017. [15] Export growth fell short of the target growth for all the years post-FY2010-11 barring FY2016 (Figure 3.12). However, the export growth of earlier months suggests that it is well on track to attain the FY2018 target growth of 8.2 per cent for achieving the envisaged export earnings of USD 37.5 billion. A period-on-period growth of 9.2 per cent will be required in the remaining half (January-June) of FY2018 to reach this target (Figure 3.13).

A trend growth analysis of export data for the last five years indicates a cyclical pattern of growth performance during the two halves of respective fiscal years. If the growth was robust in the first half of a fiscal year, growth in the second half tended to be low and vice versa; export growth was buoyant against low benchmark growth (growth rate of corresponding half of previous fiscal year) and depressed against high benchmark growth (Figure 3.12).

Figure 3.12: Export Growth Targets and Achievements (in %) for Recent Fiscal Years



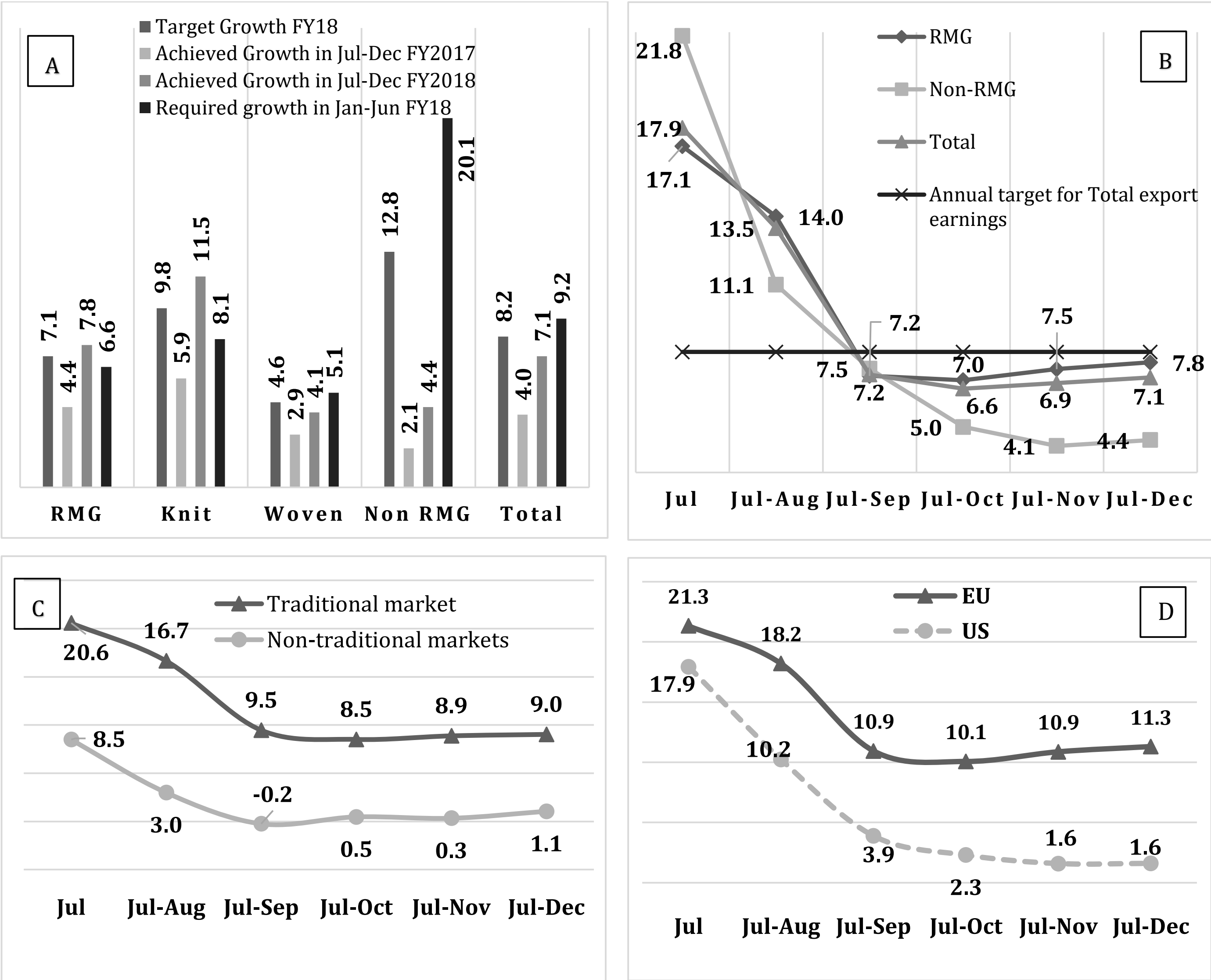
Source: CPD calculation based on data from the Export Promotion Bureau (EPB).

Ready-made garments (RMG) recorded a growth of 7.8 per cent during July-December period of FY2018 providing a Phillip to the overall export earnings (Figure 3.13B). Accelerated growth of RMG exports was particularly observed in the second quarter of FY2018, thanks to the growth in export of knit products (11.5 per cent). Regrettably, growth from non-RMG export earnings (4.4 per cent) was unable to keep pace, particularly in non-traditional markets. Growth of non-RMG exports to the traditional markets[16] was 11.7 per cent in July-Dec 2017 and (-) 0.2 in non-traditional markets.

[15] FY2017 started off with negative growth in total export earnings ((-) 3.5% for the month of July 2016) with fall in export earnings from major driving component, the RMG ((-) 4.4 per cent growth) constituting of knit and woven which showed negative growth of similar extent. The growth in export earnings was way below the target of 8 per cent almost all through FY2017, ending with 1.8 per cent fiscal year-on-fiscal year growth in June 2017.

[16] Traditional markets being the EU, the US and Canada

Figure 3.13: Growth (Period-on-Period) for July-December FY2018 (in per cent)



Source: CPD calculation based on data from the Export Promotion Bureau (EPB).

Market analyses show that exports to the key traditional markets gained some momentum with a growth of 9.0 per cent[17], which was higher than the growth rate for the corresponding period in FY2017 (4.8 per cent) and in FY2016 (7.5 per cent). Export growth in the EU market picked up by 11.3 per cent after an initial fall[18] (Figure 3.13D). Phase-out of the initial shock emanating from the *Brexit* was one possible reason. Some upturn in the global economic outlook and the attendant demand was another reason. Future export in the key United Kingdom (UK) market will depend on how the Brexit negotiations span out in the coming years. Trade arrangements Bangladesh is able to negotiate following graduation from the LDC status will also have implications for the duty-free market access currently enjoyed in the EU under the Everything But Arms (EBA) scheme. Following Bangladesh's graduation from LDC status exports will lose the preferential margins and consequently, its competitiveness in major markets will be undermined. Rahman

[17] 11.3 per cent growth in the EU market, 9.2 in Canada and 1.6 in the US market

[18] Cumulative growth fell from 21.3 to 10.9 per cent in the first quarter (figure 2D)

and Bari (2017) in a study found that the elimination of LDC-specific tariff preferences may lead to an 8.7 per cent increase in the aggregate tariff rate for Bangladesh's export to the EU.

Analysis of the US market for RMG products reveals that imports from Bangladesh and China decreased by 5.1 and 3.8 per cent during July-October period of FY2018, whereas other prime competitors[19] of Bangladesh experienced significant growth.[20] In general, RMG imports by the US has been on the decline in recent years[21]. Between 2015 and 2017 (for July-October period) share of RMG import from Bangladesh in the US market declined by 0.2 percentage points. In contrast, Vietnam has gained an additional market share of 2.1 percentage points. Gains in market share appears to have been at the expense of China which has lost its share by 3.2 percentage points in the US market over the mentioned period (Table 3.12). These are growing signs that it is Vietnam which is taking the advantage of China's displacement.

Table 3.12. Analysis of RMG Imports in the US Market[22]

Countries	2011	2013	2015	2017	2011	2013	2015	2017
	July - October				July - October			
	Period-on-period growth				**Compositional share**			
Bangladesh	8.7	17.9	11.9	-5.1	4.9	5.5	5.7	5.5
Cambodia	17.4	-48.0	2.7	5.2	3.2	3.0	2.8	2.8
China	2.9	2.9	1.5	-3.8	42.8	42.1	40.5	37.3
India	4.4	16.5	3.1	7.5	3.3	3.4	3.5	3.9
Vietnam	13.7	13.6	11.2	7.8	8.2	9.8	11.9	14.0

Source: Authors' calculation using data from United States International Trade Commission (USITC) and Eurostat.

In both the key markets (of the US and EU) the price effects and volume effects (within the export value growth) experienced pulls in opposite direction. Growth in the value of exports in these markets are mostly volume-driven. Previous analyses (CPD, 2017) showed that prices of RMG products from Bangladesh in both the EU and the US markets have been falling since 2014. Further analysis[23] in terms of monthly changes showed that in the year 2017 average prices of knit and woven experienced a decline. Whilst the trend for Bangladesh's major competitors such as China, India and Cambodia was the same, their respective average prices were at higher levels. Vietnam, on the other hand, experienced an increase in price of woven products in the US market.

Further indepth analysis on a more disaggregated level showed that Bangladesh's top three (RMG) export items in the US and the EU markets experienced a fall in price for both knit and woven categories respectively, for 2017. The extent and rate of fall of average prices in the EU was lower than that in the US, and same was true for exports of knit products relative to exports

[19] Other trade competitors considered are Cambodia, India and Vietnam.
[20] Knit exports to the US increased by 0.1 per cent and woven exports decreased by 7.2 per cent.
[21] During the period 2011-2017 the highest yearly growth in RMG imports of the US was in 2011 (7.3 per cent) and it has been lower and at times negative terrain after that.
[22] The growth rates reported here are yearly growth rates which have been reported in this table bi-annually.
[23] All the analyses mentioned here onwards has been done based on the data obtained from the USITC and Eurostat websites respectively, using the customs value and quantity of exports to the US and EU market.

of woven products. Comparing the average price[24] received by the top three knit and woven products (for Bangladesh) in the US and EU market, it is observed that Bangladesh received lower prices for the majority of her export products[25] (Annex Table 3.4). Since even for items at disaggregated level, Bangladesh's price was somewhat lower than key competitors, it is possible that there is scope for Bangladesh to negotiate better prices though improvement in quality and design of the same items.

The Export Policy 2015-2018 of Bangladesh will phase out this year. The developments in the key markets, strategic interventions from competing economies[26] and the shift of trade arrangements post LDC-graduation should inform the formulation of the next Export Policy to enhance Bangladesh's export competitiveness.

3.4.2 Import payments

Import payments recorded a significant growth to the tune of 28.7 per cent during the first four months of FY2018 (Table 3.13)[27]. Import payments for rice was significantly high (USD 623 million i.e. 9 times higher than that of the previous year). Import of rice is likely to continue in view of the higher domestic retail prices, lower public stock and reduced tariff. Import payments for consumer goods also registered a high growth of 29.3 per cent, primarily because of the significant growth of import payments for edible oil (39 per cent) and sugar (50.8 per cent). In view of declining global price of sugar, posting this high growth would entail large increase in volume. Also, the high import payments for edible oil is also likely to be volume driven, albeit the marginal rise in global prices in recent months. These trends call for appropriate monitoring of the market on the part of the Ministry of Commerce with the purpose to check whether businesses are making overstock of edible oil and sugar or whether there is over-invoicing.

[24] Average for products (at HS-8 digit level) and for the period: July-October 2017 in the US market and July-September 2017 in the EU market. The reference period is the current fiscal year, based on the availability of data.

[25] It should not be wrongly deduced that this is competitive price since at the most disaggregated level in the market (at the selling point) similar products (in terms of quality) of different countries would attract approximately same price to maintain competitiveness.

[26] For example, India has recently reviewed her Foreign Trade Policy and has announced new incentives for RMG and textile (Rs 1140), leather and footwear (Rs 749 crore) among others under the Merchandise Exports from India Scheme (MEIS). Several specific procedural relaxation and trade facilitation measures have been taken to assist exporters.

[27] However, L/C settlement growth (of about 8.3 per cent for the period of July-November 2017) does not commensurate with the actual import payments growth.

Table 3.13: Import Payments for July-October of FY2018

Items	July-October				
	FY2017	FY2018	% Growth	Share of import (FY2018)	Incremental Growth (FY2018)
	(in million USD)				
Rice	6.8	623.4	9,067.6	3.4	14.9
Edible oil	437.4	608.0	39.0	3.3	4.1
Sugar	286.1	431.4	50.8	2.3	3.5
Oil seeds	84.7	223.6	164.0	1.2	3.4
Raw cotton	613.1	1,078.3	75.9	5.8	11.3
Plastic and rubber	655.4	798.4	21.8	4.3	3.5
Capital Machinery	1,195.9	1,720.7	43.9	9.3	12.7
Other capital goods	2,255.3	2,637.8	17.0	14.2	9.3
Others	8,859.4	10,405.0	17.4	56.2	37.4
Total Import payments	**14,394.1**	**18,526.6**	**28.7**	**100**	**100.0**

Source: Authors, calculation based on Bangladesh Bank data.

More than half of the import payments were on account of intermediate goods. In the period of July-October of FY2018, the growth of import payments for intermediate goods was about 19 per cent, significantly higher than the corresponding period of FY2017 (when growth was 2.6 per cent). Despite global price stability of raw cotton and an upturn in the growth of RMG exports, the high growth of over 75 per cent in import payments for this item appears to be suspicious (the growth peaking since November 2016). There has not been any fall in yarn and fabrics import, neither has there been a sudden spurt in investment in spinning. With fall in prices of raw cotton, the high imports would allude to very high import in terms of volume, which reinforces the need for investigation into the matter.

Growth in import payments of other intermediate goods such as textiles (14 per cent) and yarn (13.4 per cent) and dyeing and tanning materials (13.2 per cent) were high with potential positive impact on exports over the subsequent two quarters of FY2018. Import of chemicals (18 per cent), plastic and rubber (21.3 per cent), iron and steel (16.2 per cent), and clinker (12.6 per cent) showed high growth. This rise is driven by the higher demand in the backdrop of global economic upturn, decision by the Organisation of the Petroleum Exporting Countries (OPEC) and Russia to curtail oil production, Iran controversy and a fall in global inventory.

In general the import figures, for certain items, do not tally well with global price movements, L/C settlement figures, domestic production and credit uptake and investment trends. As was mentioned earlier, import payment figures ought to be subjected to closer scrutiny by the NBR and the Bangladesh Bank to identify cases of over-invoicing and capital flight. Bangladeshi policymakers should also keep in mind that, the country may face additional burden of import payments in the second half of current fiscal year as price of some key imported commodities such as crude oil evinced signs of rise.

Import payments growth for capital machinery also increased by a high of 43.9 per cent during July-October of FY2018 compared to the corresponding period of the last fiscal. Imports on account of public sector led infrastructure projects was perhaps part of the story. Import payments for other capital goods registered significant growth of 17 per cent. Import payments growth of 'others import items (not specific elsewhere)' was 45 per cent for July-October period of FY2018 when compared to the corresponding period of the previous fiscal year.

Terms of trade

Terms of trade for Bangladesh has worsened when prices of major importables such as crude oil, rice, cotton and fertiliser are juxtaposed with the prices of Bangladesh's major export item, the RMG. For example, in October 2016 import payments for 1 barrel of crude oil was costing the equivalent of earnings from exports of 3.7 kg of knitwear products in the US; to contrast, the corresponding figure for October 2017 was 4.3 kg, an increase of 17.3 per cent (Table 3.14). This may be interpreted as a loss of purchasing power of 1 USD earned from export. Indeed, this holds true for many of the major imported products of Bangladesh such as rice, cotton, fertilisers, etc.

The EU market portrays a similar picture in case of oil; although the picture is welcomely different for some of the other imported items. Table 3.14 reveals the purchasing power of RMG exports in terms of some key import items.

Table 3.14: Terms of Trade against RMG Exports in the US and EU Market*

Selected Major import products	***the US market***						***the EU market***					
	KG of knit (61)			KG of woven (62)			KG of knit (61)			KG of woven (62)		
	Oct-17	Oct-16	Increase (in %)	Oct-17	Oct-16	Increase (in %)	Sep-17	Sep-16	Increase (in %)	Sep-17	Sep-16	Increase (in %)
1 barrel of crude oil	4.3	3.7	17.3	3.4	2.4	42.0	3.8	3.6	5.0	3.2	2.9	7.4
1 MT of rice	30.7	27.3	12.5	24.7	18.2	36.1	28.7	30.7	-6.5	24.0	25.1	-4.3
1 kg of Cotton	0.1	0.1	5.3	0.1	0.1	27.5	0.1	0.1	-7.5	0.1	0.1	-5.4
Fertilizer(index)	6.1	5.3	14.9	4.9	3.5	39.0	5.3	5.7	-6.9	4.4	4.6	-4.8

Note: * Base = October 2016
Source: Authors' calculation using data from USITC, Eurostat and World Bank Pink Sheet.

3.4.3 Remittance and migration

Month-on-month remittance flow returned to the positive terrain in the first half of FY2018 in the backdrop of a significant decline (by (-) 17.5 per cent) for the corresponding period of FY2017. Indeed, during July-December period of FY2018, remittance was 12.5 per cent higher than that of the corresponding period of FY2017 but still remained (-) 7.4 per cent lower when compared to the same period of FY2015. Cross-country comparison of remittance growth for the July-November[28] period for the past six fiscal years (FY2013 to FY2018) indicates an upturn, albeit at slow pace[29] originating from middle-east countries (Table 3.15). Rise in crude oil price and change in policies in some key host countries such as KSA (a rise in minimum wage, change in *akama* system) could be possible reasons. Besides, depreciation of BDT against USD (as well as other currencies) may have contributed to this. However, even if the current pace of remittance growth continues in the second half of FY2018, the amount in the end of FY2018 will be around USD 14 billion which would still be lower than the remittance flow in FY2013.

[28] Latest available figures for Nepal and Philippines were for July-October 2017 period.
[29] The pace of remittance growth has been particularly telling in case of Bangladesh when compared to other South Asian countries such as Pakistan and Nepal. Sri Lanka has, indeed, registered a negative growth during July-November period of FY2018.

Table 3.15: Country-wise Growth (Cumulative Months) in Remittance Earnings

Fiscal Year	July to November			July-October*	
	Bangladesh	Pakistan	Sri Lanka	Nepal	Philippines
FY2013	24.3	14.2	16.8	3.5	6.9
FY2014	-9.0	7.1	11.1	25.4	7.4
FY2015	11.7	17.5	6.6	2.4	8.5
FY2016	-0.6	7.2	-0.7	11.7	0.6
FY2017	-15.7	-2.4	0.5	4.3	3.3
FY2018	10.8	2.4	-7.4	2.6	3.5

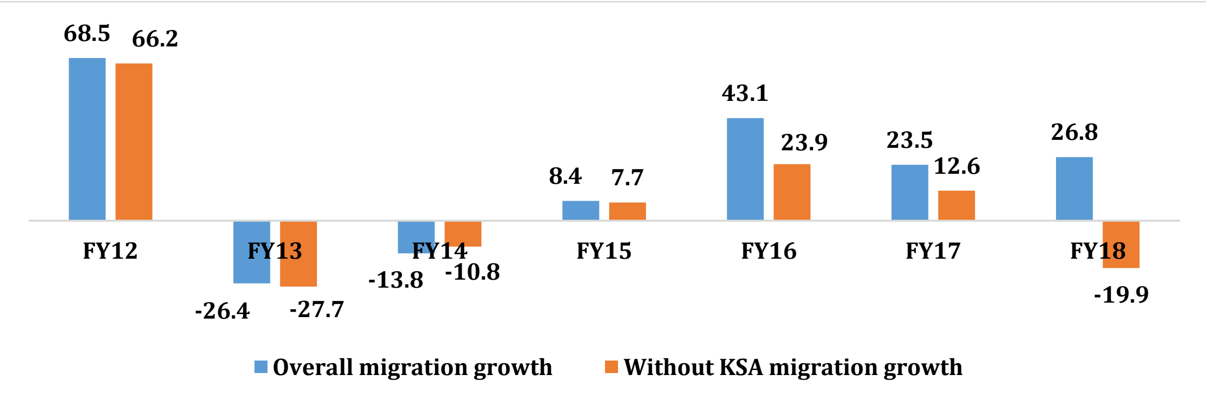
Source: Authors' calculation from respective central bank statistics.

*Note: The calculation are done based on latest data available.

More than half of the migrant workers are destined for Saudi Arabia

In keeping with the trends over the last two fiscal years, during the first half (July-December) of FY2018, migration growth has recorded a high of 26.8 per cent. But if one excludes the number of migrants going to Saudi Arabia (more than half of the migrants (51.0 per cent)) during the corresponding period, the overall migration growth showed a negative growth rate of (-) 20 per cent (Figure 3.14). In the aforementioned period, 69 per cent of the total female migrants (57,156) went to Saudi Arabia. Ensuring the safety and security of all migrants, especially of the female migrants should remain a concern for Bangladesh[30].

Figure 3.14: Bangladesh's Migration Growth Trends with and without KSA during July-December of FY2018



Source: CPD calculations from BMET data.

Remittance earnings are originating from traditional markets, concentration of migrants has increased in the Middle East

While an increase in remittance inflows from Saudi Arabia is expected to rise in future, in the first six months of FY2018 the corresponding growth was only about 5 per cent. Trend analysis shows that the composition of remittance inflow has remained more or less unchanged (about 56.4 per cent of remittance earnings came from the Gulf countries in the first half of the FY2018[31]). Concentration of migrants in the Middle East has also posted a rise. Among the non-Gulf countries, major remittance inflows are still originating from the traditional sources such as the US (13.9 per cent), Malaysia (7.3 per cent), the UK (7.2 per cent) and Italy (4.9 per cent). A review of past record evince the followings: (a) migration to some of the destination countries such as

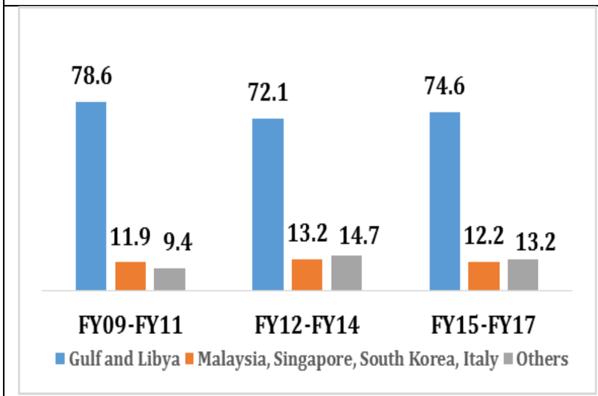
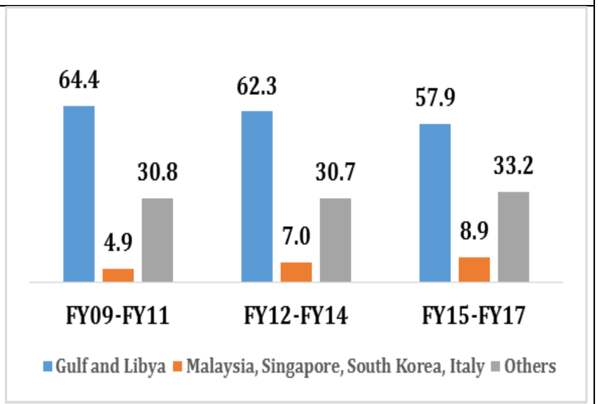
[30] Majority of the middle-east countries did not rafity international labour rules and regulations.

[31] Of which, 17.3 per cent from Saudi Arab and 16.4 per cent coming from the United Arab Emirates (UAE).

Malaysia and Italy has declined while it has stagnated in South Korea and Singapore; (b) remittance from the middle-east was on relative consistent decline – one of the reasons is felt to be greater movement through informal channels; (c) share of remittance from non-traditional markets increased to 33.2 per cent over last three fiscal years (FY2015 to FY2017) compared to the earlier six fiscal years (FY2009 to FY2014). These are more of diaspora remittances rather than workers' remittances (Figure 3.15). Share of remittance channeled through State Owned Commercial Banks (SOBs) and Islami Bank Bangladesh (IBBL) Ltd. have declined at a time when NRB commercial banks are not performing well.[32]

Generation of adequate data and information, skills upgradation, destination diversification, skills upgradaton, destination diversification, formalisation of inflows and safety assurance continue to be the major concerns for Bangladesh. In addition, the initiative of generating database on returnee migrants has also made no significant progress. In order to make appropriate and strategic policy interventions, accurate data generation and proper data analysis will be critical for Bangladesh to sustain its migration growth in international labour market and thereby, attain commensurate remittance earnings.

Figure 3.15: Period-wise Share of Migration Outflows from and Remittance Inflows to Bangladesh

Share of Migration	Share of Remittance
	

Source: CPD calculations from BMET and Bangladesh Bank data.

CPD's earlier claim of digital hundi – proves to be a real factor behind remittance diversion

CPD (2017a) in its first reading on January 2017, highlighted that remittances were diverted from formal to informal channel through the misuse of digital (mobile) technology. Later, similar results were found by an investigation team of Bangladesh Bank; however the final investigation report was not disclosed publicly. This is highly recommended to assess the efficacy of the measures taken. Since then Bangladesh Bank increased their vigilance on mobile banking transfer. In September 2017, Bangladesh Financial Intelligence Unit (BFIU), the anti-money laundering wing of Bangladesh Bank, ordered bKash to suspend activities of 2,887 agents for breaching the laws and sent the account details of the agents to law enforcers for further probe

[32] During January-September of 2017, IBBL collected 19.7 per cent of remittances, which was 24.1 per cent during January-September of 2016. At the same time, the share of remittances collected by SOBs fell by 4.3 per cent (from 30.6 per cent to 26.3 per cent). The combined remittance collection by the three non-residential Bangladeshi banks (NRBs) is less than 0.1 per cent of the overall remittance inflows to Bangladesh.

and legal actions. Later, in the first week of January 2018, eight bKash agents were arrested for money laundering[33]. bKash has come up with public pronouncement denying any association with fake agents using its logo. These interventions may have helped to improve Bangladesh's remittance earnings and also to bring more transparency in the mobile banking transfers.

3.4.4 Foreign loans availed by private sector

An analysis of the trends in foreign loans availed by the local private companies between 2011 and 2017 reveals that the total number of foreign loans has increased dramatically over the years – from a total 24 loans in 2011 to 134 loans in 2017 (Table 3.16). Similarly, the corresponding monetary value of the foreign loans also increased from a total of USD 909.3 million to USD 1,494.3 million, exhibiting a growth of almost 63 per cent over the aforementioned timeframe. Reliance of the local companies to avail loans from the Off-shore Banking Units (OBUs) of the local banks also evinced a persistent rise between 2011 and 2016, but decreased to some extent in 2017. The share of number of loans extended by the OBUs, in the total number of foreign loans, has gradually increased, from 29.2 per cent in 2011 to 61.5 per cent in 2016. However, the amount has experienced a slight fall in the year 2017.

In view of the above, as further analyses reveal, it was the RMG sector which dominated the scenario. In terms of the sectoral breakdown, the RMG sector accounted for 60.2 percent of the total number of foreign loans, followed by the power sector with a share of 11.4 per cent. Furthermore, hard loans have been identified based on the methodology suggested by Organisation for Economic Co-operation and Development (OECD, 2013). It was observed that, the number of hard loans from the foreign sources has jumped significantly since 2016. The average maturity period has exhibited a fluctuating trend and increased from 5.2 years to 5.5 years between 2011 and 2017. In contrast, the average interest rate payable on the borrowed funds reveals a generally declining trend – from 4.6 per cent in 2011 to 3.6 per cent in 2017.

Increasing number of hard loans in recent years, alongside increasing average interest rates, imply higher payment obligations in foreign currency over the coming years. Additionally, depreciation of BDT in the recent past against the USD will put further pressure on debt servicing liabilities. In this changing scenario, the current policy of allowing foreign loans, on a case by case basis, should be re-evaluated. This is also justified on account of falling interest rate in the domestic market and the need to bring back good investors within the fold of domestic financial system.

[33] Retrieved from: http://www.thedailystar.net/backpage/breaching-laws-bb-asks-bkash-suspend-2887-agents-1462567 and http://www.observerbd.com/details.php?id=115040

Table 3.16: Analysis of Foreign Loans availed by the local companies (2011 to 2017)

Year	Total No. of Loans	Share of No of Loans from OBUs	No. of Hard loans	No. of Soft Loans	Average Maturity Period (Years)	Average Interest rate (%)	Total Amount of Foreign Loans (USD million)
2011	24	29.2	7	14	5.2	4.6	909.3
2012	62	32.3	5	50	5.1	4.2	1466.2
2013	103	49.5	1	100	5.2	4.2	1182.3
2014	129	52.7	6	99	4.5	4.7	1771.1
2015	129	52.7	3	98	5.0	3.1	1930.2
2016	148	61.5	11	108	5.0	3.3	1386.5
2017	134	59.0	40	67	5.5	3.6	1494.3

Source: CPD calculations from Bangladesh Investment Development Authority (BIDA) data.

Note: Some key assumptions were made while carrying out this exercise. These are the followings: discount rate was considered to be 5 per cent; when grace period was not mentioned it was assumed to be 0; when payment per annum was not mentioned it was assumed to be 1; other fees and maintenance cost was excluded due to lack of uniformity and complexity of the involved issues which was likely to lead to underestimation of the cost of borrowing to some extent; in case of multiple interest rates for different periods of loans, weighted average interest rate was used; foreign financing directed to the borrower in the form of deferred payment, repaid in installments, was not counted as loans while calculating weighted average interest rate.

3.4.5 Balance of payments

Current account balance was negative (USD (-) 3,311 million) for the July-October period of FY2018. While the balance was negative for the corresponding period of FY2017, this was only USD (-) 44 million. This downward pull was mainly driven by the negative trade balance of USD (-) 5,791 million which was USD (-) 2,774 million for the corresponding period of FY2017. As was noted above, during this period there was significant growth (28.7 per cent) of import payments. Although growth in export earnings (7.0 per cent) picked up, it relatively subdued compared to that of import payments. As remittance inflow was USD 262 million higher in this period, this compensated for only a part of the growing trade deficit. Latest figures (July-December of 2017) released by the EPB showed that export growth marginally increased to 7.2 per cent while the growth of L/C opening for import payments (for July-November of 2017) was nearly 30 per cent (if one excludes USD 11,380 million equivalent of L/C opening for the import requirements of Rooppur Nuclear Power Plant[34]).

The overall balance for the July-October, FY2018 was negative as well, at USD (-) 225 million (the corresponding figure was USD 2,037 million in FY2017). The overall BoP situation was helped by the 107.2 per cent growth of medium and long-term (MLT) foreign loans received during the corresponding period. The analysis above pointed out that private sector external debt had been on the rise since 2011. In addition, a significant growth in the foreign aid disbursement also

[34] In November 2017, at one go, USD 11.4 billion equivalent of L/C was opened for the import requirements of Rooppur Nuclear Power Plant project. Although the real import will take place (as planned) from now to 2024, policymakers should be aware of the fact, any large 'one-shot' import settlement may create additional pressure on balance of payment position.

contributed to the increase in MLT.[35] Besides, there was also 9.4 per cent period-on-period growth in FDI flow during July-October of 2017.

The indications are that, trade deficit will continue to rise in the second half of the current fiscal year despite signs of improved export and remittance performance. Flow of MLT and FDI will likely gain some momentum. However, the pressure on overall balance and foreign exchange reserves will likely rise, requiring a cautious approach on the part of the central bank in pursuing its monetary policy for the second half of FY2018, particularly in terms of its management of exchange rate, forex reserves and foreign loan. The forex reserve is likely to fall further as the growth of incoming sources of foreign funds may not be substantially picked up to balance the high growth of import payments.

3.4.6 Exchange rate

Following protracted stability, spanning over three years (notwithstanding some short term volatility), BDT started to experience some depreciation since second quarter of FY2017. This continued in the early months of FY2018. Monthly average nominal exchange rate (NER) in the first half of FY2018 was USD/BDT 82.57 (December 2017)[36]. Real effective exchange rate (REER), has declined in the first five months of FY2018[37] from 153.4 in July to 150.7 in November 2017. Analysis of the cross-currency rate with Bangladesh's major trade competitors[38] reveals that BDT is regaining its pre-appreciation level. For instance, INR-BDT exchange rates, now 1.25 (INR to BDT), has reached the rate posted in 2015.

Table 3.17: Cross-currency Comparison with Trade Competitors[39]

Competitor	Currency rate	Current NER*	Same level previously**	Current REER	Same level previously**
Cambodia	KHD/BDT	0.02002	July 2012	0.8911	March 2015
China	CHN/BDT	12.52	March 2013	0.8828	May 2016
India	INR/BDT	1.25	January 2015	0.8000	April 2015
Vietnam	Dong/BDT	0.003640	August 2014	0.9329	March 2016

Source: CPD calculation using data from Bangladesh Bank, National Bank of Cambodia, Vietnam Customs and Bruegel Centre.
Note: *As of December 2017 for China and Vietnam, as of November 2017 for India and as of October 2017 for Cambodia

**The time has been noted for which the exchange rate was approximately similar to the current rate.

[35] During July-September 2017, foreign aid disbursement was USD 857.1 million which was USD 578.3 million in the corresponding period of the last fiscal – a significant growth of 64.5 per cent was recorded. After principle repayment of USD 278.8 million, the net receipt of foreign aid stood at USD 578.3 million during July-September, 2017 as compared to USD 220.2 million of the same period of the previous year, a rise to the tune of 162.7 per cent.

[36] Last time Bangladesh had the nominal exchange rate within the range of USD/BDT 81.5 to 83 was in 2012 (March-September 2012)

[37] REER used for this analysis is estimated from a 138 currency basket (Bruegel Center Working paper 2016), whereas Bangladesh Bank's REER estimates stem from a 10 country currency basket which accounts for over 80 per cent of Bangladesh's total trade (these set of countries constitute 80 per cent and 99 per cent of Bangladesh's total trade, respectively). The estimates by the Bruegel Center has been used on the basis of availability.

[38] Cambodia, China, India and Vietnam

[39] The analysis has been done for the period FY2013 – FY2018 (first half, up to December 2017)

Thanks to the recent depreciation of BDT, its erosion in terms of REER against currencies of some of Bangladesh's competitors appears to have been checked, and reached the REER levels of a few years back (Table 3.17). A recent study by the Bangladesh Bank (Hassan et.al. 2016) found the existence of a direct relationship between REER and Bangladesh's export earnings both in the short run and long run. The study supports the established theory of adverse effect of REER appreciation on export earnings. The same study shows that upon the induction of a shock, it takes approximately forty days for the REER-export earnings nexus to reach a steady state level. Keeping this in mind, one can expect the exports to benefit from REER movement in the coming months[40].

Foreign exchange reserve has dwindled to USD 32.0 billion as of 3 January 2018, from USD 33.5 billion as of 30 June 2017. This depletion of forex reserve can be explained by the high growth of import payments, relatively lower export growth and sluggish recovery of growth in remittance. Moreover, Bangladesh bank has seemingly refrained from intervening in the form of large scale foreign exchange purchases of USD in the past few months.

Policy stance

Overall, trends of such key monetary sector variables such as inflation, interest rate, export and imports, trade, current and overall balance, debt servicing and foreign exchange reserves, suggest that Bangladesh should pursue a cautious monetary stance during the second half of FY2018. The widening trade deficit in the backdrop of high imports, and the depressed current account and overall balance of payments scenario was likely to put pressure on the foreign exchange reserves. In view of this, renewed efforts to stimulate export earnings and remittance flows, maintain exchange rate stability and steps to rein in imports should inform Bangladesh's external sector management.

[40] A CPD study employing an augmented gravity model to estimate the impact of Brexit on Bangladesh's exports suggests that the exchange rate elasticity of exports is 0.02 per cent. When this is factored in for the July-December FY2018 period, we observe that depreciation of REER by 1% would lead to an increase of about USD 200.0 million in the export earnings. (Rahman et. al., forthcoming)

SECTION IV. SELECTED ISSUES FOR FY2018

4.1 Crisis in the Banking Sector

4.1.1 Introduction

Performance of the banking sector of Bangladesh has been quite disappointing in recent times (Table 4.1 and Figures 4.1-4.4). Track record of many of the banks has been unsatisfactory. There is a wealth of empirical research which indicates that the relationship between financial development and economic growth is positive (Ansari, 1998; Monnin, 2013; McKinnon, 1973; Shaw, 1973; Calderón, 2003; Rahman, 2004; Chakraborty, 2008; Khan, 2008 and Senhadji, 2000). However, the banking sector of Bangladesh has been plagued by financial scams, non-performing loans, inefficiency, and slack monitoring and supervision. This has posed serious threats to the sustainability of the sector. This section of the IRBD report provides a brief overview of the situation of the banking sector, highlights a few issues that are detrimental to the development of the sector and makes recommendations for way forward.

4.1.2 Overview of performance of the banking sector

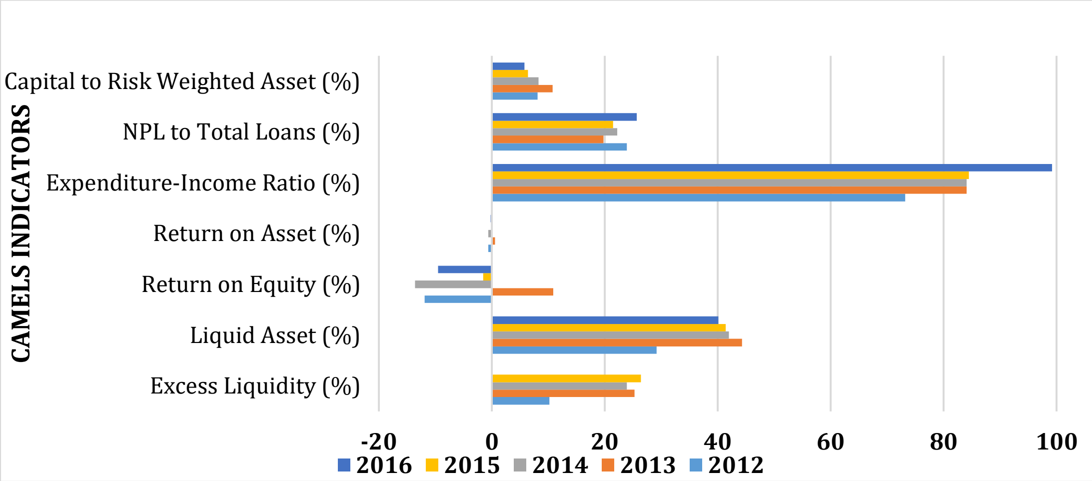
State owned Commercial Banks (SCBs) performed miserably (Annex Table 4.1) with a dismal record of large non-performing loans, bad governance, and embarrassing recapitalisation. The setback from several major financial scams was taking a heavy toll on both the health and reputation of SCBs. The fourth generation banks (9 newly approved commercial banks) are beset with large amounts of non-performing loans (NPLs) (Annex Table 4.2) and are making losses. Research has shown that 65 per cent of banks faced financial crimes during the years 2014-2016 (Habib 2017), whilst financial statements of borrowers was always available to the banks only 17 per cent of the time (Siddique, 2017). Capital adequacy was still below BASEL III requirements for some banks, and the prospects of full BASEL III implementation by 2019 seem bleak. Two detrimental amendments of dubious nature have been proposed to the Banking Company Act which undermined the cause of good governance. The tenure of board of directors is proposed to increase from 6 years to 9 years, and up to four family members would be allowed to be on the Board, instead of the earlier two per family. These changes are apprehended to reinforce crony capitalism in a sector of the economy already impaired by poor governance. Major changes were made to Islami Bank management, which had already been suffering from poor governance, on allegations of terror financing and political violence. A bank once known to be a high performer in the banking sector was now in disarray.

Table 4.1: Overall Banking Sector Performance during 2012-2017

Soundness Indicators	2012	2013	2014	2015	2016[J]	2017[P]
Capital to Risk Weighted Asset (%)	10.5	11.5	11.3	10.8	10.7	10.9
NPL to Total Loans (%)	10.0	8.9	9.7	8.8	10.1	10.1
Expenditure-Income Ratio (%)	74.0	77.8	76.1	76.3	79.8	NA
Return on Asset (%)	0.6	0.9	0.6	0.8	0.4	0.3
Return on Equity (%)	8.2	11.0	8.1	10.5	7.1	4.7
Liquid Asset (%)	27.1	32.5	32.7	26.5	25.3	21.6
Excess Liquidity (%)	9.9	15.4	15.7	16.9	NA	NA

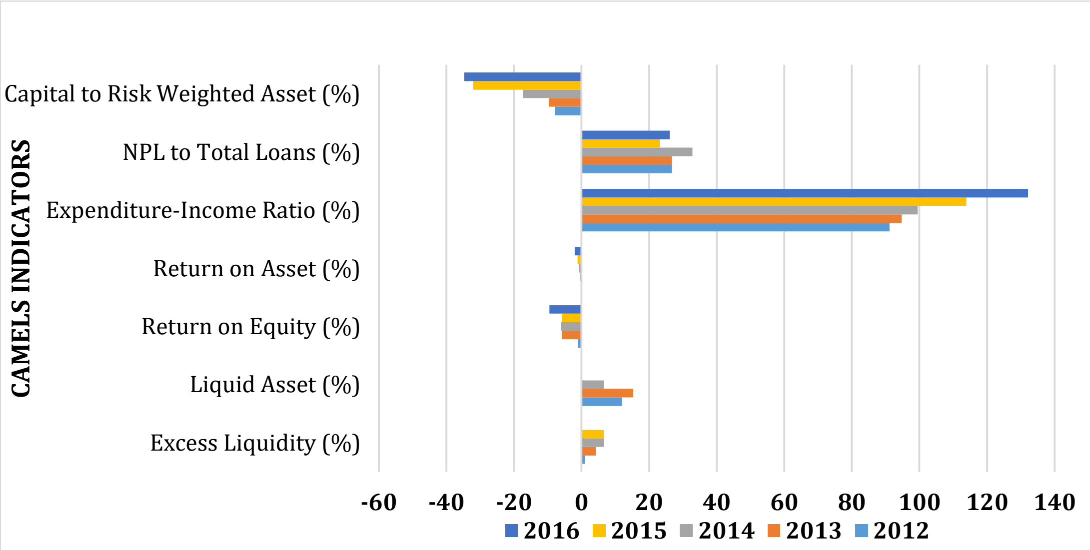
Source: Bangladesh Bank Annual and Quarterly Reports
Note: J=June; P= Provisional.

Figure 4.1 Performance of the State Owned Banks 2012-2016



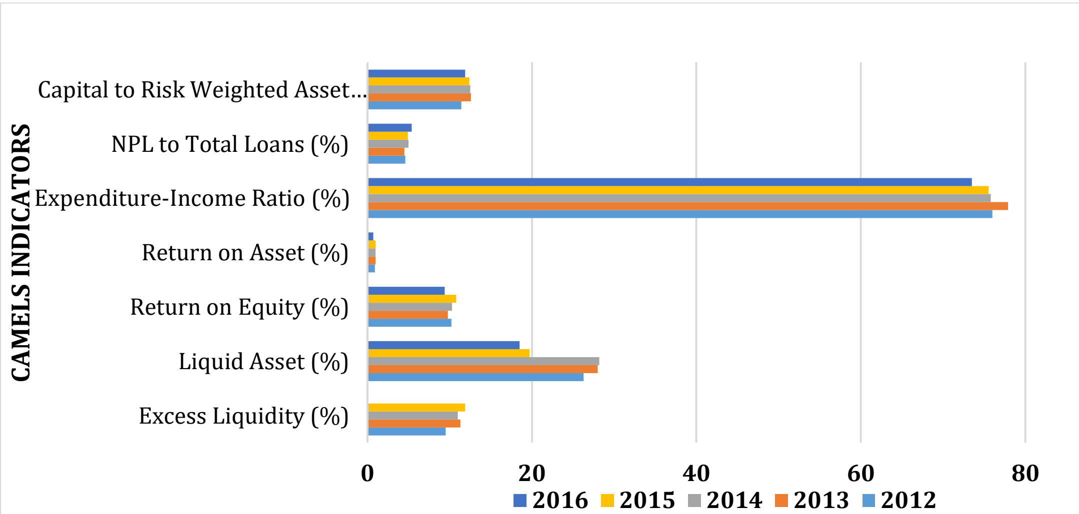
Source: Bangladesh Bank.

Figure 4.2: Performance of the Development Finance Institutions during 2012-2016



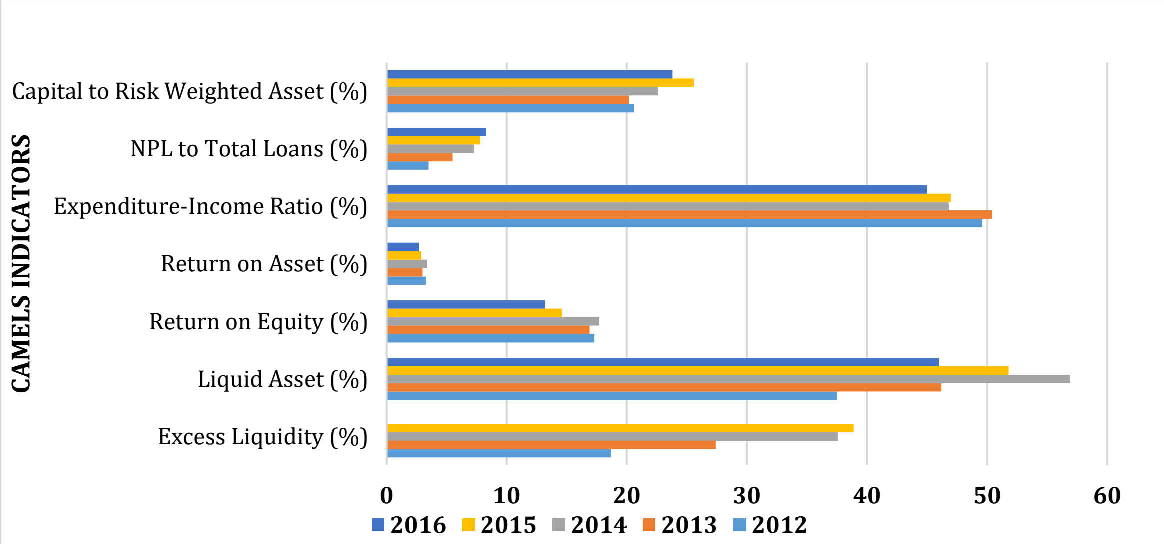
Source: Bangladesh Bank.

Figure 4.3: Performance of the Private Commercial Banks during 2012-2016



Source: Bangladesh Bank.

Figure 4.4: Performance of the Foreign Commercial Banks during 2012-2016



Source: Bangladesh Bank.

4.1.3 The tale of fourth generation banks

In 2013, the government approved licenses of nine new private commercial banks: Meghna Bank Limited, Midland Bank Limited, Modhumoti Bank Limited, NRB Bank Limited, NRB Commercial Bank Limited, NRB Global Bank Limited, South Bangla Agriculture and Commerce Bank Limited, The Farmers Bank Limited, and Union Bank Limited. All of these banks had two things in common: they were all backed by politically powerful owners and the economic rationale of these banks was very weak. For example, a study showed that 95 per cent bankers believed that the new banks were redundant (Nabi, 2016). Despite such findings, nine new private commercial banks were still given the green signal.

The logic of reaching out to the unbanked in remote areas, for bringing in new banks, was a weak one. First, new branches could also be opened by the existing banks. Second, banking and financial services could be provided digitally. Indeed, the Index of Financial Inclusion (IFI) in Bangladesh had increased from 27.5 per cent in 2010 to 65.5 per cent in 2014, mainly due to the opening of a large number of mobile banking accounts (Rabbi, 2016). Despite having a number of feasible options on the table, the new banks were allowed into the market at a time when the banking sector was already reeling from corruption and scandals.

According to conventional economic theory, firms want to enter a market when they see that there are potential gains to be made (Pindyck 2013). An investor who would be willing to spend Taka 400 crore to start a business would undoubtedly undertake meticulous calculations of cost-benefit ratio, internal rate of return, and net present value. One wonders, how much effort has actually gone into such exercises before launching a new bank and how much time was spent to devise ways and means of misappropriation of depositors' money.

Farmers Bank is now on the verge of collapse after being hit by scams and scandals. Due to acute liquidity crisis, the bank is unable to pay its depositors. This is creating panic amongst the depositors who are desperately trying to take their savings out of the bank. The central bank has allowed Farmers Bank to float subordinated bonds worth Tk. 500 crore, and also given it a short term loan of Taka 96 crore. However, the situation in Farmers Bank is getting worse every day

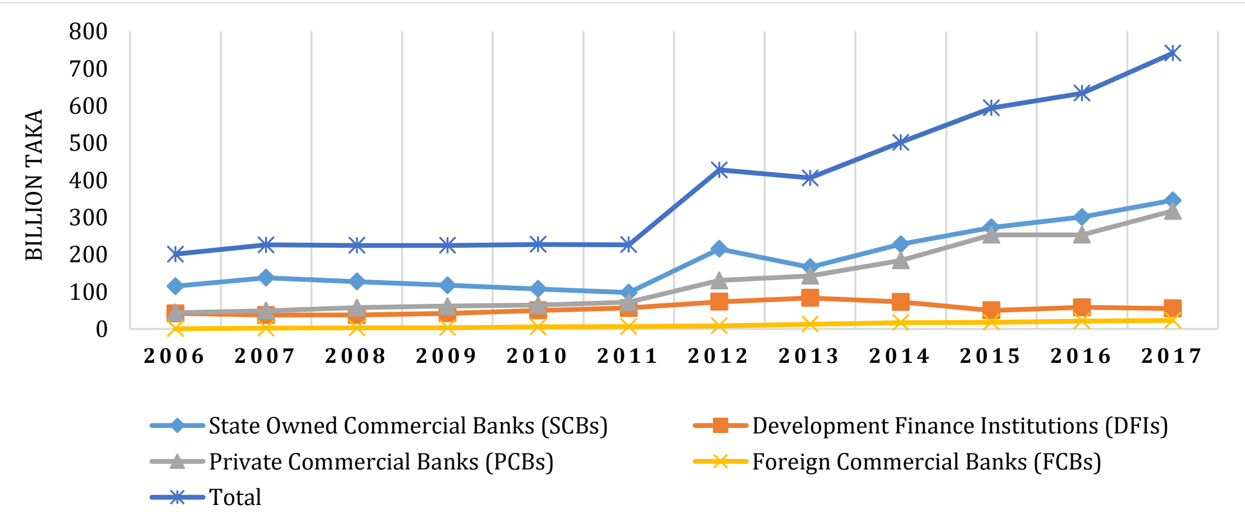
(Annex Table 4.3). The crisis in Farmers Bank reminds the depositors about the erstwhile Oriental Bank which collapsed due to massive insider lending and malpractices (Annex Table 4.4).

4.1.4 Non-performing loans cast shadow on banking sector

NPLs are a direct threat to the financial health and development of a country. It may appear that NPLs are rather innocuous, and that they occur merely because borrowers are unable to pay back loans which are associated with high interest. However, studies have shown that in general high interest rates are not causally related to high level of NPLs in Bangladesh (Ahmed, 2006; Mujeri, 2009; Hossain, 2012). Evidently, for small and medium enterprises (SMEs) high interest rates could be a reason behind NPLs (Jahan, 2016). However, the amount of loans by SMEs is rather small compared to the total amount of loans by banks in Bangladesh.

The reality is that NPLs originate from uncertainty and corruption, both of which have detrimental effects for the growth of the banking sector of a country (Park, 2012; Moshirian, 2012; Lin, 2012; Serwa, 2010). Research has shown that the reasons behind high amount of NPLs in Bangladesh include political instability, corruption, poor governance, and weak rule of law (Banerjee, 2017; Alam, 2015).

Figure 4.5: Amount of NPLs in Bangladesh by type of bank



Source: Bangladesh Bank.

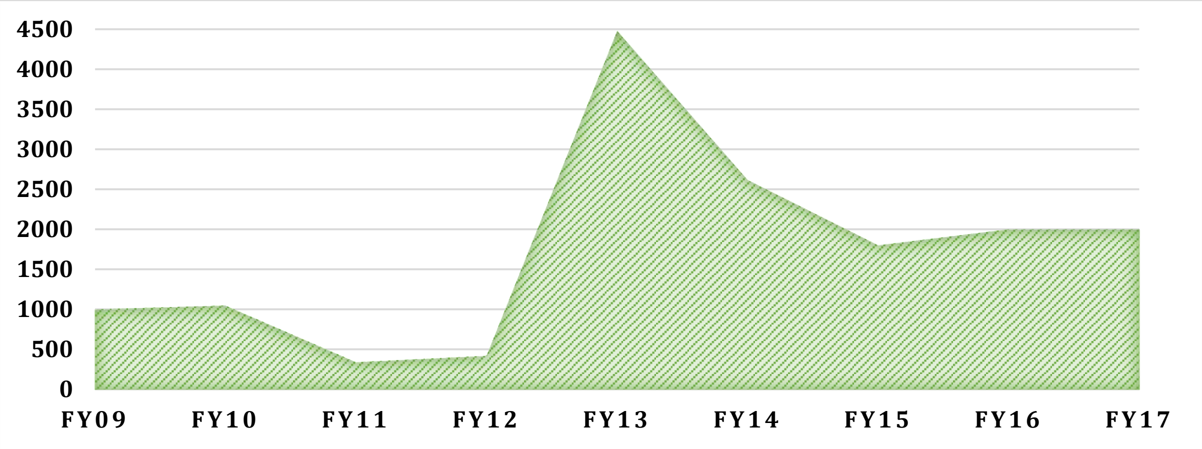
The amount of NPLs in Bangladesh has been rising at a fast pace over the past years. Poor management of state owned commercial banks, coupled with malpractices and corruption, has contributed to the high levels of NPL. Contrary to all established norms of banking, state owned commercial banks have been awarding loans based purely on political grounds (Habib, 2017). Consequently, even routine assessment of the potential risks associated with the borrower is not carried out by these banks. Credit-worthiness is judged mainly by political worthiness. As a result, having good political credentials is perceived to be adequate to obtain large loans. Additionally, the government's tendency to fund loss making state owned enterprises, through state owned commercial banks, has aggravated the problem of NPLs even further. Research has shown that on average only 33 per cent of first time rescheduled loans, and 30 per cent of third time rescheduled loans were recovered during 2011-2014. Over the same time period, loans worth Tk. 45,527.4 crore were written off by the banking sector. Evidence has also emerged that only 14 per cent of bankers consider the borrower selection process to be extremely effective (Habib, 2017).

4.1.5 Recapitalisation of SCBs at whose cost?

Recurrent recapitalization of SCBs by the government has emerged as an issue of grave concern, and the government has taken recourse to this measure on a regular basis. It has been estimated that the GoB has spent Taka 15,705 crore (Monthly Fiscal Frameworks, Budget Briefs, Finance Division) in recapitalizing the banks during the period FY2009-FY2017. This amount is roughly half the cost of the construction of the Padma Bridge. Most of these funds were allocated to the ailing and failing SCBs.

Instead of government-funded recapitalization, banks suffering from capital inadequacy should be instructed to take recourse to other measures. Such options include, but are not limited to, using revenue to increase capital, searching for investors to buy bank shares, or merging with other commercial banks.

Figure 4.6: Amount of Recapitalisation (in crore Taka)



Source: Monthly Fiscal Frameworks, Budget Briefs, Finance Division.

4.1.6 Way forward

Embezzlement of public money by a handful of corrupt people and escalation of financial crimes in Bangladesh indicate that the banking sector is in dire straits. Immediate attention and decisive actions are required on the part of the government to rescue the banking sector from this dismal situation. It is just not about formulating new laws, but about punishing those who are responsible for the mismanagement among a section of the banking sector. Ironically, recommendations to overcome the challenges of the sector remain the same as before. Some of those are flagged once again, along with a few immediately ones.

i) Immediate Measures for the Failed Banks: The central bank should act proactively towards resolving problems of the failed banks, such as Farmers Bank. Bangladesh Bank should appoint a strong administrator immediately to oversee the operation of the bank. A proper audit of the bank should be performed to understand the real health of the bank. Most importantly, the depositors should be paid back.

ii) No permission for new banks: The culture of giving licenses to new banks on political grounds should be stopped. Given the size of the economy there is no need for new banks. The government should not give license to open any new banks. Rather, the existing banks should be supervised and monitored closely. They can expand services to the unbanked ones.

iii) Implementing Risk Management Guidelines: All banks, especially the state owned commercial banks, need to implement the risk management guidelines of Bangladesh Bank. The central bank has outlined six core risks, and requested banks to adopt appropriate measures to address them (Bangladesh Bank, 2012). These risks include: i) Credit Management Risk, ii) Foreign Exchange Risk Management, iii) Asset-Liability Risk Management, iv) Internal Control and Compliance Risk Management, v) Money Laundering Prevention Risk, vi) Guidelines on Information and Communications Technology. Banks must be instructed to strictly comply with these guidelines at all times.

iv) Improving Internal Control: The internal control department of state owned commercial banks is in need of a serious overhaul. Due to lack of sufficient information technology (IT) infrastructure, the majority of the work has to be done manually, with the consequence of delays and inefficiency. During financial scams of the past, it was discovered that the internal control departments either willingly or unwillingly had failed to inform the Board of Directors regarding large losses.

v) Combating Cronyism in Banking: In order to truly bring about a profound change in the banking sector, the most important emergent task is to combat cronyism. The current practice of recruiting Board of Directors on political grounds has to be discontinued. Studies have shown that financial reporting fraud in banks is more likely if the Board of Directors is dominated by insiders (Beasley, 1996; Dechow, 1996; Farber, 20005; Song, 2004; Uzun, 2004). Despite being cautioned by the central bank in 2014, two private commercial banks still had four or more members from the same family in their Board of Directors, as of 12th January 2018. Only unbiased, competent, and honest individuals should be appointed as Member of the Board of SCBs. Of course, they should be allowed to work without fear and favour. The central bank has a clearly defined mandate regarding the appointment of Directors of banks. These regulations must be followed without exception in order to ensure good governance and operational independence of the bank. Unless political interference can be reduced, there is scant possibility that the banking sector will be able to play its role in the economy.

vi) Capacity Building of State Owned Commercial Banks: Lack of capacity building is a perennial problem that besets the state owned commercial banks in Bangladesh. Without human resource development through enhanced skills, state owned commercial banks will not be able to handle the emerging challenges facing the sector.

vii) Upholding Central Bank's Independence: The role of the central bank in overseeing the anomalies of the banking sector and for taking stern measures against the loan defaulters, perpetrators of financial crimes, and rule breaking banks and individuals has been rather weak. Interference in Bangladesh Bank's activities goes against the spirit of Bangladesh Bank Amendment Bill 2003 which was geared to guarantee the central bank with autonomy. Unfortunately, the central bank has gradually become silent in the face of political interference and pressure.

4.2 An Assessment of Flood Damage and Post-flood Management 2017

4.2.1 Rationale

During the post-independence period, Bangladesh has experienced several floods of various magnitude. Despite there being no standard definition of major flood, considering the scale of loss and damage, floods of 1974, 1987, 1988 and 1998 are generally regarded as major floods that visited Bangladesh. The estimated asset losses of 1974 flood was equivalent to as high as 7.5 per cent of gross domestic product (GDP) (Mechler and Islam, 2013). Although the spatial coverage and magnitude of 1988 and 1998 floods were higher than those of 1974, the overall asset losses were estimated to be equivalent to 5.5 and 4.8 per cent of the respective year's GDP (Mechler and Islam, 2013). In 2004, the estimated asset loss due to flood was equivalent to USD 8.8 billion, almost four times than that of the 1998 flood which was about 3.3 per cent of the corresponding year's GDP (Mechler and Islam, 2013; CPD, 2005). In a similar vein, while subsequent major floods were larger in scale, these resulted in lower amount of losses. A key reason of improved flood resilience in Bangladesh was the significant investment in disaster and risk management (Mechler and Islam, 2013). Indeed, with the progression of time, the attained economic progress with attendant higher standard of living, higher educational attainment, and a growing financial strength have helped Bangladesh to improve her overall resilience against all types of natural calamities including flood (Toya and Skidmore, 2007). In addition to these, community awareness and preparedness programmes undertaken by the government and other non-government organisations (NGOs) have also contributed to Bangladesh's strengthened resilience capacity to deal with natural disasters.

However, being one of the most climate vulnerable countries in the world, coping with pre-during-post food management remains a daunting challenge for Bangladesh. As the signs of climate change impact become ever more evident[41] (Woodward, 2011; Wirtz, 2013; Santos, 2013, Navrud and Magnussen 2013; Chibber and Laajai, 2013; Surminski and Eldridge, 2015; Zeleňáková, 2017; Pant, 2017), the task of reducing risks and tackling the impacts are becoming ever more demanding and daunting. These increasingly higher risks were in evidence when Bangladesh experienced the two successive floods in 2017. During the early flash flood in March-April, 2017 people living in six districts of the *haor* and low-lying areas of northeastern region of the country were affected adversely. Later on, during monsoon flood of August 2017, people in 32 districts of Bangladesh came to be affected (DDM, 2017). When compared with other major floods of the past, five distinctive features are discernible which emerges from the authors' observations: (a) early flash floods in *haor* and low-lying northeastern districts; (b) relatively lower scale of spatial coverage; (c) a part of urban areas having been affected (after a long time); (d) lower number of people affected and (e) relatively low death toll.

On the other hand, the two successive floods of 2017 led to inundation of significant amount of agricultural land and crop damage; a large of number of houses and homesteads, and public infrastructures was partially or fully damaged; a significant number of livestocks was lost; economic opportunities had to be forgone. As a response, the GoB and the NGOs have taken

[41] In 1990s, worldwide, the average number of natural catastrophes had increased to 630 per year from the average number of 430 per year in 1980s. Over the period of 10 years (2002–2011) 800 such events were recorded on average every year. Experts recorded (and analysed) the highest number events, 820 natural hazards, events in one calendar year (Wirtz, 2013).

several measures during and post-flood period to address and mitigate the after effects and address the adverse impacts. As post-flood management measure, the GoB declared package of support to the flood-affected farmers to raise crops in the subsequent harvesting season. However, despite the various initiatives, questions were raised by flood-affected people, media and social groups about the adequacy and efficacy of both pre- and post-flood management. These covered a broad range of areas: embankment management, corruption and leakage, rice stock mismanagement by the government, inadequacy of relief activities during and after the flood – these have been convoluted with the discussion of climate change. In the backdrop of the above, the CPD study has made an attempt to assess the impact of the 2017 floods from various dimensions, including an assessment of the pre- and post-flood management by the government, to come up with a set of policy recommendations to improve government's future flood management efforts and initiatives.

4.2.2 Damage from early flash flood in Northeastern *haor* region

It is well-known that the *haors* are low-lying river basin areas of Bangladesh. Generally speaking most parts of the six districts of the northeastern *haor* areas (*Habiganj, Kishoreganj, Moulavibazar, Netrokona, Sunamganj and Sylhet*) remain inundated for about six to seven months, from June to mid-December. Usually, water level in the northeastern *haor* region starts to rise from late April and within a month or two the area is inundated by water. Between December to April, farming households in this region harvest *boro,* which is the main crop for this mono-cropping region.

In late March 2017, the aforementioned six districts in this region came to be affected by an early flash flood. The floods came at least a month earlier than the regular flood season. Excessive rainfall, both in the affected region and also the Indian-upstream (which led to sudden rush of water from the upstream) was identified as the primary cause of the flood. The water level had surpassed the danger level within the next 3-4 days and inundated the majority of the harvested crop lands of the region. In addition, delayed start of the annual repair work concerning the embankments by relevant authorities and corruption in the process were cited by the local people in exacerbating the adverse effects of the flash flood. In the course of the flash flood about 46.7 lac people from 10.3 lac households came to be affected (DDM, 2017). This was about one-fourth of the total population of the six affected districts; however, the number of recorded fatalities was relatively low (ten people in all) when compared to such floods of the past. On the other hand, since of all the flood affected households, significant loss of crop production was inevitable.

Value of rice production losses and damage

According to the DDM, about 0.4 hectare *boro* harvested area were completely damaged by the flash flood in the *haor* and low-lying northeastern region of Bangladesh. Assuming district-wise average of (previous) two year's yield rate of rice production remaining the same also in 2017, authors' have estimated that the loss of *boro* rice production was to the tune of 15.8 lac MT[42]. The estimated *boro* rice production was equivalent to 8.3 per cent of national average of *boro* production in FY2015-16. At the regional level (affected *haor* areas), it was about 52.2 per cent of the total *boro* rice production of the years in FY2015-16. Among these districts, Sunamganj

[42] BBS has reported that damaged *boro* rice production in the flash flood was about 9.8 lac MT. However, authors' stand with their estimated results as government relief activities and rehabilitation programmes were implemented based on the preliminary statistics published by DDM.

experienced the highest production loss - about 86.2 per cent of its rice production was damaged. The value of estimated rice production loss was about Tk. 5300 crore[43] (or USD 663 million)[44]. This was equivalent to 3.7 per cent of agriculture crop sector GDP in FY2016-17. According to DDM[45], in addition to extensive losses of the boro crop, another 460 hectares of vegetable cultivation areas were damaged by the flash flood (DDM, 2017a).

4.2.3 Monsoon flood damage in 32 districts

Excessive rainfall which had resulted in significant rise in the water level above the danger level in various rivers of the northern part of Bangladesh, led to extensive monsoon flood in 2017. Continued rainfall since late June and excessive flow of water from upstream in the mid-august aggravated the situation. The flood was a prolonged one lasting for nearly 20 days. Excessive water flow above the danger level in some cases had severely damaged the town protection embankments and flooded some urban areas, unseen in several decades (e.g. Dinajpur, Naogaon, etc.). As a matter of fact, water level of the *Jamuna* reached a record of 20.78 meters, even surpassing the level of 20.62 metres recorded at the time of the 1988 flood[46]. In the monsoon flood of August 2017, about 82 lac people were affected (DDM, 2017b). This was about 8 per cent of the total population living at the 32 affected districts. About 147 people lost their life due to the monsoon flood in 2017 (DDM, 2017b). However, the number of fatalities were lower than comparable figures for the earlier years.

Estimated damage of monsoon flood

Similar to the earlier flash flood, considerably large tract of agricultural crop land was inundated during the monsoon flood. According to the authors' calculation, about 9 per cent *aman* crop land was inundated by the flood. Because the monsoon flood came in the period between early and to mid-August, farmers were able to go for replantation of the *aman* crop which they did till late September. If this was not the case, the forgone value of *aman* rice production could have been about Tk. 2,700 crore (or about USD 338 million). Assuming that replantation of the *aman* crop ranged between 40 per cent and 80 per cent, according to the authors' calculation, the forgone production value could come down to between Tk. 1,800 crore (or USD 225 million) and Tk. 700 crore (or USD 87.5 million), respectively. Besides the loss of *aman* crop, flood-affected households lost a fairly large amount of homestead vegetable production which could not be quantified in this study.

During the monsoon flood in 2017, about 0.10 million and 0.63 million homesteads respectively were completely or partially damaged (DDM, 2017). According to authors' calculation, repairing and rebuilding of these damaged dwelling houses to pre-flood state will cost the flood-affected households about Tk. 2,600 crore (or USD 371.4 million). In addition to loss of private properties, a large number of public properties were also damaged. About 890 km public roads were

[43] National average of one kilogram coarse rice was BDT 35.4 in April 2017. It may be argued that putting the market price of rice may overestimate the value of production loss while in the field paddy has been damaged instead of rice due to flood. However, authors' have used the market price of rice instead of the paddy to address the opportunity cost incurred by the flood-affected people due to early flash flood.

[44] 1 USD equivalent to BDT 80

[45] Preliminary report released by DDM on 12 May, 2017 (DDM, 2017a)

[46] This piece of Information was taken from Statistical Year Book Bangladesh 1993 and Flood Forecasting and Warning Centre (FFWC) 2017

completely damaged, while another 10,469 km roads were partially damaged; 949 bridges and culverts were either destroyed or damaged (DDM, 2017b). About 132 km long embankments were completely destroyed while about 664 km were partially damaged (DDM, 2017b). According to authors' calculation, to get back to pre-flood condition about Tk. 4,500 crore (or USD 526.5 million) will be required for purposes of repairing and rebuilding of damaged roads, culverts and embankments. The total value of losses incurred on account of *aman* rice production and damage to physical assets such as houses, roads, culverts and embankments were between Tk. 7,800 (USD 975 million) to Tk. 8,900 crore (USD 1,112.0 million). This estimated value was equivalent to about 0.35-0.44 per cent of the Bangladesh's projected GDP for FY2017-18. However, this figure is an underestimate since authors were not able to put a figure on most social costs as also some of the other costs (e.g. value of damaged school and institutional buildings).

4.2.4 Review of government interventions during and post-flood period and observations from field visits

In the course of both the floods, the government provided support in the form of rice, cash and corrugated iron sheets as relief among the flood-affected households through gratuity relief (GR) programmes. Apart from this, in haor areas the government has provided rice (30 kg per month) support to 3.8 lac flood affected families in *haor* areas for nine months, in three phases, through vulnerable group feeding (VGF) programme[47]. However, during the focus group discussions (FGDs), the responses from the poorer section of flood-affected people had been mixed as regards proper identification of recipients and distribution of reliefs. Some claimed that they have received lower amount of rice support than what they were supposed to receive, while some others mentioned that they received support for only one phase. As a post-flood measure, the government has announced four support programmes for the 2017 flood-affected farmers of which one was dedicated to the affected farming households in the *haor* areas.

Review and analysis of government's flood relief, rehabilitation, and agricultural support measures allows the authors to come up with a number of observations as regards efficacy of the steps taken during and post-flood period: (a) government's flood relief activities and assistances had been timely but inadequate; (b) under-utilisation of relief allocations made for both cash and rice; (c) government relief did not reach remote areas and small clusters in the affected areas; (d) agricultural support measures for farmers were not adequate; allocated budget was not properly utilised; (e) some agricultural support measures went to non-targeted areas as well; (f) some flood-affected areas have remained outside the purview of the agricultural support programmes even though the concerned areas had significant land covered under the respective crop support programme; (g) there were inefficiencies in the planning of government's agricultural support programmes and distribution of assistance; (h) the logic of proportional distribution of crop inputs was flawed; (i) no or insignificant assistance for non-crop agricultural sectors.

In addition to the above, during FGDs and key informant interviews (KIIs) several other policy concerns were identified which could not be assessed quantitatively. However, these were of no less importance. Some of the concerns articulated are as follows: (i) maintenance of the existing infrastructure is not a priority for concerned authorities; (ii) infrastructure restoration programmes do not receive adequate priority and attention; (iii) lack of coordination among

[47] This programme is still continuing and government has planned to carry forward this programme till April, 2018.

responsible authorities; (iv) local people are not well-embedded in the decision making process; (v) no coordinated approach was followed to generate data on disaster-related damage; (vi) the focus of flood relief and post-flood support by the NGOs is primarily centered towards their respective clients.

4.2.5 Recommendations

Short term

- Adequacy and coverage of the government's relief and rehabilitation activities can be improved through better utilisation of allocated budget for relevant programmes.
- Adoption of digital tools may help the government to improve the efficiency and efficacy of flood relief activities by reducing misidentification, overlaps and by helping to put in place improved monitoring system
- Government should make use of the NGO networks to reach the remotest and farthest flood-affected areas
- A GO-NGO partnership geared towards flood management will raise the efficiency of the post-flood management programmes (e.g. to address multiple dimensions of health and other social hazards due to flood)
- Effective participation of local people in the decision making process should be ensured in project implementation committees
- Adequacy and coverage of agricultural rehabilitation programmes can be extended through better use of agriculture subsidy budget
- A special financing scheme should be considered for rural (affected) people to get access to low cost formal credit
- Non-crop sector rehabilitation programmes should be introduced and implemented in a coordinated manner rather than following fragmented procedures (e.g. affected fishermen were in urgent need of fingerlings to start fish culture anew)
- Although more accurate disaster data were available with various government departments, there is no system to integrate these fragmented data into one integrated data portal. This integrated data portal should not be a separate government initiative, rather DDM should get the mandate to integrate all disaster related data from relevant government departments and offices
- District officers of various government departments (e.g. Department of Agricultural Extension (DAE), Department of Livestock Services (DLS), Local Government Engineering Division (LGED), Bangladesh Water Development Board (BWDB), etc.) should be asked to prepare independent reports which should include: the damage incurred in their respective districts due to flood, information about measures they have taken, a list of the challenges they faced in their activities on the ground and come up with concrete policy suggestions to improve the situation.

Medium term

- Government must come up with an effective framework to improve maintenance of existing embankments and flood protection infrastructure. Rebuilding and repairing of embankments and dams need to be carried out in a timely and coordinated manner
- Projects need to be undertaken as part of integrated flood management framework on a priority basis to repair damaged road networks

- Structural flaws of road, bridge and culvert networks in many rural areas adjacent to farm lands, which cause water logging, need to be remedied
- A joint work plan needs to be chalked out by the Ministry of Water Resources, Roads and Highways Division, LGED, Ministry of Agriculture, Ministry of Food, and Ministry of Finance with support from other local institutions
- There is a need to undertake a project to establish protection walls at *haor* areas after proper technical and feasibility assessment
- Periodic dredging of various cannels and rivers linked to *haor*s is a must to protect the ecosystem of the *haor* wetlands
- Good governance in the flood (disaster) management and strengthening institutional capacity in implementing the projects ought to be seen as priorities by policymakers

4.3 Implications of *Rohingya* Crisis for Bangladesh

4.3.1 Background

The *Rohingya* problem has emerged as a new challenge for Bangladesh. The brutal killings and torture, the violence against women, the deaths and sufferings of children and the consequent large-scale displacement of the *Rohingya* people were termed as 'ethnic cleansing' by the United Nations High Commission for Refugees (UNHCR). It may be recalled that the *Rohingya*s had been stripped off their citizenship way back in 1982 as per the Citizenships Law of Myanmar which severely restricted their day to day life. Over the last several decades, *Rohingya* people have been forced to leave their country on several occasions, and by various means. While some have taken refuge in a few neighbouring countries including India, the majority have fled to Bangladesh. This forced displacement of the *Rohingya* people reached its peak in 2017 when hundreds of thousands of them crossed the border and sought refuge in Bangladesh. Their houses were burnt, many were killed and physically tortured, and many were asked to leave by the Myanmar authority. In August 2017, the torture and killing of the *Rohingya*s started afresh and reached the peak, leading to their massive influx into Bangladesh. According to the information of District Commissioner of Cox's Bazar, within a span of two months (from 25 August 2017 to 25 October 2017), a total of 6 lac *Rohingya*s had arrived in Cox's Bazar, while around 2 lac *Rohingya*s were already living in Ukhiya and Teknaf Upazila in Cox's Bazar. Latest figures show that about 6.55 lac *Rohingya*s had arrived in Bangladesh between 25 August 2017 and 7 January 2018.[48]

While Bangladesh had to deal with the earlier influx of about 2 lac *Rohingya*s for several years, the new influx of *Rohingya* people seeking refuge in Bangladesh since August 2017 has given rise to new challenges for the country from a number of dimensions. These involve issues related to humanitarian, economic, security, strategic, diplomatic and subregional, regional and international aspects of the crisis which are complex in nature and significant in scale.
In this context, the CPD undertook a study with the objective to understand the economic, social and environmental dimensions of the *Rohingya* crisis based on field level investigation. Given that Bangladesh is a country with limited resources, the inflow of *Rohingya*s is likely to put significant pressure on the economy. Hence, there is a need to develop an appropriate strategy by taking cognisance of the critical involved issues with the objective to resolve the crisis in a pragmatic manner.

In this report, we have made an attempt to estimate the concerned *Rohingya*-crisis related costs under different scenarios. We have also made a partial assessment of the cost of deforestation arising from the influx of *Rohingya*s in the Cox's Bazar area.

The underlying objective is to understand the fiscal implications of the problem and make commensurate recommendations. In order to carry out the exercise, we have collected data from both primary and secondary sources. Primary sources include Key Informant Interviews (KIIs) of government officials, development workers, and local staffs; Focus Group Discussions (FGDs) with both old and new entrants living in the camps in Ukhiya and Teknaf; informal discussions with the local people; and first-hand observations at the camp-sites.

[48] https://reliefweb.int/report/bangladesh/bangladesh-humanitarian-situation-report-no17-*Rohingya*-influx-7-january-2018

4.3.2 Initiatives to resolve the *Rohingya* crisis

Following the recent influx of *Rohingya*s since 25 August 2017, the Government of Bangladesh (GoB) along with various international organisations have taken several initiatives in view of the crisis. These are summarized in Table 4.2:

Table 4.2: Initiatives taken by the GoB and Various Organisations

Initiative	Between August and November	After November
International Initiatives	Prime Minister of Bangladesh Sheikh Hasina presented the five-point proposal at the United Nations	A Memorandum of Understanding was signed between India and Myanmar on 20 December 2017 to develop the Rakhine state and facilitate the safe return of the *Rohingya*s.[49]
	The EU has renewed its sanctions against Myanmar until 30 April 2018	
	The US declared withdrawal of military assistance from Myanmar	
Bilateral Initiatives	Bangladesh's home minister visited Myanmar on 24-27 October 2017 and discussed possible ways to repatriate the *Rohingya*s back to Myanmar	Myanmar State Counsellor said they would take back daily maximum 300 *Rohingya*s
	Bangladesh and Myanmar signed two agreements on security and border cooperation.	The Terms of Reference signed between Myanmar and Bangladesh restated starting the repatriation process of

Source: Various newspapers.

4.3.3 Impacts of *Rohingya* crisis

As has been mentioned, Bangladesh will face several challenges due to the unfolding crisis of the *Rohingya* influx. These will have three dimensions- economic, social and environmental. The adverse effects will likely have an impact on local commodity prices, tourism, employment opportunities and wages and will put a strain on the natural resources, which will, in turn, have a negative impact on the environment.

Economic

Unless the *Rohingya*s are repatriated soon, the influx will put a burden on the Bangladesh economy, more particularly at the local level, depending on the length of their stay. Cost of various essentials and services such as transport have already increased many-folds, mostly due to the surge in demand from aid workers.

During our field investigation, host communities and other local stakeholders complained about fall in daily wages. For example, for a full day work, a day-labourer earned Tk. 400-500, but in the camps, it is as low as Tk. 150-200. However, jobs are readily available inside the camps for the day labourers since for the relief projects workers are needed for building makeshift houses, setting up latrines and tube-wells and other similar activities.

The camps have opened some job and business opportunities for a certain segment of the local people. Some have set up small businesses to sell fish, vegetables, dry sticks for cooking, and bamboo inside the camps. Moreover, local students, with education up to higher secondary level,

[49] http://www.thedailystar.net/*Rohingya*-crisis/india-myanmar-sign-mou-to-build-houses-for-*Rohingya*-The refugees-1507864

are now working with the development partners in various capacities. This raises concern as most of these students are foregoing education for temporary income.

Social

The detrimental effects of the *Rohingya* crisis may translate into social problems due to population growth, health concerns, and local perception about the new arrivals. The law and order situation may also become an issue. Aid workers reported that the *Rohingya*s have a high birth rate as they lack knowledge about family planning. Moreover, around 3 per cent of *Rohingya* women are pregnant and 7 per cent are lactating who require targeted food support.[50] Thus, the size of the population is going to increase which will put further strain on food, employment, health and other basic needs.

Health issues might arise due to unhygienic water and sanitation. According to one of the NGOs working on water, sanitation and hygiene (WASH), each latrine covers 60 people while each tube-well provides water for 50 families. As some latrines have only 2-3 rings, they get filled up fast and becomes unusable, causing many of the *Rohingya*s to resort to open defecation. The children in the camps either have no shoes or do not want to wear them at all. Hence, there is a high risk of diseases. Moreover, the makeshift shelters do not have any windows. As cooking is done mostly indoors, the risk of respiratory infection is high, particularly among women and children.

Regarding local perception, discussions with the locals and the *Rohingya*s revealed that the locals were discontent with the *Rohingya*s as the former blame the latter for price hike of essentials, being beneficiaries of aid, cause for loss of local people's income and reasons for increased security concerns. Many locals had complained that they do not receive an erstwhile stipend from NGOs; and that they lost their grazing lands. They were unhappy that they had incurred significant losses because social afforestation programme was discontinued since land was being used for providing shelter to the *Rohingya*s.

During field investigation, the locals and the aid workers echoed concerns over the prospect of future deteriorating law and order situation in the area. They reported that the *Rohingya*s slip out of the camps despite the restrictions in place. Reports indicate that syndicates charge *Rohingya*s between Tk. 20 thousand and Tk. 50 thousand to smuggle them out of the camps.[51] Furthermore, according to the locals, many previous entrants have received Bangladeshi identification cards through bribes, and many are involved in drug peddling. Several aid workers have also pointed out similar concerns as regards social problems, particularly in connection with the threat of women being trafficked outside of the country for unethical purposes.

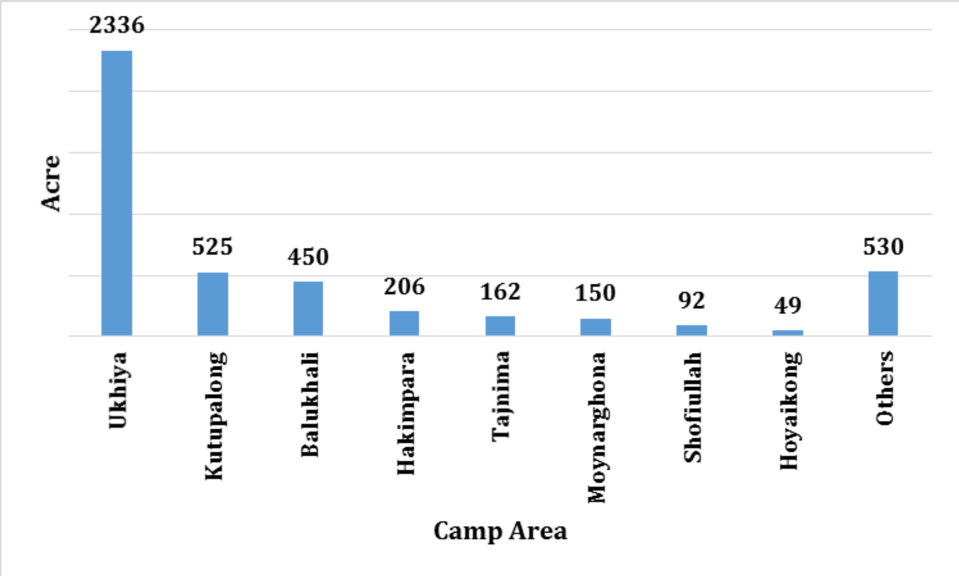
Environmental

The *Rohingya* problem will create an environmental problem for the area which will have to be largely borne by the local community. Deforestation for settlement and burning of wood will have a direct cost on the ecology, economy and society. According to the District Commissioner's Office of Cox's Bazar, 3500 acres of forest land have been occupied for setting up *Rohingya* camps. This is equivalent to 1.67 per cent of Cox's Bazar total forest area and 0.05 per cent of the national

[50] https://reliefweb.int/report/bangladesh/bangladesh-humanitarian-situation-report-no17-*Rohingya*-influx-7-january-2018
[51] http://www.dhakatribune.com/bangladesh/nation/2017/09/17/pirates-mafia-help-*Rohingya*-flee-price/

forest area. Figure 4.7 below provides a summary of the size of different camps in various sites in the Cox's Bazar district.

Figure 4.7: Size of *Rohingya* Camps as of 10 November 2017



Source: Department of Forestry, GoB

During the period from late August to December 2017, around 4 thousand acres (equivalent to about 2.4 thousand hectares) were deforested. Another 2 thousand acres are to face the same fate following an influx of the *Rohingyas*[52]. The situation has further worsened as the *Rohingya*s are felling trees in the forest to collect firewood for cooking due to lack of alternatives. It is apprehended that collection of fuelwood will naturally increase in the dry season. According to a newspaper report, the value of lost forest land would be equivalent to Tk. 500 crore.[53]

Estimating the cost of deforestation

In this report, we have estimated the cost of 6,000 acres of deforested land which has already been lost due to the influx of the *Rohingya*s since August 2017. Four types of costs are taken into consideration for this exercise. These are (i) loss of timber and fuelwood; (ii) loss of carbon stock; (iii) loss of non-timber forest products (NTFPs); and (iv) loss of fodder yield.

Our estimation shows that the total value of 6,000 acres of deforested land in the *Rohingya* camps is equivalent to Taka 741.31 crore or USD 86.67 million. Table 4.3 presents details of the exercise.

Table 4.3: Direct Cost of Deforestation due to *Rohingya* Influx

[52]http://www.thedailystar.net/backpage/shrinking-elephant-habitat-deforestation-largely-blamed-1506514

[53] http://new.bonikbarta.net/bonikbarta/news/2017-11-09/137687/৫০০-কোটি-টাকার--বন-উজাড়/

Estimated Amount of Forest Deforestation*	Quantity/ Volume	Cost in Tk. (Crore)
Loss of Timber and Fuelwood	46.57 m^3/ha	723.5
Loss of carbon stock	87,000 ton CO_2	14.5
Loss of NTFPs	-	2.1
Loss fodder yield	-	21.0
Total Direct loss (est.)		**741.3**

Note: * The value of each type of services provided by forests has been calculated based on standard assumptions made in similar studies.
Source: CPD estimation.

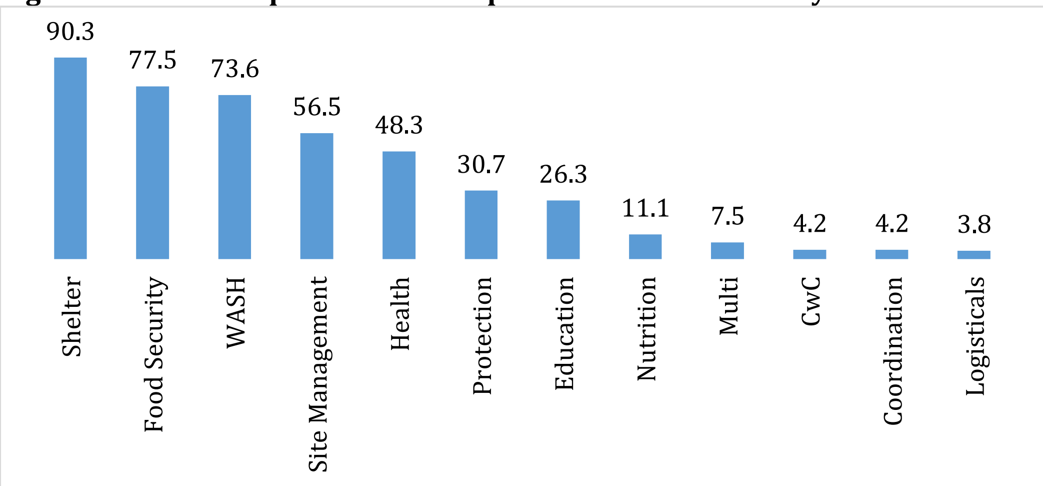
In addition to the above cost, there are several types of direct and indirect costs of deforestation which cannot be expressed in monetary terms. These will have a long-term impact on biodiversity and ecological balance.

Waste generation is another problem; most shelters in the camp area are made of tarpaulin, bamboo and tin shed, which will create problems for the environment because many of them are non-disposable items.

4.3.4 Fiscal implications

According to OCHA, USD 434 million will be required for the period September 2017 – February 2018. The sectoral requirement is shown in Figure 4.8.

Figure 4.8: Fund Requirement for September 2017 - February 2018



Source: Humanitarian Response Plan; OCHA 2017.
Note: CwC stands for Communicating with Communities.

In addition to this, UNHCR sought USD 83.7 million as additional funds for September 2017 – February 2018. In this regard, total fund requirement for the six month period would be USD 517.78 million.[54] Based on the UNHCR numbers, CPD estimates that USD 882.0 million will be required for 10 months, for the period September 2017 - June 2018.

Recent bilateral and political developments have shown positive signs as regards repatriation of the *Rohingyas*. As noted before, Myanmar is to take back at most 300 *Rohingyas* each day starting

54 http://reporting.unhcr.org/sites/default/files/UNHCR%20Myanmar%20Refugee%20Emergency%20Response%20in%20Bangladesh%20Supplementary%20Appeal%20-%20Sept2017-Feb2018%20%28September%202017%29.pdf

from 23 January 2018. Based on this information and the assumption that the whole process of repatriation will be carried out smoothly, we find that it will take almost eight years to repatriate the new wave of *Rohingya*s staying in Bangladesh since 25 August 2017.

In this context, CPD has carried out the cost of hosting the *Rohingya*s in Cox's Bazar throughout the repatriation process based on four scenarios (Table 4.4).

Table 4.4: Description of Hypothetical Scenarios and their underlying Assumptions

<table>
<tr><td>Scenario 1</td><td>Assuming 300 Rohingyas are repatriated every day, the cost for the whole period without incorporating population growth and inflation rate</td><td rowspan="3">Common Assumptions:
– Total Rohingyas: 860,000
– Old Rohingyas[55]: 205,000
– Newly arrived Rohingyas: 655,000
– Working days: 25 days per month
– Inflation rate: 6 per cent every year
– Population growth rate: 1.5 per cent per year
– Cost is estimated based on UNHCR calculations
– The estimated requirement is only indicative as those are direct costs to be incurred on account of the Rohingyas
– Implicit costs for the loss of ecosystem due to deforestation and morbidity and mortality due to health problems and social costs could be significant
– Repatriation and relocation costs not included</td></tr>
<tr><td>Scenario 2</td><td>The first scenario is repeated while adjusting for population growth and inflation rate</td></tr>
<tr><td>Scenario 3</td><td>Assuming 200 Rohingyas are repatriated every day and the calculation of cost incorporates population growth and inflation rate</td></tr>
</table>

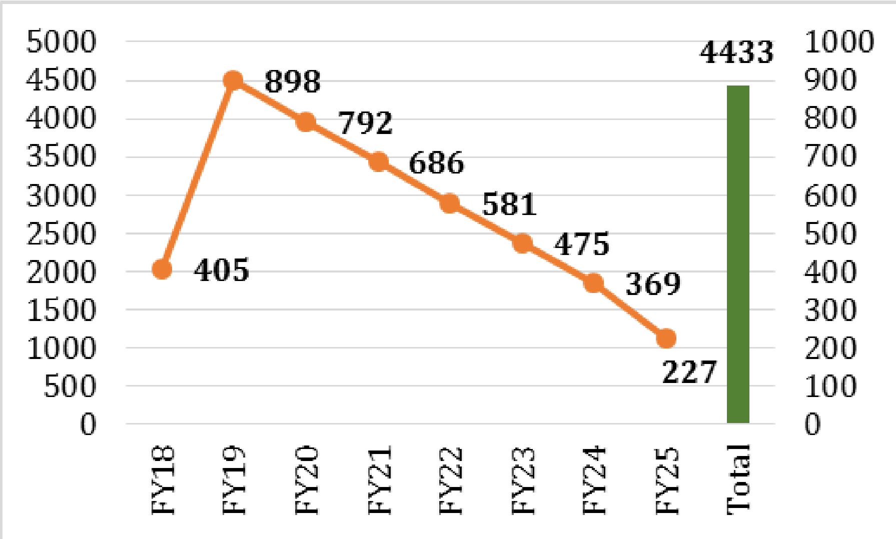
Source: CPD assumptions.

Scenario 1

In this scenario, it will take 7 years to repatriate the new wave of *Rohingya*s. According to CPD estimate, it will cost USD 4,433 million from FY2018 to FY2026. Estimated annual costs are presented in Figure 4.9 below.

[55] Old *Rohingya*s are the one who came to Bangladesh before 25 August 2017

Figure 4.9: Cost of Hosting the *Rohingyas* throughout the Repatriation Period (Scenario 1 in USD million)

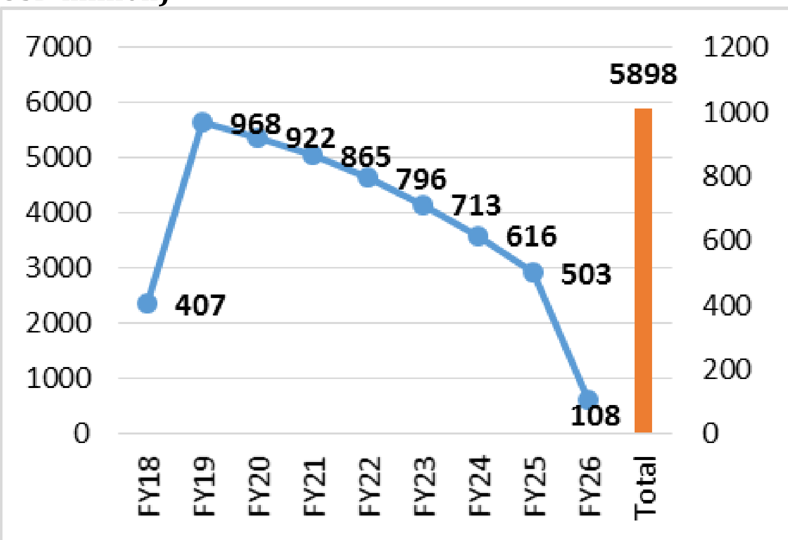


Source: CPD calculation based on UNHCR estimates

Scenario 2

In this scenario, population growth rate and inflation rate have been adjusted in order to calculate the cost. It is estimated that during the period FY2018 to FY2026, it will cost USD 5,898 million[56] to host the *Rohingyas* in Bangladesh (Figure 4.10).

Figure 4.10: Cost of Hosting *Rohingyas* throughout the Repatriation Period (Scenario 2 in USD million)



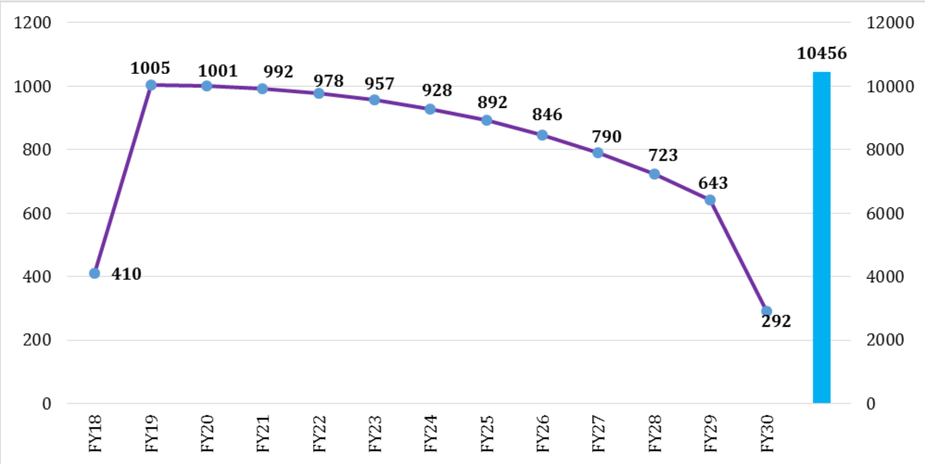
Source: CPD calculation based on UNHCR estimates.

[56] Adjusted for inflation and population growth

Scenario 3

If repatriation process is not carried out smoothly, and the government is able to send only 200 persons per day, the cost is estimated to be USD 10,456 million[57] and it will take 12 years to repatriate all of the newly arrived *Rohingyas* currently staying in Bangladesh (Figure 4.11).

Figure 4.11: Cost of Hosting *Rohingyas* if 200 People are Repatriated on a Daily Basis (Scenario 3 in USD million)



Source: CPD calculation based on UNHCR estimates

Summary Findings

In Table 4.5, the time required for repatriation of all (new+old) *Rohingyas*, cost of hosting all *Rohingyas* and cost of remaining *Rohingyas* (old) who came before 25 August 2017 are presented.

Table 4.5: Summary Findings on Repatriation Time and Cost of Hosting *Rohingyas*

Scenarios	Assumptions	Required years for repatriation	Cost of hosting *Rohingyas* (USD mln)	Previous *Rohingya* Entrants*	
				Remaining after repatriation	Cost of hosting in the following period (USD mln)
Scenario 1	-300 *Rohingyas* per day -no inflation or population growth	**7** (*up to FY25*)	**4,433** (*up to FY25*)	**205,000** (*up to FY25*)	**384** (*in FY26*)
Scenario 2	-300 *Rohingyas* per day -population growth and inflation rates included)	**8** (*up to FY26*)	**5,898** (*up to FY26*)	**231,000** (*up to FY26*)	**466** (*in FY27*)
Scenario 3	-200 *Rohingyas* per day -population growth and inflation rates included	**12** (*up to FY30*)	**10,456** (*up to FY30*)	**245,000** (*up to FY30*)	**625** (*in FY31*)

Source: CPD calculation based on UNHCR estimates.
Note: * Those who came before 25 August 2017.

[57] Adjusted for inflation and population growth rates

4.3.5 Recommendations

- While the Government of Bangladesh and international and non-government organisations are playing a critically important role to provide humanitarian support to the *Rohingya*s, major global players are yet to take a strong position in resolving the crisis.
- In view of the emergent challenges, a number of measures need to be undertaken. Some of these are as follows :
  - ✓ *Ensure smooth repatriation process of the Rohingyas as agreed between the governments of Bangladesh and Myanmar. To this end, preparedness on the part of Bangladesh will also be critical*
  - ✓ *The Government of Bangladesh has to continue energetic diplomacy to accelerate the repatriation process.*
  - ✓ *Endeavours should be taken to take advantage of extra-regional platforms such as ASEAN so that they play a proactive role in addressing the crisis.*
- *An in-depth study to assess the short, medium and long-term implications of the Rohingya crisis in terms of the needed domestic and foreign resources should be undertaken. All explicit and implicit costs related to the Rohingya crisis should be estimated.*
- *Preparation for post-Geneva follow-up meeting for resource mobilisation has to be initiated on an urgent basis.*
- *Support for the Rohingyas from development partners should be in the form of grants only. Towards this, partners' grant and loan components should be unpacked.*

SECTION VIII: CONCLUDING REMARKS

The ongoing fiscal year, FY2018, kicked off on the back of the record-breaking GDP growth rate of 7.3 per cent in FY2017. Our analysis of GDP growth performance indicates deterioration of quality of the economic growth over the last five to six years (between 2010 and 2016-17). Pace of poverty reduction declined despite acceleration in average GDP growth indicating a slowdown in growth elasticity of poverty. It appears that the fruit of GDP growth is not reaching lagged regions and marginalised sections of the population. The prevailing pattern of economic growth is resulting in higher income inequality as also wealth inequality. Indeed, income of the poorest sections (bottom 10 per cent of total population) declined by 29.9 per cent between 2010 and 2016-17. Concurrently, employment elasticity of growth had also declined considerably, including for the manufacturing sector. Indeed, employment generation has slowed down considerably over the mentioned period. Macroeconomic policy in the country needs to refocus its objective to 'decent employment generating high economic growth' strategy from the existing 'GDP growth acceleration' strategy.

In FY2018, weak budgetary planning and implementation capacity continued to be a major concern. Following the retreat from implementation of VAT and SD Act 2012, efforts to bring consensus on the contested issues have been rather feeble. Revenue mobilisation gained some momentum in FY2018, but for obvious reasons (unrealistic programming for the fiscal framework targets), a large shortfall in revenue is a certainty. More importantly, there are signs of greater reliance on import-related revenue sources while growth of income tax collection is slower compared to other components. This is not going to address the deteriorating scenario as regards income inequality in the country. Higher utilisation of foreign aid is a positive sign in the context of budget implementation trends in FY2018, thanks almost solely to the Power Division. While scale of budget deficit may not be a major concern, high cost of borrowing will put pressure on debt sustainability in the medium term. The government has taken up a number of mega public infrastructure projects over the past years. This had implications for allocative priorities of the public expenditure portfolio, often at the expense of the social sectors. On the other hand, delayed implementation, cost overrun and institutional weakness have undermined the effectiveness of these projects, and hence these projects are yet to provide impetus to private investment. Flood and *Rohingya* crisis, the two major setbacks for Bangladesh economy in FY2018, will also put some pressure on the budget for the current fiscal. The government needs to consider undertaking an assessment of implementation in FY2018 budget with a view to its early revision. In the meantime, the government should focus on raising revenue from niche areas including speedy realization of disputed revenue claims through the ADR and recovering outstanding dues, particularly from SoEs. More emphasis must be put on arrest duty and tax evasion. With a view to bring more discipline in the macroeconomic management, the government needs to avoid all types of conspicuous public financing in this election year.

Creeping food inflation in the backdrop of high rice prices was observed during the latter months of FY2017. With new flood and weak foodstock management, the situation had aggravated further with consequent erosion of purchasing power of the poorest section of the society. The government will need to continue with incentivising rice imports with a view to ensure adequate market supply and to enhance public stock over the next six months. However, it may be difficult to bring down rice price to pre-crisis levels. In this connection, the government may expand safety net programmes in favour of the poor. As it is apprehended that non-food inflation may also move upward in the coming months (catch up with food inflation), the forthcoming monetary policy of the central bank may consider raising the policy rates. Raising general provisions for unclassified loans and reducing debt-equity ratio for consumer and housing loans may also be considered.

Crisis in the banking sector has become the Achilles' heel of the Bangladesh economy. The rising non-performing loan is crippling the state-owned commercial banks in particular, although some of the private banks are also not immune of this malaise. The allocations of public 'tax' money in the form of recapitalisation could not bring any change in the capital inadequacy in SCBs. The 'new' commercial banks are facing multifarious difficulties. Farmers Bank is on the verge of collapse while several fourth-generation banks are in trouble. Overall, one can observe deterioration of asset quality in the PCBs. More so, more licenses for three new commercial banks are likely to be issued under 'political consideration'. 'Cronyism' in the ownership of banks has become a new challenge for banking sector governance. Proposed amendment in the Banking Company Act to increase the number of family members in the board of banks and their tenure will further undermine the quality of governance in the PCBs. Regrettably, the central bank has failed to demonstrate the quality leadership required to instill good governance in financial sector management. The reforms required in the system are being ignored although there is apprehension about dire consequences. Regrettably, an initiative to take comprehensive banking sector reforms measure, which CPD has been harping for long, may need to wait for the next national election.

CPD in its earlier IRBD analysis cautioned the government as regards impending pressure on the BoP. Despite upturn in growth rates of export earnings and in the inflow of remittances, significant rise in import payments led to serious deficit in current account balance. Although, higher inflow of foreign aid and other medium term foreign loans have helped to contain overall deficit in the BoP, it may not be adequate in the coming months. The central bank, throughout FY2018, allowed BDT to depreciate. This has helped exporters to enhance competitiveness vis-à-vis other competing countries. The central bank should now focus on bringing stability to the exchange rate market. This may deplete the foreign exchange reserve in the coming months. Such steps will also help contain money supply in the domestic market. However, this may not be enough and the central bank should consider discouraging imports in a targeted manner. To this end, raising L/C margins for import of consumer and luxurious commodities can be an option; alternatively, the time for L/C repayment may be reduced for such items.

Overall, in FY2018, macroeconomic stability has come under considerable pressure. The need to significantly improve the quality of macroeconomic management has emerged as an immediate and urgent concern. Over the past years, CPD has been arguing for a number of critical economic reforms. It now appears that the reform agenda of the incumbent government will not see much light till the upcoming national election. One only hopes that the reform issues will find place in the ensuing electoral debates. Nevertheless, macroeconomic policy stance in the upcoming months should be conservative. As the national election is nearing, it may be tempting for the government to go for a more populist expansionary macroeconomic policy. However, the greater cause of maintaining macroeconomic stability should be the guiding principle for the government as it moves to the second half of FY2018. It is to be seen how the incumbent government manages the economy during the upcoming political transition.

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ANNEXURE

Annex Table 3.1: Expenditure (July-November) Over Original ADP in the Last 10 Fiscal Years

FY	Taka	Project Aid	Total
Jul-Nov FY09	19.8	15.3	17.7
Jul-Nov FY10	22.7	22.6	22.6
Jul-Nov FY11	24.1	14.8	20.4
Jul-Nov FY12	25.3	12.8	20.2
Jul-Nov FY13	27.2	20.8	24.7
Jul-Nov FY14	21.7	17.0	20.0
Jul-Nov FY15	19.3	20.7	19.8
Jul-Nov FY16	18.5	13.6	16.8
Jul-Nov FY17	20.9	16.7	19.3
Jul-Nov FY18	18.5	22.6	20.1

Source: Authors' calculation based on IMED data.

Annex Table 3.2: Implementation Record of Top 10 Ministries (Jul-Nov, %)

Ministries/Divisions	FY13	FY14	FY15	FY16	FY17	FY18
Power Division	38.9	13.2	18.3	18.8	33.3	47.6
Local Govt. Division (Including Block Allocation)	29.8	30.9	27.6	26.6	27.9	23.8
Road Transport and Highways Division	32.4	20.3	17.4	14.2	14.1	26.8
M/O Railway	12.8	25.2	9.7	13.1	20.2	9.6
M/O Science and Technology	21.7	40.1	80.3	2.8	67.8	5.0
Bridges Division	3.9	2.4	10.2	12.5	12.3	7.2
M/O Health & Family Welfare	15.1	16.6	18.2	15.9	12.3	16.1
M/O Primary & Mass Education	36.4	30.4	29.2	21.1	24.5	23.7
M/O Education	30.4	25.4	23.5	17.5	15.9	15.4
M/o Water Resources	22.0	22.3	4.4	10.0	8.2	10.0
Top Ten Ministry	**28.5**	**20.4**	**21.7**	**18.2**	**21.9**	**22.8**
Grand Total	**24.3**	**20.0**	**19.8**	**16.8**	**19.3**	**20.1**

Source: Authors' calculation based on IMED data.

Annex Table 3.3: Ministries and Divisions that Faced Cost Overrun during FY2006 and FY2016 *In crore Tk.*

	Ministries/Divisions	FY2006	FY2016
1	Local Government Division	1,543	1,868
2	Power Division	1,115	112
3	Ministry of Communication (Transportation)	722	1,073
4	Ministry of Food and Disaster Management	188	661
5	Ministry of Water Resources	159	81
6	Ministry of Youth and Sports	122	2
7	Ministry of Primary and Mass Education	96	356
8	Ministry of Agriculture	73	66
9	Ministry of Environment and Forest	40	10
10	Ministry of Liberation Affairs	27	-
11	Ministry of Education	25	21
12	Ministry of Social Welfare	17	-
13	Ministry of Defence	3	5
14	Energy and Mineral Resources Division	3	921
15	Ministry of Cultural Affairs	3	3
16	Ministry of Jute & Textile	2	-
17	Rural Development and Co-operatives Division	2	48
18	Ministry of Fisheries and Livestock	2	78
19	Ministry of Housing and Public Works	1	-
20	Ministry of Labor and Employment	1	-
21	Ministry of Establishment	0.11	-
22	Ministry of Women and Children Affairs	0.08	12
23	Implementation Monitoring and Evaluation Division	0.05	-
24	Planning Division	0.03	4
	Total	**4,145**	**5,643**

Annex Table 3.4: Country-wise Comparison of Prices of Per-unit Woven and Knit Items in Key Markets

	Bangladesh	China	India	Vietnam	Cambodia
July-Oct			***the US market***		
Knit (61)	**13.0**	**13.8**	**17.9**	**17.6**	**15.3**
61102020	14.1	16.8	19.2	18.2	16.7
61091000	9.1	10.7	12.3	17.9	12.6
61103030	13.2	12.4	24.2	17.9	15.4
Woven (62)	**16.0**	**16.3**	**26.6**	**23.5**	**17.5**
62034245	13.5	11.0	17.3	17.4	16.2
62052020	16.9	23.0	23.0	23.3	22.8
62046280	15.9	12.1	18.4	18.1	17.6
July-Sept			***the EU market***		
Knit (61)	**14.3**	**15.1**	**17.8**	**23.9**	**19.5**
61091000	12.3	17.0	17.6	23.4	20.2
61103099	14.8	16.8	24.6	21.3	19.0
61051000	13.8	16.8	21.4	27.6	23.7
Woven (62)	**17.2**	**18.6**	**28.5**	**26.8**	**18.4**
62034231	13.6	14.4	17.4	22.6	15.7
62034235	15.7	12.1	19.8	21.7	15.9
62052000	19.9	26.2	26.3	31.9	26.4

Source: Authors' calculation using data from USITC and Eurostat.

Note:

61051000	Men's or boys' shirts of cotton, knitted or crocheted (excl. nightshirts, t-shirts, singlets and other vests)
61091000	T-shirts, singlets and other vests of cotton, knitted or crocheted
61091000	T-shirts, singlets and other vests of cotton, knitted or crocheted
61102020	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi, by HTS 10-digit categories
61103030	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesoi
61103099	Women's or girls' jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excl. lightweight fine knit roll, polo or turtleneck jumpers and pullovers and wadded waistcoats
62034231	Men's or boys' trousers and breeches of cotton denim (excl. knitted or crocheted, industrial and occupational, BIB and brace overalls and underpants
62034235	Men's or boys' trousers and breeches of cotton (excl. denim, cut corduroy, knitted or crocheted, industrial and occupational, bib and brace overalls and underpants)
62034245	-Men`s/boys` trousers &shorts, not bibs, not knit/crochet, cotton, not containing 15% or more by weight of down, etc
62046280	Women`s or girls` trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi, o/than rec perf outwear
62052000	Men's or boy's shirt of cotton (excl. kknitted or crocheted, nightshirts, singlets and other vests)
62052020	Men`s or boys` shirts, not knitted or crocheted, of cotton, nesoi,

Annex Table 4.1: Performance by Type of Bank

	Bank type	2012	2013	2014	2015	2016J	2017P
Capital adequacy	**Capital to Risk Weighted Asset (%)**						
	SCBs	8.1	10.8	8.3	6.4	5.8	7.0
	DFIs	-7.8	-9.7	-17.3	-32.0	-34.7	-32.8
	PCBs	11.4	12.6	12.5	12.4	11.9	12.2
	FCBs	20.6	20.2	22.6	25.6	23.8	23.3
Asset Quality	**NPL to Total Loans (%)**						
	SCBs	23.9	19.8	22.2	21.5	25.7	26.8
	DFIs	26.8	26.8	32.8	23.2	26.1	23.8
	PCBs	4.6	4.5	5.0	4.9	5.4	5.8
	FCBs	3.5	5.5	7.3	7.8	8.3	7.9
Management	**Expenditure-Income Ratio (%)**						
	SCBs	73.2	84.1	84.1	84.5	99.2	
	DFIs	91.2	94.8	99.5	113.9	132.2	
	PCBs	76.0	77.9	75.8	75.5	73.5	
	FCBs	49.6	50.4	46.8	47.0	45.0	
Profitability	**Return on Asset (%)**						
	SCBs	-0.6	0.6	-0.6	-0.0	-0.2	-0.6
	DFIs	0.1	-0.4	-0.7	-1.2	-2.0	-1.6
	PCBs	0.9	1.0	1.0	1.0	0.7	0.7
	FCBs	3.3	3.0	3.4	2.9	2.7	2.2
	Return on Equity						
	SCBs	-11.9	10.9	-13.6	-1.5	-9.5	-19.4
	DFIs	-1.1	-5.8	-6.0	-5.8	-9.5	-8.1
	PCBs	10.2	9.8	10.3	10.8	9.4	7.5
	FCBs	17.3	16.9	17.7	14.6	13.2	10.8
Liquidity	**Liquid Asset (%)**						
	SCBs	29.2	44.3	42	41.4	40.1	
	DFIs	12.0	15.3	6.6	0.0	0.0	
	PCBs	26.3	28	28.2	19.7	18.5	
	FCBs	37.5	46.2	56.9	51.8	46.0	
	Excess Liquidity (%)						
	SCBs	10.2	25.3	23.9	26.4		
	DFIs	1.0	4.2	6.6	6.6		
	PCBs	9.5	11.3	11.0	11.9		
	FCBs	18.7	27.4	37.6	38.9		

Source: Bangladesh Bank Annual and Quarterly Reports

Note: J=June; P= Provisional;

Annex Table 4.2: Non-performing loans in Fourth Generation Banks (as of September 2017)

Name of bank	Amount of non-performing loans
Farmers Bank	Tk. 378.0 crore
NRB Commercial Bank	Tk. 194.0 crore
Meghna Bank	Tk.152.0 crore
Midland Bank	Tk. 46.0 crore
South Bangla Agricultural Bank	Tk. 15.0 crore
Modhumoti Bank	Tk. 1.4 crore
Total	**Tk. 786.4 crore**

Source: The Financial Express Bangladesh, November 27, 2017.

Annex Table 4.3: State of the Farmers Bank Limited (FBL) in 2017

Date	Incidence
January 10, 2018	Md. Ehsan Khasru joins as Managing Director and CEO
January 01, 2018	Provisional operational profit of Farmers Bank falls by BDT 660 million in one year, from BDT 920 miilion in 2016 to BDT 260 million in 2017
December 25, 2017	Farmers depositors withdraw deposits of over Tk1200 crore in the last few days, whilst there are no new deposits
December 25, 2017	A depositor of Tk5 crore can receive only Tk50,000 in Motijheel, Gulshan and Dhanmondi branch of Farmers Bank
December 25, 2017	Deposits of about Tk5,000 crore of around 525,000 depositors remain stuck in Farmers Bank
December 21, 2017	Farmers Bank fails to pay salary and allowances for the month of December of around 1500 staff and employees
December 20, 2017	Bangladesh Bank removes Farmers Bank Managing Director and Chief Executive Officer AKM Shameem just 12 days before his retirement because he failed to protect the interests of depositors
December 18, 2017	The newly reconstituted board of Farmers Bank injects Tk 17 crore into the bank to help deal with the ongoing cash crunch.
December 18, 2017	Farmers Bank appeals to the central bank for enhancing the yields on its subordinated bonds to 10 per cent from existing 9.0 per cent
December 18, 2017	Savers withdraw Tk 1,100 crore in the last 15 days putting Farmers Bank into a cash crisis.
December 14, 2017	Farmers Bank fails to repay interbank short-term loans of about Tk 700 crore to four banks in October and November 2017
December 14, 2017	Farmers Bank receiving about Tk 150 crore from the state-owned banks every working day through the interbank call money market
December 14, 2017	Private commercial banks refuse to lend money to Farmers Bank in the overnight call money market even at high rates of return
December 13, 2017	A standing committee of the Bangladesh Bank (BB) interrogates managing director Mr. Shameem in a personal hearing held at the central bank headquarters
December 13, 2017	Farmers Bank deposits fall to Tk 4,700 crore, from Tk 5,660 crore on October 30, 2017 as depositors lose their confidence in the bank
December 12, 2017	Bangladesh Bank rejects requests from former Farmers Bank Chairman Muhiuddin Khan Alamgir and Audit Committee Chairman Md Mahabubul Haque Chisty to increase their shares in the bank

Date	Incidence
December 11, 2017	Bangladesh Bank permits Farmers Bank to float subordinated bonds worth BDT 5 billion for increasing the bank's capital base.
December 7, 2017	Farmers Bank fails to pay more than Tk 229 crore to Bangladesh Climate Change Trust Fund on maturity of its fixed-term deposits
December 5, 2017	Central bank launches a special inspection of the problem-ridden Farmers Bank Limited to assess its real financial health
December, 2017	Farmers Bank delays payment of Tk 1.07 crore on fixed-term deposits of Bangladesh Inland Water Transport Corporation
November 28, 2017	Bangladesh Bank asks the reconstituted board to improve overall financial status of Farmers Bank within next three months
November 26, 2017	Central bank issues a show-cause notice, asking the managing director of Farmers Bank, Mr Shameem, to explain the ongoing liquidity problem of the bank, and the fresh loan disbursement despite imposition of an embargo by the central bank.
November 27, 2017	Awami League MP Dr Mohiuddin Khan Alamgir, also a former minister, resigns as Farmers Bank chairman
November 27, 2017	Mahabubul Haque Chisty (Babul Chisty) resigns as audit-committee chairman and director
November 21,2017	Bangladesh Bank agrees to provide short-term loan of Tk 96 crore at 6.75 percent interest to Farmers Bank by way of repo
November 20, 2017	Farmers Bank has just Tk 65 lakh in its current account with the central bank, according to Bangladesh Bank
November 20, 2017	Farmers Bank Chairman Muhiuddin Khan Alamgir seeks to purchase 1 crore shares and Audit Committee Chairman Md Mahabubul Haque Chisty seeks to purchase 50 lakh shares in Farmers Bank at a face value of Tk 10 per share
November 20, 2017	Bangladesh Telecommuni-cation Company Ltd finally gets back its deposit of Tk 35.44 crore from troubled Farmers Bank's Gulshan corporate branch
November 17, 2017	Farmers Bank fails to maintain the statutory liquidity ratio and cash reserve ratio and incurs penalty of Tk 18.49 crore
November 17, 2017	Farmers Bank owes Tk 124 crore in the call money market and the amount is being rolled over since January, according to data from the Bangladesh Bank
November 15, 2017	Farmers Bank twice fails to honour a cheque of Tk 35.44 crore presented by Bangladesh Telecommunications Company Ltd, before finally making the payment
November 9, 2017	Farmers Bank seeks a deposit support of Tk 300 crore from the central bank to tackle its liquidity crunch but is denied
October 29, 2017	Parliamentary standing committee on finance ministry suggests that Bangladesh Bank should further investigate irregularities and corruption in Farmers Bank
September 30, 2017	Farmers Bank non-performing loans now worth BDT 3.77 billion or 7.45 per cent of the total loans disbursed
September 19, 2017	Investigations reveal that former director of Farmers Bank, Md Mahabubul Haque Chisty's firm EFS International has defaulted Tk 53.67 crore in loans from BASIC Bank
September 14, 2017	Advance-deposit ratio of Farmers Bank at 86.23 percent which is above the safe limit of 85 per cent set by central bank for conventional banks
September, 2017	Farmers Bank's weighted average interest rate on deposits is 8.79 percent in contrast to the industry average of 4.9 percent, and lending rate is 14 percent in contrast to the industry average of 9.45 percent

Date	Incidence
September 2017	Farmers Bank has deposits totaling Tk 5,170 crore and loans totaling Tk 5,066.39 crore, which are 97.99% of deposits
September, 2017	Capital shortfall of Farmers Bank reaches Tk. 75 crore
July 02, 2017	Farmers Bank posts operating profits of Tk 420 million in the H1 of 2017 from Tk 300 million in the same period of last year
June, 2017	Farmer Bank non-performing loans worth Tk 306.21 crore, which is 6.35 percent of its total disbursed loans
June, 2017	Net loss of the Farmers Bank stands at Tk 131.1 million; 28 out of the total 54 branches are incurring loss.
March 01, 2017	Farmers Bank is among eleven banks that fail to maintain minimum capital to risk weighted assets ratio according to BASEL III framework
March, 2017	Advance-deposit ratio of Farmers Bank reaches 88.70 percent, which is above the safe limit of 85 per cent set by central bank for conventional banks
February 21, 2017	Farmers Bank Limited signs an agreement with Bangladesh to disburse funds under a JICA-assisted Urban Building Safety Project (UBSP)
January 13, 2017	Central bank appoints an observer to the Farmers Bank after detecting irregularities in sanctioning and disbursing loans and hiding information on non-performing loans amounting to around BDT 4 billion
January 01, 2017	Farmers Bank Ltd profit rises to Tk 1.01 billion in 2016 from Tk 650 million in 2015.

Source: Compilation from various sources.

Annex Table 4.4: Comparison between Farmers Bank and Oriental Bank

Particulars	Farmers Bank	Oriental Bank
Fund embezzlement	Tk. 400 crore (September-November 2015)	Tk. 596 crore) (2003-2006)
Net loss	Tk. 13.1 crore (June 2017)	Tk. 450 crore (March 2006)
Capital shortfall	Tk. 75 crore (September 2017)	Tk. 877 crore (March 2006)
Non-performing loans/classified loans	[Non-performing loans] Tk. 378 crore (September 2017)	[Classified loans] Tk. 1,100 crore (June 2006)
Outstanding dues from state-owned banks	Tk. 700 crore (December 2017)	Tk. 300 crore (June 2006)

Source: The Daily Star and The Financial Express, Bangladesh.