Independent Review of Bangladesh's Development (IRBD)

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

Managing the Economic Crisis

CPD's Policy Recommendations

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CENTRE FOR POLICY DIALOGUE

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The CPD IRBD 2022 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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Independent Review of Bangladesh's Development (IRBD)

Introduction

- The **economy** of Bangladesh **faces a number of longstanding structural weaknesses**
- These **weaknesses have exacerbated** owing to several external factors including the **COVID-19 pandemic**, the **Russia-Ukraine war** and consequent **supply chain disruptions**
- Indeed, **macroeconomic management** has **never seen** such a **difficult phase** in the recent history
- This presentation **reviews the most critical areas** including high level of commodity prices, external sector management, power and energy sector, banking sector, and fiscal balance
- In view of the emergent challenges, CPD seeks to **present a set of policy recommendations** towards **managing the ongoing economic crisis**

Inflation

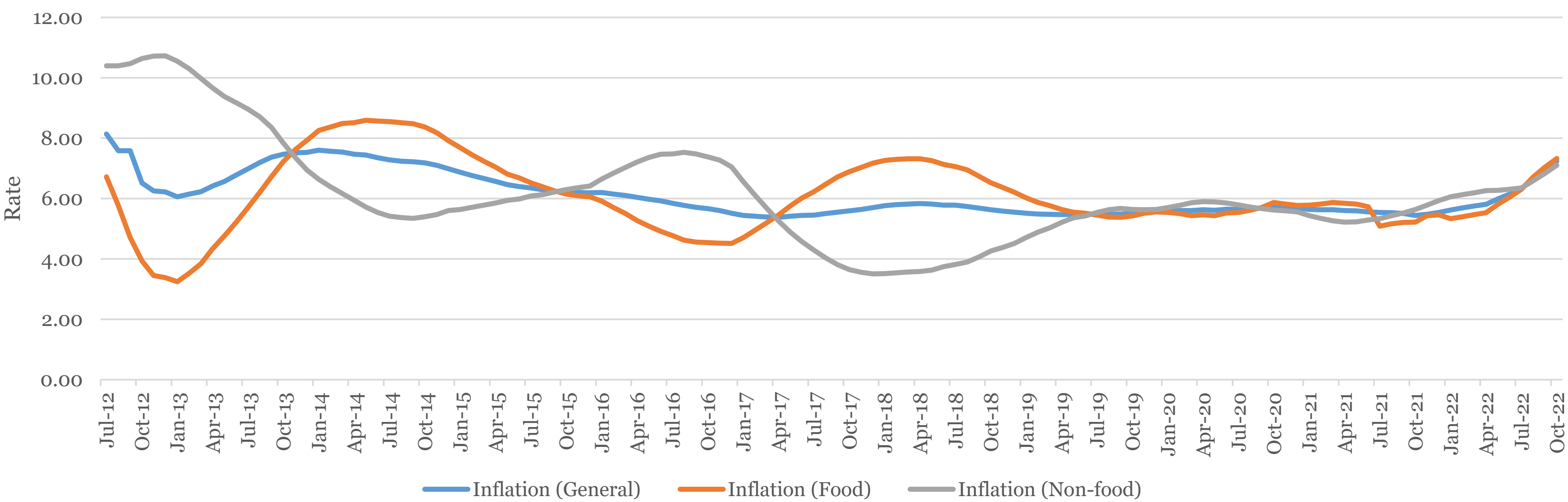
High Inflationary Pressure

- Currently, Bangladesh is experiencing high inflationary pressure which started *even prior to the start of the Ukraine crisis*.
- Bangladesh has lately seen dramatic fluctuations in energy prices, which has exacerbated this predicament.
- Domestic factors, such as market distortion by a few dominating businesses, and weak monitoring have also contributed to the ongoing price increase
- Several necessities, whether they are produced locally or imported from a developed country, are costlier in Bangladesh than in other developing or developed nations.
- As the burden of rising prices is increasing, low-income households are struggling to manage their expenses.
- Many households, including workers on minimum wages in almost all industries, are having trouble in making ends meet

CPI Inflation Trends Hide the Rapidly Rising Prices

- The 12-month average food and non-food inflation rates have fluctuated in a cyclical pattern over the past ten years
  - Increases in food inflation were generally accompanied by decreases in non-food inflation, so the overall general inflation rate has remained largely stable in the short-term
  - Recently, the overall general inflation rate has experienced a slight increase

Figure: 12-month average inflation rate from July 2012-September 2022



Source: Monthly Economic Trends, Bangladesh Bank

CPI Consumption Basket: Does it Reflect Consumption Pattern?

Table: Food expenditure as a share of income (in per cent)

	National	Rural	Urban
2000	42	48	32
2005	45	50	36
2010	53	57	45
2016	46	52	37

Table: Food expenditure as a share of consumption expenditure (in per cent)

	National	Rural	Urban
2000	55	59	45
2005	54	59	45
2010	55	59	48
2016	48	50	43

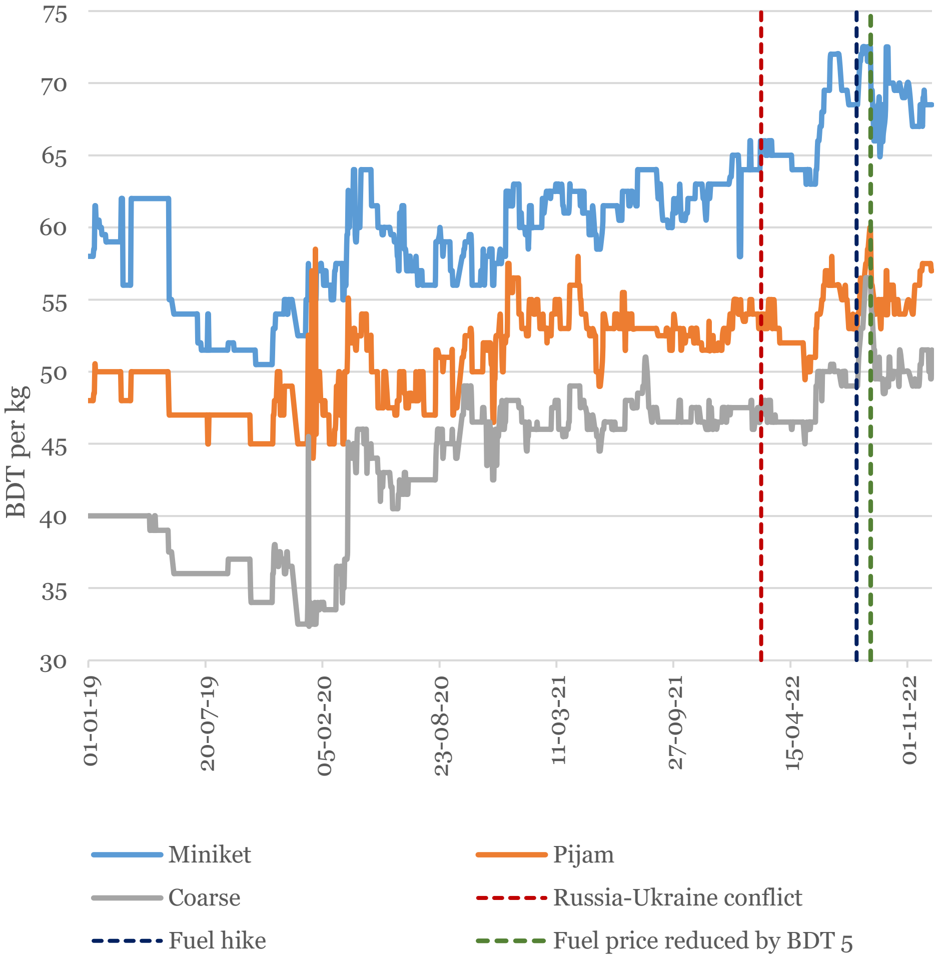
Table: Weights used for food in calculation of CPI (base year 2005)

	National	Rural	Urban
2000			
2005	56	61	47
2010	56	61	47
2016	56	61	47

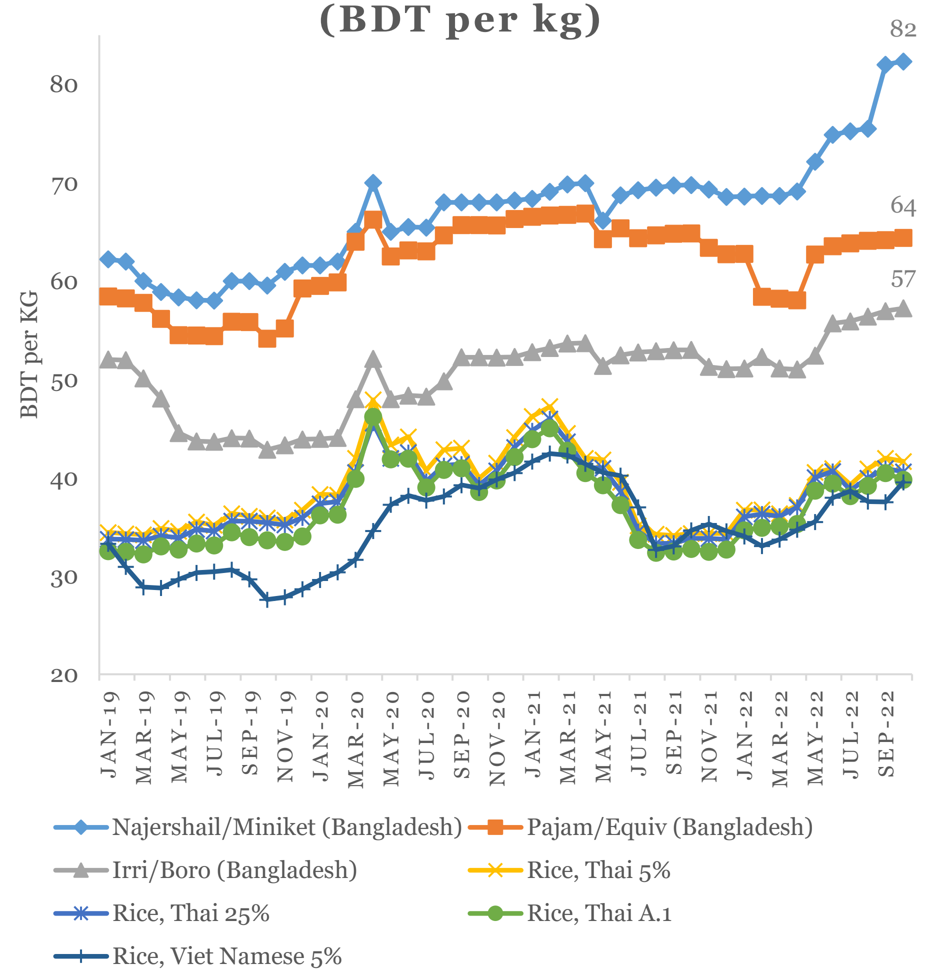
- **Engel's law** states that *as income increases, people spend a smaller proportion of their total income on food*
  - In Bangladesh, *nominal* household income increased by 7.86% per year on average and *real* household income increased by 0.16% per year on average between 2010 and 2016
    - *food expenditure as a share of income* **decreased** from **53%** in **2010** to **46%** in **2016**
    - *food expenditure as a share of total consumption expenditure* **decreased** from **55%** in **2010** to **48%** in **2016**
- However, the *weights used for food in the calculation of CPI are significantly higher than share of food expenditure in either income or consumption expenditure*
- **Thus, the consumption basket used for calculating overall general inflation was created in 2005 and does not reflect the current consumption pattern of consumers or the actual prices in the market in 2022**

Source: BBS

Price of Rice: Increasing in Domestic Market; Higher Than International Market

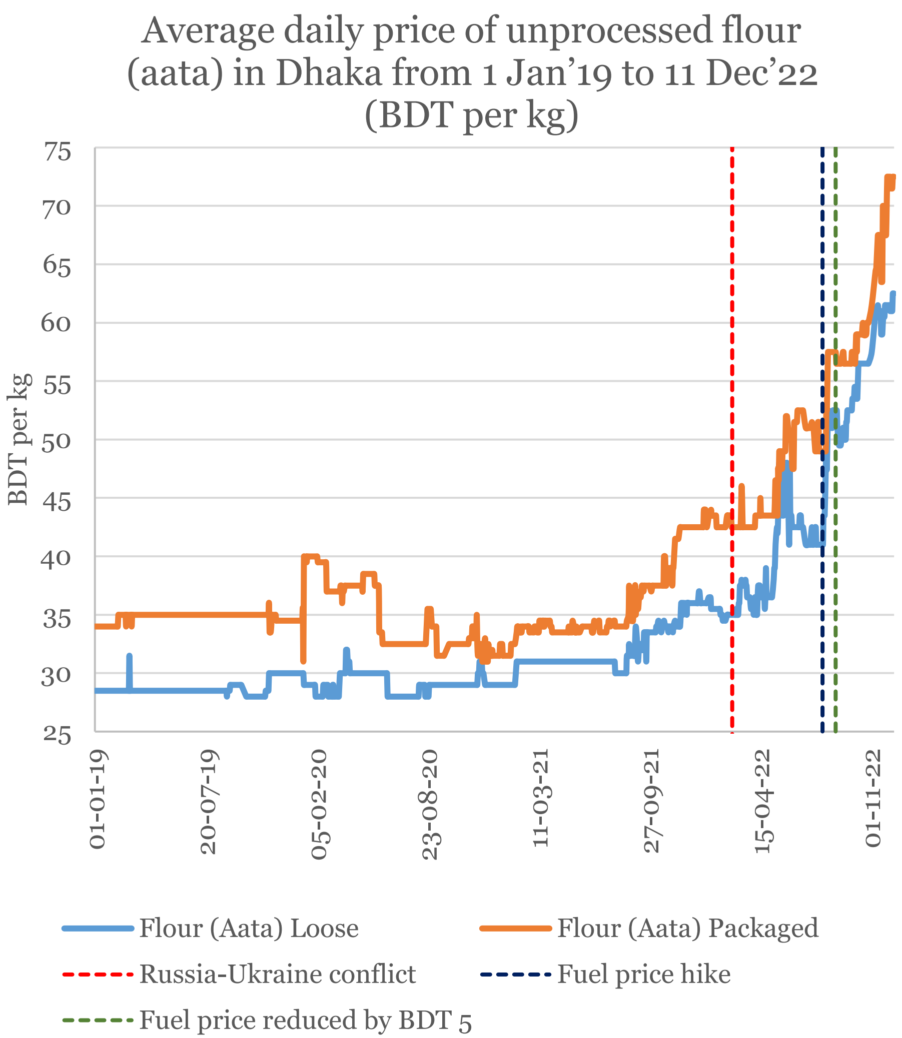


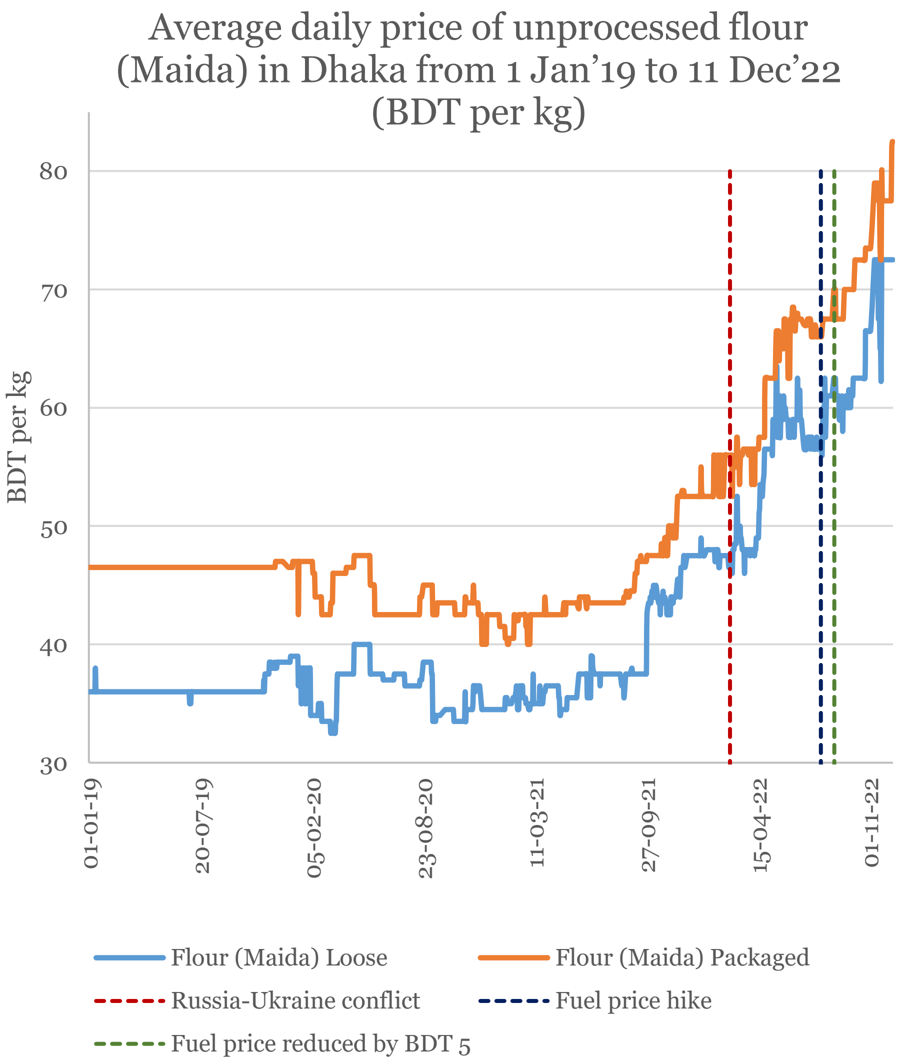
Source: CPD illustration based on data from Trading Corporation of Bangladesh



Source: CPD illustration based on data from BBS and World Bank

Price of Flour: Increasing Before Ukraine Crisis

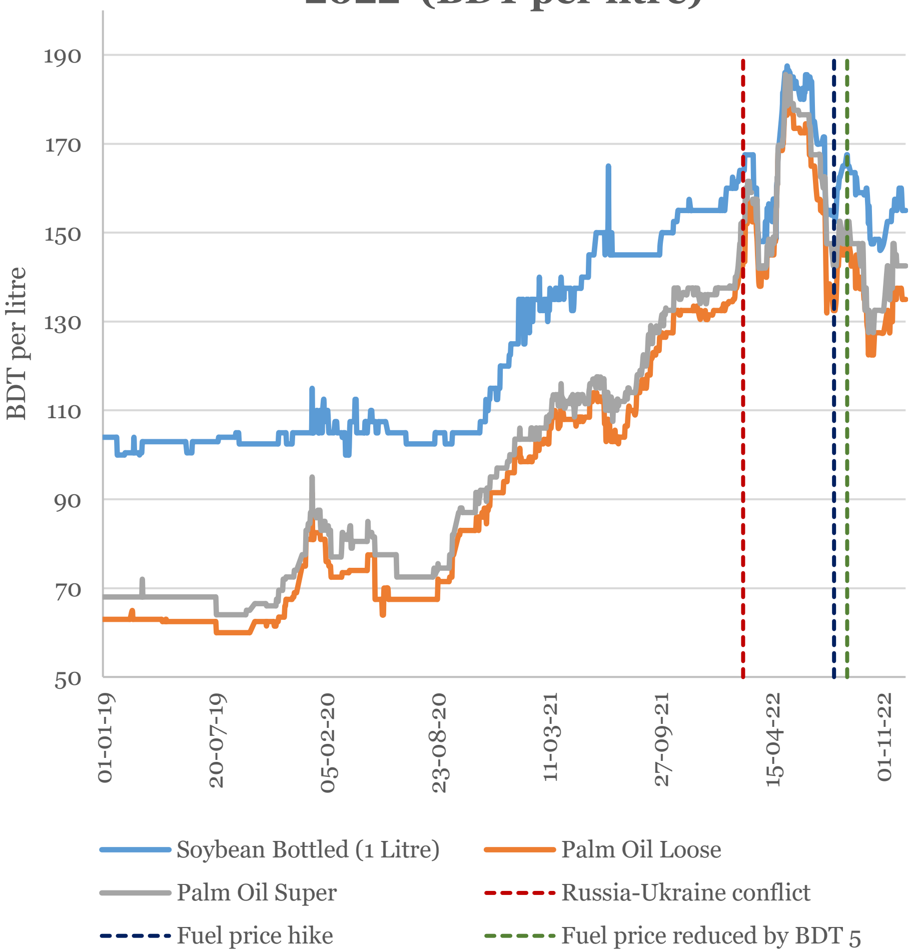




Source: CPD illustration based on data from Trading Corporation of Bangladesh

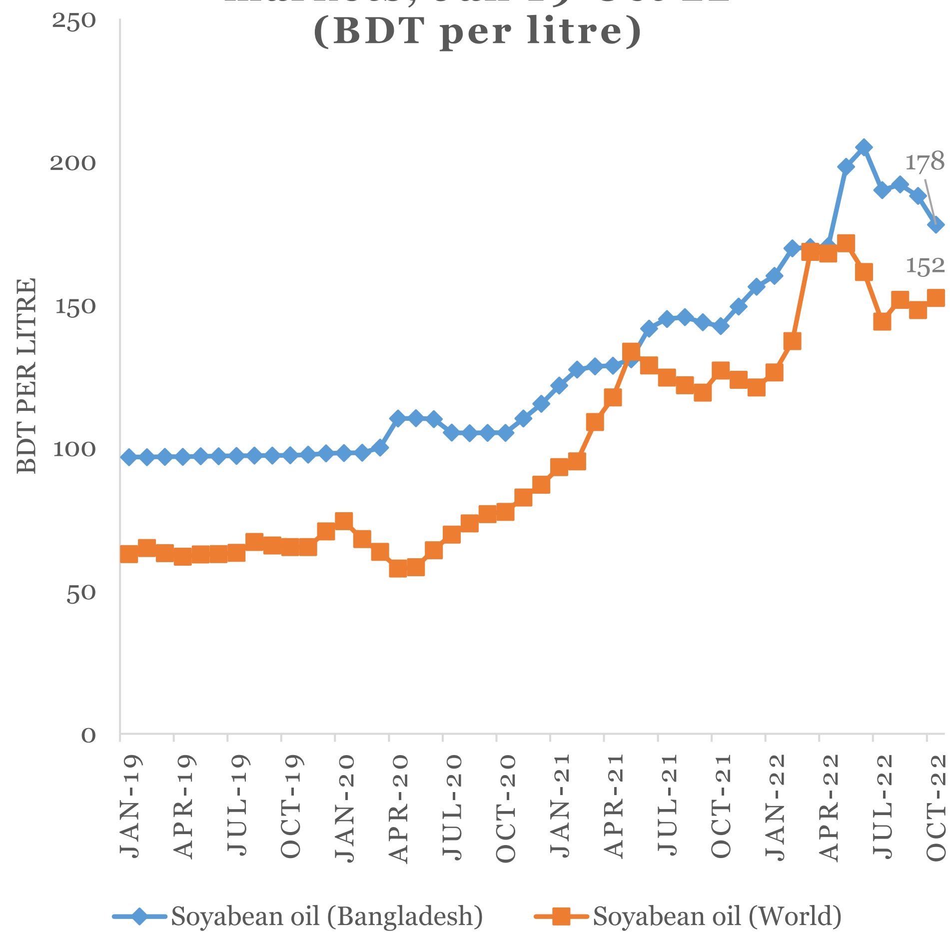
Price of Edible Oil: Higher Than International Market

Average daily price of edible oil in Dhaka between 1 Jan 2019 to 11 Dec 2022 (BDT per litre)



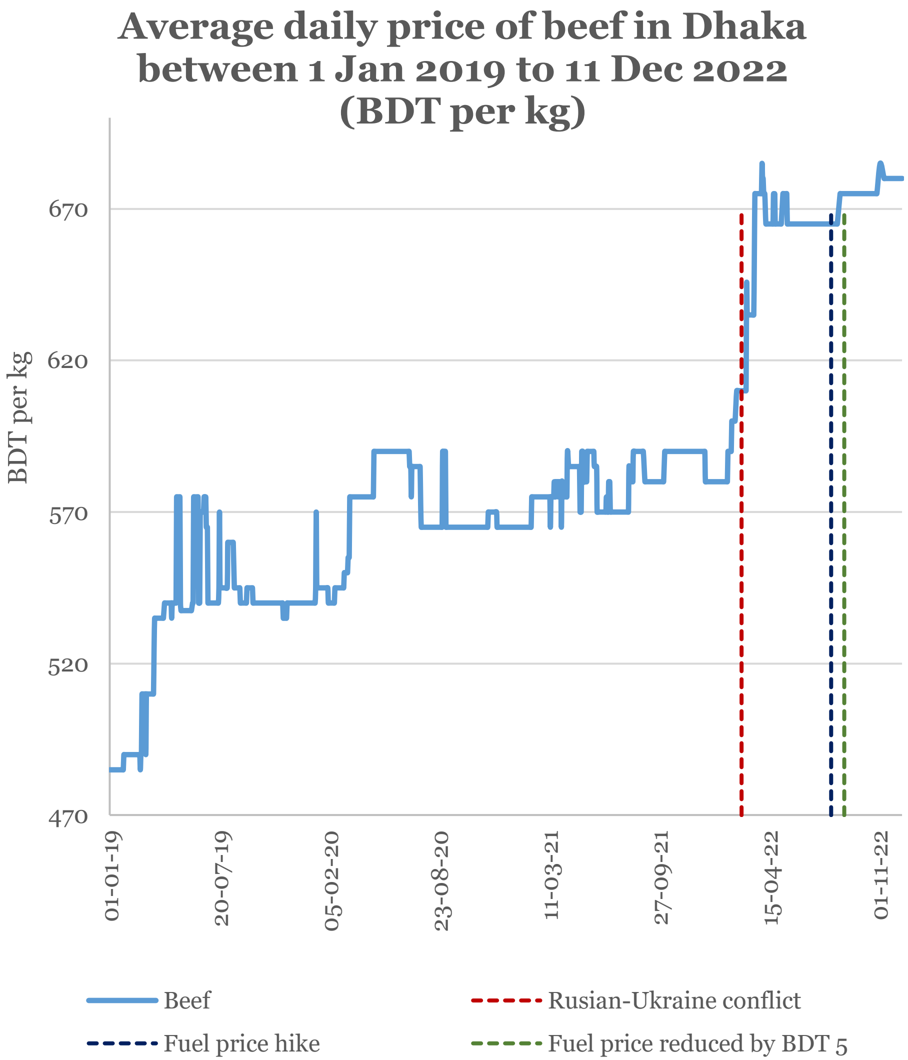
Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of soyabean oil in Bangladesh and international markets, Jan'19-Oct'22 (BDT per litre)

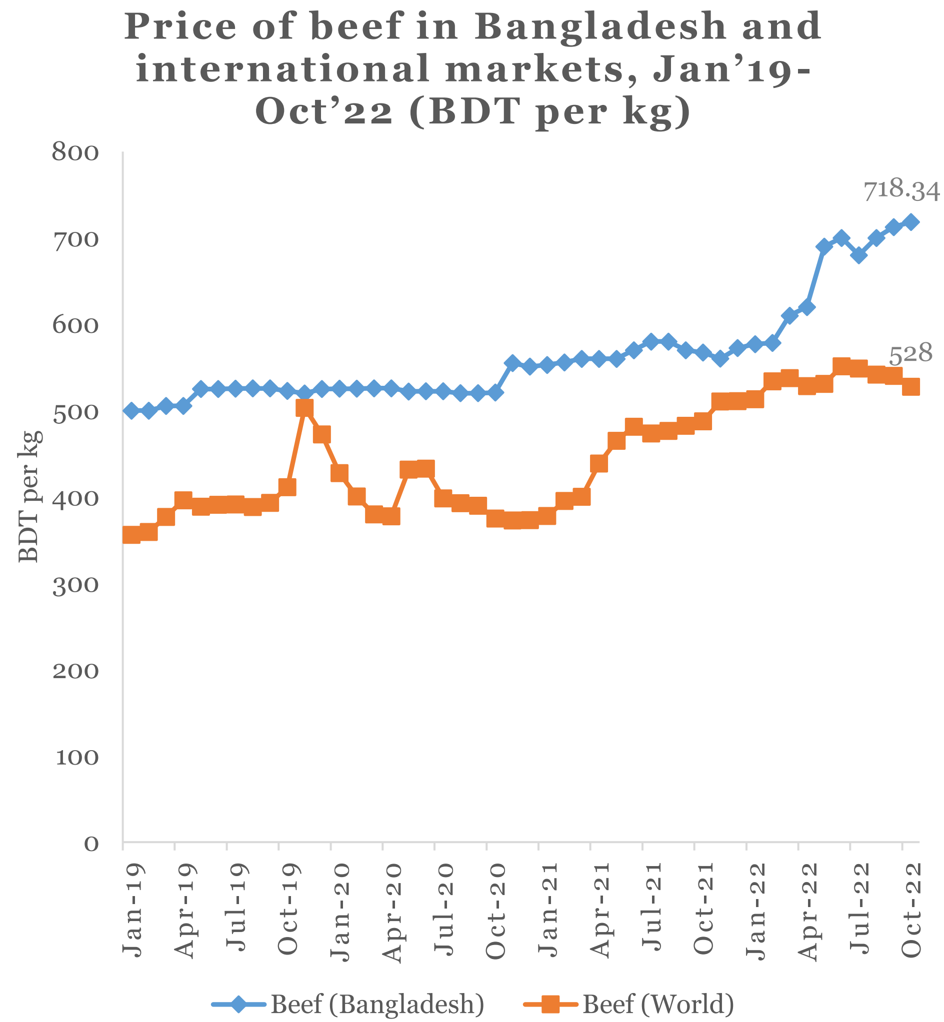


Source: CPD illustration based on data from BBS and World Bank

Price of Beef: Domestic Prices Rising Significantly Faster Than International Prices



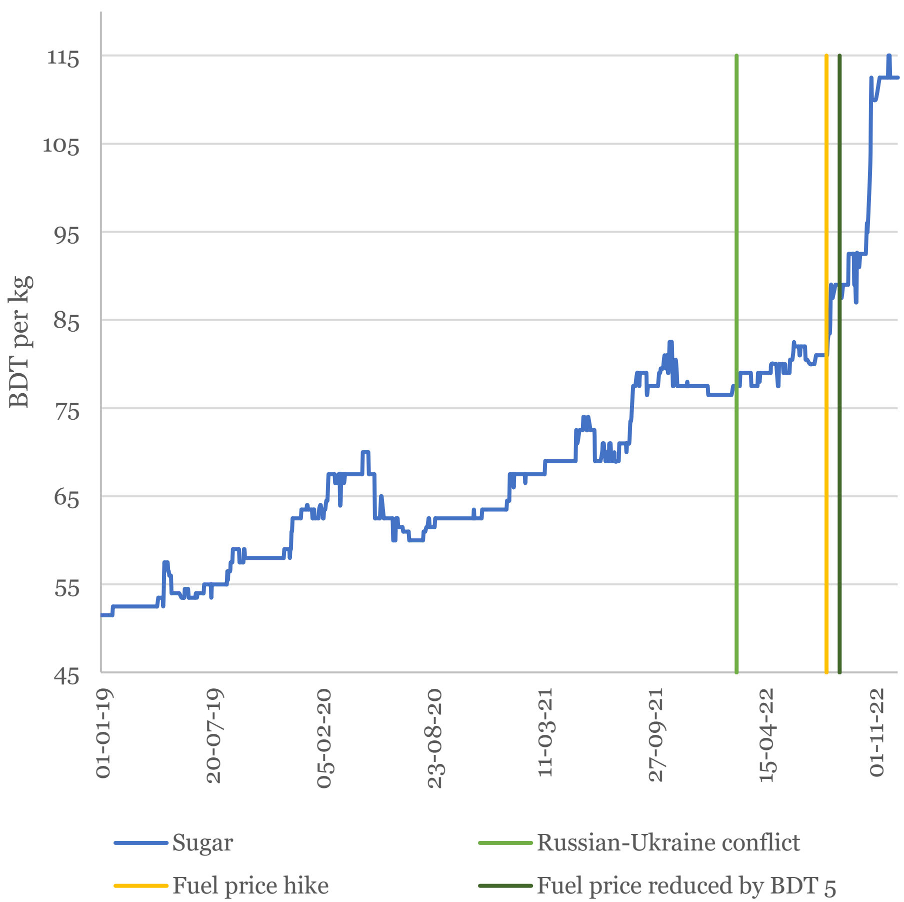
Source: CPD illustration based on data from Trading Corporation of Bangladesh



Source: CPD illustration based on data from BBS and World Bank

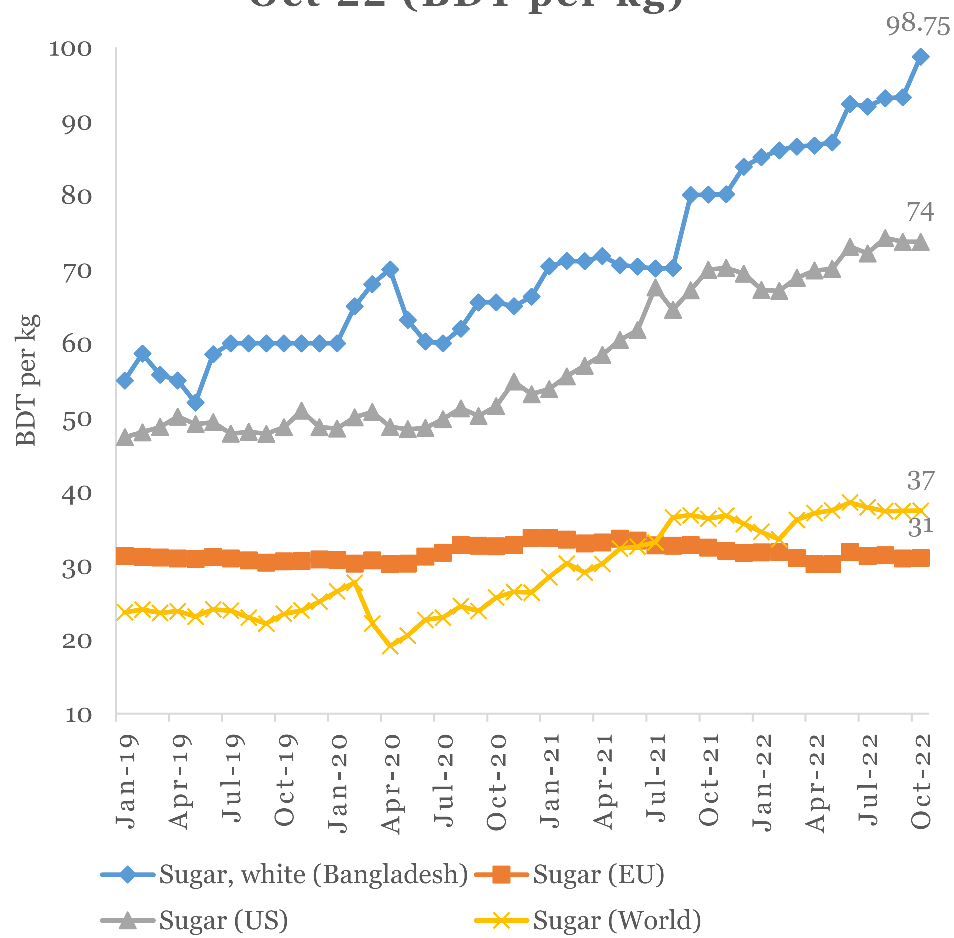
Price of Sugar: Domestic Prices Increasing; Prices Higher Than in EU, US, & World Markets

Average daily price of sugar in Dhaka from 1 Jan 2019 to 11 Dec 2022 (BDT per kg)



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

Price of sugar in Bangladesh and international markets, Jan'19-Oct'22 (BDT per kg)



Source: CPD illustration based on data from BBS and World Bank

High Incidence of Tax on Some Imported Essential Food Items

- CPD's analysis shows that **at least 29 imported essential food items currently face a high incidence of tax**
- The government is dependent on such indirect taxes for domestic resource mobilisation
- A fiscal measure based on indirect taxes is discriminatory against the low-income households and also contributes to inequality

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High Incidence of Tax on Some Imported Essential Food Items

DESCRIPTION	CD	SD	VAT	AIT	AT	RD	EXD	TTI
Fresh or chilled, other cuts of bovine meat with bone	25	20	0	5	0	3	0	58.6
Fresh or chilled boneless bovine meat, wrapped/canned up to 2.5 kg	25	20	15	5	5	3	0	89.3
Fresh or chilled other cuts of meat of sheep, with bone	25	20	0	5	0	3	0	58.6
Frozen cuts and offal of chicken, wrapped/canned up to 2.5 kg	25	20	15	5	5	3	0	89.3
Fish (ruhi, katla, pangash, karp & alike), excluding wrapped/canned up to 2.5kg	25	20	0	5	0	3	0	58.6
Hilsha fish (excluding wrapped/canned up to 2.5 kg)	25	20	15	5	5	3	0	89.3
Milk & cream of greater than 1% but less than or equal to 6% fat, not concentrated or sweetened, wrapped/canned up to 2.5 kg	25	0	15	5	5	3	0	58.6
Milk & cream in powder forms less than or equal to 1.5% fat, concentrated or sweetened, in retail packing up to 2.5kg	25	20	15	5	5	3	0	89.3
Milk and cream in solid forms of less than or equal to 1.5% fat imported by VAT registration milk and milk product	10	0	15	5	5	0	0	37.0
Milk and cream in powder excluding powder, granules or other solid from and imported VAT registered companies	10	0	15	5	5	0	0	37.0
Milk and cream in powder excluding Powder, granules or other solid from and imported VAT registered companies	10	0	15	5	5	0	0	37.0
Tomatoes, fresh	25	20	0	5	0	3	0	58.6
Onions, fresh or chilled	5	0	0	0	0	5	0	10.0

Source: Operative Tariff Schedule, National Board of Revenue

High Incidence of Tax on Some Imported Essential Food Items

DESCRIPTION	CD	SD	VAT	AIT	AT	RD	EXD	TTI
Garlic, fresh or chilled	5	0	0	2	0	0	0	7.0
Dates, fresh	0	0	0	5	5	0	0	10.0
Pepper, neither crushed nor ground	25	20	0	5	0	3	0	58.6
Cardamoms: Neither crushed or ground, excluding wrapped/canned up to 2.5 Kg	25	20	0	5	0	3	0	58.6
Seeds of Cumin: Neither crushed or ground, excluding wrapped/canned up to 2.5 Kg	25	20	0	5	0	3	0	58.6
Ginger: Neither crushed or ground, excluding wrapped/canned up to 2.5 Kg	5	0	0	5	0	0	0	10.0
Turmeric (Curcuma)	5	0	0	5	0	0	0	10.0
Other maize, excluding wrapped/canned up to 2.5 kg	0	0	0	2	0	0	0	2.0
Husked (brown) rice	15	0	0	5	5	0	0	25.8
Semi-milled or wholly milled rice	15	0	0	5	5	0	0	25.8
Maize (corn) starch	15	0	15	5	5	20	0	67.0
Crude palm oil imported by VAT registered edible oil refinery industries	10	0	15	0	5	0	0	32.0
Palm oil (excluding crude) & its fractions, not else specified, including refined palm oil	0	0	15	0	5	0	0	20.0
Refined palm kernel/Babassu oil & fractions, not chemically modified	25	0	15	5	5	0	0	55.0
Salt (other than pure sodium chloride) solution, salt boulder for crushing & salt in bulk	25	20	15	5	5	3	0	89.3
Sugars, pure (excluding glucose, etc); sugar ethers and salts, etc.	10	0	15	5	5	0	0	37.0

Source: Operative Tariff Schedule, National Board of Revenue

Price of Basic Food Items
Beyond the Grasp of Ordinary Citizens

- Assuming that each person consumes the average amount of food, as indicated by the Bangladesh Urban Socioeconomic Assessment Survey 2019 conducted by the Bangladesh Bureau of Statistics (BBS), **the average monthly cost of a basket of 19 common food items (*"regular diet"*) for a household of 4 persons in Dhaka city was BDT 23,676, as of 15 December 2022**
- Assuming that a household lives on a *"compromised diet"*, and never consumes fish, mutton, beef, or chicken, the average monthly cost of food for a household of 4 persons in Dhaka city was **BDT 9,557**, as of 15 December 2022

Workers on Minimum Wage Unable to Afford Basic Food

- **Assuming a 5% annual increment of the basic salary since latest year of wage review, the minimum wage in 2022 for workers in all industries would not be sufficient to afford a "regular diet" for a household of 4 persons**
- Assuming a 5% annual increment of the basic salary since latest year of wage review, the minimum wage in 2022 for workers in the shrimp industry, fish and trawler industry, hotels and restaurants industry, soap and cosmetics industry, tea packaging industry, tailoring factories, cotton textile industries, bakery, biscuit and confectionery industry, automobile workshop industry, garments industry, glass and silicate industry, plastic industry, leather and footwear industry, and rice mills would not be sufficient for affording a "compromised diet" for a household of 4 persons
- Thus, high inflation is directly threatening the food security of workers earning a minimum wage
- **Hence, it is urgent to revisit and revise the minimum wages of workers in all industries immediately**

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Minimum Wage in Different Industries and Ability to Afford Average Monthly Cost of Food

Name of Industry	Job Rank	Minimum wage in 2022, assuming a 5 per cent annual increment since latest year of wage review	Ability to afford average monthly cost of food for a household of 4 persons	
			Consuming a ***compromised*** diet without fish, beef, mutton, & chicken (BDT 9,557)	Consuming a ***regular*** diet (BDT 23,676)
Shrimp	Worker	5,616	✗	✗
Shrimp	Employee	6,389	✗	✗
Fishing & Trawler Boat Industry	Worker	6,584	✗	✗
Hotels & Restaurants	Worker	4,304	✗	✗
Hotels & Restaurants	Employee	4,304	✗	✗
Soap & Cosmetics	Worker	6,496	✗	✗
Soap & Cosmetics	Employee	6,496	✗	✗
Pharmaceuticals	Worker	9,293	✗	✗
Pharmaceuticals	Employee	9,826	✓	✗
Tea Packaging	Worker	8,240	✗	✗
Tea Packaging	Employee	9,498	✗	✗

Source: Minimum Wage Board, BBS, TCB, and Numbeo

Minimum Wage in Different Industries and Ability to Afford Average Monthly Cost of Food

Name of Industry	Job Rank	Minimum wage in 2022, assuming a 5 per cent annual increment since latest year of wage review	Ability to afford average monthly cost of food for a household of 4 persons	
			Consuming a *compromised* diet without fish, beef, mutton, & chicken (BDT 9,557)	Consuming a *regular* diet (BDT 23,676)
Ship Breaking	Worker	17,724	✓	✗
Ship Breaking	Employee	16,695	✓	✗
Tannery	Worker	14,309	✓	✗
Tannery	Employee	14,309	✓	✗
Tailoring Factory	Worker	5,497	✗	✗
Cotton Textile Industries	Worker	6,486	✗	✗
Cotton Textile Industries	Employee	6,486	✗	✗
Bakery, Biscuit & Confectionery	Worker	6,716	✗	✗
Bakery, Biscuit & Confectionery	Employee	7,362	✗	✗
Automobile Workshop	Worker	6,673	✗	✗
Automobile Workshop	Employee	8,612	✗	✗

Source: Minimum Wage Board, BBS, TCB, and Numbeo

Minimum Wage in Different Industries and Ability to Afford Average Monthly Cost of Food

Name of Industry	Job Rank	Minimum wage in 2022, assuming a 5 per cent annual increment since latest year of wage review	Ability to afford average monthly cost of food for a household of 4 persons: Consuming a ***compromised*** diet without fish, beef, mutton, & chicken (BDT 9,557)	Ability to afford average monthly cost of food for a household of 4 persons: Consuming a ***regular*** diet (BDT 23,676)
Aluminium & Enamel	Worker	9,778	✓	✗
Aluminium & Enamel	Employee	9,778	✓	✗
Garments	Worker	8,884	✗	✗
Garments	Employee	9,312	✗	✗
Glass & Silicate	Worker	9,288	✗	✗
Glass & Silicate	Employee	9,288	✗	✗
Plastic	Worker	8,513	✗	✗
Plastic	Employee	8,513	✗	✗
Re-rolling Mills	Worker	11,255	✓	✗
Re-rolling Mills	Employee	13,018	✓	✗
Private Road Vehicles	Worker	10,766	✓	✗
Private Road Vehicles	Employee	8,513	✗	✗
Rice Mills	Worker	8,287	✗	✗
Rice Mills	Employee	8,287	✗	✗
Leather & Footwear Factory	Worker	7,459	✗	✗
Leather & Footwear Factory	Employee	8,981	✗	✗
Construction & Timber	Worker	16,830	✓	✗

Source: Minimum Wage Board, BBS, TCB, and Numbeo

Conclusions and Recommendations

- **A new consumption basket should be formulated for calculating CPI inflation**, based on rigorous research as regards consumer behaviour and expenditure patterns. All targets, projections, and plans in the monetary policy and the 8th Five Year Plan should be revised in accordance with this new consumption basket for CPI and new base year for inflation.
- **The National Board of Revenue (NBR) should consider removing the advance income tax (AIT), advance tax (AT) and regulatory duty (RD) on imported essential food items.**
- The role of the Bangladesh Competition Commission needs to be strengthened, particularly in the case of the essential consumer goods market.
  - The Commission should develop a database, regularly monitor the dominant market players' operations, examine the market control and manipulation (if any), and take proper measures.
- **The Bangladesh Competition Commission should adopt a strong stance against cartels and a zero tolerance policy towards collusive practices.**
- The Competition Act 2012 should be revised to directly address monopolies and include specific anti-trust clauses, along with concrete penalties for violators.

Conclusions and Recommendations

- **The Minimum Wage Board should consider increasing the minimum wages in all industries** so that workers earning minimum wages may at least afford basic food
- **Private sector corporations should consider a higher salary increment** during times of high inflationary pressure since workers are having to compromise their standard of living
- The volume of sale of essential commodities through the open market system (OMS) should be increased
- **Distribution of these commodities must be managed effectively and without any corruption**, so that the eligible people have access to these items at low prices
- The government should provide direct cash support to the poor, enhance social protection for low-income families, and extend stimulus to the small businesses for their survival during difficult times

Bangladesh External Sector: Under Unprecedented Pressure and in Need of Redirection

The Context

- Bangladesh's external sector has been a pillar of the country's development narrative, with comfortable B.O.P. position, foreign exchange reserves, exchange rate stability, robust export, and remittance growth, and impressive import performance that serviced both consumer demands and development needs.
- However, in very recent period, the sector has come under considerable pressure on all counts, with depleting reserves, and erosion of import capacity, significant weakening of the BDT, high rate of imported inflation, and subdued performance of exports earnings and remittance flows.
- Policymakers appear to have been caught off-guard and are having to resort to fire-fighting. Whilst global factors have accentuated the situation, the underlying reasons originate from a number of accumulated policy failures: lax forex reserve management, failure to undertake proper exchange rate management, and weak surveillance against over- and under-invoicing and capital flight. The fallouts have been exacerbated by the recent global price hike and the consequent rise in import payments, depressed, recessionary fear-induced demand for Bangladesh's exports and significant exchange rate-induced diversion of a large part of remittance flows to informal channels.

Forex Reserves

- Recent developments have underscored the need to consider not the gross forex reserves but the net reserves as a measure of the import capacity of the country's forex reserves.
- When reserves faced drawdown in the face of global price hikes and higher import payments for L/C opening, the dearth of accessible forex reserves became evident.
- Not all reserves (gross) but reserves that are accessible for purposes of imports (net reserves) merit consideration. Experts have drawn Bangladesh Bank's attention to this for quite some time. However, contesting this, Bangladesh Bank chose to ignore the evidence.

Balance of Payment

- The balance of payment for the first four months of FY2022-23 (July-October) shows the overall balance coming down from (-) USD 1.34 billion to (-) USD 4.87 billion with consequent drawdown on gross reserves from USD 46.5 billion to USD 35.8 billion, in terms of months of imports, from 6.2 months to 5.2 months.
- If the net reserves are considered, the current forex reserve would be equivalent to about four months of import payments.
- Bangladesh's Forex Reserves that are not readily available to underwrite imports are estimated to be worth about USD 8.4 billion.

Table: Factors contributing to drawdown in Forex Reserves

B.O.P Components	FY2023 VS FY2022, July-October (in billion USD)
Current Account Balance	(-) 0.667
of which: Trade Balance	(-) 0.427
Capital Account Balance	(+) 0.007
Financial Account Balance	(-) 2.828
Overall Balance	**(-) 3.533**
Gross Reserves	(-) 10.65
Net Reserves	(-) 10.65

Source: Based on Bangladesh Bank data and Bangladesh Bank-IMF negotiation documents

Recent Trends

- Whilst the rise in the import payments for capital machinery could be due to one-time bulk imports for mega projects, there is a need for greater surveillance of import payments, to forestall over-invoicing, particularly because imports of capital machinery are mostly zero-tariffed and consequently, the possibility of over-invoicing in case of imports of these items is that much greater.
- The import categorisation made by Bangladesh Bank should be made in a more transparent manner, and the respective headings, according to HS codes, should be made public.
- Bangladesh Bank has also unearthed incidences of under-invoicing in the case of imports, to avoid customs duties, through payments abroad by transferring money through hundi/howla informal channels.
- It is not enough to stop payments when over- and under-invoicings are detected by Bangladesh Bank, as was the case in recent years. Legal measures must be taken, relevant laws enforced and violations brought to justice to forestall future violations.

Recent Trends

Export Earnings

- Over the July-November period of FY2022-23 the exports have registered a decent 10.9 per cent growth over the corresponding period of FY2021-22. However, this is informed by some trends that need to be looked at more closely.
- The estimations carried out in the Tables reveal the volume-driven nature of export earnings quite clearly.

Table: US Market: Volume, Price, and Value Changes of RMG Export in percentages – 2021 vs 2022 (July-September)

HTS Code	Value	Volume	Per unit price
Knitwear (61)	18.8	-1.3	20.3
Wovenwear (62)	45.0	26.3	14.8
Overall	34.6	12.3	19.8

Source: Estimation based on USITC (2022)

Table: EU Market: Volume, Price, and Value Changes of RMG Export in percentages – 2021 vs 2022 (July-September)

HTS Code	Value	Volume	Per unit price
Knitwear (61)	39.11	20.38	23.52
Wovenwear (62)	39.52	21.52	22.94
Overall	39.25	20.74	23.35

Source: Estimation based on EUROSTAT (2022)

Remittance Flows

- The trends in remittance flows do not correspond with the migration trends of the recent past. The muted growth of remittance flows, the July-November period of FY2022-23, with a lowly 2.6 per cent (over the corresponding period of FY2021-22), does not match the significantly high number of migrant workers who left for overseas jobs during the recent period. Bangladesh Bank's supportive policies (higher exchange rate, 2.5 per cent cash incentives, waiver of bank charges, allowing higher forex retention, etc.) also appear not to be working.

Table: Overseas employment and remittance inflow by major countries

Country	Overseas employment	Remittances inflow (in million USD)		Remittance growth (July-November)	
	January, 2021-October 2022	July-November 2021	July-November 2022	Change year-on-year (in million USD)	Year-on-year growth (per cent)
KSA	1001001	2065.04	1602.68	-462.36	-22.39
UAE	118310	700.14	661.99	-38.15	-5.45
Kuwait	17568	694.78	1143.56	448.78	64.59
Oman	199890	419.09	269.39	-149.7	-35.72
Qatar	30913	568.96	615.2	46.24	8.13
Singapore	81570	170.34	146.03	-24.31	-14.27
UK	613	733.99	760.2	26.21	3.57
US	NA	1423.79	1538.32	114.53	8.04
Total	1565082	8608.87	8793.12	184.25	2.14

Source: Estimated from BMET, Bangladesh Bank

Recent Trends

- The above would mean that in spite of the rise in the number of stock of migrant workers in four Middle Eastern countries (there is no evidence of any tangible number of workers coming back from these countries) as also flows (1.3 million workers went to the Middle East region during the mentioned period), remittance flows came down by more than half a billion dollars in the first five months of FY2022-23 compared to the corresponding period of FY2021-22.
- There is a need for a deeper investigation of the factors driving the decrease in remittance flows from the aforesaid countries. In all likelihood, the significant difference between formal and informal (hundi/howla) exchange rates may have created an incentive for the transfer of flows from formal to informal channels.
- It is reckoned that the recent changes (rise) in the exchange rate for remittances (plus the 2.5% cash incentive) have significantly reduced the margin between formal exchange rate and the curb market rate in Bangladesh. To what extent the difference with informal hundi/howla channels still persists, remains an issue of speculation, although the margin must have reduced significantly following the recent refixing of the effective exchange rates for remittances (at about BDT 110/ USD).
- Bangladesh Bank will need to keep the emergent scenario under constant monitoring and vigilance and both exchange rate management and enforcement of relevant laws must inform its actions in this regard.

Some Mixed Signals and Silver Lining

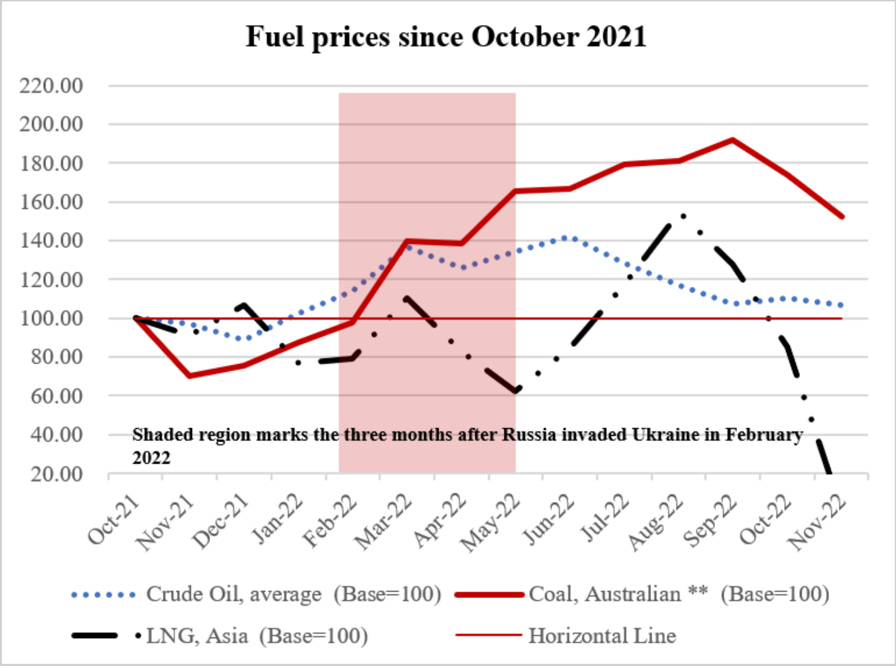
- The policy of reining-in imports through various tools appears to be paying off:
  - While L/C settled during Q1 (July-September) of FY2023 rose by 31.6 per cent (an increase of about USD 5.39 billion), compared to the corresponding period of FY2022, L/C opening came down by (-) 8.6 per cent (a drop of USD 1.72 billion). One can infer that L/C settlement in Q2 of FY2023 is expected to come down significantly, with lower import payments and an easing of pressure on forex reserves.
- Demand-side impact on imports, induced by higher global price and depreciation-induced price rise, are some of the other reasons.

Some Mixed Signals and Silver Lining

Global Price Trends

- The silver lining is that the global prices appear to have peaked already, and are now coming down, as can be seen from the following global price trends of some of the key commodities for which Bangladesh is highly dependent on imports.

Figure: Fuel (Crude Oil, LNG, Coal) price trends since October 2021

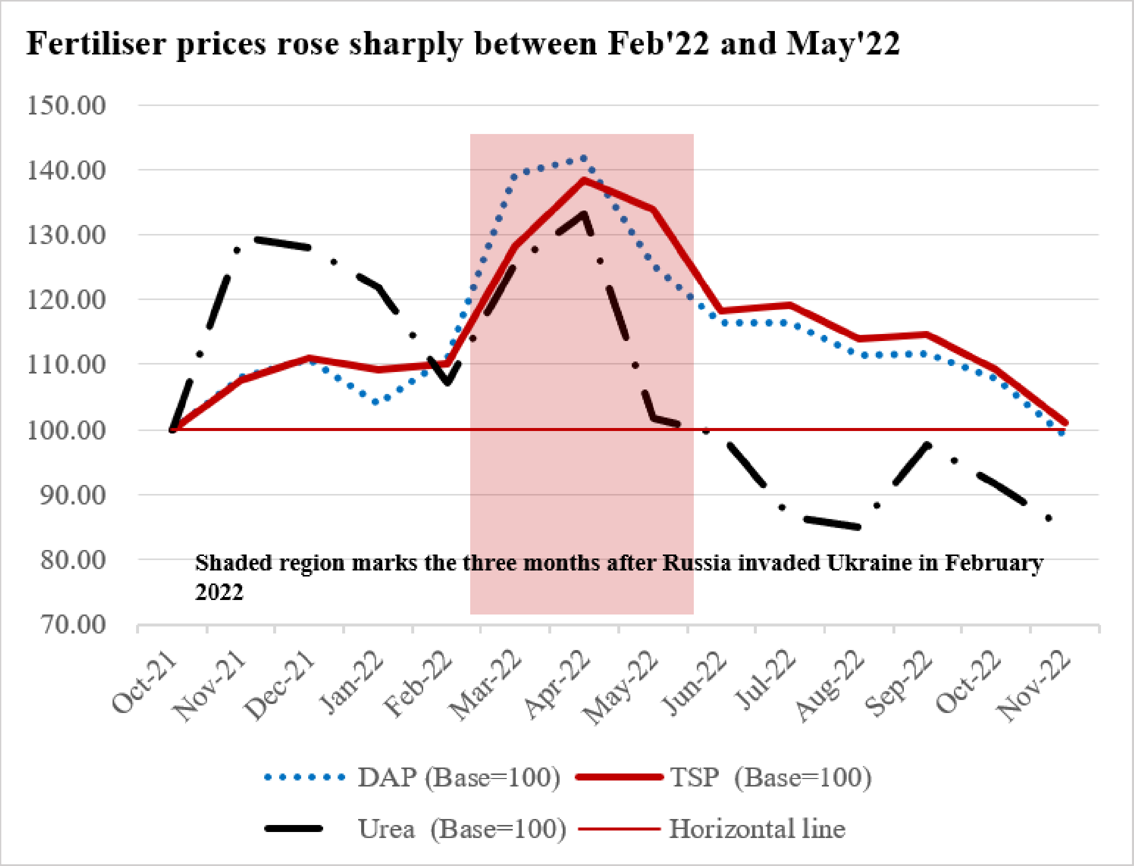


Source: World Bank Pink Sheet

Note: Prices in October, 2021 or the base price is assumed to be 100 for ease of comparison.

Some Mixed Signals and Silver Lining

Figure: Fertiliser (DAP, TSP, Urea) price trends since October 2021

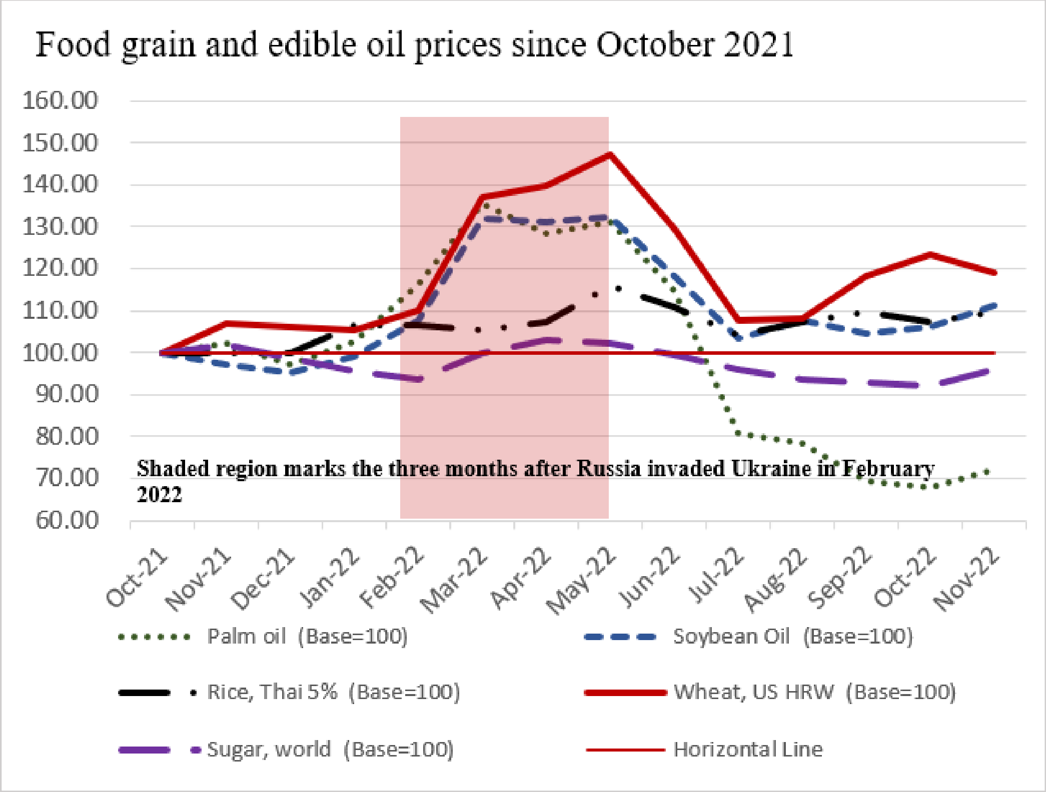


Source: World Bank Pink Sheet

Note: Prices in October 2021 or the base price are assumed to be 100 for ease of comparison.

Some Mixed Signals and Silver Lining

Figure: Food grains (Rice, Sugar, Wheat) and Edible Oil (Soybean and Palm) price trends since October 2021



Source: World Bank Pink Sheet

Note: Prices in October 2021 or the base price are assumed to be 100 for ease of comparison.

Some Mixed Signals and Silver Lining

Figure: Cotton price trends since October 2021

Source: World Bank Pink Sheet

Note: Prices in October 2021 or the base price are assumed to be 100 for ease of comparison.

Some Mixed Signals and Silver Lining

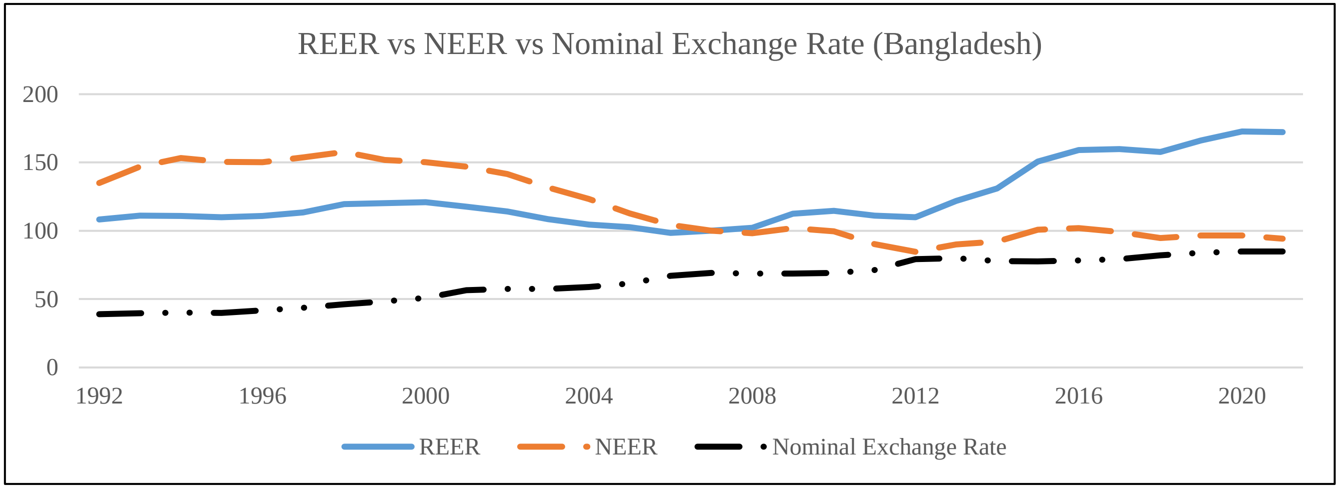
- The price trends would indicate that the pressure on import payments is likely to ease up in the near-term future. Together with the positive impacts of some of the restrictions put in place by the Bangladesh Bank and the GoB, this will arrest the rise in import payments. However, this could end up in a low level of equilibrium, inducing relatively lower economic growth.

Some Mixed Signals and Silver Lining

Exchange Rate Movements

- Following the depreciation of the BDT vis-à-vis major currencies, the overvaluation of the BDT as depicted by the recent past movements of REER and NEER appears to have reduced significantly
- As can be seen from figure, the REER of BDT had appreciated significantly over the past few years, particularly between 2012 and 2021. This resulted in the undermining of export competitiveness vis-à-vis major currencies and created a disincentive for remitters.

Figure: REER vs NEER vs Nominal Exchange Rate (Bangladesh)

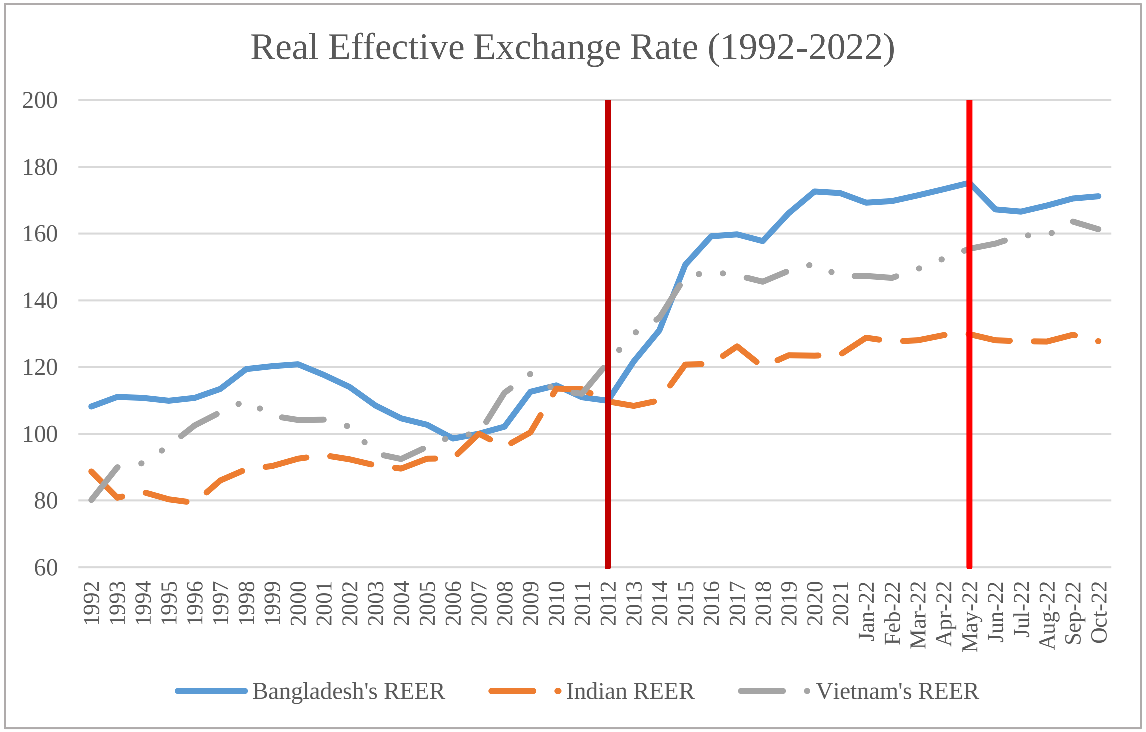


Source: For REER and NEER, data from Bruegel was used. For Nominal exchange rate, data from Bangladesh Bank, Reserve Bank of India and World Development Indicators were used.

Some Mixed Signals and Silver Lining

- Indeed, as the figure below would indicate, Bangladesh's REER was relatively the highest compared to India and Vietnam.

Figure: Real Effective Exchange Rate across Bangladesh and its competitors over the years (1992-2022)

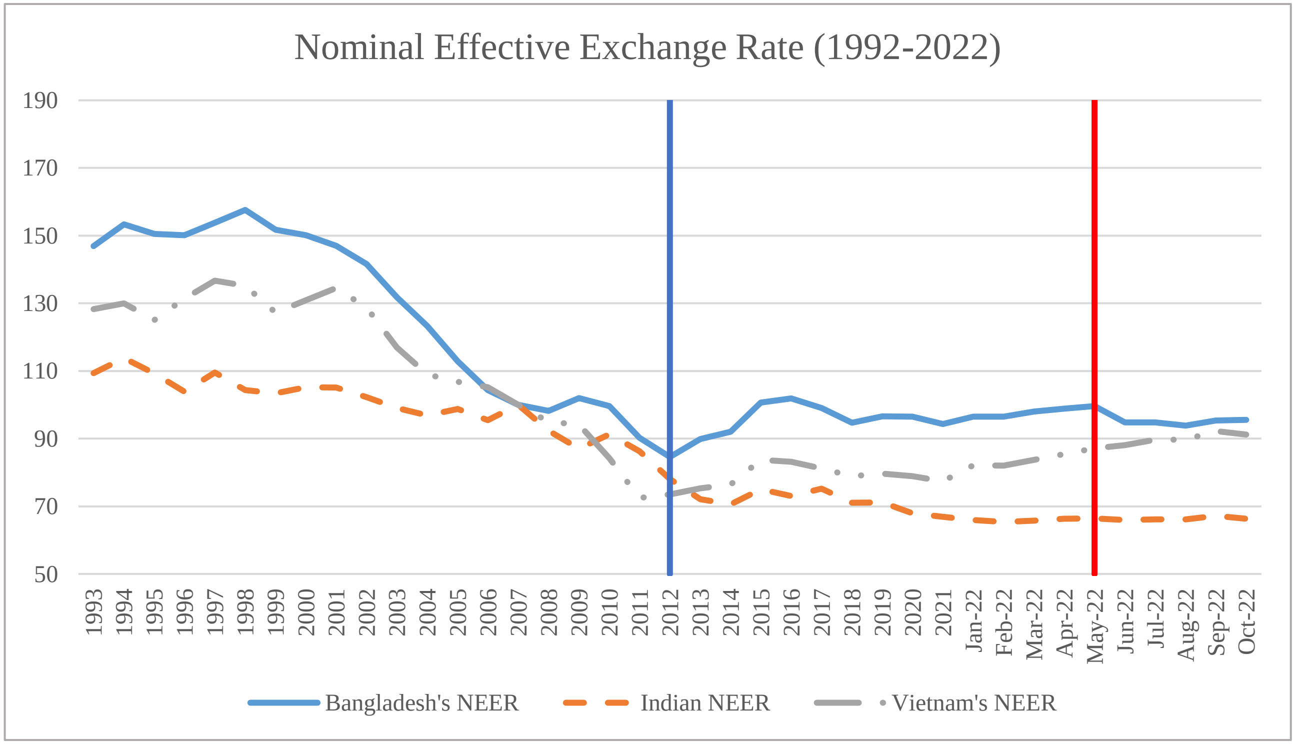


Source: For REER and NEER, data from Bruegel was used. For Nominal exchange rate, data from Bangladesh Bank, Reserve Bank of India and World Development Indicators were used.

Some Mixed Signals and Silver Lining

- ❑ Thanks to recent significant depreciation of the BDT, the difference in NEER has come down with some of the competitor countries such as Vietnam and India.

Figure: Nominal Effective Exchange Rate for Bangladesh and its competitors over the years (1992-2022)

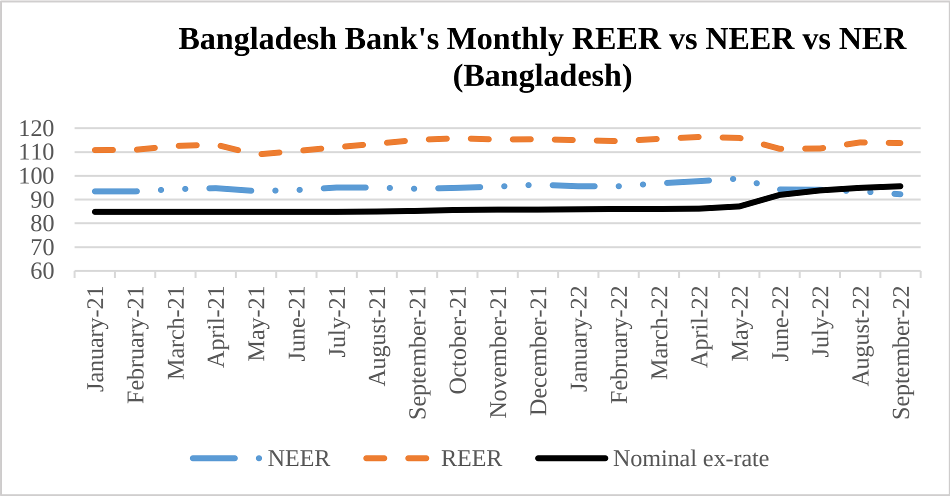


Source: For REER and NEER, data from Bruegel was used. For Nominal exchange rate, data from Bangladesh Bank, Reserve Bank of India and World Development Indicators were used.

Some Mixed Signals and Silver Lining

- ❑ The exchange rate movement indicates that the significant and rising discrepancy between the REER, NEER, and NER of BDT appears to have significantly narrowed down in recent times. It appears that the NER is closing the gap with what would be the exchange rate had it been market-determined.
- ❑ It is reckoned that time has come for Bangladesh to shift from managed float to a free float regime.

Figure: Bangladesh's Monthly REER vs NEER vs NER since January 2021



Source: Bangladesh Bank

- ❑ The free-float regime will necessitate dealing with the issue of imported inflation through better coordination of monetary and fiscal policies, strengthening of social safety net programmes, extended OMS programmes and, if required, targetted rationing.

Going Forward

- After more than a decade, Bangladesh Bank is having to go for a balance of payment support from the IMF.
- Whilst global factors, particularly rising prices were key reasons driving the current situation, these should be seen as 'accentuating drivers' and not 'explanatory factors'.
- The underlying causes related to the weak state of external sector management and Bangladesh Bank's incapacity to exercise its independent and autonomous role in areas of exchange rate management, take energetic steps against capital flight and enforce oversight function, lax forex reserve management, and weakness in reporting and ensuring transparency in data generation and access. A serious overhauling will be required in each of these areas.

Going Forward

- However, the key to robust external sector performance lies in the efficacy and good governance in overall macroeconomic management. Particularly in view of Bangladesh's upcoming LDC graduation with consequent significant preference erosion, and the middle-income transition with the consequent rise in costs of borrowings, the demands on the quality of macroeconomic and monetary management will rise further over the near-term future.
- Servicing of foreign debt, till now comfortably managed, could add new dimensions to the emerging challenges in connection with reserves management, particularly in the backdrop of maturing of some of the hard term loans of the recent past. The growing private sector foreign loan, while not backed by sovereign guarantee but by bank guarantee, has added a new dimension to the debt discourse. The demand for foreign currency available in the market will rise, with consequent ramifications for exchange rate movements. This should be factored into the country's exchange rate management.

Going Forward

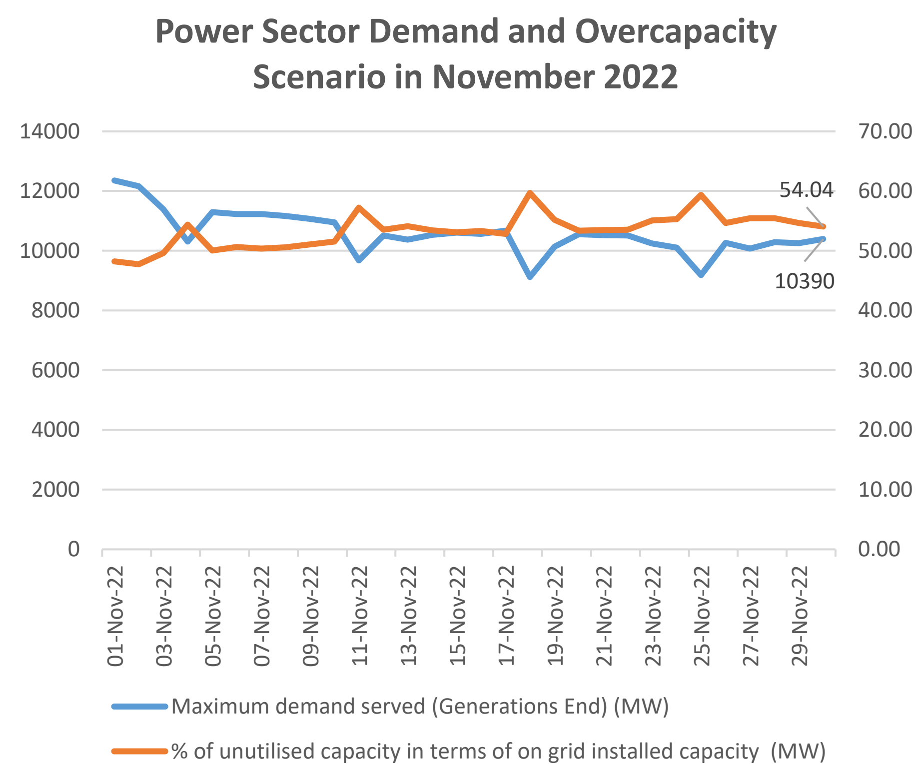
- The depreciation of BDT will have important implications for debt servicing, both public and private, particularly for loans taken to underwrite projects that generate revenue in local currency (e.g. energy projects). Both liabilities and returns should be reestimated in view of this, and business plans revisited, to ensure proper debt servicing.
- The IMF has come up with a number of suggestions as regards exchange rate management, monetary sector management, and data transparency. Many of these calls for serious attention and urgent decision by policymakers and these have been pointed out by experts for quite some time now. Reforms and measures in view of these must be subject to open and transparent debates and discussions, keeping in perspective both short-term needs and medium to long-term strategic interests of the country.

Crisis in the Power and Energy Sector: Few Proposals From Clean Energy Perspective

1. Current State of the Power and Energy Sector (November 2022)

- There has been a substantial mismatch between the demand and supply in the power and energy sector.

  - Power
    - Demand: Maximum power demand from the generation's end was 12350 MW
    - Supply: Excess reserve capacity in November was as high as 13493 MW (60%) against the total installed capacity of 22608 MW
  - LNG
    - Demand: 3,500-4,000 MMCFD
    - Supply: 2,800-2,900 MMCFD



Source: Prepared by authors

1. Current State of the Power and Energy Sector (November 2022)

- Oil
  - Demand: 4,60,000 lac metric ton
  - Supply: 4,60,000 lac metric ton
- Natural Gas
  - Supply: As GoB has undertaken initiatives to explore new and old gas well maximum of 335 mcf daily is expected to be produced
- The ongoing energy crisis is not a short-term but a medium to long-term crisis for the country
  - Bangladesh has limited fiscal space to import fuel.
- CPD puts forward some medium to long-term suggestions from the perspective of clean energy.

2. Expected Power Demand in 2023-25 and Possible Energy-Mix

- Amid the prevailing medium to long term crisis, from a clean energy perspective CPD has come up with a short to medium term energy mix scenario from 2023-2025
  - The GoB has recently announced to completely phase out diesel-based power plants and gradual phase out of furnace oil-based power plants
  - Additionally, plans for installing rooftop solar PVs in primary schools and transforming diesel irrigation system to solar irrigation system have been proposed
  - The MPEMR is about to finalise the Integrated Energy Power Master Plan (IEPMP) with the objective of energy security and decarbonization of the energy sector
  - Taking all these decisions and the upcoming plans in consideration, CPD has set forth an estimation of fuel mix scenario for next 3 phases (Year 1, 2 & 3)

2. Expected Power Demand in 2023-25 and Possible Energy-Mix

❑ Year 1 (Jan-Jun'23)

- Considerations for power and energy supply:
  - The fuel mix will remain same except for some additional 978 MW of renewable energy
  - Installation of solar rooftop PVs in the primary schools will take 5 years (in line with govt. commitment)
  - Transformation of diesel irrigation systems to solar irrigation systems will require 5 years (in line with govt. commitment)

❑ Year 2 (Jul'23- Jun'24)

- Considerations for power and energy supply:
  - Substantial amount of RE based power generation will be included in the fuel mix
  - 1/5th of the installation of solar rooftop PVs in the primary schools will be completed
  - 1/5th of the transformation of diesel irrigation systems to solar irrigation systems will be completed
  - All HSD based power plants will be phased out (in line with govt. commitment)
  - HFO based power plants will start to phase out gradually (in line with govt. commitment)

2. Expected Power Demand in 2023-25 and Possible Energy-Mix

❑ Year 3 (Jul'24- Jun'25)

- Considerations for power and energy supply:
  - A major share of energy mix will be the share of RE based power generation
  - Another 1/5th (total 2/5) of the installation of solar rooftop PVs in the primary schools will be completed
  - Additional 1/5th (total 2/5) of the transformation of diesel irrigation systems to solar irrigation systems will be completed
  - A substantial amount of HFO based power plants will be phased out gradually (in line with govt. commitment)

Power demand projection and estimated fuel mix under three different scenarios (MW)

	Year 1 (June, 23)	% of fuel mix	Year 2 (June, 24)	% of fuel mix	Year 3 (June, 25)	% of fuel mix
Total	**14417 MW**	**100 %**	**14983 MW**	**100%**	**16482 MW**	**100%**
Coal	2192	15.20	2804	18.71	2804	17.01
HFO	4500	31.21	3023	20.18	1413	9.00
Imported electricity	1050	7.28	1050	7.01	1050	6.37
Gas	5273	36.57	5740	38.31	5597	34.00
Hydro-power	50	0.35	50	0.33	50	0.30
Diesel	650	4.51	0	0.00	0	0.00
Nuclear	0	0.00	600	4.00	1200	7.28
Renewable	717	4.973	1717	11.46	4194	26.00

Source: Prepared by authors

3. Resource Estimate

Year 1	Resources Saved (mil. $)	Subsidy Saved(mil. $)
Diesel	613.97	-
Oil	1540.00	-
Power	-	413.15
Sub-total in Y 1	2153.97	413.15
Total in Y1	2567.12	

Year 1	Required Investment (mil. $)
Renewable Energy	2121.93
Solar Based Rooftop	147.00
Solar Based Irrigation	2234.37
Total in Y1	4503.30

Year 2	Resources Saved (mil. $)	Subsidy Saved(mil. $)
Diesel	1093.13	-
Oil	1540.00	-
Power		4691.23
Sub-total in Y2	2633.13	4691.23
Total in Y2	7324.36	

Year 2	Required Investment (mil. $)
Renewable Energy	3894.00
Solar Based Rooftop	147.00
Solar Based Irrigation	2234.37
Total Y2	6275.37

Year 3	Resources Saved (mil. $)	Subsidy Saved(mil. $)
Diesel	1093.13	-
Oil	1540.00	-
Power	-	3651.50
Sub-total in Y3	2633.13	3651.50
Total in Y3	6284.6	

Year 3	Required Investment (mil. $)
Renewable Energy	3072.75
Solar Based Rooftop	147.00
Solar Based Irrigation	2234.37
Total Y3	5454.10

Source: Prepared by authors

3. Resource Estimate

- Less subsidy required in power generation
  - The additional subsidy demanded in power and energy sector seems to be unrealistically high
    - As per our estimation, 42% of the demanded additional subsidy is not required
  - Year 1: Additional RE can be used to substitute imported LNG that may reduce the subsidy burden
    - From July'23 subsidy for the HSD based power plants will be withdrawn
  - Year 2: Subsidy will be substantially dropped as the HSD based power plants will be phased out and HFO based power plants will be started to phased out
  - Year 3: By the end of 2025, no subsidy amount will be required for oil based power generation

Additional resource estimates

	Additional Demanded (Crore Tk)	Estimated Resource Required (Crore Tk)	Estimated Resource Saved (Crore Tk)
Power	32500.00	28,248.34	4,251.66
Oil	19358.00	0	19358
LNG	5000.00	5000.00	0
Total	56858.00	33248.34	23609.66 (42% of the additional demand)

Source: Prepared by authors based on the data from different sources

- Less subsidy required for diesel and furnace oil
  - Year 1: As of November, BPC has a gross profit of BDT 1041.6 crore /$ 100.8325 mln. The required subsidy is zero (0)
  - Year 2: There will be a substantial reduction in subsidy for diesel as the diesel plants will be totally phased out and furnace oil will be partially phased out
  - Year 3: There will be a substantial reduction in subsidy for diesel as the diesel plants will be totally phased out and furnace oil will be fully phased out

- Duty withdrawn
  - Petrobangla pays a duty of 17% for its LNG imports. If this duty is withdrawn, the government will have a revenue loss of BDT 5,500-6,000 crore ($ 533-581 million) per year

Crisis in the Power & Energy Sector: Few Proposals From Clean Energy Perspective

Recommendations

- We feel that amid this crisis a clean energy scenario in power and energy sector can be resource efficient, can generate more power and save subsidy allocation
  - LNG based power generation should not be encouraged further
  - Emphasis should be given to gas exploration in domestic gas fields
- Dependency on long term LNG contracts should also be reduced
  - We should not opt for LNG purchase from spot market as this is a high price situation.
  - We may think of some other fuel solution such as HFO & HSD
- BPDB/SREDA/IDCOL should aggressively look for foreign financers and investors in RE sector
  - Implementation plan for rooftop solar in primary school and solar irrigation system is required

Recommendations (contd.)

- Fossil fuel based power plants which are in the process of retirement should not be extended further under the Quick Enhancement of Electricity and Energy Supply (Special Provision) Act 2010
  - This will save resources in terms of capacity payment and subsidy
  - Additionally, it will save the USD required for importing fuels
- BPDB must revisit the existing IPP contracts that are yet to retire after July 2023
  - Specially, the capacity payment paid and the tariff at which PDB is buying power from IPPs should be reviewed
- Reducing the LNG tariff will only encourage additional LNG import
  - Such tariff can generate revenues for investing in renewables

Banking Sector

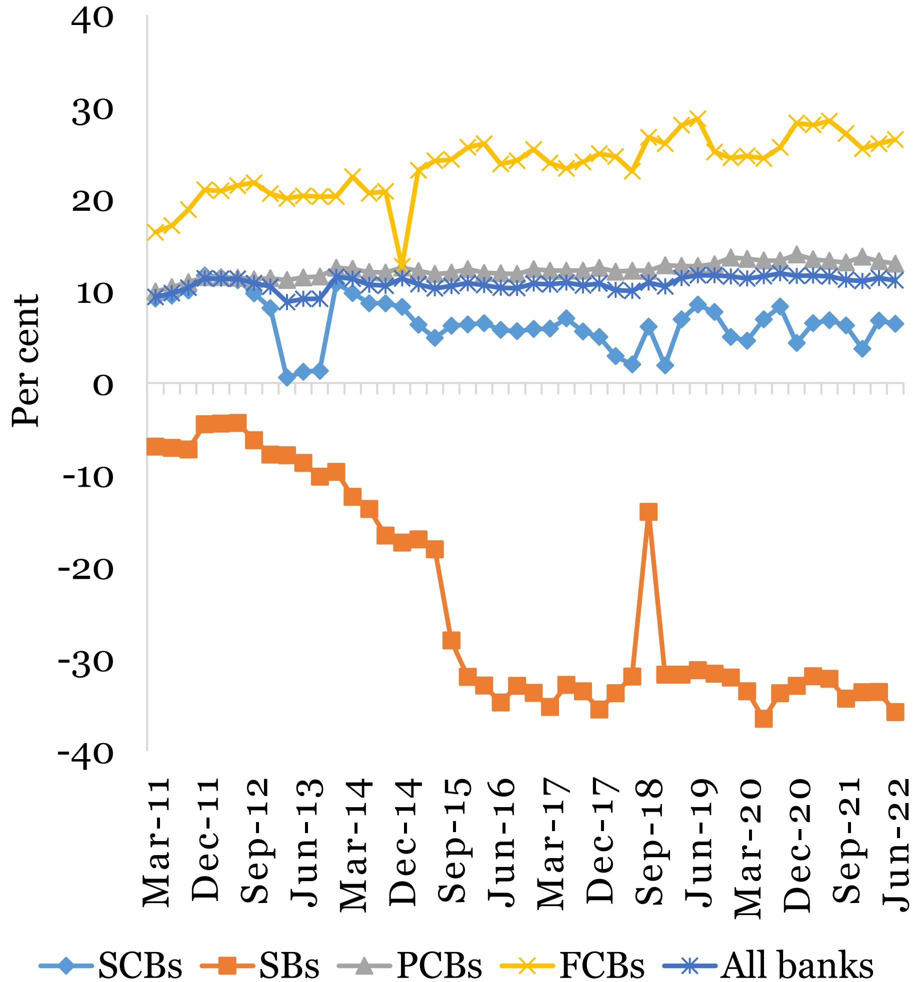
Banking Sector Displaying Fragility

- The banking sector of Bangladesh continues to suffer from various challenges for several years.
- High loan default and poor performance in other indicators are the manifestations of a weak banking sector.
- Due to poor governance and lack of reforms the banking sector exhibits its fragility which poses risks to the economy.
- Unfortunately, government's promises for strengthening the banking sector are still unfulfilled.
- This section briefly presents the performance of some key indicators in recent periods and makes a few recommendations to overcome the challenges.

Capital Inadequacy of Banks

- Bangladesh Bank's Guidelines on Risk Based Capital Adequacy state that banks must maintain a minimum total capital ratio of 10% (or minimum total capital plus capital conservation buffer of 12.5%) by 2019, in line with BASEL III.
  - However, the SCBs have failed to maintain minimum requirements of capital adequacy.
  - On the other hand, the SBs have remained critically under-capitalised.
- **Without reducing NPLs, capital adequacy cannot be improved** since higher levels of NPLs lead to increased provisioning requirements, which results in capital shortfall.

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

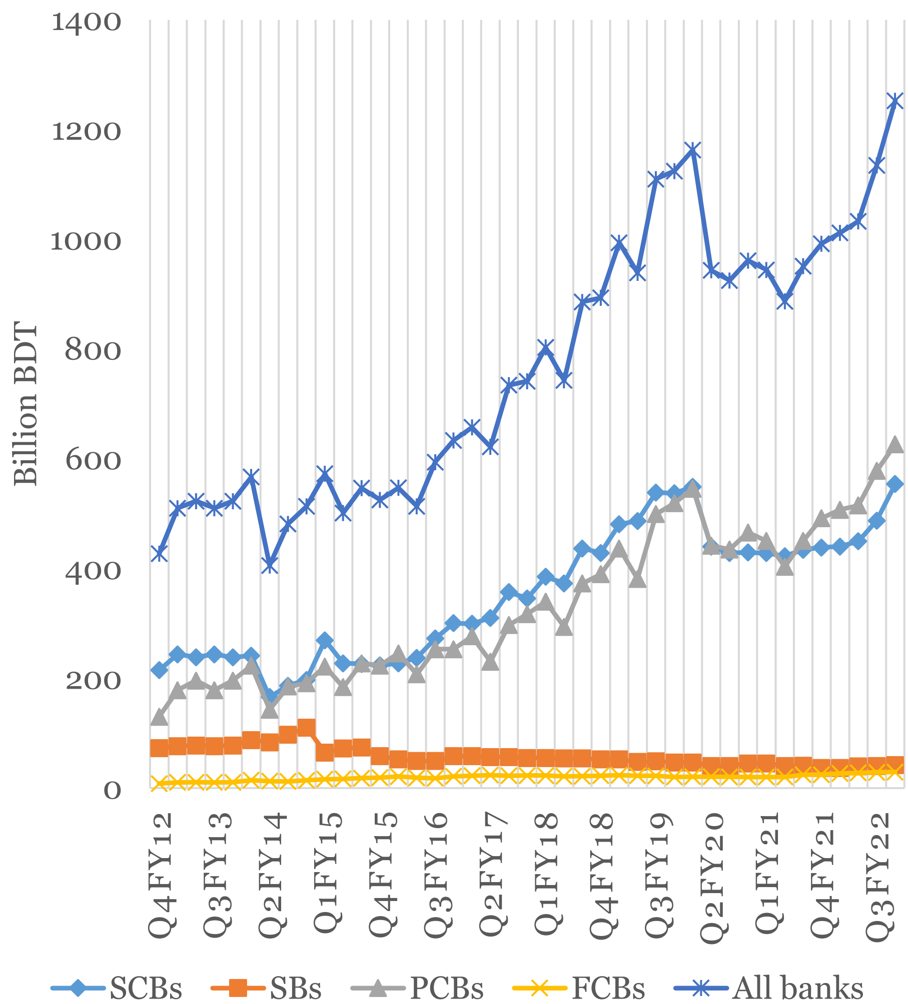


Source: Bangladesh Bank

High Volume of Non-performing Loans (NPLs)

- Total volume of **NPL has increased by more than 3 times in the last ten years**, from BDT 427.25 billion in Q4FY12 to BDT 1,343.96 billion in Q1FY23
- However, actual NPL will be much higher if loans in special mention accounts, loans with court injunctions, and rescheduled loans are included

Figure: Total classified loans (in billion BDT)



Source: Bangladesh Bank

Reasons Behind High Volume of Non-performing Loans in Bangladesh

Causes of NPL

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

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

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

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

Shortfall in Loan Loss Provisioning Requirements

- On a bank's balance sheet, provisions are assets which are put aside to cover losses that are expected to occur in the future.
- As of Q4FY22, required loan loss provisioning was BDT 862.68 billion whereas the actual loan loss provisioning maintained was only BDT 730.48 billion.
- **In Q4FY22, there was a BDT 132.2 billion shortfall in loan loss provisioning in the banking sector**, including BDT 106.2 billion shortfall in SCBs and BDT 31.1 billion shortfall in PCBs.

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

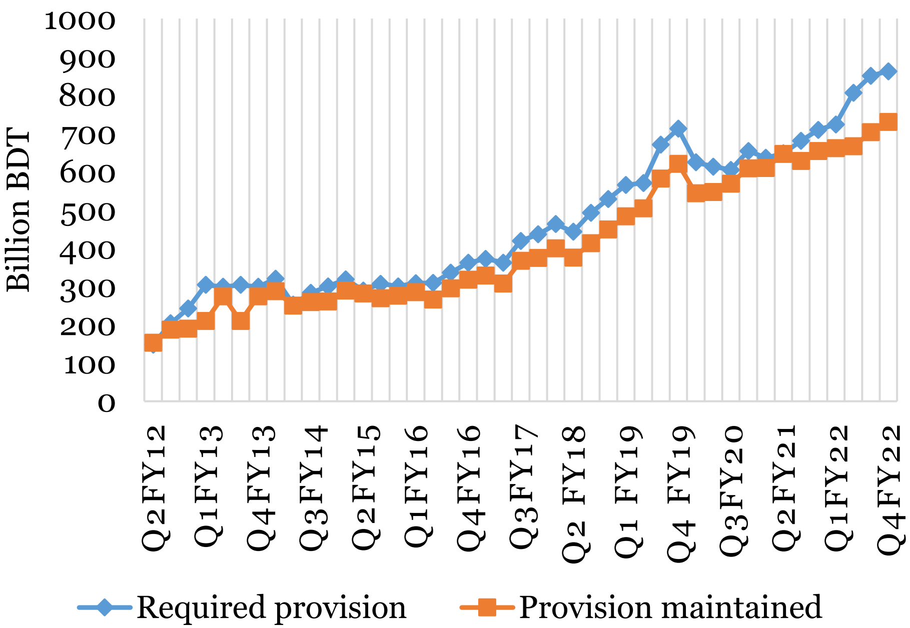
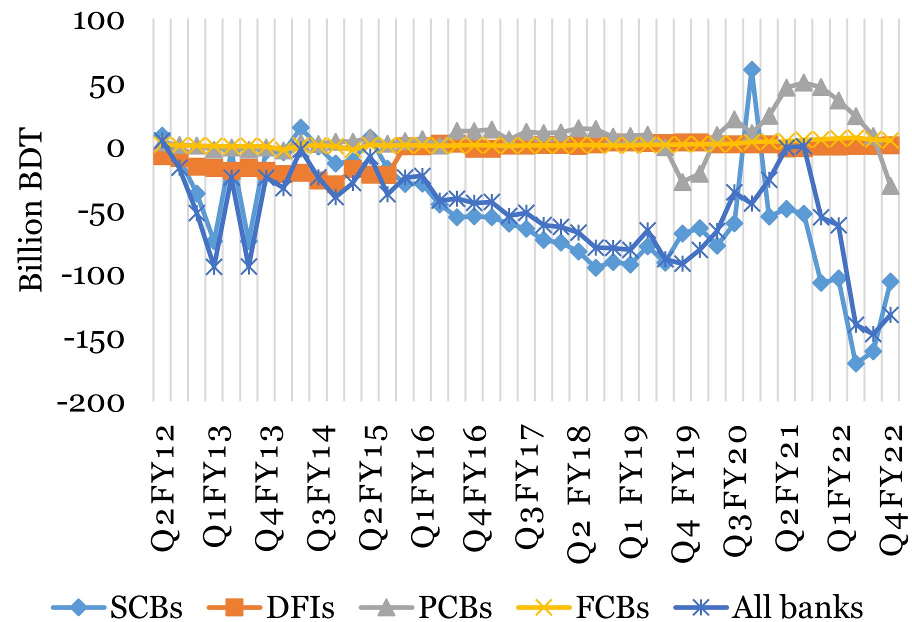


Figure: Excess or shortfall in loan loss provisioning (in billion BDT)

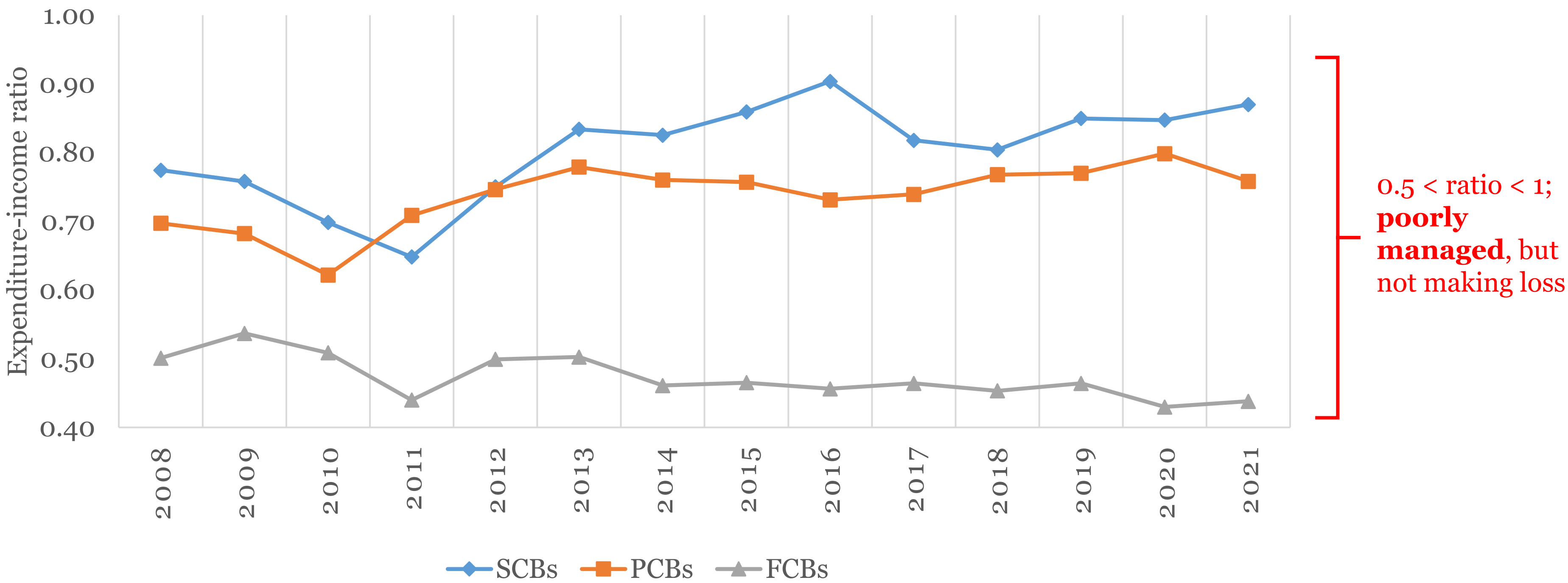


Source: Bangladesh Bank

Management of Commercial Banks

- From 2008 to 2021, the average expenditure-income ratio was 0.80 in SCBs and 0.74 in PCBs.
- This reveals poor management effectiveness of both SCBs and PCBs, even prior to the start of the pandemic.

Figure: Expenditure-Income ratio (in %)

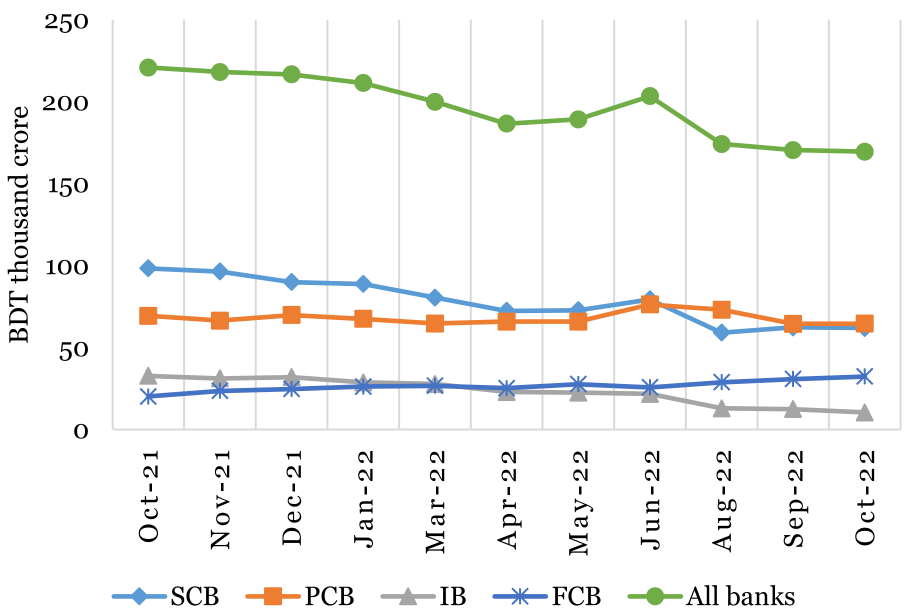


Source: Bangladesh Bank

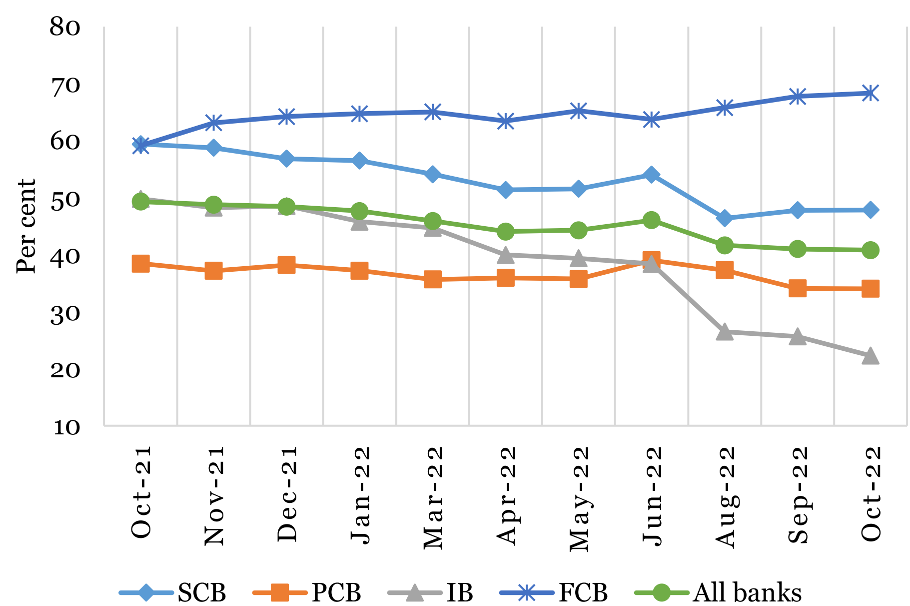
Decline in Liquidity of Banks

- Excess liquidity in the banking sector has declined from BDT 220,866 crore in Oct 2021 to BDT 169,556 crore in Oct 2022.
- Excess liquidity as a share of the total liquid assets of the banking sector declined from 49% in Oct 2021 to 41% in Oct 2022.

Excess liquidity (BDT in thousand crore)



Excess liquidity (as % of total liquid assets)

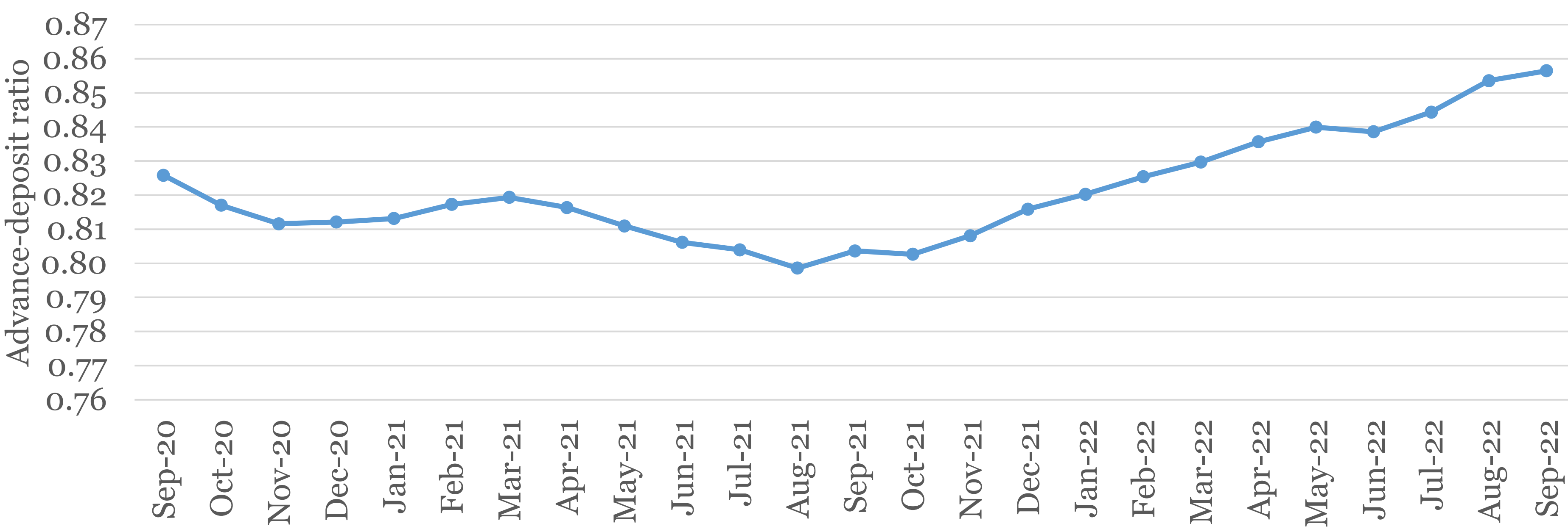


Source: Bangladesh Bank

Increase in Advance-deposit Ratio

- Banks are experiencing pressure on their liquidity positions
- Since cost of living has increased, many people are forced to use their savings to make ends meet.
- The advance-deposit ratio (ADR) has increased from 0.80 in September 2021 to 0.86 in September 2022.

Advance-deposit ratio

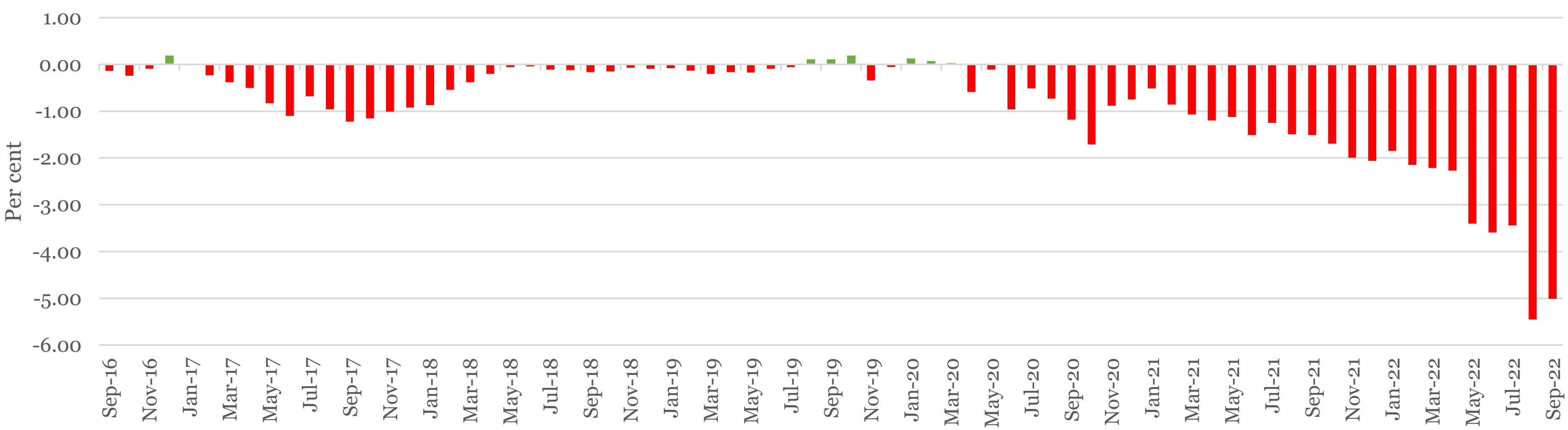


Source: Bangladesh Bank

Negative Real Interest Rate on Bank Deposits

- The *real deposit rate*, calculated as the weighted average of the monthly deposit rate of all scheduled banks adjusted with the point-to-point monthly consumer price index inflation, **fell from 0.03 per cent in March 2020 to -5.01 per cent in September 2022**
- The negative real interest rate on bank deposits means that **a depositor comes out as a net loser by keeping money in the bank**.

Figure: Real deposit rate in banks (in per cent)



Recommendations

Commercial banks need to be strengthened

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

Recommendations

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

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

Recommendations

A conducive legal and judicial environment should be created

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

Recommendations

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

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

Recommendations

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

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

Fiscal Balance

Current situation of public finance

- According to NBR data, during the **Jul-Oct period of FY23**, tax collection by **NBR has increased by 14.2%** - the corresponding figure for Jul-Oct FY22 was 16.9%
  - This growth was **mostly driven by indirect taxes at import level** amid heightened global commodity prices
  - However, there are **concerns** as **regards the consistency of excise duty collection data** (2239.4% growth reported during Jul-Oct FY23)
- As per IMED data, implementation rate of ADP was 12.8% during Jul-Oct FY23 – **lowest in the last five years**
  - Is it due to government's ongoing cost cutting measures or inability to implement projects due to foreign currency crisis?
  - On a positive note, **project aid utilisation (14.3%) was highest** in last five years

Current situation of public finance (contd.)

- Data from Bangladesh Bank shows that **budget deficit financing** during the first four months of FY23 was **overwhelmingly reliant on bank borrowing**
  - Bank borrowing **increased substantially** from Tk. 9,256 crore during Jul-Oct FY22 to Tk. 20,509 crore in Jul-Oct FY23
  - This was **primarily due to drastic decline in net NSD sale**
    - Net sale of NSD certificates was negative BDT (-) 632.6 crore during Jul-Oct FY23
  - **Foreign borrowing also decreased** by (-) 16.2% during the aforementioned period despite highest project aid utilisation in recent years
    - Is it due to higher amortisation payment or discrepancy in data?
- Regrettably, data from MoF, which provides the most complete picture of national budget execution, is available for only up to Jul FY23
  - Such time-lags hinder timely appraisal of the situation – both on part of the policymakers and analysts

Fiscal Balance

Outlook for the remainder of FY23

- During the **early months of FY23**, **high prices** at both local and global markets **contributed to the growth in revenue earnings**
  - Given the various import related restrictions imposed by the government, **this growth may not sustain**
  - Some positive measures taken by the NBR (e.g., mandatory proof of submission of tax returns to avail 38 services, enhancement of the e-TDS system etc.) **are appreciated**
- **Overall public expenditure** will face **considerable upward pressure** during the remainder of FY23
  - **Subsidy requirement is expected to shoot up** due to higher global prices and devaluation of BDT
  - **Higher input prices** are likely to **push costs for public investment** projects
- In view of the current trends and future outlook, **prioritisation in public finance management will be critical**

ADP project prioritisation

- Taking the current foreign currency crisis into cognisance, the government should **prioritise** the implementation of **all foreign funded** ADP projects
  - 340 foreign funded projects with allocation of Tk. 130,535 crore in FY23
- The government should also **prioritise** implementing **projects that are closer to completion** (should be implemented 95% or above by FY23)
  - 235 projects (excluding foreign funded) with allocation of Tk. 14,621 crore in FY23
- Implementation of **relatively new projects** (except those with foreign finance) should be **slowed down**
  - 33 projects with allocation of Tk. 1,788 crore in FY23
- Projects which were **implemented 10% or below up to FY22** should be **deprioritised**
  - 302 projects with allocation of Tk. 17,238 crore in FY23
- '**Carryover projects**' with maximum possible implementation rate of below 30% up to FY23 **should be reviewed and may be discontinued**
  - 70 projects with allocation of Tk. 2,015 crore in FY23

Subsidy management

- Rising global prices coupled with significant depreciation of BDT resulted in **serious pressure in subsidy requirements**, particularly for, agriculture (fertiliser and irrigation), energy (oil and LNG), power, and social protection (including food)
- Apparently, the **budget for FY23 failed to foresee** these global and consequent domestic trends
- As has been reported in the media, **an additional Tk.110,000 crore** (approx.) **owing to subsidies** for fuel oil, agriculture, power, LNG import, food, and TCB activities are sought by different agencies on top of the initial allocation of Tk. 56,000 crore
- The aforesaid additional requirement **appear to be overestimated**
  - The **global prices** are mostly on a **downward** trend
  - **Even if the depreciation** of BDT is considered, the estimates may not be justified
  - For example, agriculture subsidy should not be three and half times even if the entire financial burden is absorbed by the government
- **Higher allocation for subsidy will be required** but the **estimations should be rigorous and transparent**

Fiscal Balance

Fiscal balance and financing of budget deficit

- If the current trend of revenue mobilisation continues, then **revenue shortfall** (including grants) may reach as high as **Tk. 64,000 crore** at the end of FY23
- Considering the substantial additional expenditure owing to subsidies, and past trends of budget execution, **total public expenditure** should be around **Tk. 600,000 crore** (**lower than annual target**)
- Under such scenario, **budget deficit** would be **less than the budgetary target** of FY23 (by about Tk. 10,000 crore)
- The **concern** will **not be fiscal balance** per se – it is the **structure of deficit financing which will pose a significant challenge** for macroeconomic management
- It is likely that a **significantly enhanced bank borrowing will be required** – could be as high as Tk. 140,000 crore
    - FY23 budget earmarked Tk. 106,334 crore
- In view of the declining liquidity in the banking system, heightened inflation, and the central bank's rigid position not to withdraw interest rate caps, the government may put itself in a **difficult policy position**

Fiscal Balance

- In view of the current trends and likely scenario in the foreseeable future concerning public finance management, **three policy recommendations** are put forward:
  - **Prioritise ADP projects**
  - **Ensure subsidy management** in favour of the **marginalised groups**
  - **Synchronise** budget **deficit financing** with **monetary policy**
- At the same time**, three associated policy efforts** are called for:
  - **Curb tax evasion and illicit financial flows**
  - **Revisit tax incentives**
  - Take steps to **immediately review costing of public investment projects**

Conclusion

Conclusion

- The **ongoing** economic **crisis** would **require** the policymakers to make **tough policy decisions**
- The policy decisions encompass **two intertwined streams**:
  - **Macroeconomic management**
  - **Economic governance**
- The policy actions under macroeconomic management stream include:
  - **Pursue a free floating exchange rate** instead of managed exchange rate
  - **Withdraw interest rate caps** on both deposit and lending for all cases to **install market based mechanism** for interest rate management
  - **Revisit national budget** with a view to revise the targets of domestic resource mobilisation, prioritise public expenditure and strategise deficit financing
  - **Ensure coordination between fiscal and monetary policies** – e.g., accommodate monetary policy steps such as floating exchange rate with adequate fiscal policy response. For example, extending social protection programmes for low income groups and ensuring required bank borrowing to finance budget deficit

Conclusion

- The policy actions under economic governance stream include:
  - **Establish good governance** in the **banking sector** and initiate necessary reforms
  - **Revisit the public procurement deals** to guarantee that public interest is upheld
  - **Review costing of public investment projects** to ensure good value for money
  - **Strategise energy and power sectors** from the point of view of economic viability and good governance
  - **Strengthen market monitoring** to safeguard the interests of the consumers
- Policymakers have to **make sure** that the **economic decisions** are made in a **transparent and accountable manner**
- To this end, **quality disaggregated data** has to be made **available and accessible** to all stakeholders in a **timely** manner
- To undertake the urgent and difficult policy decisions, **a strong and committed leadership is required**. Regrettably, the Hon'ble Finance Minister has been mostly missing in action in this regard

Independent Review of Bangladesh's Development

Thank You

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