Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2023-24

First Reading

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The CPD IRBD 2023 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

State of the Bangladesh Economy in FY2023-24

First Reading

SECTION I. INTRODUCTION

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

It must also be noted that the revision of the minimum wage of readymade garment workers took place amid the disquieting trends within the macroeconomy. This was followed by considerable worker unrest, and violence towards workers. The global community took a strong position against this and has been maintaining a keen interest ever since.

In this backdrop, the present report identified five areas which merit heightened attention in the current policy discourse, particularly from the viewpoint of macroeconomic management. These are: public finance, inflation, banking sector, external sector and debt sustainability, and labour rights issues. Using the latest available data from official and credible international sources, the present report tracks the key trends, and identifies the major risks and challenges associated with the aforementioned five areas. Finally, the report offers a set of recommendations for the policymakers to consider in view of the identified risks and challenges.

SECTION II. PUBLIC FINANCE

2.1 Brief overview of public finance scenario in FY2023

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

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

Table 2.1: Major elements of public finance as a share of GDP and their implementation rate

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

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

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

Budget implementation slowed down

Total revenue collection recorded a 9.1 per cent growth in FY2023 (2.0 per cent in FY2022) against the target of 29.2 per cent. The majority of the attained growth in FY2023 can be attributed to improved performances in income tax and value added tax (VAT) collection amid subdued import duty collection. Despite the higher growth in revenue mobilisation, total revenue shortfall (i.e., the gap between targeted and actual total revenue collection) has increased in FY2023, reaching Tk. 67,142 crore from Tk. 53,791 crore in FY2022[1]. This implies that the

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

implementation rate of revenue mobilisation decreased from 86.2 per cent in FY2022 to 84.5 per cent in FY2023 (Table 2.1).

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

Some compositional shifts were observed within the domains of public finance

The share of NBR in total revenue declined in FY2023 compared to FY2022. Within public expenditure, the share of ADP expenditure fell to 33.8 per cent in FY2023 from 35.9 per cent in FY2022. The broad composition of budget deficit financing has remained largely the same in FY2023. While foreign sources financed 39.2 per cent of the budget deficit in FY2023 (36.0 per cent in FY2022), 60.8 per cent was financed through domestic sources (64.0 per cent in FY2022). However, within domestic sources, a significant shift was observed. While borrowing from the banking system constituted nearly two-thirds of the domestic borrowing in FY2022, this share reached almost 100 per cent in FY2023. Non-bank borrowing was utilised sparingly in FY2023. Indeed, the government's net borrowing from the issuance of national savings certificates, the major source of non-bank borrowing, was negative[2] (Tk. [-] 3,347 crore) in FY2023, as opposed to the budgetary target of Tk. 35,000 crore.

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

Timely availability of data has been a major impediment while assessing the public finance situation in FY2024, as MoF data is unavailable. As of December 2023, data from MoF, which provides the most comprehensive picture of the fiscal framework, is available only up to June 2023[3]. While alternative sources (e.g., National Board of Revenue [NBR], IMED, Bangladesh Bank) provide public finance data in a more timely manner, it often comes at the cost of data accuracy and congruency (Bhattacharya et al., 2022). The analyses of the present section are constrained by these limitations.

According to the NBR data, tax collection by NBR increased by 14.4 per cent during the July-October period of FY2024.[4] This is a marginal increase from the corresponding figure for July-October FY2023, which stood at 14.2 per cent. The growth attained in the ongoing fiscal year was driven primarily by VAT and supplementary duty (SD) at the local level and income tax (Table 2.2). The higher price level prevailing in the domestic economy is perhaps giving a push to the collection of VAT and SD at the local level. At the same time, import compression induced by government regulatory measures has resulted in an underwhelming performance of indirect taxes collected at the import level despite a considerable depreciation of the Bangladeshi Taka. Given the revenue-related conditionalities imposed by the International Monetary Fund (IMF), whether the pace of NBR's tax collection is adequate remains a critical question.

[2] This implies that the government paid back more than it borrowed.
[3] The June 2023 issue of the MoF's Monthly Report on Fiscal Position was published online on 28 November 2023 – indicating a lag of nearly five months.
[4] Latest NBR figures reported by the newspaper showed that the attained growth during the July-November FY2023 period was 14.3 per cent.

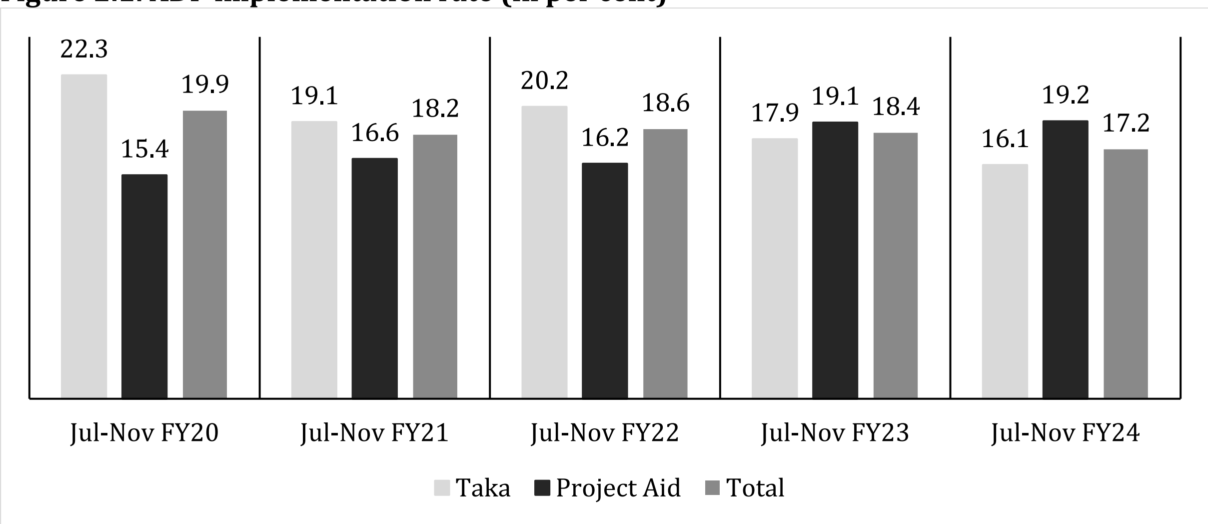
Table 2.2: Growth situation of tax collected by NBR during July-October FY2024

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

Source: Author's calculation from NBR data.

As the IMED data shows, the implementation rate of the ADP was 17.2 per cent during the July-November period of FY2024. This implementation rate was the lowest in the last five years (Figure 2.1) owing to the sluggish utilisation of the 'Taka' component (i.e., the part of ADP that is financed by domestic resources). In this context, the crucial question is whether this resulted from the government's cost-cutting efforts or the inability to carry out projects due to the foreign exchange crisis. On a positive note, within the components of ADP, project aid utilisation (19.2 per cent) was the highest in the last five years. This is particularly praiseworthy given the ongoing foreign currency situation.[5]

Figure 2.1: ADP implementation rate (in per cent)



Source: Author's calculation from IMED data.

Of the top ten ministries/divisions, constituting 70.2 per cent of the ADP allocation for FY2024, six were unable to utilise their respective allocations at the average level. These include the Road Transport and Highways Division, Secondary and Higher Education Division, Ministry of Science

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

and Technology, Health Services Division, Ministry of Primary and Mass Education, and Ministry of Water Transport.

As per Bangladesh Bank data, budget deficit financing during the July-October FY2024 period was overwhelmingly dependent on non-bank borrowing. Non-bank borrowing increased substantially from Tk. 2,749 crore during July-October FY2023 to Tk. 12,167 crore during July-October FY2024. The net sale of national savings certificates (NSCs) was negative to the tune of Tk. (-) 2,305 crore during the July-October period of FY2024. Net foreign financing decreased by 24.8 per cent to Tk. 10,566 crore during the period under review.

The outlook for the rest of the months suggests that the revenue collection target for FY2023 is unlikely to be met. The IMF has already slashed the target for tax collection for FY2024 by more than Tk. 55,000 crore while setting the corresponding indicative target compared to the programmed national budget target. Consequently, public expenditure will need to be restrained to keep the budget deficit in check. More importantly, non-bank borrowing is likely to be well below target as NSD sales may continue to be sub-par owing to lower savings with people and creeping interest rates for deposits with banks. Hence, bank borrowing will be under pressure to service the budget deficit. In view of the liquidity pressure with the commercial banks and the government's commitment not to opt for borrowing from the central bank, the fiscal space available for the government is somewhat limited. Hence, the government may need to continue a restrained fiscal approach to maintain discipline in the macroeconomic management.

2.3 Progress on IMF conditionalities concerning public finance

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

Bangladesh will need to meet a number of PC, ITs, and SBs alongside implementing several policy recommendations during FY2024. Table 2.3 presents a summary picture of these.

Table 2.3: IMF conditionalities concerning public finance relevant for FY2024

Conditionalities	Comments
Floor on primary balance (PC) *As of December 2023: Tk. (-) 905.2 billion* *As of June 2024: Tk. (-) 1,383.6 billion*	The December 2023 target of Tk. (-) 1,141.1 billion has been adjusted in view of the revised economic outlook, and policy measures have already been taken.
Floor on tax revenue (IT) *As of December 2023: Tk. 1,436.4 billion* *As of June 2024: Tk. 3,945.3 billion*	If the June 2024 target is to be met, then tax revenue collection will need to increase by 20.4 per cent. For this to happen, tax collected by NBR will need to grow by 22.6 per cent during the November-June period of FY2024 (according to NBR data) - a feat highly unlikely to be achieved.
Floor on priority social spending of the Government of Bangladesh (IT) *As of December 2023: Tk. 309.9 billion* *As of June 2024: Tk. 1,449.5 billion*	Priority social spending (domestically financed) will need to increase by 15.9 per cent if the June 2024 target is to be met.
Floor on capital investment undertaken by the Government of Bangladesh (IT) *As of December 2023: Tk. 222.8 billion*	Capital investment (domestically financed) will need to increase by 16.9 per cent if the June 2024 target is to be achieved.

Conditionalities	Comments
As of June 2024: Tk. 1,445.4 billion	
NBR staffs Compliance Risk Management Units (CRMUs) in the customs and VAT wings (SB) *By December 2023*	A CRMU has been staffed by NBR's customs wing, and another is being established in the Audit and Intelligence Directorate of the VAT wing.
MoF reports tax expenditures for PIT, CIT and VAT as part of the FY25 budget (SB) *By June 2024*	With technical assistance from the IMF, the government will analyse existing tax expenditures in CIT, PIT and VAT and publish the analysis as part of the FY2025 budget. It will be utilised to identify measures to rationalise tax expenditures, which will be adopted in the FY2025 and FY2026 budgets. The prevailing data constraint hinders a comprehensive analysis, which might adversely impact the design of the measures.
NBR adopts a tax compliance improvement plan covering VAT and IT (SB) *By June 2024*	Income tax and VAT wings will work together to develop and gradually implement a comprehensive compliance improvement plan.
MoF develops a plan to reduce net NSC issuance to below ¼ of total net domestic financing by FY26 (SB) *By December 2023*	Net NSC issuance entered the negative terrain in FY2023 due to regulatory measures and a cost-of-living squeeze. The government has developed a formal plan regarding how to sustainably keep net NSC issuance below one-fourth of net domestic financing by FY2026.
Government to adopt a periodic formula-based price adjustment mechanism for petroleum products (SB) *By December 2023*	The government plans to submit the selected mechanism for approval before the end of 2023 and implement it by March 2024. Stakeholder consultation is critically important before adopting the mechanism. At the same time, an institutional audit of Bangladesh Petroleum Corporation (BPC) is essential to ensure a fair price adjustment mechanism.
MoF develops a policy note to guide decisions on integrating bank accounts still remaining outside the TSA and on the sequencing of TSA enhancements (SB) *By December 2023*	MoF is currently conducting a census of all bank accounts held by institutional units of the central government remaining outside the TSA and will develop a policy note to guide decisions on their integration and sequencing of TSA enhancements.
MoF publishes an updated Medium Term Debt Management Strategy covering FY25-FY27 (SB) *By June 2024*	With technical assistance from the IMF, the government will update the Medium Term Debt Strategy (MTDS) on an annual basis, starting with a third MTDS covering FY2025 to FY2027, and complement it with a quarterly debt bulletin and eventually an annual borrowing plan.
Government to adopt a national disaster risk financing strategy while integrating social assistance measures (RM) *By June 2024*	The government will develop a National Disaster Risk Financing strategy that integrates social assistance measures.
Adoption of Medium-Term Revenue Strategy	In consultation with international development partners, NBR is formulating a Medium and Long-Term Revenue Strategy (MLTRS) that will provide a comprehensive framework to improve revenue collection over the next 4-6 years.
Expand coverage and benefit level of social safety net programs and enhance delivery efficiency	The government will continue to follow the Action Plan to Implement Bangladesh's National Social Security Strategy, which covers the period FY2021-2026. Also, the Universal Pension Scheme (UPS) was officially launched on August 17, 2023.

Conditionalities	Comments
Publish fiscal risk statement, covering major risks from SOEs, guarantees and Public Private Partnerships (PPP) as part of FY2025 budget documentation	The Medium-Term Macroeconomic Policy Statement (MTMPS) for FY2025-2027 will cover major risks from selected SOEs, guarantees and PPP, as well as quantitative analysis of macro-fiscal risks related to climate change and natural disasters.

Source: Author's compilation from IMF (2023).

Among the conditionalities set by the IMF concerning public finance, the majority of the SBs are related to strategy/plan documents and policy notes, which are 'relatively easy to meet'. Regrettably, the IMF document does not adequately specify the quality assurance aspects of these documents. The plan to reduce dependence on NSCs also goes along well with the present dynamics. The IT regarding tax revenue mobilisation is likely to be missed by the end of FY2024 and might have a negative impact on maintaining the PC on the primary balance unless the public expenditure is adequately downsized. Hence, missing the target related to tax collection might adversely affect the ITs on priority social spending and capital investment, as emphasising such public expenditure would require incremental revenue. Some of the conditionalities will require further detailing regarding their methodology (e.g., price adjustment mechanism for petroleum products) and stakeholder engagement plan in the coming days. Regrettably, the IMF conditionalities do not mention anything regarding ensuring value for money for public investment as part of the programme.

2.4 Recommendations for the upcoming medium and long term revenue strategy

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

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

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

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

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

Fifth, the digitalisation of the entire revenue system should lead the strategy. The issue of digitalisation has been recognised as a priority reform agenda for some time now.[6] Regrettably, the progress remained less than satisfactory. Technological upgradation of tax administration is critical to this end. The digitalisation process should also be sustainable, considering the required flexibility and putting adequate resources – both financial and human resources.

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

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

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

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

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SECTION III. HIGH PRICES – THE CAUSE OF SORROW AND SUFFERING

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

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

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

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

3.1 New CPI base does not adequately reflect the rapidly rising prices

In the new base index, where the consumer price index (CPI) in 2021-22 is assumed to be 100, there is currently data available for point-to-point inflation rates for the general inflation rate, food inflation rate, and non-food inflation rate over seven months from April 2023 to October 2023 (Figure 3.1).

In April 2023, the general inflation rate was 9.24 per cent, with food inflation slightly lower at 8.84 per cent and non-food inflation at 9.72 per cent. Moving to May 2023, there was a noticeable increase in the general inflation rate, reaching 9.94 per cent, with both food and non-food inflation also experiencing upward trends at 9.24 per cent and 9.96 per cent, respectively.

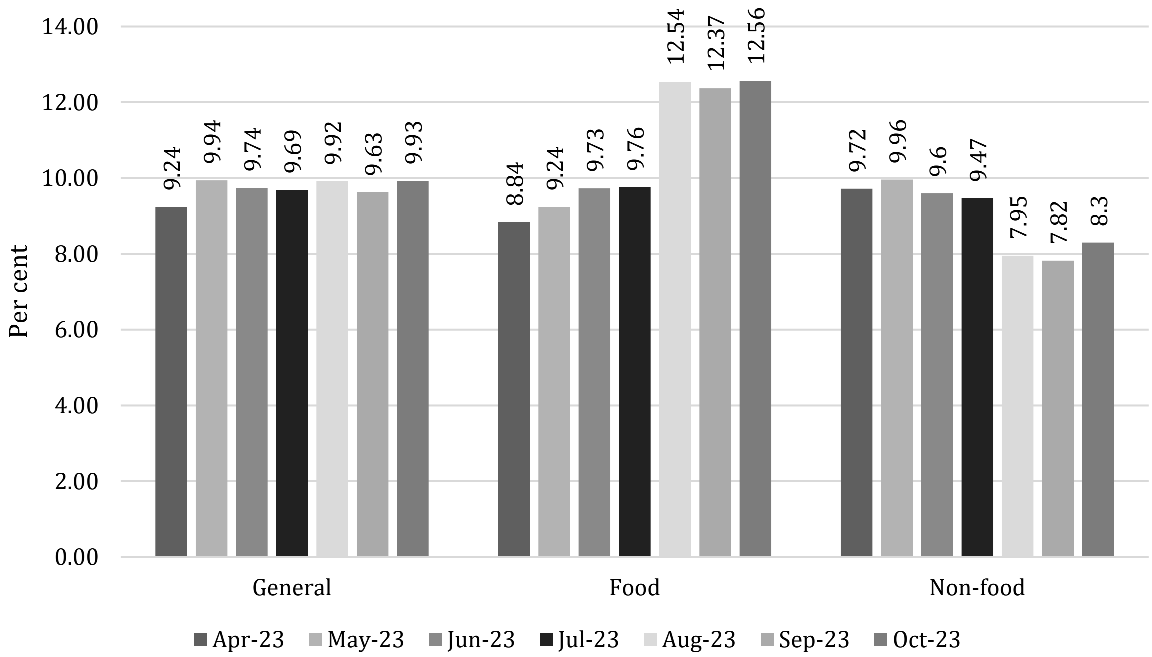
June 2023 witnessed a slight dip in the general inflation rate to 9.74 per cent, while food and non-food inflation rates remained relatively stable at 9.73 per cent and 9.6 per cent, respectively. In July 2023, the general inflation rate further decreased to 9.69 per cent, with food and non-food inflation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

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

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

The data indicates fluctuations in inflation rates over the specified period, with notable increases in the general and food inflation rates during certain months, while the non-food inflation rate exhibited more moderate variations. High inflation rates hovering around the 10 per cent mark have significantly increased the cost of living and decreased consumer purchasing power. Nevertheless, an analysis of the prices of several items shows that the new CPI base tends to hide the actual extent of inflation prevailing in the market.

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



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022a).

3.2 Apprehensions about cartels and collusion

In economics, essential commodities are usually considered as same or similar items. In this case, the producers of these goods have little control over the price and cannot significantly influence the product's market price. Nevertheless, Bangladesh's marketing and distribution system for essential goods is complex and diverse. The lack of competition in the market for essential goods enables the practice of collusion. There is a scarcity of wholesalers for many items manufactured inside the country, yet many retailers exist because of various intermediaries. Given this backdrop, concerns of cartels, acts of sabotage, and hoarding were sometimes voiced, although verifying such allegations is typically tricky. There are concerns about possible barriers to entry for some participants in the value chain.

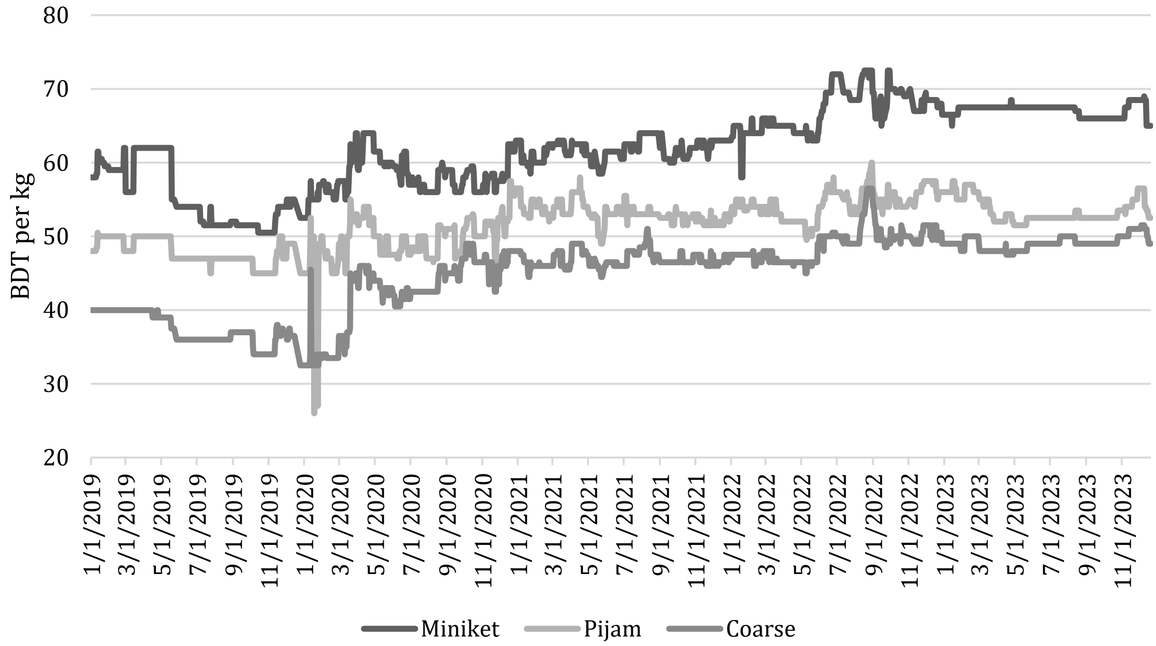
Within the essential goods market, there is a significant market power concentration, which a small group of firms mostly holds. This situation may potentially result in anti-competitive behaviour, such as price manipulation, control over market supply, and purposeful creation of scarcity by hoarding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

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

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

Analysis of the average daily prices of different varieties of rice in Dhaka over the period 1 January 2019 to 20 December 2023 shows that the average prices of Miniket, Pijam, and Coarse rice have increased noticeably over time (Figure 2.2). For instance, the average price of Miniket rice increased by 12 per cent from BDT 58 per kg to BDT 65 per kg, the average price of Pijam rice increased by 9 per cent from BDT48 per kg to BDT 53 per kg, and the average price of Coarse rice increased by 23 per cent from BDT 40 per kg to BDT 49 per kg, between 1 January 2019 to 20 December 2023 (Figure 3.2).

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



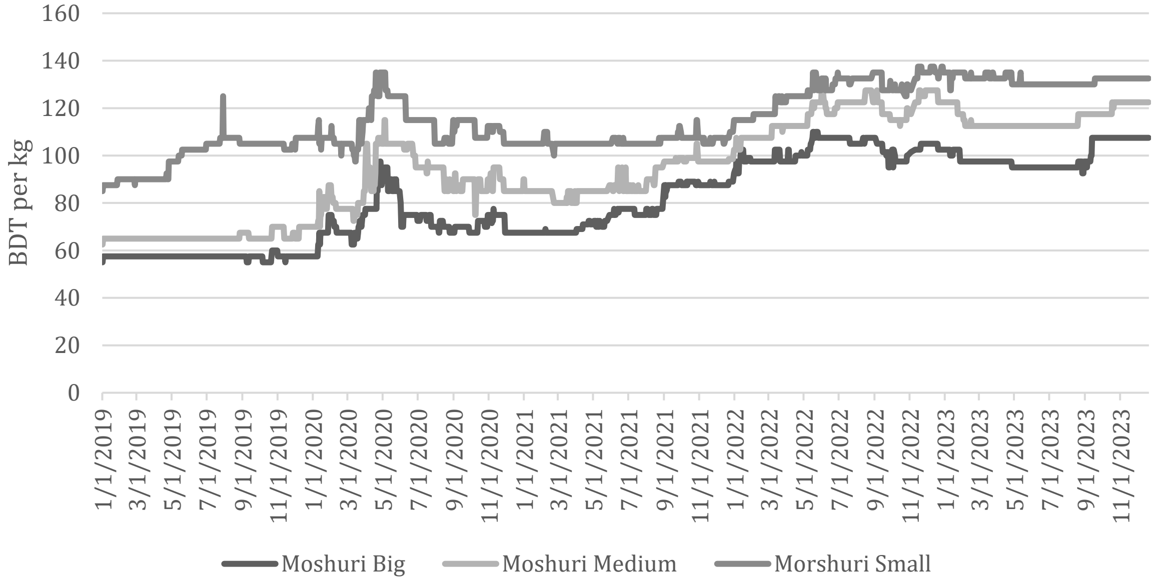
Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

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

The price of dal, or lentils, another staple food in the Bangladeshi diet, has also increased over the years. Figure 3.3 shows that the average price of Moshuri dal (big) increased by 95 per cent from BDT 55 to BDT 108, the average price of Moshuri dal (medium) increased by 96 per cent from

BDT 63 to BDT 123, and the average price of Moshuri dal (small) increased by 56 per cent from BDT 85 to BDT 133 from 1 January 2019 to 20 December 2023.

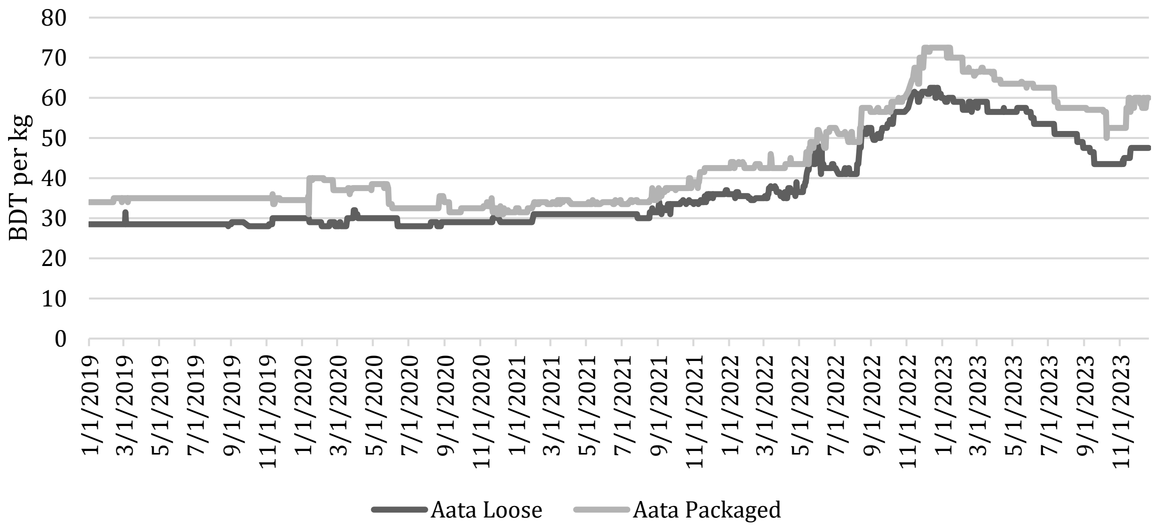
Figure 3.3: Average daily price of dal (lentils) in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

Figure 3.4 and Figure 3.5 show that the price of unprocessed flour (Aata) and processed flour (Maida) both started increasing in Dhaka before the start of the conflict in Ukraine. This indicates that there may be other domestic causes of the increase in the price of unprocessed flour (Aata) and processed flour (Maida), which warrant a comprehensive investigation by the Bangladesh Competition Commission.

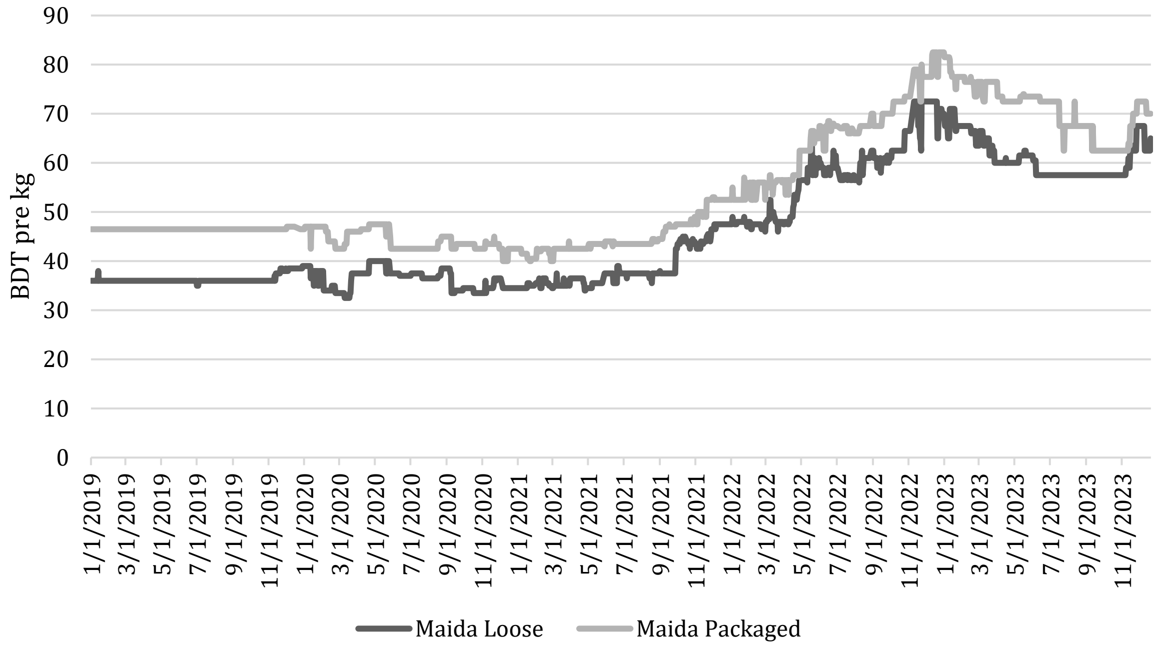
Figure 3.4: Average daily price of unprocessed flour (Aata) in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

The data shows that the average price of loose unprocessed flour (Aata) increased by 67 per cent from BDT 29 per kg to BDT 48 per kg, and the average price of packaged unprocessed flour (Aata) increased by 76 per cent from BDT 34 per kg to BDT 60 per kg, from 1 January 2019 to 20 December 2023 (Figure 3.4). On the other hand, the average price of loose processed flour (Maida) increased by 81 per cent from BDT 36 per kg to BDT 65 per kg, and the average price of packaged processed flour (Maida) increased by 51 per cent from BDT 47 per kg to BDT 70 per kg, from 1 January 2019 to 20 December 2023 (Figure 3.5).

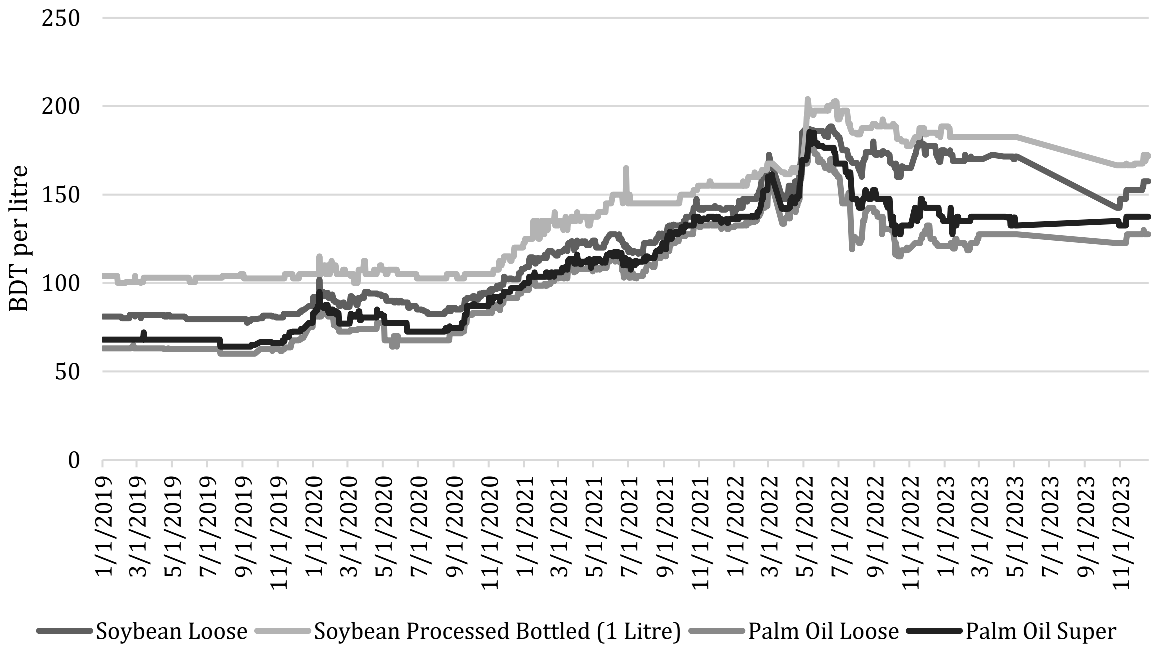
Figure 3.5: Average daily price of processed flour (Maida) in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

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

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

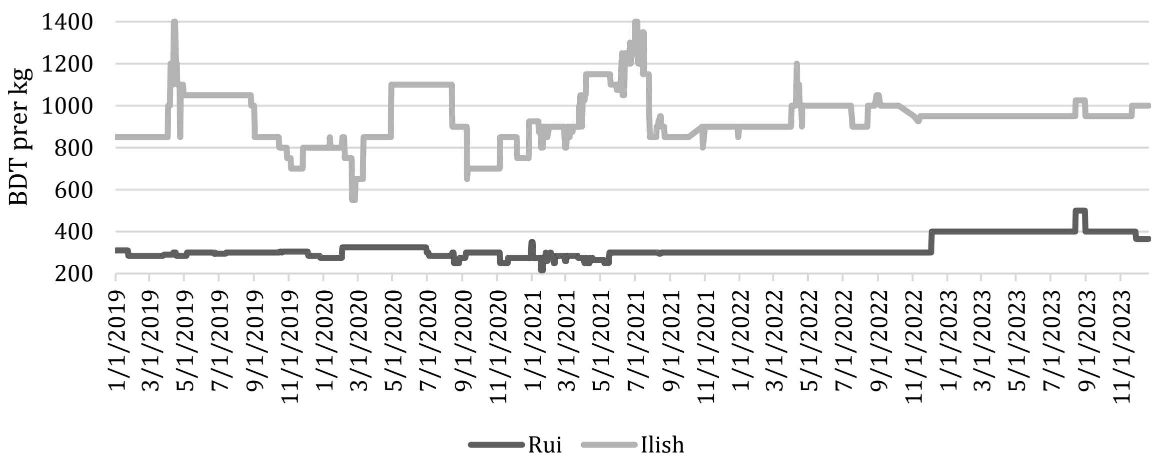


Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

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

The price of common types of fish, such as Rui and Ilish (Hilsha), has increased over the past five years. The data shows that the average price of Rui fish increased by 18 per cent from BDT 310 per kg to BDT 365 per kg, and the average price of Ilish (Hilsha) fish increased by 18 per cent from BDT 850 per kg to BDT 1000 per kg from 1 January 2019 to 20 December 2023 (Figure 3.7).

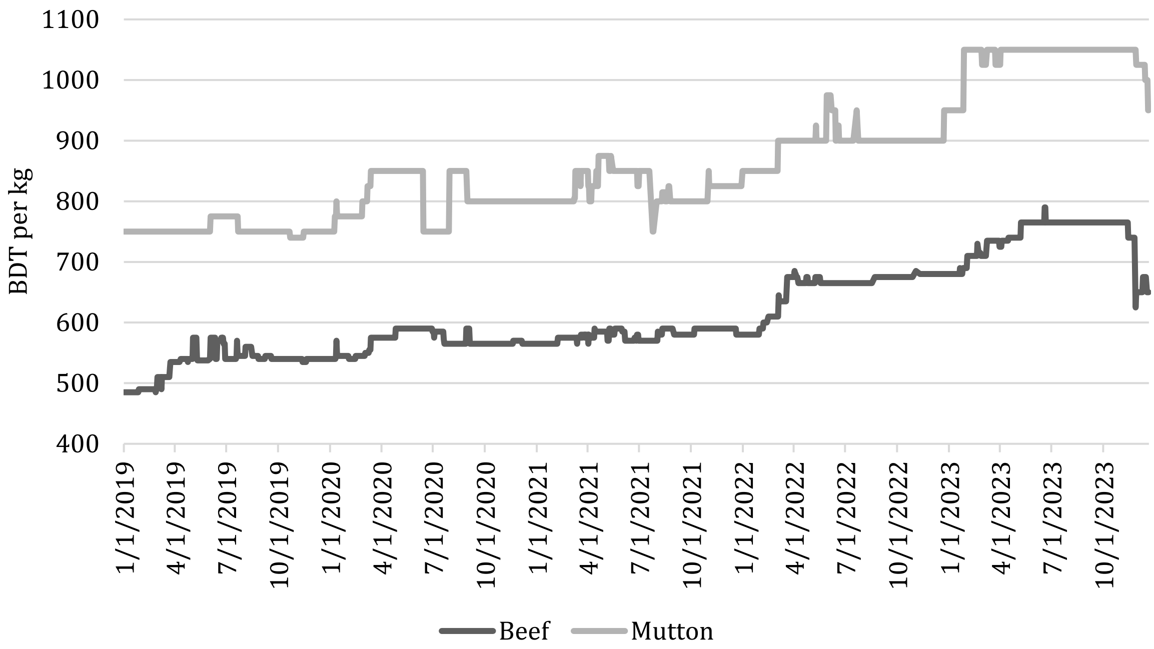
Figure 3.7: Average daily price of fish in Dhaka between 1 January 2019 and 20 December 2023 (BDT per kg)



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

The price of beef and mutton has skyrocketed in Dhaka over the past few years, almost elevating the status of these basic food items from essential goods to luxury goods. The data shows that the average price of beef increased by 34 per cent from BDT 485 per kg to BDT 650 per kg, and the average price of mutton increased by 27 per cent from BDT 750 per kg to BDT 950 per kg from 1 January 2019 to 20 December 2023 (Figure 3.8).

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

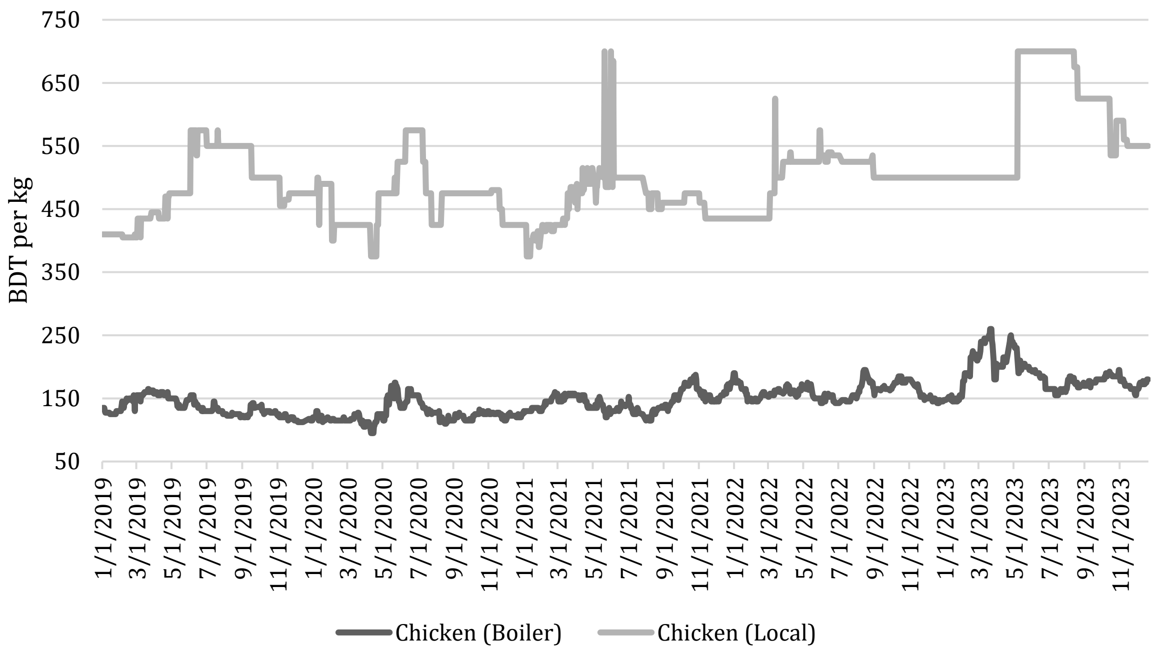


Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

A comparison of the price of beef in Bangladesh and the world market shows that the price of beef has been consistently higher in Bangladesh than in the world market from January 2019 to October 2022. For instance, in October 2022, the price of beef was BDT 528 per kg in the world market but BDT 718 per kg in Bangladesh. Moreover, the price of beef in the world market fell from June 2022 to October 2022, but the price of beef in Bangladesh increased during the same time (World Bank, 2022). As of October 2023, the price of beef in the world market was BDT 550 per kg, which was lower than the prevailing price in the Bangladesh market at the same time (World Bank, 2022).

The price of chicken has also increased over the past five years. The data shows that the average price of broiler chicken has risen by 33 per cent from BDT 135 to BDT 180, and the average price of local chicken has increased by 34 per cent from BDT 410 to BDT 550 from 1 January 2019 to 20 December 2023 (Figure 3.9).

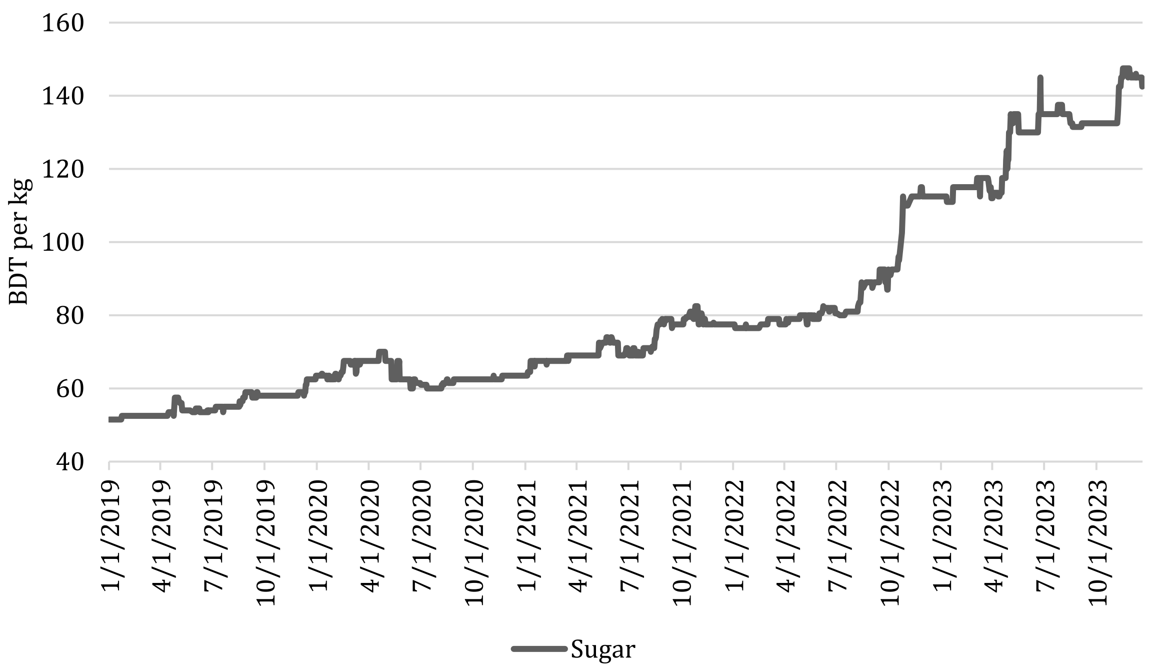
Figure 3.9: Average daily price of chicken in Dhaka between 1 January 2019 and 20 December 2023 (BDT per kg)



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

Over the past few years, the price of sugar in Dhaka has increased dramatically. The data shows that the average price of sugar increased by 177 per cent from BDT 52 per kg to BDT 143 per kg from 1 January 2019 to 20 December 2023 (Figure 3.10).

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

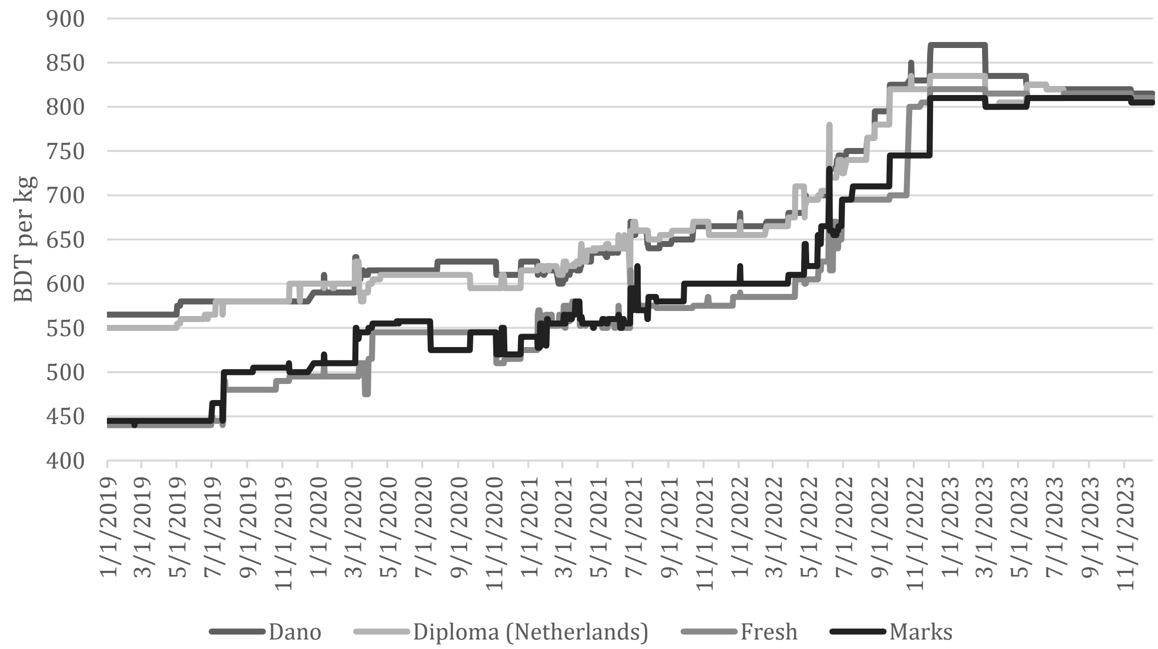


Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

A comparison of the price of sugar in Bangladesh and the price of sugar in the EU, US, and world markets shows that the price of sugar has been consistently higher in Bangladesh than in the world market from January 2019 to October 2022. For instance, in October 2022, the price of sugar was BDT 31 per kg in the EU market, BDT 37 per kg in the world market, and BDT 74 per kg in the US market (World Bank, 2022), but BDT 98.75 per kg in Bangladesh (BBS, 2022). Moreover, while the price of sugar remained largely stable in the world market from June 2022 to October 2022, the price of sugar in Bangladesh increased during the same time. As of October 2023, the price of sugar in the EU market was BDT 38 per kg, the price of sugar in the US market was BDT 108 per kg, and the price of sugar in the world market was BDT 63 per kg, all of which were lower than the prevailing price in the Bangladesh market at the same time (World Bank, 2022).

The prices of all four commonly available brands of powdered milk have, in some cases, nearly doubled over the past five years. The data shows that the average price of Dano brand powdered milk increased by 44 per cent from BDT 565 per kg to BDT 815 per kg, the average price of Diploma brand powdered milk increased by 47 per cent from BDT 550 per kg to BDT 810 per kg, the average price of Fresh brand powdered milk increased by 84 per cent from BDT 440 per kg to BDT 810 per kg, and the average price of Marks brand powdered milk increased by 81 per cent from BDT 445 per kg to BDT 805 per kg (Figure 3.11).

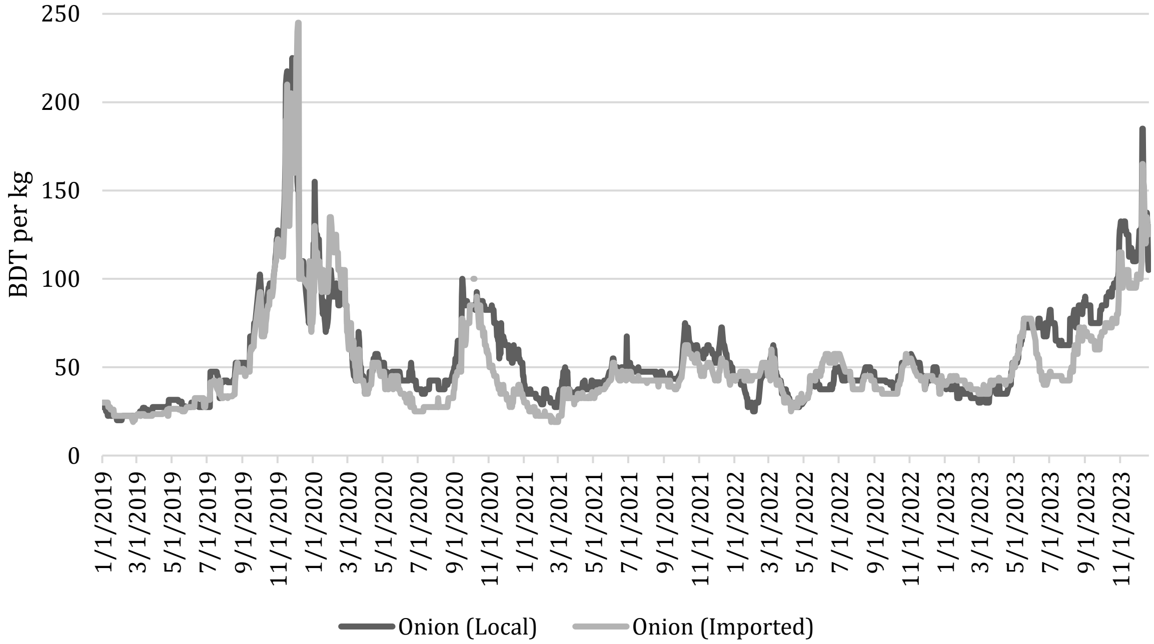
Figure 3.11: Average daily price of four brands of powdered milk in Dhaka from 1 January 2019 to 20 December 2023 (BDT per kg)



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

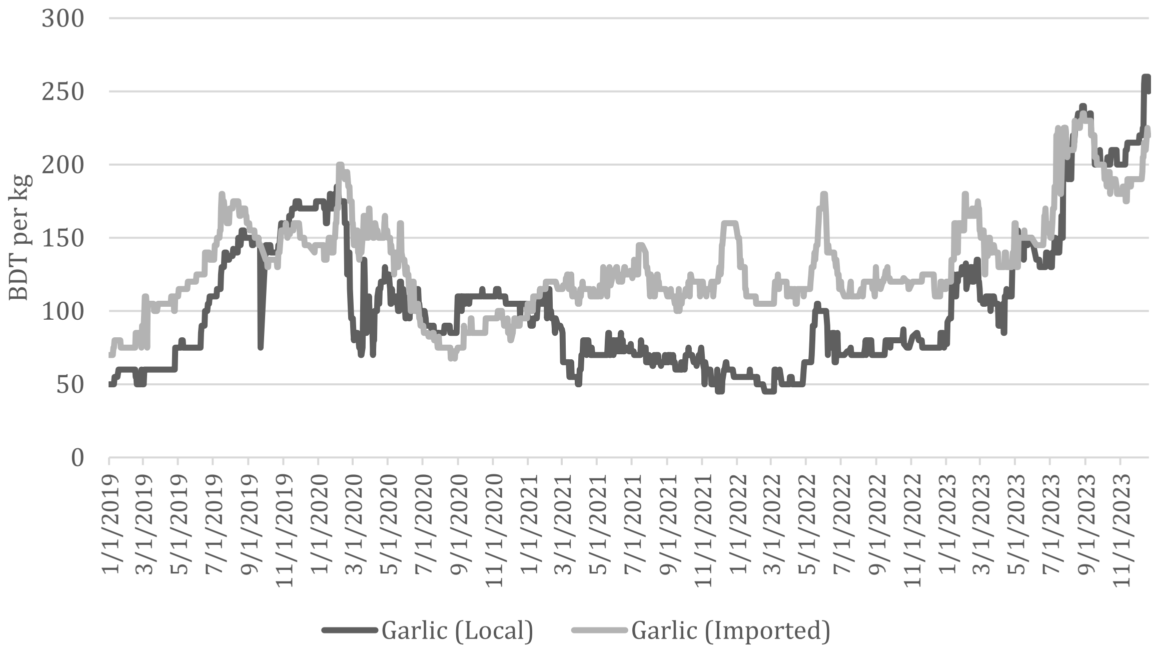
The prices of commonly consumed vegetables, condiments, and spices have increased significantly over the past five years. The data shows that the average price of local onions increased by 282 per cent from BDT 28 per kg to BDT 105 per kg, the average price of imported onions increased by 333 per cent from BDT 30 per kg to 130 per kg, the average price of local garlic increased by 400 per cent from BDT 40 per kg to BDT 250 per kg, the average price of imported garlic increased by 214 per cent from BDT 70 per kg to BDT 220 per kg, the average price of dried chillies increased by 123 per cent from BDT 200 per kg to BDT 445 per kg, the average price of turmeric powder increased by 38 per cent from BDT 200 per kg to BDT 275 per kg, and the average price of ginger increased by 118 per cent from BDT 110 per kg to BDT 240 per kg from 1 January 2019 to 20 December 2023 (Figures 3.12 to 3.16).

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



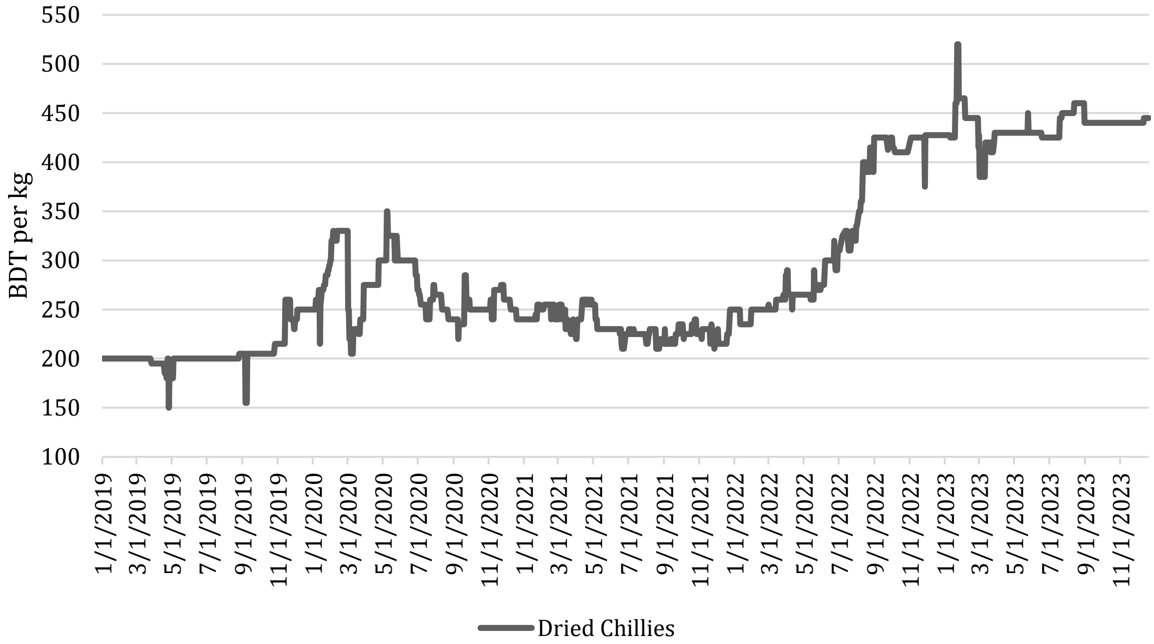
Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

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



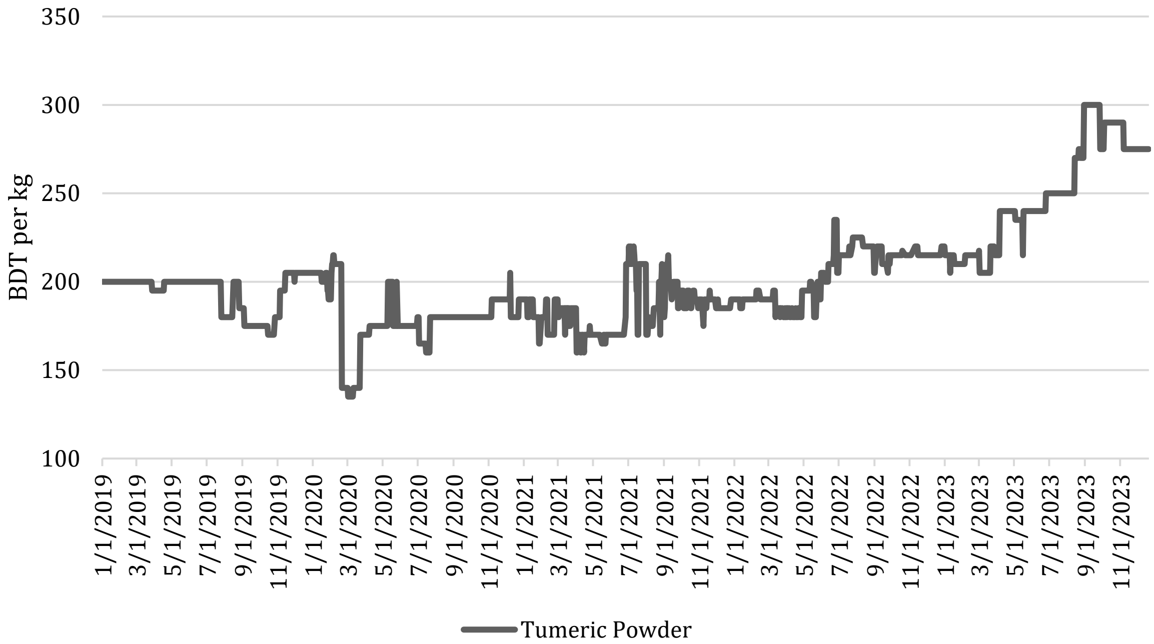
Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

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



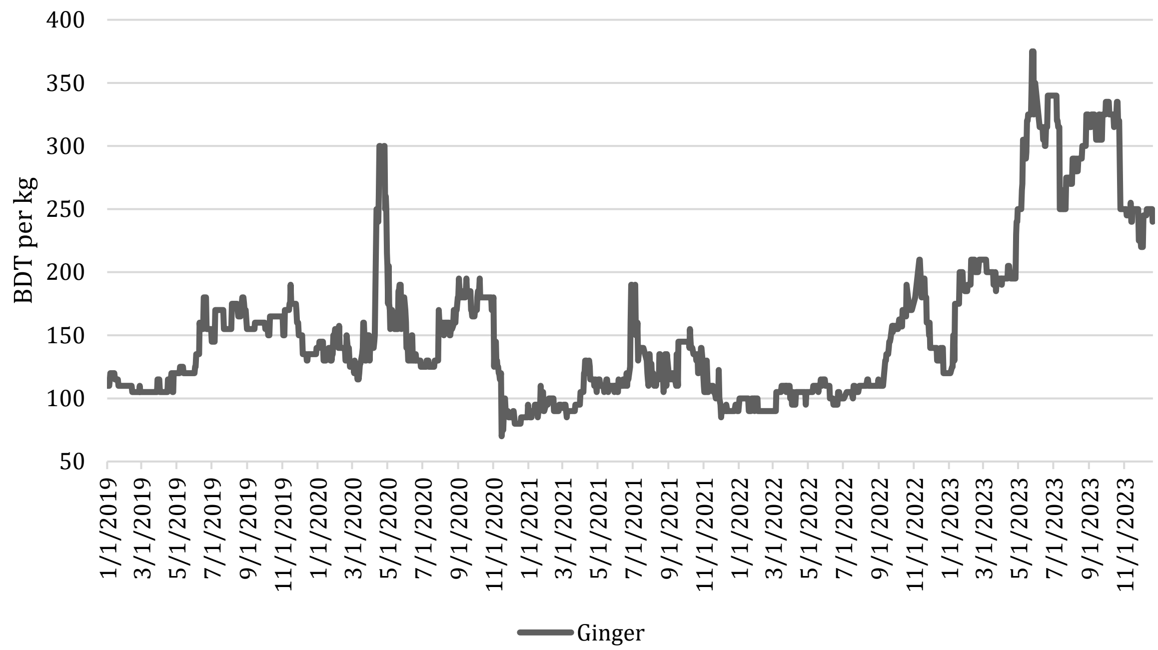
Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

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



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

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



Source: CPD illustration based on data from Trading Corporation of Bangladesh (TCB, 2022).

For ordinary people, such sharp rises in the prices of all essential food items mean that their nutrition is being compromised, their food security is being threatened, and their lives are being filled with misery and suffering. Table 3.1 summarises the price rise of 34 essential food items, showing the absolute change and percentage between 1 January 2019 and 20 December 2023.

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

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

Sl.	Food Items	Price on 1 Jan 2019	Price on 20 Dec 2023	Absolute change in BDT	Percentage change
14	Morshuri dal (lentil) small (1 kg)	85	133	48	56
15	Onion (local) (1 kg)	27.5	105	78	282
16	Onion (imported) (1 kg)	30	130	100	333
17	Garlic (local) (1 kg)	50	250	200	400
18	Garlic (imported) (1 kg)	70	220	150	214
19	Dried chillies (1 kg)	200	445	245	123
20	Turmeric powder (1 kg)	200	275	75	38
21	Ginger (1 kg)	110	240	130	118
22	Rui fish (1 kg)	310	365	55	18
23	Ilish (Hilsha) fish (1kg)	850	1000	150	18
24	Beef (1 kg)	485	650	165	34
25	Mutton (1 kg)	750	950	200	27
26	Chicken (broiler) (1 kg)	135	180	45	33
27	Chicken (local) (1 kg)	410	550	140	34
28	Dano powder milk (1 kg)	565	815	250	44
29	Diploma powder milk (Netherlands) (1 kg)	550	810	260	47
30	Fresh powdered milk (1 kg)	440	810	370	84
31	Marks powder milk (1 kg)	445	805	360	81
32	Sugar (1 kg)	52	143	91	177
33	Salt (1 kg)	32	41	10	30
34	Eggs (20 eggs)	34	44	10	29

Source: CPD compilation based on data from Trading Corporation of Bangladesh (TCB, 2022).

3.4 Ineffectiveness of government measures to tackle inflation

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

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

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

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

Another significant contributor to Bangladesh's money supply was the government's substantial borrowing from the central bank. This phenomenon undoubtedly contributed to the escalation of inflationary pressures. The government also resorted to borrowing from commercial banks as a source of borrowing, and its actions have decreased excess liquidity. Consequently, this has raised concerns regarding potential constraints on private sector borrowing. Despite stellar economic growth, private sector credit growth targets have not been met since FY2019 (Bangladesh Bank, 2021a). In response to low private sector credit growth, the central bank had to reduce its monetary policy targets for several years. Weak private sector credit growth in an economy indicates low private sector investment.

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

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

The Bangladesh Bank, in its Monetary Policy Statement for the period of July-December 2023, has announced its intention to shift from a monetary-targeting framework to an interest rate-targeting framework. The central bank has implemented a significant policy change by removing the lending rate cap and transitioning towards a market-driven lending rate. An expansionary fiscal policy may compromise the efficacy of monetary policies. Despite high inflation and limited fiscal space, there is a notable absence of discernible implementation of austerity measures. During the period leading up to a national election, it is plausible that there may be a potential rise in public expenditure. Therefore, the efficacy of the monetary policy remains uncertain. Establishing effective coordination between monetary and fiscal policies is essential for an economy's optimal functioning. To address the issue of inflationary pressure on poor and low-income households, it is suggested that the government prioritise allocating resources towards enhancing support for these vulnerable groups. The government can effectively alleviate inflation's burden on the most financially disadvantaged by redirecting funds from non-essential expenditures towards social protection programmes. This approach aims to ensure that the impact of rising prices is mitigated for individuals and families who are already struggling to make ends meet. If a prolonged period of high inflation ensues, it is anticipated that the existing level of inequality in Bangladesh may rise.

3.5 Recommendations

The price of essential food items in Bangladesh has increased exponentially over the past few years. The general people of Bangladesh are going through a severe struggle and compromise due to the high food prices.

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

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SECTION IV. HOPE FOR A SOUND BANKING SECTOR FADING AWAY FAST

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

4.1 Instances of reported irregularities in banks

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

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

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

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

4.2 Lack of independence of the central bank

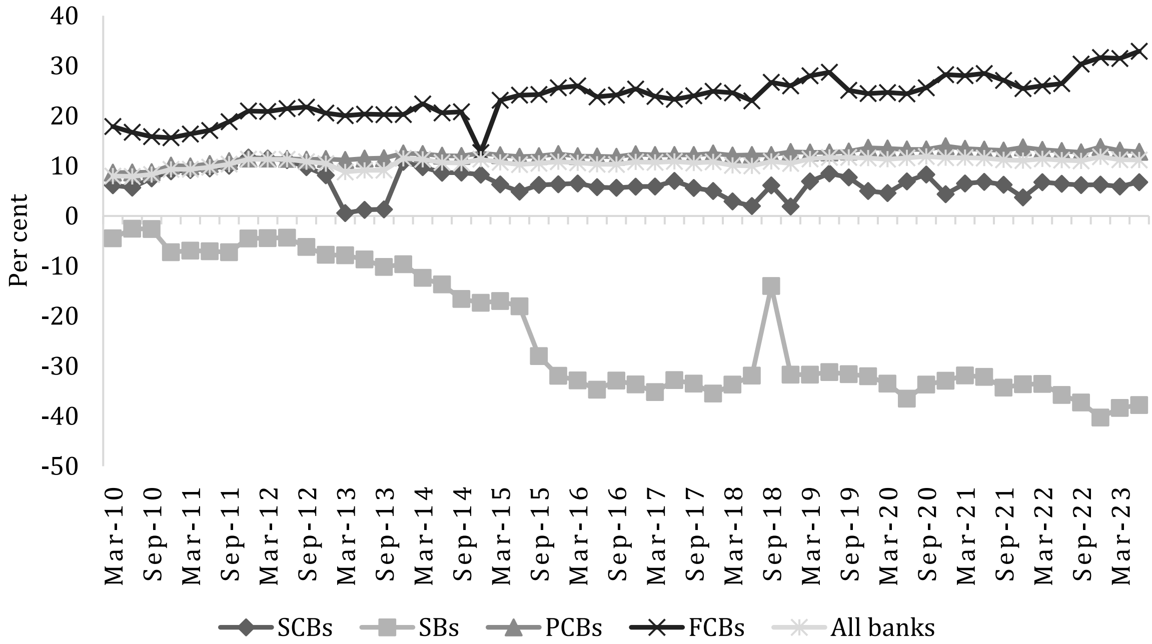
The central bank, which has the principal duty of supervising the banking sector, must be able to act with complete independence if it is expected to play any meaningful role in upholding discipline among banks. Bangladesh Bank, the central bank of Bangladesh, has a wide gamut of macroprudential regulations designed to limit systemic risk and reduce the incidence of disruptions in the financial system that may jeopardise the real economy. Broad regulations such as countercyclical capital buffers, capital conservation buffers, limits on leverage ratios and caps on credit growth apply to the banking sector. There are also regulations for the household sector, such as a cap on credit growth to the household sector, a cap on loan-to-value ratio, a cap on debt service-to-income ratio, a limit on amortisation periods, restrictions on unsecured loans and exposure caps on household credit. Corporate lending is regulated by monitoring banks' indebtedness to large corporate borrowers. The liquidity coverage ratio, net stable funding ratio, loan-to-deposit ratio, cash reserve ratio and statutory liquidity ratio are used to regulate the liquidity position of banks. The central bank also has tools such as the Interbank Transaction Matrix and Bank Health Index, which it uses to examine the threat of systemic risks and financial contagion. Despite being armed with such a potent regulatory arsenal, Bangladesh Bank has been unable to reduce the rise in the volume of NPLs in Bangladesh's banking sector. This indicates that policies cannot result in favourable outcomes in the absence of good governance and the independence of the central bank.

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

4.3 Capital inadequacy of banks

Bangladesh Bank's Guidelines on Risk-Based Capital Adequacy state that banks must maintain a minimum total capital ratio of 10 per cent (or minimum total capital plus capital conservation buffer of 12.5 per cent) by 2019, in line with BASEL III. However, state-owned commercial banks (SCBs) have failed to maintain minimum capital adequacy requirements for the past ten years (Figure 4.1). On the other hand, the specialised banks[7] (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 4.1: Capital to risk-weighted asset ratios (in per cent)



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022a)

4.4 High volume of non-performing loans (NPLs)

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

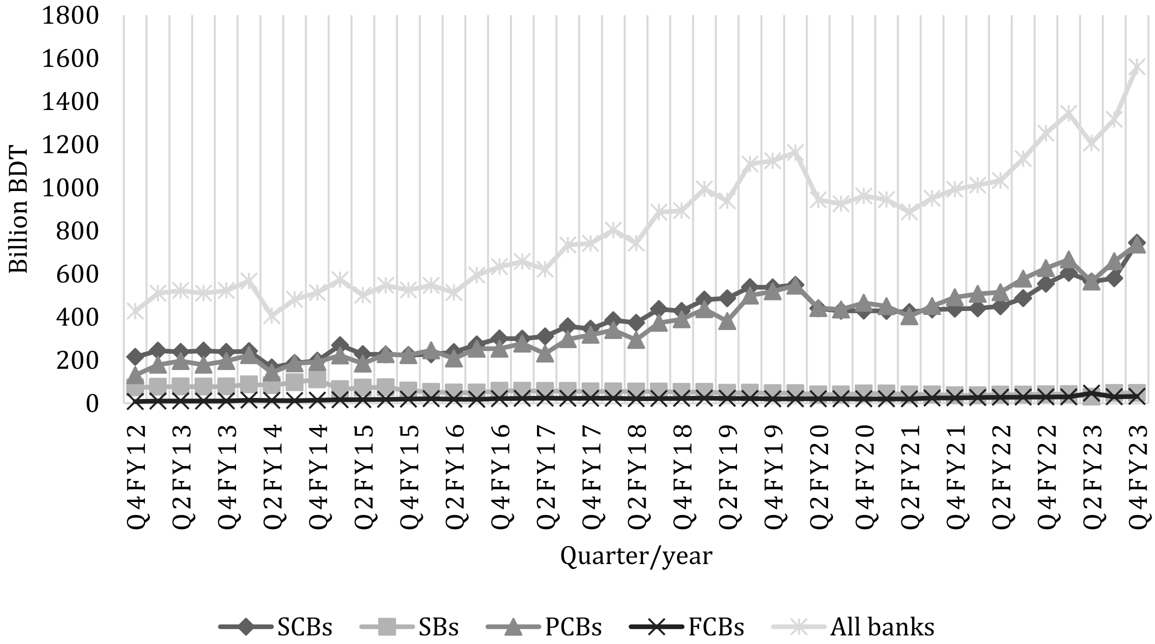
The reality is that NPLs originate from uncertainty and corruption, both of which have detrimental effects on the growth of a country's banking sector (Park, 2012) (Moshirian & Wu, 2012) (Lin, 2012) (Serwa, 2010). Research has shown that the reasons behind the high amount of NPLs in Bangladesh include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

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

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

The total volume of NPL has increased by more than three times in the last ten years, from BDT 427.25 billion in Q4FY12 to BDT 1560.4 billion in Q4FY23 (Figure 5.2). However, actual NPL will be much higher if distressed assets, loans in special mention accounts, loans with court injunctions, and rescheduled loans are included.

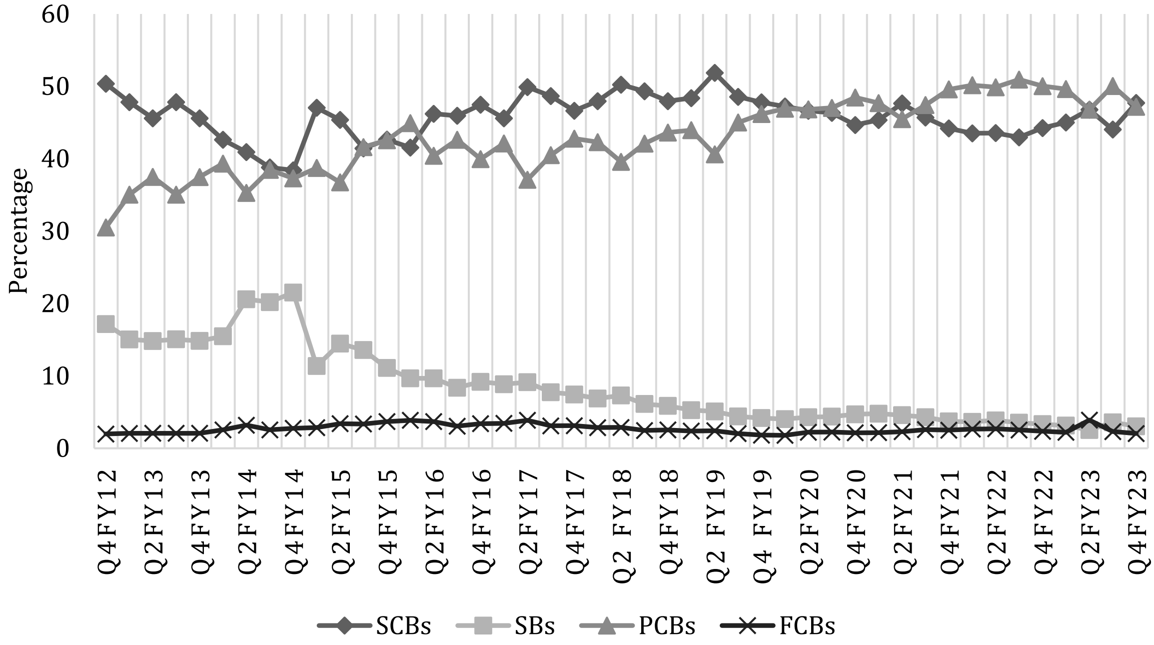
Figure 4.2: Total classified loans (in billion BDT)



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022a).

Disaggregation of the absolute volume of NPLs shows that over the years, the volume of NPLs in SCBs as a percentage of the total NPL of the banking sector has decreased slightly from 50 per cent in Q4FY12 to 48 per cent in Q4FY23. However, a sharper decline was observed for SBs, where the volume of NPLs in SBs as a percentage of the total volume of NPLs in the banking sector decreased from 17 per cent in Q4FY12 to 3 per cent in Q4FY23. Regrettably, the volume of NPLs in the PCBs as a percentage of the total NPLs in the banking sector increased from 31 per cent in Q4F12 to 47 per cent in Q4FY23 (Figure 4.3). Such a high concentration of NPLs in the PCBs reveals that NPL is not only a problem affecting the SCBs. Furthermore, the increase in the share of NPLs in PCBs shows that the performance of the PCBs has worsened substantially over time.

Figure 4.3: Distribution of NPL by type of bank (as a percentage of total NPL in the banking sector)



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022a).

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

4.5 Reasons behind NPLs

Based on the review of the past literature and analysis of the developments in the banking sector, a conceptual framework explaining the reasons behind high NPLs in the banking sector was developed. Under this conceptual framework, the factors influencing NPLs were classified under four categories: i) institutional; ii) regulatory; iii) legal; and iv) data and informational (Figure 4.3).

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

Factors driving NPLs under the regulatory category included: i) dual regulation by the Financial Institutions Division and the Central Bank (Reaz & Arun, 2006) (Khatun, 2012) (Khatun, 2018) (CPD, 2019); ii) lack of independence of the central bank (Reaz & Arun, 2006) (Khatun, 2012) (Khatun, 2018) (CPD, 2019); iii) privileges given to defaulters by the central bank (CPD, 2019); iv) bank licenses given arbitrarily to crony capitalists (Nabi, 2016) (Khatun, 2018); v) recapitalisation of banks by the government (Khatun, 2018) (CPD, 2019); and vi) quasi-monopolistic power of a few bank oligarchs (Haque, Jalil, & Naz, 2007) (Reaz & Arun, 2006) (Khatun, 2018) (Khatun & Saadat, 2019).

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

Factors driving NPLs under the data and informational category included: i) limited access to timely data (Chowdhury, 2010) (CPD, 2019); ii) apprehensions regarding the quality of data (Habib S. M., 2019) (CPD, 2019); iii) absence of disaggregated data (Chowdhury, 2010) (CPD, 2019); iv) low reflection of the use of data in decision-making and policy measures; v) lack of transparency about the use of data in decision-making process; and vi) false information, forged documents and fake companies used for obtaining loans (Khatun, 2012) (Habib S. M., 2019). Table 2 illustrates this conceptual framework of the nexus between governance and NPLs.

Figure 4.4: Reasons behind the high volume of non-performing loans in Bangladesh

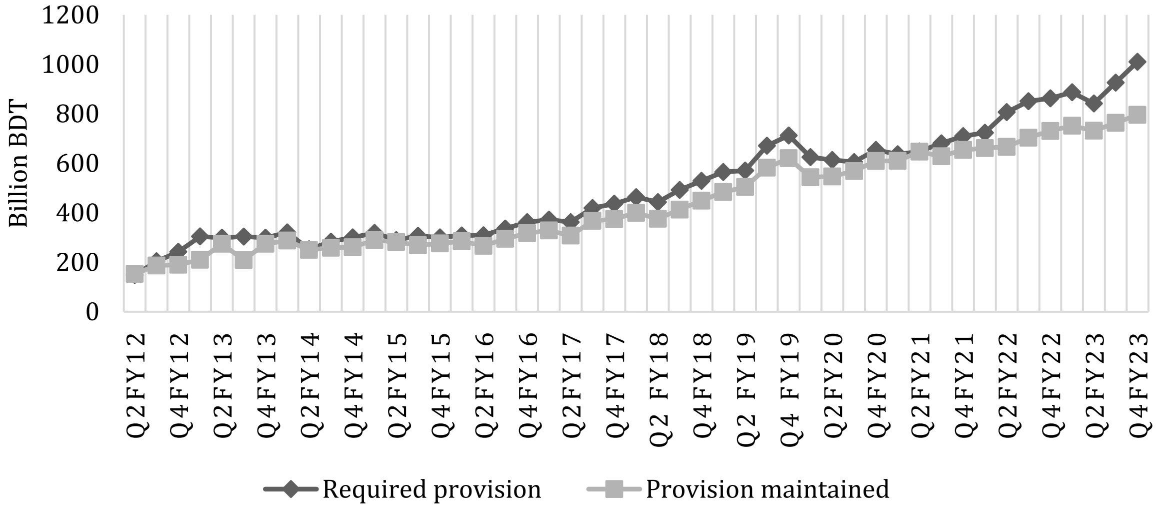
Institutional	**Regulatory**	**Legal**	**Data and information-related**
• Appointments of bank directors, often based on political connections • Loans sanctioned on political grounds • Rescheduling of loans despite poor record of repayment • Writing off loans to reduce tax burden and clean balance sheets of banks • Weak internal control and compliance risk management of banks • Inability of some banks to comply with BASEL III requirements	• 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	• 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	• Limited access to timely data • Apprehensions regarding quality of data • Absence of disaggregated data • Low reflection of data use in decision-making and policy measures • Lack of transparency about use of data in decision-making process • False information, forged documents and fake companies used for obtaining loans

Source: CPD illustration based on review of secondary literature.

4.6 The shortfall in loan loss provisioning requirements

On a bank's balance sheet, provisions are assets put aside to cover losses expected to occur in the future. As of Q4FY23, the required loan loss provisioning was BDT 1010.3 billion, whereas the actual loan loss provisioning maintained was only BDT 795.7 billion which is 78.8 per cent of the requirement (Figure 4.5). The rise in the required loan loss provisioning and the gap between the required loan loss provisioning and the actual provisioning are equally worrying.

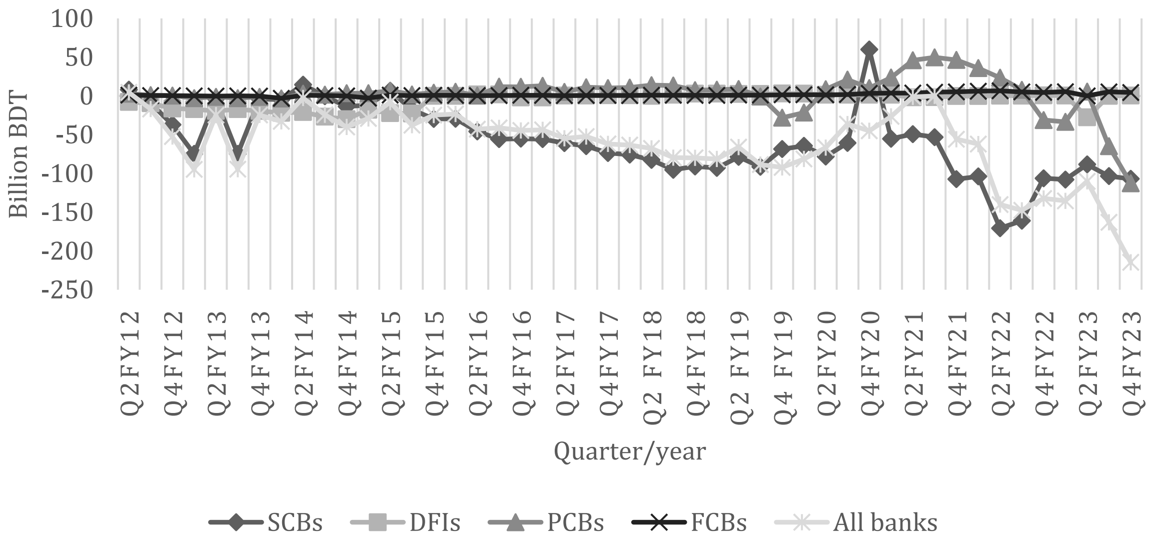
Figure 4.5: Loan loss provisioning, required Vs. actual (in billion BDT)



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022a).

In Q4FY23, there was a BDT 214.6 billion shortfall in loan loss provisioning in the banking sector, including a BDT 106.9 billion shortfall in SCBs and a BDT 112.7 billion shortfall in PCBs (Figure 4.6). Notably, the recent surge in the shortfall in the loan loss provisioning in the banking sector has been driven by the loan loss provisioning shortfall in the PCBs.

Figure 4.6: Excess or shortfall in loan loss provisioning (in billion BDT)

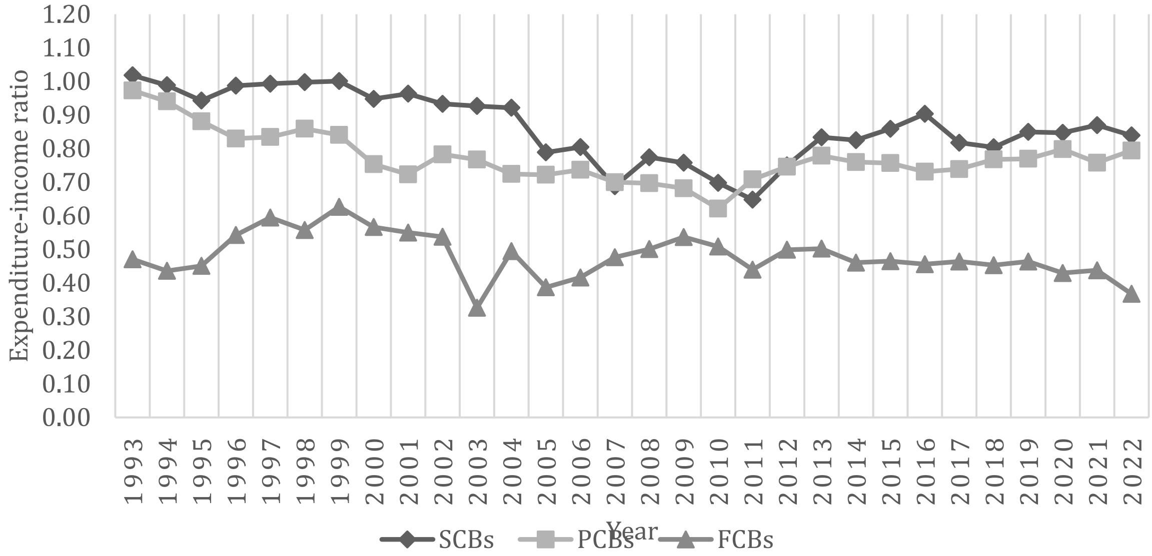


Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022a).

4.7 Management of commercial banks

From 2008 to 2022, the average expenditure-income ratio was 0.81 in SCBs and 0.74 in PCBs. This reveals the poor management effectiveness of both SCBs and PCBs, even prior to the start of the pandemic (Figure 4.7). Regrettably, PCBs have maintained an expenditure-income ratio above 0.70 over the past 10 years, indicating that their management has been consistently poor.

Figure 4.7: Expenditure-Income ratio (in per cent)

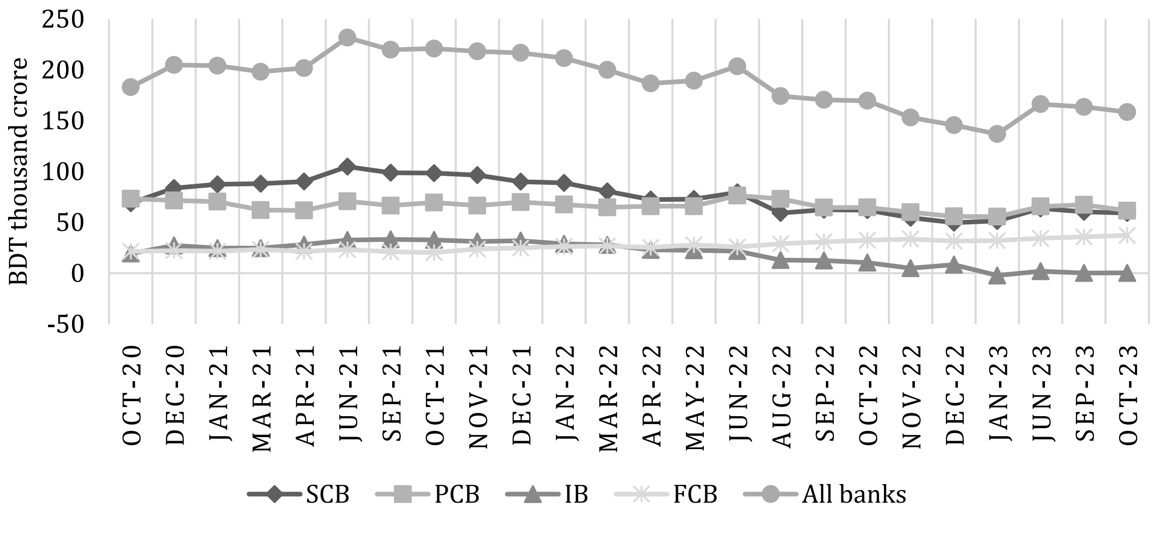


Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022b)

4.8 The decline in liquidity of banks

Excess liquidity in the banking sector has declined from BDT 169 thousand crore in October 2022 to BDT 158 thousand crore in October 2023 (Figure 4.8).

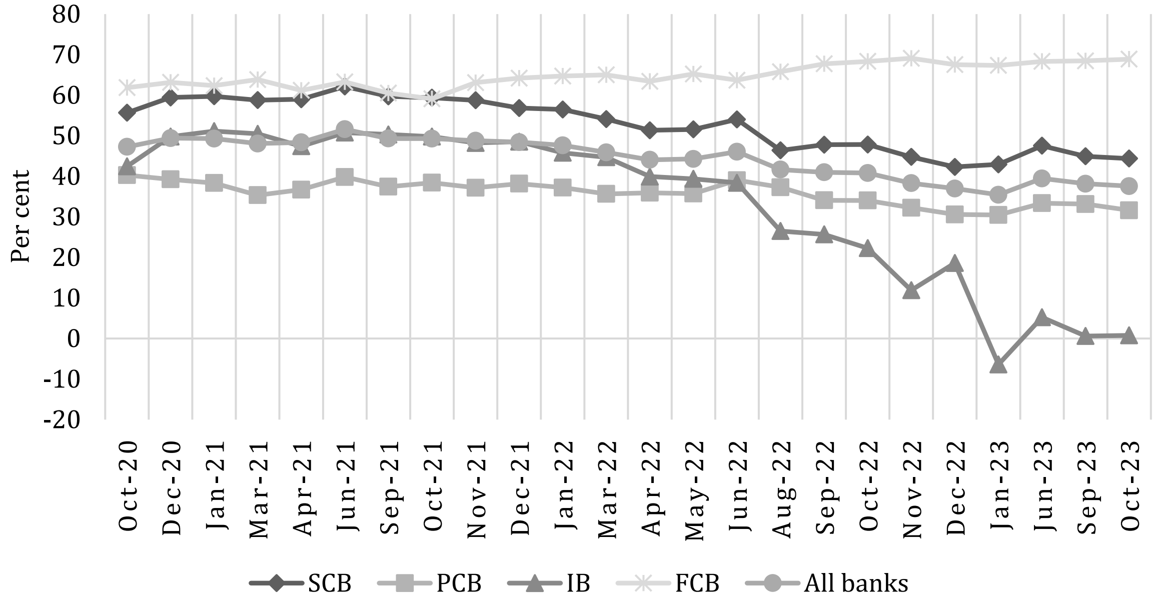
Figure 4.8: Excess liquidity (BDT in thousand crore)



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022c).

Excess liquidity as a share of the total liquid assets of the banking sector declined from 41 per cent in October 2022 to 37 per cent in October 2023 (Figure 4.9).

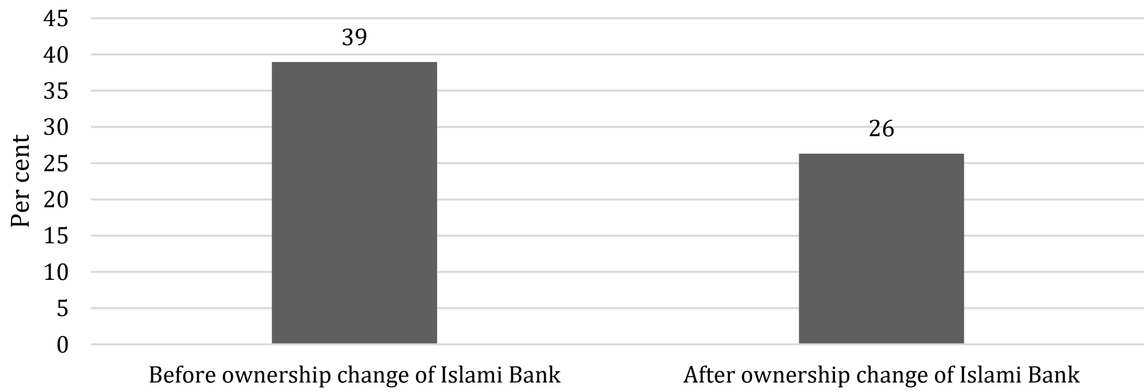
Figure 4.9: Excess liquidity (as per cent of total liquid assets)



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022c).

This fall in excess liquidity has been mainly driven by the liquidity crisis in five of ten Islamic Shariah-based PCBs, plagued by poor governance since the ownership change of the bank. Analysis of the data shows that the average excess liquidity as a share of total liquid assets in IBs from January 2011 to December 2016 was 39 per cent but fell to 26 per cent between March 2017 and October 2023 after the change of ownership of Islami Bank in January 2017 (Bangladesh Bank, 2022c) (Figure 4.10). Before the ownership change of Islami Bank, IBs had excess liquidity of BDT 10112.63 crore in December 2016 (Bangladesh Bank, 2022c). However, after the ownership change of Islami Bank, IBs suffered a liquidity shortfall of BDT 2218.23 crore in January 2023 (Bangladesh Bank, 2022c). The reason behind such a large shortfall should be investigated by the central bank.

Figure 4.10: Average excess liquidity as a share of total liquid assets in IBs

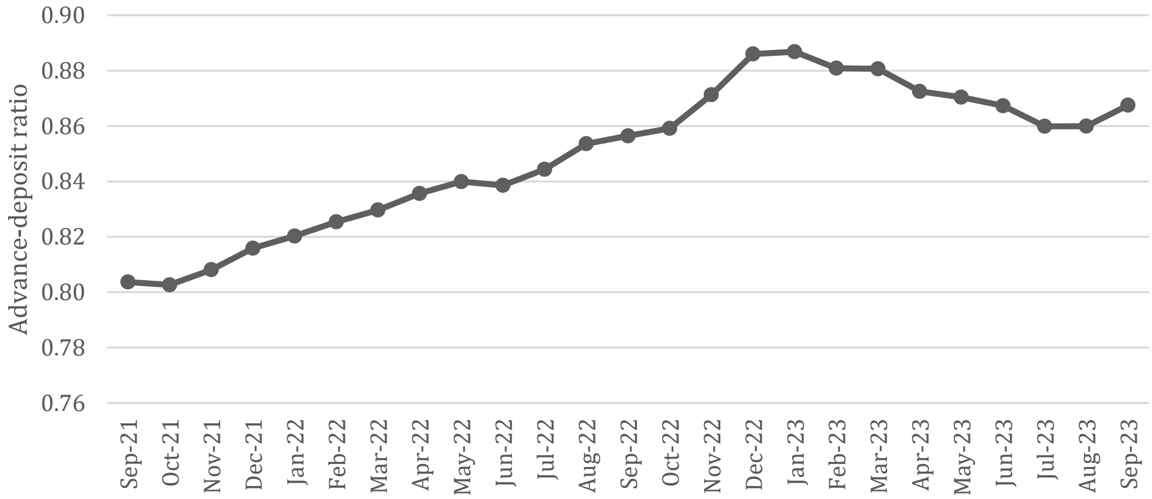


Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022c).

4.9 Increase in advance-deposit ratio.

Banks are experiencing pressure on their liquidity positions. Since the cost of living has increased, many people are forced to use their savings to make ends meet. The advance-deposit ratio (ADR) has increased from 0.80 in September 2021 to 0.87 in September 2023 (Figure 4.10).

Figure 4.10: Advance-deposit ratio

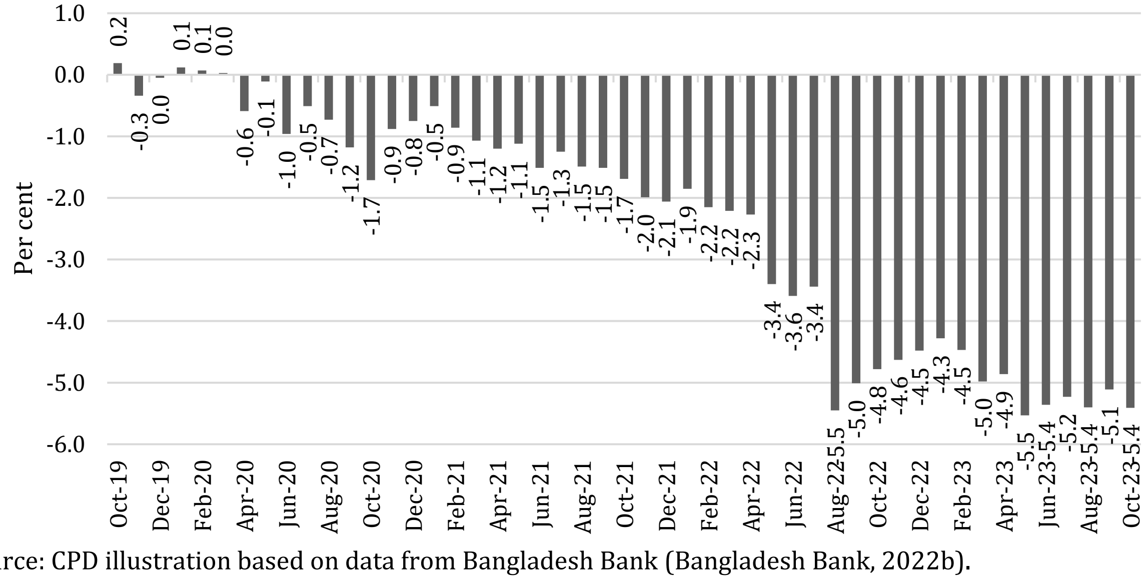


Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022b).

4.10 Negative real interest rate on bank deposits

The real deposit rate, calculated as the weighted average of the monthly deposit rate of all scheduled banks adjusted with the point-to-point monthly consumer price index inflation, fell from -4.78 per cent in October 2022 to -5.41 per cent in October 2023 (Figure 5.10). The negative real interest rate on bank deposits means that a depositor becomes a net loser by keeping money in the bank.

Figure 4.11: Real deposit rate in banks (in per cent)



Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2022b).

4.11 Recommendations

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

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

Commercial banks need to be strengthened

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

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

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

A conducive legal and judicial environment should be created

- The Banking Companies Act should be amended to reduce both the number of family members on the board of directors and the tenure of each director to enhance transparency and accountability

- The number of judges dealing with the Financial Loan Court Act 2003 and Bankruptcy Act 1997 should be increased to ensure speedy disposal of loan default cases and to reduce the backlog
- The Bankruptcy Act should be amended to remove mortgage-related loopholes that cause delays in settling cases
- Efforts should be made to recover NPLs through out-of-court procedures such as Alternate Dispute Resolution

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

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

Broadly, two types of actions are needed for the banking sector of Bangladesh: i) Comprehensive reforms of the banking sector are needed that will strengthen commercial banks, empower the central bank, create a conducive legal environment, and ensure availability of data; and ii) A goal-specific, time-bound, inclusive, transparent, unbiased and independent Citizen's Commission on Banking should be set up 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.

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SECTION V. EXTERNAL SECTOR PERFORMANCE: CONTINUING VULNERABILITIES AMID GROWING UNCERTAINTIES

5.1 The backdrop

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

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

True, the Bangladesh Bank has taken a number of measures to improve the balance of payments situation and arrest the falling forex reserves, including the preemptive measure of negotiating the USD 4.7 billion IMF loan. However, the measures are yet to deliver the expected results. And, also, at times, the very signals transmitted by policymakers have been rather contradictory. Whilst the trade and current account balances have posted some improvements in the early months of FY2024, this has primarily been driven by a drastic reduction in imports. This was, however, attained at a cost- Bangladesh Bank's conscious policy measure to discourage imports of selected items through various restraining measures, dearth of availability of foreign currency to open L/Cs and high price of the scarce dollar. It needs to be kept in mind that the fall in imports is likely to have a knock-on adverse impact on investment, employment, production as also GDP growth over the near-term future. This is already evidenced from the lower GDP forecasts for FY2024 by several concerned agencies, including ADB, IMF and the World Bank. A number of targets set out in the IMF support programme, as a condition for the release of the second tranche, could not be met. These included the amount of gross (BPM6) and net forex reserves, and the move to a market-aligned exchange rate management. Energetic steps to forestall capital flight have been missing, with signs of continuing transactions through informal channels and hundi/hawala routes. To add to the uncertainties, the reliability of external sector-related data has emerged as a concern.

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

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

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

The BOP scenario has continued to experience serious difficulties during July-October, FY2024 when the corresponding period of 2023 is taken as the comparator. While some improvements are discernible in the current account, this was driven primarily by the sharp decline (of 20.5 per cent) in import payments (Table 5.1).

Table 5.1: Balance of Payments FY2023 VS FY2024 (July-October)

(million USD)

	July-October	
	FY2023	**FY2024**
Trade Balance	-9624.0	-3809.0
• **Exports**	15,886.0	16,460.0
• **Imports**	25,510.0	20,269.0
Remittances	7,158.0	6845.0
Current Account Balance	-4489.0	233.0
Financial Account Balance	1276.0	-3965.0
Overall Balance	-4706.0	-3829.0
Gross Official Reserves (BPM6)	27,534.0	20,710.0

Source: Extracted from Bangladesh Bank (2023).

There can be no denying that the falling imports will have adverse consequences on key macroeconomic performance indicators and the growth of the GDP in FY2024. This was already noted above. In view of low FDI and portfolio flows and higher payment of trade credit, the financial account has fallen into negative territory, a reversal of fortune in many years. During July-October, FY2024 period, the financial account witnessed a decline of USD 5.2 billion. This has contributed significantly to the falling forex reserves.

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

5.3 Export performance scenario: Conflicting signals

Table 5.2: RMG, Non-RMG and overall export growth rates

(in billion USD)

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

Note. Growth rate in parentheses.
Source: Authors' estimation based on EPB (2023).

Exports have been exhibiting quite erratic behaviour in recent months. If in FY2023 export growth was primarily driven by the RMG sector (18.8 per cent) growth, in FY2024 (July-November), the sector has experienced a significant deceleration in the growth over the corresponding period of FY2023 (-2.7 per cent). This, for obvious reasons, has resulted in the low growth of overall export earnings during the first five months of FY2024 (1.3 per cent), as can be seen from Table 5.2. At a time of falling reserves, this trend is rather discouraging.

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

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

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

The terms of trade (defined here as the import earning capacity of the price of exports of one dozen RMG in terms of the average import price of selected imported commodities) evince a mixed picture. In the cases of palm oil and soyabean oil, the purchasing power (of one dozen RMG) was lower in FY2024 (July-November) compared to the corresponding period of FY2023. On the other hand, for crude oil, rice and some other commodities, there has been some improvement (Table 5.3).

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

Table 5.4: Changes in trade values, quantity and price/unit of RMG exports of Bangladesh to the USA and EU: FY2024 vs FY2023 (July-October)

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

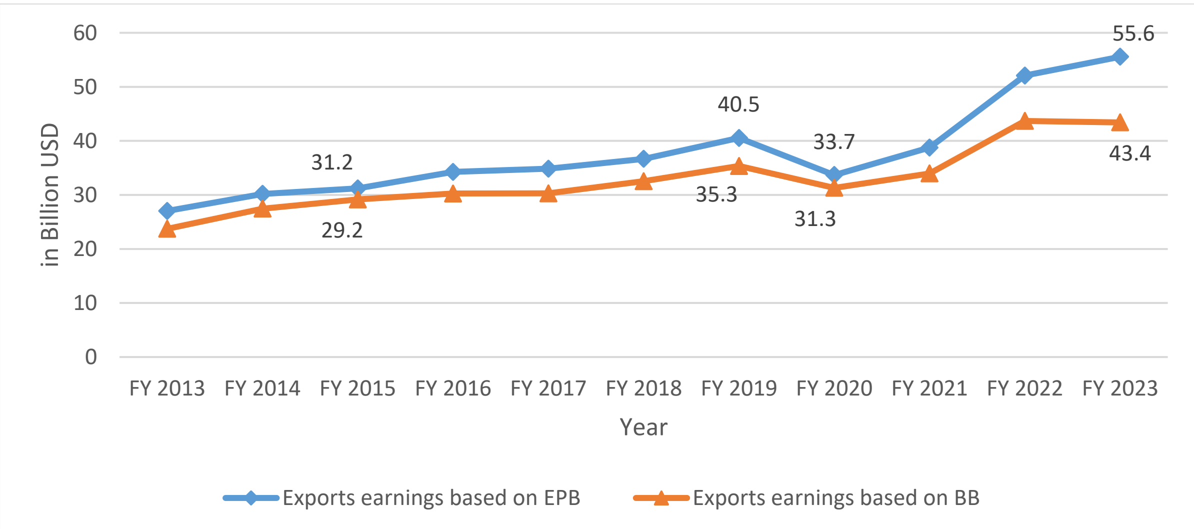
Source: Authors' Estimation based on Dataweb USITC 2023) and Database Eurostat (2023).

As Table 5.4 testifies, Bangladesh exports are becoming increasingly volume-driven, rather than price-driven.

EPB Figures for the first four months of FY2024 shows a negative growth of 3.1 per cent in RMG earnings from the US, compared to the corresponding period of FY2023. In contrast, US import figures show a significant decline of (-) 22.5 per cent! Similarly, the EPB figure for the first four months of FY2024 shows an increase of 3.1 per cent in RMG earnings from the EU market compared to the corresponding period of FY2023. In contrast, the EU import figure shows a decline of (-) 29.6 per cent! To note, the difference in export earnings arising from the conceptual distinction between *FoB value* of the EPB and *CIF value* of the reporting country can hardly explain these significant gaps in export earnings. Neither does the time difference between exports from source countries and import arrivals in destination countries (should cancel out over time).

The anomalies in export earnings figures must be examined very closely. The Bangladesh Bank and the EPB, as also the NBR, should sit together to address this issue and reconcile the figures and come up with actual export earnings figures.

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



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

One disconcerting development is the gap between the EPB data and the Bangladesh Bank data on export earnings has also been increasing at an alarming pace in recent past years, from USD 2.1 billion in FY2015 to USD 12.1 billion in FY2023 (Figure 5.1). At a time when every dollar counts, this substantial gap should be a reason for concern on the part of Bangladesh's policymakers. Evidently, this high difference cannot be explained by discounts asked by brands and buyers or cancellation of orders (or the factors mentioned earlier). The widening gap should be a reason for heightened concern. Is repatriation of Bangladesh's export earnings being deferred because of anticipated further depreciation of the BDT? Does it reflect capital flight through trade mispricing (under-invoicing)?

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

5.4 Growing debt servicing liabilities

In the backdrop of Bangladesh's Middle-income graduation, interest rates on the country's foreign borrowings have experienced a significant rise. Share of non-concessional loans in the loan portfolio has been growing. Terms of borrowings are becoming more stringent (grace period and maturity period are coming down; loans are coming with surcharges and service charges). Principal plus interest payments on Bangladesh's medium to long terms loans was USD 5.3 billion in 2021, which rose to USD 6.2 billion in 2022 (16.9 per cent growth). The corresponding figure was only USD 3.7 billion in 2020. Also, some of the foreign borrowings of Bangladesh are being incurred in flexible LIBOR/SOFR rates (e.g. loan from Islamic Trade Finance Corporations (ITFC) was incurred at the interest rate of SOFR+2 per cent). As is known, in recent years LIBOR/SOFR rates have seen a significant increase (Table 5.5).

There is every indication that debt servicing liabilities will register a notable rise in the near and medium term future (Rahman & Al Rahman, 2023).

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

(in percentage)

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

Source: Extracted from Global Rates (2023).

Table 5.6: Bangladesh's credit rating by major rating agencies

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

Source: Extracted from Trading Economics (2023).

Major credit rating agencies have downgraded the credit ratings of Bangladesh in the recent past in view of the challenges faced by Bangladesh as regards macroeconomic management and balance of payments situation (Table 5.6). Going forward, this could lead to higher borrowing costs. In all possibility, if and when the situation improves, these ratings will be revisited by the credit agencies.

The above calls for a designing a well-crafted external sector management strategy as also a road map for strategic debt management in moving forward.

5.5 Remittance flows: A low hanging fruit

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

Country	Overseas Employment (lac) (Jan 2019-Nov 2023)	July to November			
		FY2021 (million USD)	FY2022 (million USD)	FY2023 (million USD)	FY2024 (million USD)
Kuwait	0.71	779.2	700.1	662.0	592.8
Oman	4.54	770.5	419.1	269.3	368.6
Qatar	1.40	561.8	569.0	615.2	443.2
K. SA.	20.82	2585.3	2065.0	1602.5	1262.3
U.A.E.	2.25	1180.1	694.8	1143.5	1542.3
Italy	0.26	351.0	415.7	515.8	644.7
Malaysia	3.80	983.6	444.9	464.7	531.6
Singapore	2.02	293.5	132.6	146.0	181.1
UK.	0.11	866.8	734.0	760.4	1087.2
USA	0.00	1369.0	1423.8	1538.3	915.1
Others	0.81	678.3	593.3	666.1	900.8
Total (growth rate)	**38.81**	**10904.4 (29.2%)**	**8608.9 (-21.1%)**	**8792.9 (2.1%)**	**8823.9 (0.4%)**

Note. Growth rate in parentheses.
Source: Extracted from BMET (2023) and Bangladesh Bank (2023c).

Remittance flows could have been a saving grace and salvation for Bangladesh in view of the falling forex reserves and the consequent woes. However, inspite of about 3.9 million people leaving the country since January 2019 (till November 2023), this is not being reflected in the remittance flows to the country in a corresponding manner (Table 5.7). Over the first five months of FY2024 (July-November; 2023), remittance growth was only a lowly 1.1 per cent. Indeed, for the first three months, the growth rate was negative compared to the corresponding period of FY2023. To recall, the amount was more than USD 2.0 billion lower than for the corresponding period of FY2021.

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

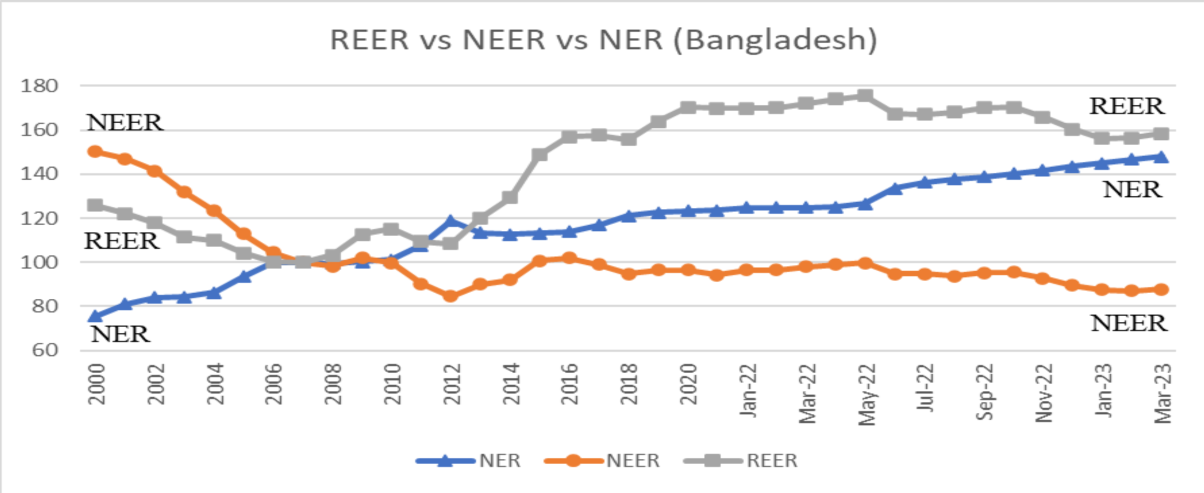
True, anecdotal information suggests that an increasingly large number of migrant workers are being issued outpasses or facing extradition and returning back home. Inspite of this, the fact of the large number of net outflow of migrant workers over the recent period can not be denied.

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

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

5.6 Move toward market aligned exchange rate

Figure 5.2: REER vs NER vs NEER in Bangladesh



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

May 2023 analysis carried out by the authors indicated that there was a significant gap between the then prevailing Bangladesh Bank-determined exchange rate (of USD 1 = BDT 104.0) and the equilibrium rate (high bound). The estimates showed the need for further depreciation of the BDT in the range of 15 per cent. Since then BDT has depreciated by 8.0 per cent. Our more recent analysis, following our previous estimation method, indicates that there is a further scope for depreciation of BDT, in the range of about 7.0 per cent. As is known, the Bangladesh Bank has been gradually depreciating the BDT over the past several months. Consequently, the difference between NER and REER has come down significantly. There is space for further depreciation and there is a need to unify the prevailing multiple exchange rates. This will not only narrow down the difference between the formal rate and the kerb market rate, but will also dampen the expectationary pressure surround the exchange rate movement (further depreciation).

One understands why the Bangladesh Bank is pursuing a cautious policy with respect to exchange rate management (the apprehension about higher imported inflation, higher cost of debt servicing of taka denominated repayment of foreign borrowings). On the other hand, depreciation should incentivise remitters and raise the competitiveness of exporters. The trade-offs will need to be carefully weighed in moving towards an optimum equilibrium rate. The BDT exchange rate will need to approximate market determined rate, possibly within a corridor that will need to be supported by the Bangladesh Bank intervention, as and when necessary.

5.7 Going forward: Required policy initiatives

- A targetted initiative will need to be taken to streamline the discrepancies in the data concerning external sector-related correlates, particularly with respect to export earnings. There is a need to investigate the attendant reasons that are driving the wedge between the Bangladesh Bank data and the EPB data. The reasons being put forward must be thoroughly investigated. As was noted, higher flow of remittances could improve the country's BoP situation significantly over the short-term future. The incentive to undertake this exercise on the part of policymakers should thus be very high. External sector data should be made more open and more transparent so that anomalies could be identified in an expeditious manner.

- The move towards a market-aligned exchange rate of BDT should be expedited, even if within a band. This will incentivise forex flows on account of exports (thanks to higher competitiveness) and remittances (transfer from informal to formal channels) and also help bring down the demand for foreign exchange via market signals rather than through administrative measures. Monetary policy will need to be well-coordinated with the fiscal policy towards sound exchange rate management and to manage impact of depreciation in view of imported inflation and implications for macro-economic management.
- The multiple exchange rates are creating not only confusion among market players, but this has proved to be difficult to implement as well. Incentivising the remittance flows is also resulting in a rising fiscal burden for the government, as also resulting in additional financial burden on the dealing banks. Both may prove to be unsustainable.
- Bangladesh's apparel exports are becoming increasingly volume-driven. The need for moving upmarket has thus emerged as an urgent necessity. Incentives need to be recalibrated to encourage intra-RMG diversification and also to stimulate a move towards the growing market segment for non-cotton based exports.
- Sustainable debt servicing is likely to emerge as a challenge for Bangladesh over the near and medium-term, particularly in view of the ongoing drawdown on forex reserves. Government should pursue a cautious policy as regards foreign borrowings: by curtailing hard term borrowings, through proper prioritisation of foreign loan dependent projects and by ensuring good governance in the implementation of foreign-funded public projects. Negotiating capacity to deal with foreign borrowings must be strengthened. A well-thought out strategy concerning external borrowings and debt servicing must be crafted to avoid any future problems. Bangladesh must avoid falling into a debt trap.
- Any disruption in market access will have serious implications for export sector performance and, consequently, the economy. Bangladesh should take the needed steps in view of the concerns voiced by key export destination countries, in areas of labour rights, wages, environment and CO2 emission standards, governance and management of production processes. At the same time a concerted effort on the part of RMG-related business associations will be required to negotiate higher prices with global brands and buyers for Bangladesh's apparel products. Pressure will need to be exerted so that brands and buyers agree to the establishment of distributive justice along the entire global value chain. Bangladesh's entrepreneurs and workers should join global movements such as Fair Trade etc., towards this.

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

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SECTION VI. LABOUR RIGHTS IN BANGLADESH–COMMITMENTS AND CONCERNS

6.1 Background

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

In fact, at this time, Bangladesh was supposed to target meeting the eligibility criteria for trade preferences (such as GSP plus of EU) for developing countries as the country is set to graduate from the Least Developed Country (LDC) status s in 2026. However, the recent concerns from the USA and EU regarding the violation of labour rights have risked the continuation of the trade eligibility and existing trade facilities for Bangladesh. These concerns from the USA and EU regarding the violation of labour rights have been reflected in their official statements, evaluation reports, meeting agendas, etc. Along with the pressure of the partner countries, the issue of labour rights violations has drawn significant attention domestically in view of several a number of sequential events. Most recently, in November 2023, the issue undermining of collective bargaining and freedom of expression of workers came into discussion as the Readymade Garment (RMG) workers protested against unpaid wages or demands for a higher minimum wage. This resulted in the killing and injuries of garment workers, the closing of RMG factories, the ceasing of new worker recruitments, filing of around 34 lawsuits against 16,000 protesters (The Business Standard, 2023).

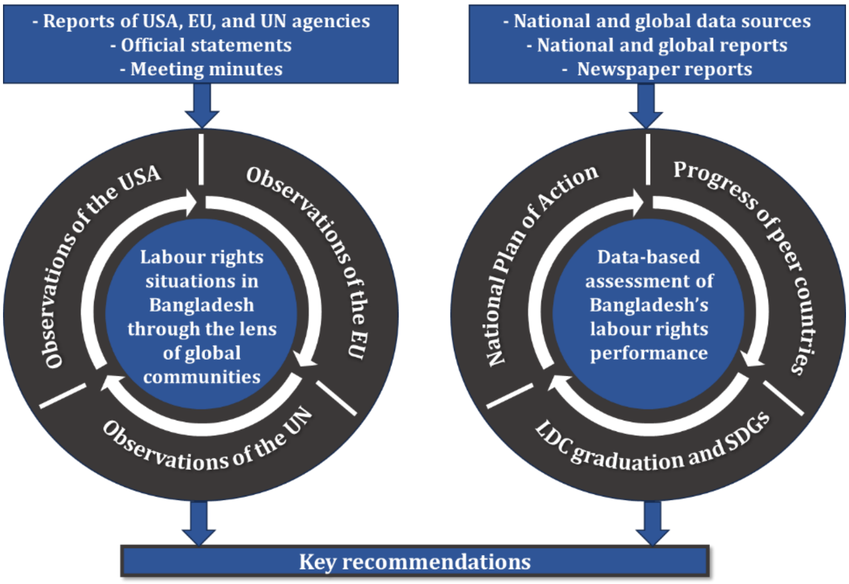
Meanwhile, Bangladesh is getting closer to the timeline of fulfilling its national and international commitments in the area of labour rights. These include the incumbent government's electoral commitment to protecting workers' rights by 2023, implementation of the National Action Plan (NAP) on the Labour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

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

6.2 Analytical structure

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

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



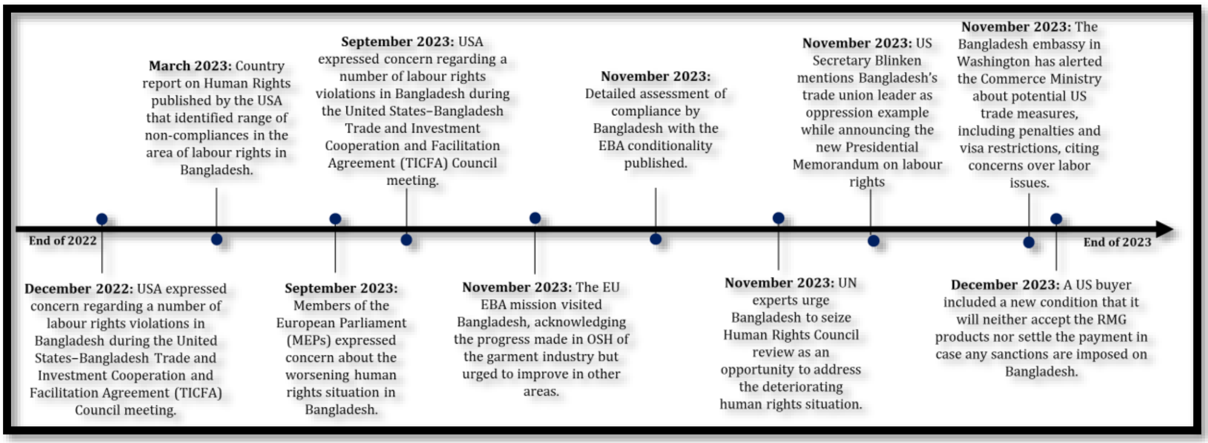
Source: Authors' illustration.

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

The issue of labour rights compliance came into the major discussion again in view of a sequence of events that took place within a short span of time (Figure 6.2). These events surrounded the expression of concerns and the publication of reports from the US, the EU, and the UN regarding the labour rights situation in Bangladesh.

The concern from the US was raised during the United States–Bangladesh Trade and Investment Cooperation and Facilitation Agreement (TICFA) Council meetings in December 2022 and September 2023. In these meetings, USA representatives expressed concerns regarding Bangladesh's legal and operational compliance in the areas of freedom of association, collective bargaining, child labour, and forced labour (US Embassy in Bangladesh, 2023). In addition, the different studies of the US agencies (such as the US Department of State and the US Department of Labor) highlighted the gaps in Bangladesh in fulfilling labour rights obligations. More importantly, in November 2023, US Secretary of State Antony Blinken referred to Bangladesh's trade union leader oppression example while announcing the new Presidential Memorandum on labour rights. In fact, the fear of Bangladeshi entities receiving trade restrictions and visa restrictions heightened when, recently, in December 2023, a US buyer included the condition of not processing work orders or payments in case any sanction was imposed.

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



Source: Authors' illustration based on different newspapers.

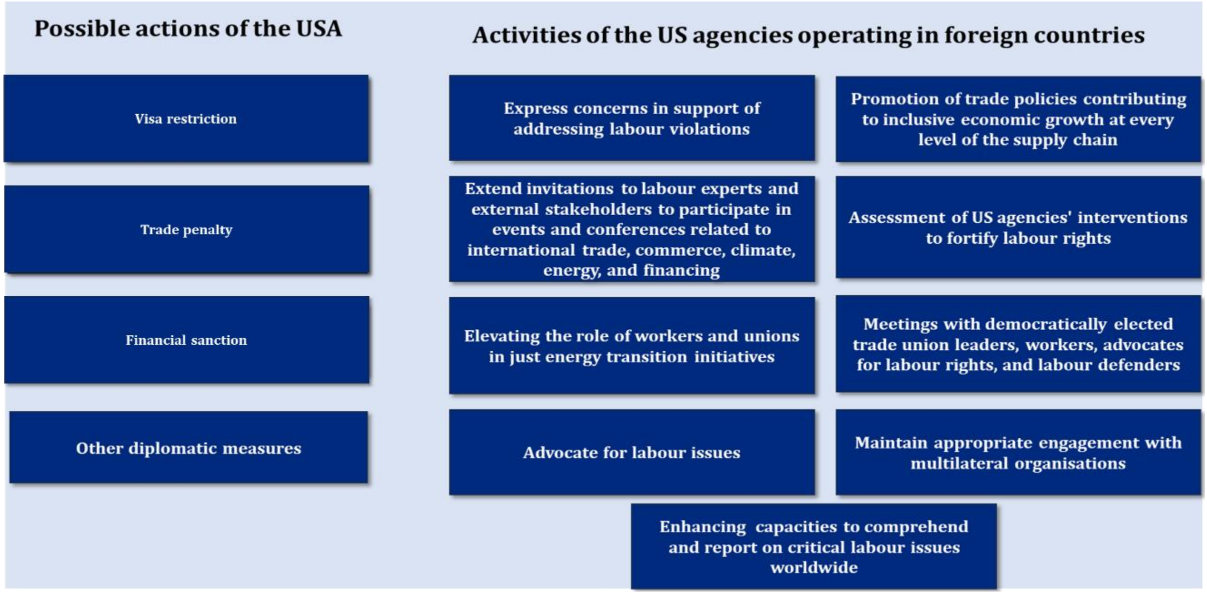
On the other hand, the concerns from the EU regarding the labour rights situation in Bangladesh have also been surfacing in parallel with the US. In September 2023, Members of the European Parliament (MEPs) expressed concern about worsening human rights, including the labour rights situation in Bangladesh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

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

6.3.1 Perspectives of the USA

Given these substantial economic ties between Bangladesh and the USA[8], any actions taken by the USA, especially in the realm of trade, could have significant implications for the Bangladeshi economy. It is imperative for Bangladesh to carefully consider and align with the newly adopted policy, as outlined in US President Joe Biden's memorandum (Figure 6.3), which aims to safeguard labour rights globally.

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



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

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

The memorandum also emphasises the assessment of US agencies' interventions to fortify labour rights, elevating the role of workers and unions in just energy transition initiatives, and enhancing agencies' capacities to comprehend and report on critical labour issues worldwide. Furthermore,

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

appropriate engagement with multilateral organisations such as the International Labour Organization (ILO), UN agencies, Organisation for Economic Co-operation and Development (OECD), the G7, the G20, and other regional entities will be pursued to advance global labour standards. The promotion of trade policies contributing to inclusive economic growth at every level of the supply chain is also a key objective.

As per the memorandum, the USA will promote internationally recognised labour rights that mainly include freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour, a prohibition on the worst forms of child labour and other labour protections for children and minor; the elimination of discrimination with respect to employment and occupation; acceptable working conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

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

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

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

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

a) The labour law allows the right to join and form unions with government approval but excludes workers in the informal sector;
b) The legal definition of workers does not include managerial, supervisory, and administrative personnel;
c) Unions are not allowed for civil servants, firefighters, security guards, and employers' confidential assistants, and Union are prohibited in Export Processing Zones (EPZ) as well;
d) The labour law allows union members to strike in case a settlement is not reached, however imposes boundaries, as it requires at least 75 per cent of union workers' support for a strike to be legally valid;
e) The government has kept the authority to forbid a strike considered to cause 'serious hardship to the community' and can terminate any strike continuing more than 30 days;
f) The labour law does not permit strikes for the initial three years of commercial production in factories constructed with foreign investment or owned by foreign investors;
g) As per the law, a factory only having more than 50 workers to mandatorily have a participation committee;
h) As per the law, a participation committee is not required if a trade union exists in the enterprise. However, employers frequently appoint workers to participation committees as per their choice instead of adhering to the legal requirement of conducting worker elections for those positions;
i) The law does not permit workers working in the EPZs to organise and bargain collectively;
j) EPZ workers can form Worker Welfare Associations (WWA), but they are under the control of the Bangladesh Export Processing Zones Authority (BEPZA). In fact, the law allows BEPZA to ban any strike identified as detrimental to the public interest within the EPZs;
k) Although the law stipulates the establishment of the EPZ labour tribunals, appellate tribunals, and conciliators, these institutions were not established yet. Instead, the EPZ cases are dealt with by 13 labour courts and one appellate labour court;
l) A federation in one EPZ requires approval from over 50 per cent of WWAs, and they are prohibited from having connections with external political parties, unions, federations, or Non-Government Organisations (NGOs);
m) Penalties for unfair labour practices and anti-union discrimination were disproportionately lesser compared to penalties for other laws related to the denial of civil rights. In fact, these penalties were often imposed targeting workers rather than employers;
n) Workers are not permitted to directly lodge unfair labour practices or anti-union discrimination cases with labour courts under the law. Instead, they must initially file complaints with the DoL regarding alleged unfair labour practices;
o) As per the law, a minimum of 20 per cent of the total workforce within an enterprise must consent to form a union before the DoL can approve the registration of the union;

p) Police intimidated unions in the RMG sector by repeatedly visiting their meetings and offices, photographing or recording meetings, and monitoring NGOs supporting trade unions.

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

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

Discrimination with Respect to Employment and Occupation: The concerns related to discrimination with respect to employment and occupation include:

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

Acceptable Conditions of Work (Wage and working hour): The concerns related to acceptable conditions of work (wage and working hour) include:

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

f) Legal limits on hours of work were routinely violated.

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

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

Acceptable Conditions of Work (Informal sector): The concern related to acceptable conditions of work (informal sector) include:

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

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

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

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

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

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

6.3.2 Perspectives of the EU

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

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

While acknowledging positive steps taken by Bangladesh, such as the ratification of ILO Convention No. 138 and the formulation of the National Action Plan on the Labour Sector (NAP), the EU stresses the need for sustained efforts and improvements. Legislative amendments, trade union registration processes, and the implementation of the NAP are areas where the EU urges Bangladesh to demonstrate an ongoing commitment to tangible progress.

6.3.2.1 Concerns from the 2023 EU report on EBA

The examination of Bangladesh's labour rights scenario through the lens of EU standards and concerns underscores the pivotal role labour rights play in shaping the nation's post-LDC graduation trajectory. As Bangladesh strives to navigate its future, particularly in retaining the Everything But Arms (EBA) deal with the EU and securing the coveted Generalized Scheme of Preferences Plus (GSP+) benefits, addressing and aligning with EU labour rights frameworks becomes imperative. The concerns articulated by the EU highlight critical areas that demand immediate attention and concerted efforts for reform. From aligning with international standards and ensuring the establishment of trade unions to addressing issues of discrimination, child labour, and occupational safety, the EU's concerns and recommendations provide a roadmap for Bangladesh's journey toward achieving fairness and justice in labour rights. Following are the concerns raised by the EU in regard to the labour rights situation in Bangladesh:

Alignment with International Standards: The EU emphasises the critical need for Bangladesh to bring its labour laws into full compliance with international standards. While the ratification of ILO Convention No. 138 on minimum age in 2022 is a positive step, further alignment is required to ensure comprehensive adherence to international labour norms.

Trade Union Establishment and Operation: EU concerns highlight the existence of legal obstacles hindering the right to establish trade unions, elect union representatives, and freely organise union activities. To address this, it is imperative for Bangladesh to remove barriers, such as minimum membership requirements and limitations on union establishment in specific sectors, fostering an environment where workers can exercise their rights without impediments.

Export Processing Zones (EPZs): The absence of trade unions in Export Processing Zones (EPZs) remains a significant concern for the EU. To promote inclusivity and workers' rights, concerted efforts should be made to facilitate the establishment of trade unions within EPZs, ensuring that labour protections are extended to all sectors of the economy.

Occupational Safety and Health Standards: Gaps in implementing occupational safety and health standards in factories and workplaces persist. The EU underscores the necessity for Bangladesh to address these shortcomings promptly. Strengthening the regulatory framework, enhancing oversight mechanisms, and ensuring swift enforcement of safety measures are crucial steps toward safeguarding the well-being of the workers.

Anti-Union Discrimination: EU concerns about discrimination against unions, including instances of violence, harassment, dismissal, and arrest of workers, necessitate immediate attention. Bangladesh should intensify efforts to investigate and prosecute cases related to anti-union discrimination, ensuring that perpetrators are held accountable and that workers can exercise their rights without fear of reprisal.

Labour Inspectorate Capacity: Shortcomings in the capacity and ability of the labour inspectorate demand focused attention. The EU recommends that Bangladesh identify and address these deficiencies, providing the necessary resources and training to enhance the effectiveness of the labour inspectorate in enforcing compliance with labour standards.

Child and Forced Labour: The persistence of child and forced labour is a key concern for the EU. Bangladesh should intensify efforts to eradicate these practices, aligning with its commitment under the ratified ILO Convention No. 138. Strengthening monitoring mechanisms, enhancing penalties for violations, and raising awareness are essential components of a comprehensive strategy to eliminate child and forced labour.

Legislative Amendments and Trade Union Registration: While acknowledging the legislative amendments made in 2018 and 2019, the EU calls for sustained efforts to bring about further improvements. Bangladesh should continue refining the trade union registration process, ensuring that it aligns seamlessly with international standards. The government's roadmap, submitted to the ILO in 2021, provides a positive foundation, and ongoing commitment is essential for sustained progress.

National Action Plan (NAP) Implementation: The EU acknowledges the publication of Bangladesh's National Action Plan on the Labour Sector (NAP 2021-2026) in alignment with the ILO roadmap. Continued commitment to the NAP, including addressing child labour and fulfilling the commitments beyond the ILO roadmap, is crucial. Regular reporting and transparent communication on progress will foster trust and demonstrate the government's dedication to labour rights improvement.

Labour Inspectorate and Factory Safety: The EU appreciates Bangladesh's commitment to establishing additional posts for labour inspectors. However, the filling of existing vacancies needs expedited attention. Moreover, the follow-up on the business plan for remediating factories under the national initiative for safety is essential for ensuring that workplaces meet the required safety standards.

Human Rights Advancements: While recognising the positive step of repealing the Digital Security Act in response to EU concerns, it is vital for Bangladesh to continue aligning its legal framework, including the Cyber Security Act, with international human rights standards. Efforts to address delays in investigating and providing justice for alleged human rights abuses, including torture, ill-treatment, extrajudicial killings, and enforced disappearances, should be intensified.

6.3.2.2 EU's Analysis of Bangladesh's National Action Plan (NAP) on Labour Rights: Progress and EU Concerns

As part of its commitment to fostering improved labour rights globally, the European Union (EU) has conducted a thorough examination of Bangladesh's National Action Plan on the Labour Sector (NAP). This comprehensive analysis delves into the progress made by Bangladesh in aligning its labour laws with international standards and addresses key concerns raised by the EU. The NAP, finalised in 2021, reflects Bangladesh's commitment to enhancing labour rights, with a particular focus on the ratification of ILO Convention No. 138 and the alignment of the NAP with an ILO roadmap. Key areas of focus include the elimination of child labour, amendments to labour laws, and the effectiveness of institutional frameworks. The EU's concerns are presented in light of the progress made, shedding light on areas where further improvements are essential. It also scrutinises the institutional commitments outlined in the NAP, identifying responsible national institutions and assessing the extent to which the commitments align with international standards:

Legislative and Ratification Milestones

In 2022, Bangladesh ratified ILO Convention No. 138 on minimum age, showcasing a commitment to international labour standards. The enhanced engagement process led to the finalisation of the National Action Plan on the Labour Sector (NAP) in 2021, signalling progress in labour rights initiatives. Regular reporting every six months on NAP implementation highlights transparency and accountability.

Legislative Amendments for Labour Rights

Amendments to the Labour Act in 2018 and the EPZ Labour Act in 2019 addressed concerns raised by the ILO Committee of Experts and the EU, demonstrating a responsive approach to international recommendations.

National Action Plan (NAP) and Institutional Commitments

Published in September 2021, the NAP aligns with an ILO roadmap, aiming to bring the Bangladesh Labour Act and Export Processing Zone Labour Law into compliance with ILO conventions. The NAP identifies responsible national institutions and extends commitments beyond the roadmap, including the ambitious goal of eliminating child labour by 2025. However, the revision and adoption of Bangladesh Labour Rules and EPZ Labour Rules in 2022 fall short of some international labour standards, indicating room for improvement.

Child Labour and Education Initiatives

The NAP outlines commitments to eliminate child labour by 2025 and hazardous forms of child labour by 2021. A revised list of hazardous work in 2022 is a positive step, but concerns persist about sectors not covered. The NAP needs to address these gaps comprehensively. Notably, the NAP lacks adequate emphasis on education, a critical component for eradicating child labour.

EU debate Comments on the NAP from the 2021 Verbatim Report of Proceedings

The EU acknowledges the detailed timeline presented by Bangladesh but expresses concern about the less ambitious target date of June 2025 for adopting amended laws. Continued engagement is pledged to expedite these processes. The EU emphasises the urgency of ensuring workers can exercise their fundamental rights to associate and form trade unions at the earliest.

Specific EU Concerns and Recommendations:

a) The EU highlights concerns about the timeline for adopting amended laws, urging faster steps to ensure the prompt realisation of workers' rights.
b) Specific attention is drawn to the ambitious goal of eliminating child labour by 2025, with recommendations for more exhaustive measures in updating hazardous job lists.
c) The EU underscores the need for practical implementation of measures against violence, harassment, and anti-union discrimination, stressing the importance of preventive actions, effective investigations, and dissuasive penalties.
d) The success rate of applications for trade union registration is a concern, urging Bangladesh to streamline the process.
e) Strengthening labour inspection is acknowledged, but the EU emphasises the urgency of expediting this process, filling vacant positions, and creating new posts.
f) The issue of remediation of faulty factories, including possible closure notices, is highlighted, and timely actions are recommended.
g) Ratifying ILO Convention No 138 on minimum age and Protocol of 2014 to ILO Convention No 29 on forced labour by December of the current year is urged for alignment with international labour standards.

While progress has been made in Bangladesh's NAP, it is crucial to address the highlighted concerns, ensuring that the ambitious goals are met within timelines and that comprehensive measures are in place for effective labour rights implementation. The EU’s continued engagement is pivotal for fostering improvements and upholding international labour standards.

6.3.3 Perspectives of the UN

Adhering to the United Nations (UN) and International Labour Organization (ILO) framework of labour rights is of paramount importance for Bangladesh to achieve fair and just labour rights for its workers. The UN and ILO have established fundamental principles and rights at work to ensure the well-being of workers globally. Bangladesh, as a member of the ILO and a signatory to many of these conventions, is obliged to promote and protect rights at the national level. First and foremost, adherence to the UN-ILO framework of labour rights is essential to uphold the fundamental principles and rights at work, as outlined in the ILO conventions. These principles include freedom of association, elimination of forced labour, abolition of child labour, non-discrimination in employment, and the right to a safe and healthy working environment. By aligning its labour laws and practices with these international standards, Bangladesh can create a conducive environment for the protection of workers’ rights and welfare.

Moreover, aligning with the UN-ILO framework of labour rights is essential for promoting social justice and decent work, which are fundamental components of sustainable development. By ensuring that workers are provided with fair wages, safe working conditions, and the right to organise and bargain collectively, Bangladesh can contribute to the overall well-being of its workforce and the prosperity of the nation.

The UN-ILO framework of labour rights

The United Nations (UN) defines worker and labour rights through various principles and conventions, aiming to ensure fundamental rights and fair conditions for workers globally. The ILO has established fundamental principles and rights at work, which include:

1. Freedom of Association and Collective Bargaining: This principle emphasises the freedom of association and the effective recognition of the right to collective bargaining.
2. Elimination of Forced Labour: The effective elimination of all forms of forced or compulsory labour is a fundamental right at work.
3. Abolition of Child Labour: The ILO is committed to the effective abolition of child labour.
4. Non-Discrimination in Employment and Occupation: The principle emphasises the elimination of discrimination in respect of employment and occupation.
5. Safe and Healthy Working Environment: Workers have the right to a safe and healthy working environment.

These principles are supported by various conventions and recommendations developed by the ILO. The ILO has identified eight ‘fundamental’ conventions, covering subjects considered fundamental principles, followingly:

1. Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
2. Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
3. Forced Labour Convention, 1930 (No. 29)
4. Abolition of Forced Labour Convention, 1957 (No. 105)
5. Minimum Age Convention, 1973 (No. 138)
6. Worst Forms of Child Labour Convention, 1999 (No. 182)
7. Equal Remuneration Convention, 1951 (No. 100)
8. Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

These conventions are legally binding international treaties that may be ratified by member states. They lay down the basic principles to be implemented by ratifying countries and create legally binding obligations for state parties.

In addition to the ILO, the UN Global Compact also promotes respect for labour rights and compliance with these principles. The UN Global Compact upholds the principles outlined in the ILO Declaration on Fundamental Principles and Rights at Work, which serve as a guide for businesses to ensure the protection of workers' rights.

Bangladesh has ratified several ILO conventions and has made amendments to its labour law to align with international standards. However, there are still areas of concern, such as the informal economy, minimum wage, gender equality, and implementation of gender-responsive legislation. This section will discuss the UN and ILO framework of labour rights and the concerns raised about Bangladesh's labour rights scenario from the 2023 UN Universal Periodic Review.

6.3.3.1 United Nations Committee Recommendations from the Universal Periodic Review 2021

The United Nations Committee on Economic, Social and Cultural Rights, along with other UN entities, has made several recommendations to Bangladesh to improve human rights and labour conditions. Key recommendations include:

Ratification of Conventions: The committees recommended ratifying several International Labour Organization (ILO) conventions, including the Indigenous and Tribal Peoples Convention, 1989 (No. 169), the ILO Domestic Workers Convention, 2011 (No. 189), the ILO Occupational Safety and Health Convention, 1981 (No. 155), the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187), the Violence and Harassment Convention, 2019 (No. 190), the ILO Migration for Employment Convention (Revised), 1949 (No. 97), and the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143).

Prohibition of Slavery and Trafficking: The Special Rapporteur on Trafficking in Persons, especially Women and Children, highlighted concerns regarding trafficking in women and girls for sexual exploitation, child marriage, and child labour, and its connection to child trafficking. The committees recommended ensuring a human rights-based approach to combat trafficking for purposes of sexual exploitation and taking urgent action to prevent child trafficking.

Right to Work and Just Conditions of Work: The Committee on Economic, Social and Cultural Rights expressed concern about workers working in the informal economy without social and labour protection. It recommended regularising the informal economy, establishing a national minimum wage, raising existing minimum wages, reducing the gender pay gap, incorporating the principle of equal pay for work of equal value into labour legislation, addressing legal and practical obstacles to women's employment, promoting women's access to equal opportunities in formal employment and decision-making positions, and ensuring that all victims of occupational accidents and their families were provided with adequate compensation.

Prohibition of Forced Labour and Improvement of Working Conditions: The committees recommended eradicating abuse and exploitation in the workplace, improving working conditions for all workers, establishing independent and effective labour complaint mechanisms, investigating forced labour cases, and redoubling efforts to reduce and prevent occupational accidents.

Gender Equality and Empowerment: The committees asked Bangladesh to address patriarchal attitudes and gender stereotypes, enhance women's economic empowerment, promote their access to equal opportunities in formal employment and decision-making positions, and encourage girls and women to choose non-traditional fields of study and occupations.

Implementation of Gender-Responsive Legislation: The United Nations country team recommended implementing gender-responsive legislation, policies, and guidelines supported by budgetary allocations.

Minimum Age of Employment and Education: The United Nations Educational, Scientific and Cultural Organization (UNESCO) recommended raising the minimum age of employment to at least 15 years and ensuring that students complete their schooling.

6.3.3.2 Concerns Raised regarding Bangladesh in the 2023 UN Universal Periodic Review

The recommendations from the United Nations Committee on Economic, Social and Cultural Rights highlight specific concerns and areas requiring attention in Bangladesh's labour rights landscape. The call for ratification of additional ILO conventions, particularly those addressing indigenous and tribal peoples, domestic workers, occupational safety and health, violence and harassment, and migration for employment, underscores the need for a comprehensive approach to labour rights. Issues such as slavery, trafficking, informal labour, and gender inequality remain significant challenges. The recommendations to combat trafficking, regularise the informal economy, establish a national minimum wage, promote gender equality, and improve working conditions reflect a multifaceted agenda for addressing these concerns.

In essence, while progress has been made, there is a clear imperative for Bangladesh to intensify its efforts in fulfilling its international obligations and commitments to labour rights. The UN recommendations provide a roadmap for comprehensive reforms, urging the government to enact policies that not only meet international standards but also address the nuanced challenges faced by workers in diverse sectors. A concerted effort to implement these recommendations will not only enhance the well-being of the labour force but also contribute to Bangladesh's overall social and economic development. Ultimately, a commitment to upholding and advancing labour rights is indispensable for building a just and equitable society.

6.4 Bangladesh's labour rights performance: Reflection in data and reports

In recent years, the Bangladesh government has implemented various initiatives, especially following the National Action Plan (NAP), to improve the labour rights situation in the country. Despite these efforts, substantial improvements are not yet evident, particularly in data, rankings, and reports by various national and international entities. Reports indicate that Bangladesh still has work to do in several fundamental areas to improve its outlook on labour rights.

Table 6.2: Performance of Bangladesh over the years in International Trade Union Confederation (ITUC) Global Rights Index

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

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

Since 2017, the International Trade Union Confederation (ITUC) has produced the Global Rights Index, offering country-specific insights into labour rights situations. Unfortunately, the index consistently identifies Bangladesh among the 10 worst countries for workers' rights in all of its reports (Table 6.2). Furthermore, the index composition reveals that several longstanding issues, persisting over the past 7 to 8 years, such as violence against workers, arrests and detentions, dismissals, anti-union discrimination, threats, and prosecutions, remain unresolved. Additionally, new concerns have surfaced in recent years, including state attacks on peaceful protests and the introduction of regressive laws (Table 6.2).

Table 6.3: Status of selected labour rights-related indicators

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

Source: BILS (2023).

The struggle of Bangladesh to uphold labour rights is evident in the data provided by various national NGOs that work for labour rights in the country. According to their findings, the number of workers' unrest in Bangladesh was 431 in 2021, dropping to 196 in 2022 (Table 6.3). Nevertheless, with the ongoing protests of workers surrounding the recently adopted minimum wage in the RMG industry, this figure may significantly rise in 2023. On the other side, while Bangladesh has made notable progress in enhancing workplace safety, particularly in the RMG industry, the overall workplace situation in the country remains bleak, especially in non-RMG sectors. In 2021 and 2022, a total of 1,053 and 1,034 workers, respectively, lost their lives due to workplace accidents in Bangladesh (Table 6.3). Additionally, data indicates a concerning trend of over 130 workers annually succumbing to oppression and violence in the workplace during both

2021 and 2022 (Table 6.3). However, the peril extends beyond the workplace, with 213 workers losing their lives in 2022 due to oppression and violence outside of work settings (Table 6.3).

Table 6.4: Most recent child labour scenario in Bangladesh

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

Source: ILO (2023) based on BBS survey.

On a different note, surveys conducted by the Bangladesh Bureau of Statistics present a mixed picture regarding progress in eliminating child labour. Their findings reveal a 4.7 per cent increase in the number of children engaged in child labour in 2022 compared to 2013. However, there is some positive news as well, with a noticeable reduction of 16.4 per cent in the involvement of children in hazardous work over the past decade (2013-2022) (Table 6.4).

Table 6.5: Comparing Bangladesh's labour rights oversight with other countries' authorities

Category ↓	Bangladesh	Vietnam	Indonesia	India	Sri Lanka
Responsible authority	Ministry of Labour and Employment	Ministry of Labour, Invalids and Social Affairs	Ministry of Manpower and Transmigration	Ministry of Labour and Employment	Ministry of Labour and Labour Relations
Allocation in latest FY (% of total budget)	0.05% (Fiscal Year 24)	N/A	N/A	0.29% (Fiscal Year 24)	0.09% (Fiscal Year 24)
Inspection authority	Department of Inspection for Factories and Establishmen ts	Ministry of Labour, Invalids and Social Affairs	Ministry of Manpower and Transmigration	Directorate General, Factory Advice Service and Labour Institutes	Departmen t of Labour
Sanction capability	Labour inspectors lack administrativ e sanctioning authority and cannot directly impose fines. Nevertheless, they have the option to file a case in the labour court, but the resolution remains subject to the court's decision	Labour inspectors can adopt various measures including advice, warnings, fines, work stoppages, license withdrawals, closure, and mandatory training. Inspectors can promptly intervene if there's an imminent danger to workers'	Penalties for labour law violations encompass written warnings, fines, work stoppages, and license withdrawals. Labour inspectors issue orders to employers, escalating to court cases if non-compliance persists.	Inspectors' powers are limited to filing court complaints for labour law violations, with potential fines and/or imprisonment. Inspectors can issue warnings related to safety, health, or welfare. Inspectors can also issue prohibition orders in hazardous conditions until corrective	Violating any provision may lead to prosecutio n, with potential fines and, in some cases, imprisonm ent. However, prosecutio n requires written approval from the Commissio ner General of Labour.

Category ↓	Bangladesh	Vietnam	Indonesia	India	Sri Lanka
		health or safety, temporarily suspending operations if necessary.		measures are taken. Director General of Inspection serves as quasi-judicial authority, can impose fines on offending employers.	

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

It is evident that the individual performance of Bangladesh in upholding labour rights somewhat indicates progress below expectations. However, conducting a relative comparison with peer countries would provide more accurate insights into its overall performance. It is to be noted that labour rights violations occur in almost every country worldwide to different degrees. Yet, a strong inspection body with the necessary authoritative power can contribute to improving the state of labour rights compliance. Comparing Bangladesh's responsible and inspection authority for labour rights with their counterparts in other countries reveals that both in terms of budget and authority power, Bangladesh lags behind these nations. The data shows that the Ministry of Labour and Employment received the lowest budgetary allocation in FY24 compared to India and Sri Lanka (Table 6.5)[9]. More importantly, unlike many other countries, the Department of Inspection for Factories and Establishments (DIFE), the authoritative body for labour rights in Bangladesh, only possesses the power to file a case in court (Table 6.5).

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

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

[9] However, all these ministries of these countries do not have same scope of work. Therefore, budget allocation may vary based on that too.

Source: Centre for Labour Research (2023).

In addition to the inspection body's limited authoritative power, Bangladesh's legal framework still falls short of international standards. According to the 2022 Labour Rights Index published assessing the legal framework for ensuring labour rights of countries, Bangladesh has the second-lowest score among its peer developing countries, with only Sri Lanka scoring lower. The index highlights that Bangladesh's legal framework is particularly weak in ensuring fair wages, family responsibilities, maternity at work, social security, and fair treatment (Table 6.6).

6.5 Conclusion and recommendations

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

6.5.1 Actions Required in Short and Medium-term

6.5.1.1 Operational

1. A co-ordinated and immediate approach involving the Ministry of Commerce, Employment, and Foreign Affairs would be required, particularly targeting to start Government to Government (G2G) negotiations, seeking time and assistance to minimise the possibilities of facing any trade penalty, visa restriction, sanctions, or the removal of preferential trade measures like the EBA.

2. Ensure a fair trial by releasing the RMG workers detained during the wage protest; withdraw any deliberate legal actions filed specifically against the protesting workers; provide compensation to the workers family killed during the protest.

3. Reconsider the revision of minimum wage in the garment industry by 2025; establish new wage boards for sectors overdue for a new minimum wage; extend the coverage of the minimum wage to include new sectors.

4. Immediately instruct the industrial police not to create obstacles when workers protest against violation of their rights and entitlements.

5. The DIFE, with the collaboration of other stakeholders, should conduct a dedicated inspection over the next year, focusing particularly on industries like fish drying, brick production, garment manufacturing, and leather goods production with the objective of minimising instances of hazardous child labour and forced labour.

6. Consider adopting a targeted approach, including strict measures to enhance workplace safety in the non-RMG industries.

7. Initiative should be taken to reduce the backlog of cases in the labour court, such as further digitalising the labour court, improving infrastructure, prioritising sensitive cases such as wage-related disputes, and granting magistracy authority to the DIFE.

6.5.1.2 Legal

1. The draft labour law amendment of 2022 should be open for further in-country review of all the stakeholders, and approval should be expedited; it should also consider law-related concerns raised by the USA and EU as reported in this chapter.

2. The law amendments should cover include more sectors (including commercial sexual exploitation, domestic work, seamen, ocean-going vessels, and agriculture farms with fewer than 10 workers) as hazardous for child labour; the labour law should also criminalise child involvement in pornographic operations, prohibit their recruitment by non-state armed groups; and the punishment of child labour offence should be made imprisonment along with the higher penalty.

3. The law amendments should include penalties for workplace discrimination; anti-union discrimination; remove the barriers to forming trade unions and arranging a strike.

4. The ongoing efforts of increasing the manpower of the DIFE must be continued; the budget allocation for this department needs to be increased in the upcoming national budgets.

5. The rules for the EPZs should be revised to align with the Bangladesh Labour Act (BLA), ensuring that workers in the EPZs are not subject to discrimination compared to non-EPZ workers.

6. The Cyber Security Act should be revised to ensure workers do not face intimidation when voicing concerns about unfair labour practices.

6.5.2 Actions Required in Long-term

6.5.2.1 Operational

1. The industrial police must be trained in a way so that they can refrain from taking action against workers protesting labour rights violation.

2. The number of labour courts should be further increased; necessary amendments of the laws/rules relating to the labour courts should be done to make the courts effective.

3. Enforce all court directives against the petitions filed with the High Court Division of the Bangladesh Supreme Court regarding Child Labour (available here).

4. Adopt more projects targeting workers' welfare, particularly for minorities; consider full-fledged implementation of schemes like unemployment insurance; workplace injury insurance, etc.

6.5.2.1 Legal

1. The coverage of labour laws should be extended gradually to include workers in the informal sector and managerial roles.

2. Gradually endorse and implement all International Labour Organization (ILO) conventions.

3. Gradually implement the United Nations Guiding Principles on Business and Human Rights (UNGPs) with the assistance of relevant national and international stakeholders.

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SECTION VII. CONCLUSIONS

As the country prepares to welcome 2024, economic issues ought to continue to engage the attention of Bangladesh's policymakers. As is known, the economy is going through unprecedented challenges, and these are not going to recede to the backfront even after the national elections which is scheduled to be held on 7 January 2024.

In view of the ongoing economic challenges emanating from various fronts, the key task confronting the policymakers is to restore macroeconomic stability by taking into cognisance the current economic realities and identifying concrete measures to address these. In doing so, the government must address the immediate issues such as control of high inflation, increase revenue collection, stabilise exchange rate volatility and improve forex reserves. This implies that the policymakers have to come out of the obsession with GDP growth and look at the underlying factors that led to an impressively functioning economy falling into this macroeconomic conundrum. In the recent past, the policymakers of Bangladesh emphasised GDP growth to highlight economic achievement. However, increased inequality and current vulnerabilities informing macroeconomic management has put into question the overindulgence with GDP and GDP growth.

Even though the economy was facing strong headwinds towards the end of FY2023, the government had projected a GDP growth of 7.5 per cent for FY2024. However, subsequent developments had overtaken lofty ambitions. Various international organisations have downgraded Bangladesh's GDP growth in FY2024, as they have done for many other countries. The IMF has projected the GDP growth in Bangladesh to be 6.0 per cent, while the World Bank estimates project a GDP growth of 5.6 per cent for Bangladesh in FY2024. The government should revisit its GDP growth target in view of the emergent scenario. It will be advisable to bring this down. Achieving even a lower target will depend on the performance of key sectors such as agriculture, industry, exports and services. Without a realistic projection backed by authentic data, policymakers cannot assess the economic situation and craft appropriate policies.

The government will also have to focus on structural issues since better economic performance will critically hinge on the efficiency of some of the important institutions including the National Board of Revenue, and the Bangladesh Bank. Reform of the institutions responsible for improving economic performance and accountability remains an unfinished agenda. Enforcement of laws and regulations against bank loan defaulters or those who are involved in illicit financial flows is almost absent. High inflation is eating away the purchasing power of low-income people, and market manipulation and syndication are exacerbating the situation. These are undermining the impressive progress in terms of socioeconomic indicators as regards which Bangladesh has been genuinely taking credit. Similarly, lack of accountability has led to overpriced and wasteful public expenditure. Establishing good governance through reform measures will not be an easy task as the vested interest groups are strong and public institutions have been captured by the oligarchs. Whilst IMF may come up with many 'conditionalities' or 'recommendations', however one coins these, ownership over the reforms and a strong political drive to implement these are what will make the difference. Indeed, Bangladesh's economists and professionals have been arguing for energetic actions on both fronts for quite some time. Now that the economy is facing such multi-pronged challenges, and the country truly stands at a crossroads, one only hopes that policymakers will understand and appreciate that business-as-usual will not do. Only a selfless and strong political leadership can venture in taking the difficult path of reforms and actions to rescue the economy and deal with the risks and uncertainties that loom in the horizon.

In the various sections of the IRBD, CPD has tried to identify the key challenges in a select set of areas and offers a set of concrete actions to address these with a view to restoring the macroeconomic stability which should be the core objective of the policymakers at this particular juncture.

ANNEX

Annex Table 4.1: News compilation of major irregularities in banks during 2008-2023

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
1. Sonali, Janata, NCC, Mercantile and Dhaka Bank (2008 -2011)	The proprietor of Fahim Attire Limited borrowed BDT 5.89 crores with forged land documents (Dhaka Tribune, 2013a) (The Daily Star, 2013a)	On 1 August 2013, the ACC filed cases against Sonali Bank, Fahim Attire Limited and some individuals. (Dhaka Tribune, 2013b) (Dhaka Tribune, 2013a)	Suspicious Transaction Report (STR)/Suspicious Activity Report (SAR), according to section 2(z) of the Money Laundering Prevention Act, 2012 as per definition of Bangladesh Bank (Bangladesh Bank, 2012) Generally, STR/SAR means a formatted report of suspicious transactions/ activities where there is a reasonable ground to believe that funds are the proceeds of crime or may be linked to money laundering or terrorist financing, insider trading & market manipulation-related activity or the transactions do not seem to be usual as per definition of Bangladesh Bank (Bangladesh Bank, 2012).
2. BASIC Bank (2009-2013)	Embezzlement of BDT 4,500 crores through fake companies and dubious accounts. (The Daily Star, 2013b) (Dhaka Tribune, 2018) (Prothom Alo, 2015)	In September 2015, the ACC filed 56 cases against 120 people on charge of swindling. (New Age, 2018) (Daily Star, 2017) (Prothom Alo, 2016) The Anti-Corruption Commission (ACC) has so far filed 60 cases concerning the scam. (The Daily Star, 2022b)	According to the Credit Risk Management Guidelines by Bangladesh Bank, the bank violated the law of obtaining Credit Report of its borrower as per definition of Bangladesh Bank (Bangladesh Bank, 2016)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
3. Sonali Bank (2010-2012)	Hallmark Group Managing Director Tanvir Mahmud and 26 others were accused of misappropriating around BDT 4,357crore from state-owned Sonali Bank through various means, including fraud and deception (The Business Standard, 2020)	In October 2012, the ACC filed 11 cases against 27 people, including Hallmark Group Chairman and Sonali Bank's 20 former and present officials. (Dhaka Tribune, 2018) (Daily Sun, 2017) (The Daily Star, 2016b)	Trade-Based Money Laundering as per definition of Bangladesh Bank (Bangladesh Bank, 2019).
4. Janata Bank (2010-2015 & 2013 - 2018)	Fraudulence by Crescent and AnonTex involving BDT 10,000 crores. (Dhaka Tribune, 2018) (Dhaka Tribune, 2018a) (The Asian Age, 2018) (The Daily Star, 2018)	On 30 October 2018, an inquiry committee headed by an Executive Director of BB submitted a report to the BB on the scam. (Dhaka Tribune, 2018) (The Daily Star, 2018f)	The guidelines of loan application must go through five layers of scrutiny, which was not followed. Additionally, Janata's loans to AnonTex Group accounted for more than 25 per cent of the state-owned bank's capital base, violating the single borrower exposure limit set in the Bank Company Act 1991. (The Daily Star, 2018b)
5. Janata Bank, Prime Bank, Jamuna Bank, Shahjalal Islami Bank Ltd and Premier Bank (June 2011-July 2012)	Embezzlement and laundering of BDT 1,174.46 crore by Bismillah Group and its fake sister concerns. (The Daily Star, 2016a) (New Age, 2016) (The Daily Star, 2013)	On 3 November 2013, the ACC filed 12 cases against 54 people over the scam. (The Independent, 2018) (Dhaka Tribune, 2013) (The Daily Star, 2018g) (The Daily Sun, 2016)	Trade-Based Money Laundering as per definition of Bangladesh Bank (Bangladesh Bank, 2019) (Dhaka Tribune, 2020)
6. AB Bank (2013-2014)	Money laundering of BDT 165 crores. (The Daily Star, 2018a) (The Daily Sun, 2018) (The Daily Star, 2017b)	On 25 January 2018, the ACC filed a case against former AB Bank chairman and officials. (The Daily Star, 2018) (The Financial Express, 2018) (Dhak Tribune, 2018) (The Daily Sun, 2018)	According to the Prevention of Money Laundering Act 2002, Money Laundering means Illegal transfer, conversion, concealment of location or assistance in the above act of the properties acquired or earned directly or indirectly through legal or illegal means as per definition of Bangladesh Bank (Bangladesh Bank, 2012)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
7. Sonali Bank (26th January 2014)	Miscreants decamped with at least BDT 16 crore in cash from Sonali Bank's main branch in Kishoreganj (New Nation, 2014)	One of the masterminds behind Sonali Bank's burglary in Kishoreganj was arrested a month after over BDT16 crore was looted from the branch.	Theft
8. AB Bank (2014 – 2016)	Money laundering, to the tune of about BDT 236 crore, by using its offshore banking service (New Age, 2020)	On 26 November 2020, the Anti-Corruption Commission filed three cases against 24 current and former officials of AB Bank Ltd, mainly from a past board, including the bank’s chairman, M Wahidul Haque, and an individual in charge of siphoning BDT 236 crore. (New Age, 2020)	Money laundering as per definition of Bangladesh Bank (Bangladesh Bank, 2012)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
9. NRB Commercial Bank (2013-2016)	Gross irregularities over disbursing loans of BDT 701 crores (New Age, 2017) (New Age, 2017) (The Financial Express, 2018) (The Independent, 2017) (Dhaka Tribune, 2017c)	On 29 December 2016, the central bank appointed an observer to restore discipline and corporate governance. (Dhaka Tribune, 2017b) (bdnews24.com, 2017) (Prothom Alo, 2017)	Mercantile Bank chairman Shahidul Ahsan holds 'illegally' the shares, which are documented as shares held by NRBC Bank directors Shaki and Mannan, and M Rahman Steel Mills Ltd managing director Maksudur Rahman holds the shares shown as shares held by director Amir. Regarding the shady holding by Maksudur, the BB probe found he opened 'fake' accounts with the Gulshan branches of Mercantile Bank and NRBC Bank in the name of Amir. The inspection reports said the two persons sent money to purchase their shares in NRBC Bank from Dubai of the United Arab Emirates through the Wall Street Exchange. Sakhi was also a 'loan defaulter,' but NRBC Bank appointed her as a bank board member, concealing the loan defaulting information. The bank sanctioned BDT 301 crore in loans to him (Ahsan), violating the single-borrower exposure limit. (New Age, 2017) The central bank has removed NRB Commercial Bank's Managing Director (MD) and Chief Executive Officer (CEO) Dewan Mujibur Rahman on charges of violating rules and regulations in sanctioning loans. (The Financial Express, 2017)
10. NRB Bank (November 2014 - January 2018)	Regent Hospital Chairman Mohammad Shahid and three others misappropriated about BDT 1.51 crore between November 2014 and January 2018 (The Daily Star, 2020b)	ACC's Assistant Director Sirajul Haque filed the case against them (The Daily Star, 2020b)	Mohammad Shahid did not have any prior transaction history with the NRB bank. The bank did not take enough collateral for the loan. Misappropriation: Illegal utilisation of other's money. (The Daily Star, 2020c)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
11. Janata Bank (2013-2016)	Thermax Group received LC benefits worth BDT 816 crores (The New Nation, 2018)	In October 2018, Thermax requested to reschedule the entire loan again (previously restructured in 2015). Janata Bank's board endorsed this proposal by Thermax and sent it to the BB for approval. (The Daily Star, 2018d)	Thermax has an LC limit of Tk 264 crore against its three entities whereas it received more than three times of the ceiling. The bank exceeded the single borrower exposer ceiling of 15 per cent set by the Bangladesh Bank (The New Nation, 2018).
12. Farmers Bank (2013-2017)	Fund embezzlement by 11 companies, including NAR Sweaters Ltd and Advanced Development Technologies, involving BDT 500 crores. (The Daily Star, 2018e) (The Daily Star, 2018) (Dhaka Tribune, 2017d)	In January 2018, Farmers Bank was directed by the BB to conduct a functional audit on credit accounts with outstanding amounts of at least BDT—one crore in its Motijheel branch. (The Daily Star, 2018e) In April 2018, the Anti-Corruption Commission (ACC) arrested four accused, including the Farmers Bank's former Audit Committee chairman. (The Independent, 2018) (The Daily Star, 2018) (The Daily Sun, 2018)	Farmers Bank found itself in a raging controversy when it was unearthed that a substantial chunk of its loans was given without any application for loans or that money was disbursed to dubious companies even before loans were approved. The bank also concealed information on the defaulted loans to show an inflated profit, breaching the Banking Company Act 1991. (The Daily Star, 2018e)
13. Farmers Bank (2015)	Regent Hospital Chairman Mohammad Shahed as well as former chairman of Farmers Bank audit committee Mahbubul Haque Chisty, and two others misappropriated BDT 2.71 crore in 2015. (The Daily Star, 2020a)	In July 2020, the Anti-Corruption Commission (ACC) filed a case against them for their involvement in misappropriating BDT 2.71 crore in 2015. (The Daily Star, 2020a)	Shahid was accused of not paying BDT 2.71 crore he owed to The Farmers Bank Limited on 29 January 2019, which was renamed Padma Bank Limited after detecting several loan scams. (New Age, 2022)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
14. Bangladesh Bank (February 5, 2016)	The heist of BDT 679.6 crores by international cyber hackers from the treasury account of Bangladesh Bank with New York's US Federal Reserve Bank. (The Daily Star, 2017a) (Al Jazeera, 2018)	On 19 March 2016, the government formed a 3-member investigation committee headed by the former governor of the Central Bank, Dr Farashuddin. (The Daily Star, 2017a) (The Independent, 2016) (Dhaka Tribune, 2017a)	Bank robbery
15. Bangladesh Commerce Bank Ltd (BCBL) (2018)	SB Exim allegedly swindled BDT 200 crore by using forged documents in the name of exporting terracotta tiles in 2018. The owner, Shahjahan Bablu, was also nominated by the bank for the Bangladesh Bank Remittance Award 2018 and was later awarded on 7 October 2018 despite being a loan defaulter. (The Daily Star, 2022c) (Dhaka Tribune, 2019)	The Bangladesh Bank (BB) has fined the Bangladesh Commerce Bank Limited (BCBL) BDT 2 lakh as the bank did not inform the central bank about the default loan record of a remittance award recipient. (Dhaka Tribune, 2019)	Money laundering as per definition of Bangladesh Bank (2012) (Bangladesh Bank, 2012) Mis-invoicing fake export as per definition of Bangladesh Bank (Bangladesh Bank, 2019) Fake LC (Bangladesh Bank, 2019) (The Daily Sun, 2019) Section 25 (1)(a) of the Money Laundering Prevention Act, 2012 (MLPA, 2012) requires all reporting institutions to obtain complete and correct information regarding the client's identity of those with whom they deal (referred herein to this Guideline as verification of identity). Unless complete and correct information regarding the identity of potential Clients is obtained at a suitable time, the business relationship should not proceed as per definition of Bangladesh Bank (Bangladesh Bank, 2012).
16. Dhaka Bank (2018-2019)	A loan officer of Dhaka Bank embezzled BDT 7.8 crore from the accounts of around 38 clients between 2018 and March 2019. (The Daily Star, 2019a)	Anti-Corruption Commission (ACC) has arrested a principal officer of Dhaka Bank's Feni branch. (The Daily Star, 2019a)	Theft

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
17. Mutual Trust Bank (MTB) (2019)	The manager at the privileged centre of MTB embezzled about BDT 4.97 crore from a client's account by forging her signature. (The Daily Star, 2019b)	ACC Assistant Director Shafi Ullah lodged the case with its integrated district office, accusing Jahid and his wife, Farhana Habib, of committing forgery and laundering the money. (The Daily Star, 2019b)	Theft
18. Janata Bank (2020)	Extended credit beyond the permissible amount of about BDT 1,248.3 crore to S Alam Refined Sugar Industries, a subsidiary of the S Alam Group, and BDT 1,070.7 crore to Global Trading Limited. (The Daily Star, 2023)	The high court directed the Anti-Corruption Commission (ACC) and the Bangladesh Financial Intelligence Unit (BFIU) to investigate the matter (The Business Standard, 2023b)	It exceeded the single-borrower exposure limit. (The Daily Star, 2023)
19. Global Islami Bank (Formerly known as NRB Global Bank) (2021)	Former managing director of NRB Global Bank Proshanta Kumar Halder, also known as PK Halder, is accused of embezzling BDT 11,000 crore, which includes misappropriating more than BDT 3,000 crore from three financial institutions. (Business Inspection, 2022) (The Daily Star, 2022a)	Since January 2021, the ACC has filed 37 cases against him. (The Daily Star, 2022a)	Suspicious Transaction Report (STR)/Suspicious Activity Report (SAR) (Business Inspection, 2022) (Prothom Alo, 2020)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
20. Islami Bank Bangladesh Ltd. (2021)	Four bank officials embezzled money over BDT 0.023 crore from the Islami Bank's Shibganj branch in Chapainawabganj. (The Daily Star, 2022e)	On 20 March 2021, the Anti-Corruption Commission filed a case with its Rajshahi office against four Islami Bank Bangladesh Limited officers and a businessman for embezzling BDT 0.023 crore from the bank. (New Age, 2022)	Illicit financial operation as per definition of (Bangladesh Bank, 2019)
21. Social Islami Bank Ltd[i] (2021)	SIBL allowed Sharp Knitting and Dyeing of Gazipur to import goods worth over BDT 17079.15 crore by using 889 back-to-back LCs, even though the company did not renew the license for its bonded warehouse, which is a must to avail such facilities (bdnews24.com 2022a). (bdnews24.com 2022b) (The Business Post 2022a) (The Business Post 2022b)	Zafar Alam, managing director of SIBL, said the bank was considering filing a case against the customers and contemplating collecting the funds by selling off their properties. (bdnews.com, 2022) According to the bank, it is a false claim. Sharp now owes the bank BDT 163 crore, including profits. (bdnews24.com 2022a) (bdnews24.com 2022b) (The Business Post 2022a) (The Business Post 2022b)	Mis-invoicing fake export Fake LC as per definition of (Bangladesh Bank, 2019)
22. Islami Bank Bangladesh Ltd. (2022)	The Chattogram-based S Alam Group has taken out about BDT 30,000 crore in loan form, which is way beyond what they are entitled to, BDT 215 crore. (New Age, 2022)	On 30 November 2022, the High Court (HC) asked a lawyer to file a writ petition regarding Islami Bank's alleged lending to ghost companies, as he brought media reports in this regard to the court's notice-seeking directives. (The Business Standard, 2022)	Loan scam Trade-Based Money Laundering as per definition of (Bangladesh Bank, 2019)

Bank/Institution	Irregularity	Measures	Why is this an irregularity?
23. Islami Bank Bangladesh Ltd. (March - November 2022)	BDT 7,246 crore loans to 9 firms: BB probing 'breach of rules' at Islami Bank (The Daily Star, 2022f)	The court directed Bangladesh Bank's Bangladesh Financial Intelligence Unit (BFIU), Anti-Corruption Commission (ACC) and Bangladesh Police's Criminal Investigation Department (CID) to submit the probe report. The court also ordered the bank authorities to submit the list of bank officials involved in approving loans worth thousands of crores of taka. (Business Insider, 2022)	Islami Bank Bangladesh Ltd for disbursing BDT 7,246 crore in loans to nine companies this year, grossly violating banking rules. Most of the nine companies were sister concerns of the Rajshahi-based Nabil Group. The information about the firms was false. (The Daily Star, 2022f)
24. Social Islami Bank (SIBL) and First Security Islami Bank (2022)	The ghost companies availed another BDT 2,320 crore loans (The Business Standard, 2022)	The High Court (HC) directed authorities concerned to probe reports of lending irregularities by Islami Bank Bangladesh Ltd (IBBL), Social Islami Bank Ltd (SIBL) and First Security Islami Bank Ltd (FSIBL) in four months. (The Business Standard, 2022)	Loan scam (The Daily Star, 2022g) (The Daily Star, 2022d) Trade-Based Money Laundering as per definition of (Bangladesh Bank, 2019)
Total amount in billion BDT			**922.61**
Total amount in crore BDT			**92,261**
Total amount as a share of GDP FY23 in per cent (BBS, 2023)			**2**
Total amount as a share of National Budget FY24 in per cent (MoF, 2023)			**12**

Source: CPD compilation based on published news reports cited in the table.

Note: (i) CPD is aware that the SIBL authority sent a rejoinder to bdnews24.com and The Business Post, mentioning that the information was misleading. However, in response to the rejoinder sent from SIBL, bdnews24.com published a response stating the following, "bdnews24.com's report is based on the Bangladesh Financial Intelligence Unit's investigation. The BFIU has also informed the Customs Intelligence and Investigation Directorate about the matter. The SIBL admitted to allowing the companies to open back-to-back LCs and the number of LCs mentioned by the bank almost match the one found by the BFIU. The bank said it started a case over the dues, but there is a huge difference between the amounts mentioned by the SIBL and the BFIU. The SIBL said Sharp exported goods worth Tk 1.44 billion and Tk 906.5 million. In that case, the companies do not have any dues over the LCs as the bank claimed the companies owe it Tk 1.85 billion over the LCs. The BFIU said it did not find goods that match the accounts of LCs in the companies' warehouses. The SIBL did not touch upon the matter".

(https://bdnews24.com/business/vr5q3opjsp). After the response from bdnews24.com, there was no subsequent clarification on this matter from SIBL.
Similarly, The Business Post responded to the rejoinder from SIBL by stating, "The facts in our article came from official documents of the regulator. The Financial Integrity and Customer Services Department (FICSD) of the central bank had sent two letters to the Director General of Customs Intelligence & Investigation Directorate on April 21 and June 8 this year regarding inspection reports on SIBL's Banani and Mirpur branches. The report "How can an ailing company bleed $1.6 billion from SIBL?" is based on two letters issued by the central bank, of which The Business Post has obtained copies. Those letters clearly mention that the SIBL's Banani and Mirpur branches provided the mentioned back-to-back LCs worth nearly $1.6 billion, or Tk 16,500 crore when converted to local currency. As per the letters, the central bank inspection team had found that the SIBL had issued hundreds of back-to-back LCs to the Sharpe Knitting & Dyeing Industries and Blithe Fashion under the duty concession facility, despite those companies having no valid bonded warehouse licences. This is a clear violation of existing regulations. We, therefore, stand by our report."
(https://businesspostbd.com/economy/banking/rejoinder-our-reply)
After the response from The Business Post, there was no subsequent clarification on this matter from SIBL.