

State of the Bangladesh Economy in FY2009-10

From Stability to Accelerated Growth

A paper prepared under the programme

Independent Review of Bangladesh's Development (IRBD)

implemented by the *Centre for Policy Dialogue (CPD)*

11 January 2010



CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think-tank

CPD IRBD 2009-10 Team

Professor Mustafizur Rahman, Executive Director, CPD was in overall charge of preparing this report as team leader.

Lead contributions were obtained from *Dr Uttam Kumar Deb*, Head, Research Division; *Dr Fahmida Khatun*, Additional Director, Research; *Dr Khondaker Golam Moazzem*, Senior Research Fellow; *Dr M Masudur Rahman*, Research Fellow; *Mr Kazi Mahmudur Rahman*, Senior Research Associate; *Mr Syed Saifuddin Hossain*, Senior Research Associate; *Mr Ashiq Iqbal*, Senior Research Associate; *Mr Towfiqul Islam Khan*, Senior Research Associate and *Mr Asif Anwar*, Senior Research Associate.

Competent research assistance was received from *Dr A K M Nazrul Islam*, Senior Research Associate; *Ms Nafisa Khaled*, Senior Research Associate; *Mr Hasanuzzaman*, Senior Research Associate; *Ms Zeeshaan Rahman*, Senior Research Associate; *Mr Subir Kanti Bairagi*, Research Associate; *Mr Md Tariqur Rahman*, Research Associate; *Mr Muhammad Al Amin*, Research Associate; *Mr Tapas Kumar Paul*, Research Associate; *Mr Ashiqun Nabi*, Research Associate; *Ms Nusrat Jahan*, Research Associate; *Ms Sharmin Chowdhury*, Research Associate; *Mr Kishore Kumer Basak*, Research Associate; *Mr Mazbahul Golam Ahamad*, Programme Associate; *Ms Afrin Islam*, Programme Associate; *Ms Kaniz Tasnima*, Programme Associate; *Mr Shouro Dasgupta*, Research Intern; *Mr Bastian Tornes*, Research Intern and *Ms Laura Jepson*, Research Intern.

Acknowledgements

The team gratefully acknowledges the valuable contribution of *Ms Anisatul Fatema Yousuf*, Head and Director, Dialogue & Communication Division of the CPD and her colleagues at Division in preparing this report. Contribution of Administration & Accounts Division is also highly appreciated. Support of *Mr A H M Ashrafuzzaman*, Senior System Analyst and *Mr Hamidul Hoque Mondal*, Senior Administrative Associate is particularly appreciated.

The CPD-IRBD team alone remains responsible for the analyses and interpretations presented in this report.

Content

1. INTRODUCTION.....	1
2. PUBLIC FINANCE	1
2.1 Revenue Mobilisation.....	1
2.2 Revenue Expenditure	5
2.3 Annual Development Programme (ADP)	5
2.4 Budget Deficit and Financing.....	7
3. MONETARY SECTOR	9
3.1 Money Supply.....	9
3.2 Domestic Credit	10
3.3 Excess Liquidity.....	11
3.4 Industrial Credit.....	13
3.5 Agricultural Credit.....	14
3.6 Loan Default Scenario	14
3.7 Inflation	15
3.8 Interest Rate	15
3.9 Foreign Exchange Reserve	16
3.10 Exchange Rate	17
4. REAL SECTOR.....	19
4.1 Agriculture	19
4.2 Industrial Sector.....	25
4.3 Foreign Direct Investment	32
4.4 Capital Market.....	35
4.5 Power Sector.....	38
5. EXTERNAL SECTOR.....	43
5.1 Export Sector Performance.....	43
5.2 Key Features of the Import Sector	49
5.3 L/C Opening and Settlement	51
5.4 Remittances and Overseas Employment	53
5.5 Balance of Payments.....	56
5.6 Foreign Exchange Reserves	57
5.7 Sustaining Aid Flows	59
6. INFLATION AND PRICE.....	60
6.1 Trends in inflation.....	60
6.2 Trends in Prices and Variability in Prices.....	62
6.3 Outlook for Inflation	68
7. SOCIAL SECTORS.....	69
7.1 Health.....	69
7.2 Education	71
7.3 Social Safety Net	73
8. CHALLENGES FOR FY2009-10.....	76
9. CONCLUDING REMARKS	82

List of Figures

FIGURE 2.1: SHARE AND INCREMENTAL SHARE OF REVENUE COMPONENTS IN FY2009-10.....	2
FIGURE 2.2: ACHIEVED AND REQUIRED GROWTH (FOR THE REST OF THE YEAR) OF REVENUE COMPONENTS IN FY2009-10.....	4
FIGURE 2.3: GROWTH IN REVENUE EXPENDITURE (JUL-SEP) IN FY2008-09 & FY10	5
FIGURE 2.4: PERFORMANCE OF ADP DURING JULY-NOVEMBER (FY07 TO FY10).....	6
FIGURE 3.1: GROWTH RATE OF MONEY SUPPLY AND RESERVE MONEY	10
FIGURE 3.2 DOMESTIC CREDIT	11
FIGURE 3.3 EXCESS LIQUIDITY	12
FIGURE 3.4 EXCESS LIQUIDITY AND DOMESTIC CREDIT.....	13
FIGURE 3.5: INFLATION RATE	15
FIGURE 3.6: LENDING AND DEPOSIT RATES	16
FIGURE 3.7: EXCHANGE RATES.....	17
FIGURE 3.8: NOMINAL AND REAL EFFECTIVE EXCHANGE RATE	18
FIGURE 4.1: FOOD GRAIN PRODUCTION TARGET IN FY2009-10.....	19
FIGURE 4.2: INTERNATIONAL PRICES OF FERTILIZERS (UREA, DAP, TSP AND MOP): JULY 2005 - NOVEMBER 2009.....	22
FIGURE 4.3 DISBURSEMENT AND RECOVERY OF AGRICULTURAL CREDIT IN 2009 (JANUARY-NOVEMBER) AND 2008 (JANUARY-NOVEMBER).....	24
FIGURE 4.4: CHANGES IN QIP OF LARGE AND MEDIUM SCALE MANUFACTURING INDUSTRIES, JULY-AUGUST PERIOD OF FY2009 AND FY2010.....	26
FIGURE 4.5: QIP OF INDUSTRIES OTHER THAN JUTE, COTTON AND WEARING APPARELS.....	27
FIGURE 4.6: TRENDS IN CHANGES OF DISBURSEMENT AND RECOVERY FOR LARGE AND MEDIUM SCALE INDUSTRIES FROM APRIL-JUNE, 2008 TO JULY-SEPTEMBER, 2009	28
FIGURE 4.7: CHANGES IN ADVANCES TO SELECTED DOMESTIC MARKET ORIENTED INDUSTRIES (Q4, FY2007-08 OVER Q4, FY2008-09)	29
FIGURE 4.8: TREND OF CHANGES OF DISBURSEMENT AND RECOVERY FOR SMALL SCALE COTTAGE INDUSTRIES FROM APRIL-JUNE, 2008 TO JULY-SEPTEMBER, 2009.....	30
FIGURE 4.9: IMPORT OF CAPITAL GOODS AND CAPITAL MACHINERIES	31
FIGURE 4.10: MONTHLY TREND OF SHARE PRICE INDICES AT DSE	35
FIGURE 4.11: MONTHLY TREND OF P/E RATIO AT DSE	36
FIGURE 4.12: MAXIMUM ELECTRICITY GENERATION: FY09 VS FY10 AND CY08 VS CY09	38
FIGURE 4.13: DEMAND-SUPPLY GAP PROJECTION.....	39
FIGURE 4.14: CONSUMPTION OF GAS IN DIFFERENT SECTORS	42
FIGURE 5.1: DYNAMICS OF APPARELS PRICE INDEX	46
FIGURE 5.2: STOCK PRICE OF SOME GLOBAL RETAIL STORES.....	46
FIGURE 5.3: IMPORT OF SOME SELECTED COMMODITIES IN 2008 AND 2009 (JAN-OCT)	51
FIGURE 5.4: LABOUR OUTFLOW (2008 AND 2009)	54
FIGURE 5.5: COUNTRY-WISE REMITTANCE FLOW TO BANGLADESH (IN MILLION USD)	55
FIGURE 5.6: RECENT TRENDS IN BALANCE OF PAYMENT	57
FIGURE 5.7: FOREX RESERVES AND EQUIVALENT MONTHS OF IMPORT	58
FIGURE 6.1: TRENDS IN INFLATION (MOVING AVERAGE): JANUARY 2006 TO OCTOBER 2009	60
FIGURE 6.2: TRENDS IN INFLATION (POINT-TO-POINT): JANUARY 2006 TO OCTOBER 2009	61
FIGURE 6.3: COMPARISON OF INFLATION (MOVING AVERAGE) IN SOUTH ASIAN COUNTRIES	61
FIGURE 6.4: COMPARISON OF INFLATION (POINT-TO-POINT) IN SOUTH ASIAN COUNTRIES	62
FIGURE 6.5: MONTHLY WHOLESALE AND RETAIL PRICE OF RICE (COARSE) AND PADDY PRICE AT THE FARM LEVEL: JANUARY 2007 TO DECEMBER 2009.....	63
FIGURE 6.6: AVERAGE DAILY RICE WAGE OF AGRICULTURAL LABOUR (WITHOUT FOOD) IN BANGLADESH: 1990-91 TO JUNE 2009.....	64
FIGURE 6.7: COMPARISON OF DOMESTIC RICE PRICES IN BANGLADESH, INDIA (DELHI) AND THAILAND (BANGKOK): JANUARY 2006 TO DECEMBER 2009.....	65
FIGURE 6.8: TRENDS IN INTERNATIONAL PRICES OF WHEAT, SUGAR AND SOYBEAN OIL (CRUDE): JANUARY 2007- DECEMBER 2009.....	66
FIGURE 6.9: TRENDS IN INTERNATIONAL PRICES 26% WHOLE MILK POWDER: JANUARY 2007- DECEMBER 2009	67

List of Tables

TABLE 2.1:	BUDGET DEFICIT AND ITS FINANCING DURING THE FIRST QUARTERS OF FY2008-09 AND FY2009-10	8
TABLE 3.1:	DISBURSEMENT OF TERM LOANS AND WORKING CAPITAL.....	13
TABLE 3.2:	CLASSIFIED LOAN	14
TABLE 4.1:	SUPPLY OF FERTILIZER IN BANGLADESH.....	21
TABLE 4.2:	AGRICULTURAL CREDIT DISBURSEMENT IN FY2009-10.....	23
TABLE 4.3:	IMPORT OF FOOD GRAINS BY BANGLADESH IN FY2008-09	24
TABLE 4.4:	IMPORT OF FOOD GRAINS BY BANGLADESH IN FY2009-10	25
TABLE 4.5:	IMPORT OF FOOD GRAINS BY BANGLADESH IN 2008 and 2009	25
TABLE 4.6:	CHANGES IN GAS SUPPLY FOR VARIOUS ECONOMIC ACTIVITIES (%) (JULY-OCTOBER, 2009 OVER JULY-OCTOBER, 2008).....	28
TABLE 4.7:	FOREIGN INVESTMENT (IN MILLION USD).....	33
TABLE 4.8:	FDI INFLOW AFTER DEDUCTING FDI RELATED OUTWARD FLOW	33
TABLE 4.9:	EPZ WISE PERFORMANCE OF CURRENT INVESTMENT (IN MILLION USD)	34
TABLE 4.10:	REGISTRATION OF LOCAL AND FOREIGN INVESTMENTS WITH BOI (IN MILLION USD).....	34
TABLE 4.11:	SHARE OF MARKET CAPITALISATION OF DIFFERENT SECTORS AT DSE.....	36
TABLE 4.12:	IPO PERFORMANCE AT THE DSE.....	37
TABLE 4.13:	INSTALLED CAPACITY, GENERATION OF ELECTRICITY, AND DEMAND-SUPPLY GAP	39
TABLE 4.14:	STATUS OF THE POWER PLANT (AS OF DECEMBER, 2009)	40
TABLE 4.15:	GAS PRODUCTION IN DIFFERENT FISCAL YEARS (MMCM)	42
TABLE 5.1:	QUARTERLY EXPORT GROWTH (%) OF MAJOR COMMODITIES	44
TABLE 5.2:	DECOMPOSITION OF THE EXPORT GROWTH (%) DYNAMICS	44
TABLE 5.3:	EXPORT GROWTH (%) OF BANGLADESH'S MAJOR COMMODITIES (JANUARY-OCTOBER).....	45
TABLE 5.4:	GROWTH IN THE US IMPORT OF APPAREL ITEMS (KNIT & WOVEN)	47
TABLE 5.5:	FALLING PURCHASING POWER OF EXPORTS	47
TABLE 5.6:	IMPORT SITUATION OF SOME COMMODITIES IN FY2008-09 AND FY2009-10	50
TABLE 5.7:	OPENING AND SETTLEMENT OF L/CS IN 2008 AND 2009 (JANUARY - OCTOBER)	52
TABLE 5.8:	OPENING AND SETTLEMENT OF L/CS IN FY2008-09 AND FY2009-10 (JULY - OCTOBER) ..	53
TABLE 5.9:	INFLOW OF REMITTANCE TO BANGLADESH.....	54
TABLE 5.10:	BALANCE OF PAYMENTS.....	56
TABLE 5.11:	FOREIGN AID SCENARIO (IN MILLION USD)	59
TABLE 6.1:	COMPARISON OF RETAIL PRICES AND VARIABILITY IN RETAIL PRICES IN DHAKA: 2008 AND 2009	65
TABLE 6.2:	COMPARISONS OF INTERNATIONAL PRICES (FOB) AND VARIABILITY IN INTERNATIONAL PRICES, 2008 AND 2009.....	67
TABLE 7.1:	SECTOR WISE PLANNED ALLOCATION AND EXPENDITURE IN FY 2008-09.....	69
TABLE 7.2:	STATUS OF THE COMMUNITY CLINICS AS OF OCTOBER 2009	70
TABLE 7.3:	STATUS OF MAJOR SECONDARY EDUCATION PROJECTS TILL NOVEMBER 2009	72
TABLE 7.4:	CHANNEL WISE DISTRIBUTION OF FOOD GRAIN	75
TABLE 8.1:	EMPLOYMENT AND LABOUR MARKET OF BANGLADESH.....	79

Box

BOX 5.1:	DECLINING FROZEN SHRIMPS EXPORT.....	49
----------	--------------------------------------	----

Annexes

ANNEX 1:	STATUS OF AVAILABILITY OF INDUSTRY-RELATED INFORMATION (AS OF 5 JANUARY, 2010)	83
ANNEX 2:	SALIENT FEATURES OF THE THIRD STIMULUS PACKAGE	85

1. INTRODUCTION

The newly elected government led by the Awami League assumed power on January 6, 2009 and presented its first budget in June 2009. If macroeconomic management in FY2008-09 was shared equally (in terms of duration) by the CTG (first half) and the Awami League-led government (second half), governance of the economy in FY2009-10 has been the sole responsibility of the new government. Bangladesh economy was able to navigate the turbulent waters at a time of heightened global crisis, with commendable success, registering a 5.9 per cent GDP growth in FY2008-09. Both the CTG and the new government ought to share this credit. However, FY2009-10 started its journey at a time when lagged impact of the crisis, as was apprehended earlier, was becoming increasingly evident. A lower GDP growth target of 5.5 – 6.0 per cent was fixed for FY2009-10 in view of the emerging challenges; on the other hand, ambitious targets were set in line with the election manifesto of the Awami League, with higher targets for ADP, counter-cyclical measures that entailed higher budgetary deficits and a slew of measures to stimulate domestic demand and encourage investment.

In January, 2010 the government passed its first full year in power; meanwhile, Fiscal Year 2009-10 has also crossed its half-way mark. This Interim IRBD report of the CPD focuses primarily on the assessment of the performance of major macroeconomic indicators during July-December period of the ongoing FY2009-10. In the following sections an attempt has been made (a) to present an analysis of the performance of the major macroeconomic indicators for the duration of the first few months of FY2009-10 (where appropriate, calendar year 2009 has also served as the reference point), (b) to identify the strengths and weaknesses that emerged from this assessment and (c) to flag some of the emerging challenges that will need to be addressed by policymakers if near term (FY2009-10) and medium term targets in key sectors of the economy are to be attained.

2. PUBLIC FINANCE

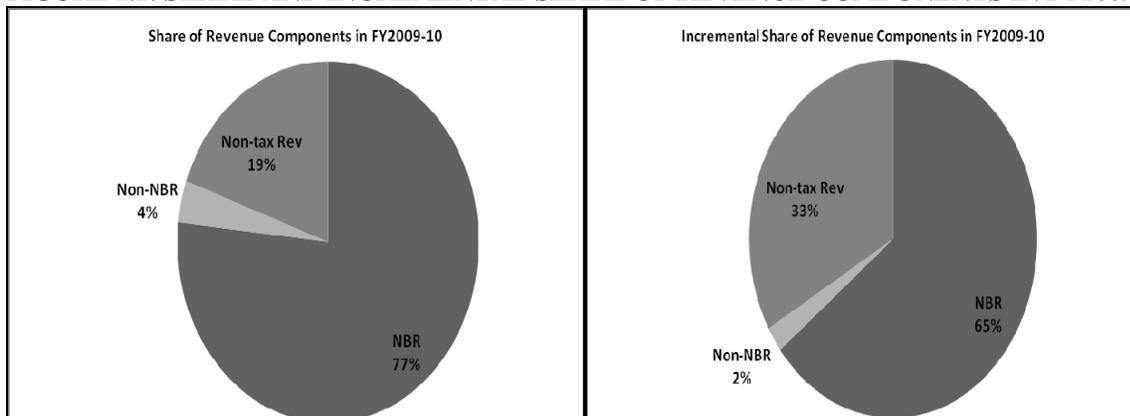
2.1 Revenue Mobilisation

Overall growth target for the government's revenue earnings for FY2009-10 was set at 19.9 per cent in the budget for FY2009-10. It appears that attaining this growth will be a challenge in the backdrop of the high benchmark performance during FY2008-09. As is known, in FY2008-09 because of high commodity prices, particularly during the first few months, import duty collection had posted a high performance. Historical trends in revenue collection suggests that, barring FY2007-08, such growth in revenue mobilisation had never been achieved since the early 1990s¹. Realising such a target would thus require energetic performance from all the three broad revenue components, viz. National Board of Revenue (NBR) tax, non-NBR tax, and non-tax. Composition of revenue targets for FY2009-10 would suggest that mobilising the additional revenue responsibility has been bestowed upon non-tax sources (incremental share of targeted revenue for non-tax sources is 33 per cent, significantly higher compared to 16 per cent share in

¹ It should be mentioned that FY2007-08 was an exceptional year for revenue mobilisation, as high growth rates for all the three revenue components were observed.

the total revenue) - as anticipated, NBR is expected to deliver lion's share of the total revenue in FY2009-10 (Figure 2.1).

FIGURE 2.1: SHARE AND INCREMENTAL SHARE OF REVENUE COMPONENTS IN FY2009-10



Source: NBR and Ministry of Finance.

NBR Component

During the first five months of the fiscal year (July-November), NBR was able to collect Tk. 21,616.8 crore which would mean that 35.4 per cent of the annual target has been achieved in this period. This also implies that a 15.5 per cent growth has been achieved over the NBR revenue collection during the matching period of FY2008-09. This is, however, marginally lower than the growth of 16.1 per cent targeted for the current fiscal year.

The aforesaid somewhat lower than projected growth rates posted for NBR revenue collection was primarily due to significantly lower growth in the collection of import related taxes (5.4 per cent growth was achieved during July-November against the annual growth target of 11.3 per cent). Import duty and VAT at import stage were particularly adversely affected by depressed demand originating in part from the ongoing global financial crisis, registering only a 2.4 per cent and 3.0 per cent growth during the first five months of the fiscal year against targets of 11.5 per cent and 11.0 per cent respectively. One may perhaps expect improved performance from these two sources over the rest of the fiscal year in view of signs of incipient global recovery which could trigger higher prices in the commodity market as well as acceleration in import demand. Thus, it may be noted in this connection, that during November 2009, revenue earnings from import duty and VAT at import stage achieved 6.3 per cent and 23.6 per cent growth over the corresponding month of the last fiscal.

Revenue losses on account of import related accounts mentioned above has been compensated, to some extent, by high growth of VAT at local stage of 26.1 per cent and income tax collection of 23.4 per cent, which were significantly higher than the targets of 14.8 per cent and 19.5 per cent respectively. Number of taxpayers also increased to 7.53 lakh until November, 2009 from 6.56 lakh of previous year. However, compared to the number of the taxpayer identification number (TIN) holders (around 24 lakh), number of those actually paying taxes has continued to be rather low (31.3%). As would be recalled, the provision for legalisation of “undisclosed income” was at the centre of attention when this year’s budget was placed. However, this provision has failed to attract any notable amount of investment of undisclosed money in

designated sectors during the first three months of the current fiscal year for which data is currently available. NBR has received only Tk. 0.35 crore as tax from declared undisclosed income of Tk. 3.0 crore during July-September of FY2009-10.

If we consider the calendar year of 2009, it is interesting to note that during January to November of 2009, revenue collection from NBR was able to register a double digit growth (10.7 per cent) over the corresponding period of 2008 despite the adverse impact of the global financial crisis. Whilst as would be expected, tax collection at import stage posted only 1.7 per cent growth during this period, indirect tax collection at local stage as also the income tax collection was able to demonstrate robust performance, registering 16.4 per cent and 19.1 per cent growth respectively.

Non-NBR Tax and Non-Tax Revenue

Available data for non-NBR tax revenue for the first three months of the current fiscal year indicate an opposite picture when compared with encouraging growth performance of the previous year (14.7 per cent against a growth target of (-) 1.0 per cent in the budget for FY2008-09). Tax collection from non-NBR sources² declined by 5.3 per cent during the first quarter of FY2009-10 over the corresponding period of the previous fiscal year. Given its smaller share in the overall revenue earnings one may not find this alarming, however, this certainly calls for closer examination. As was mentioned above, contribution of non-tax revenues³ was targeted to be at record high levels during the FY2009-10. Against a growth target of 39.4 per cent, during the first quarter only 7.9 per cent growth has been actually achieved. Thanks to robust performance on account of revenue collection from “interest, fees and tolls”, growth rate did not fall further. Revenue collection from “dividend & profit” and “post office & railway” declined by 35.9 per cent and 38.2 per cent respectively. Growth targets during FY2009-10 for revenue collection from “interest, fees and tolls”, “dividend & profit” and “post office & railway” were 46.8 per cent, 19 per cent and 56 per cent respectively. One could say that performance of non-NBR tax and non-tax revenue have somewhat tarnished the glaze of energetic performance of the NBR in the midst of the global financial crisis.

Revenue collection from non-NBR tax and non-tax was also below recent trends when compared in terms of calendar year. During the period of January to September of 2009, only 2.7 per cent and 1.8 per cent growth rates were scored respectively against the high benchmarks of 2008. During the similar period of 2008, revenue collection from non-NBR tax and non-tax registered a growth of 28.1 per cent and 25.0 per cent respectively over the corresponding period of 2007.

Aggregate Revenue Outcome

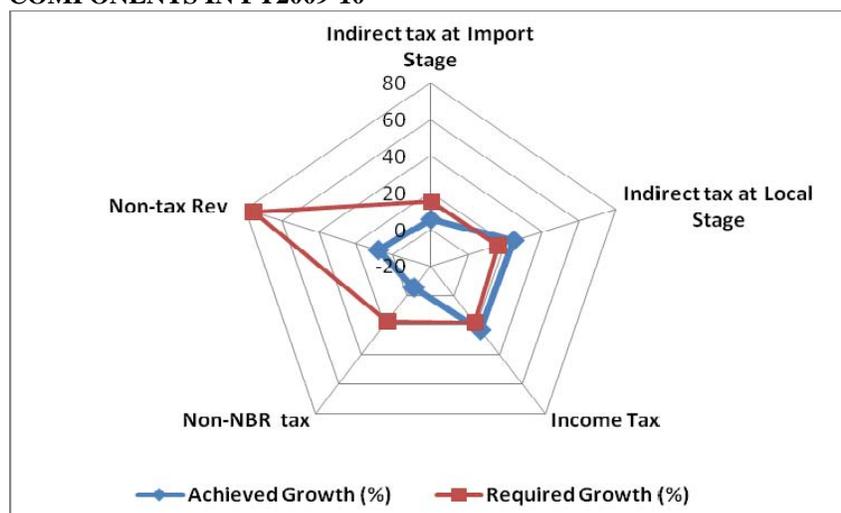
It is estimated that, given the current growth rates, NBR tax, non-NBR tax and non-tax revenue were likely to fall short of their respective targets by about Tk. 332.9 crore, Tk. 443.6 crore and Tk. 3509 crore respectively. This would mean that against the growth target of 19.9 per cent, only about 13.4 per cent growth would be achieved at the end of fiscal year if current trends persist. Thus, at the aggregate level, *total revenue collection in FY2009-10 may fall short of its target by about Tk. 4,286.0 crore, which would be equivalent to about 6.5 per cent of the total*

² Includes taxes on narcotics & liquor, vehicles, land, stamp.

³ Includes dividend & profit, post office & railway, interest/fees/tolls and other receipts.

revenue target.⁴ It is expected that with higher import demand in the coming months, revenue collection at import stage would recover to some extent. If the NBR succeeds in continuing to be vigilant in netting government revenue from local sources, the overall outcome for the entire fiscal year will hopefully be better than the projections suggest. However, concerns remain over the performances of the non-NBR component i.e. non-NBR tax and non-tax (Figure 2.2); performance of both of these broad heads will need to be significantly improved at the earliest. Non-NBR tax and non-tax revenue collection will require 17.3 per cent and 75.7 per cent growth over the October to June period of the rest of FY2009-10. Compared to non-NBR tax, non-tax sources are expected to contribute more to the government exchequer; the government must pay immediate attention to this issue. On the one hand, “indirect tax at local stage” and “income tax” would require a growth rate of 16.1 per cent and 18 per cent respectively over the last seven months of the fiscal year, lower than growth rate achieved thanks to their good performances. However, tax collection at import stage would require a 15.3 per cent growth over the December to June period which would call for renewed effort.

FIGURE 2.2: ACHIEVED AND REQUIRED GROWTH (FOR THE REST OF THE YEAR) OF REVENUE COMPONENTS IN FY2009-10⁵



Source: NBR and Ministry of Finance.

Overall, revenue growth performance during the early months of FY2009-10 reveals some positive developments in terms of compositional change in the revenue structure of Bangladesh. Income tax collection has remained strong, implying a continuation of the positive structural change seen in recent years.⁶ Higher tax collection at the local stage has compensated for the adverse impact of the global financial crisis, to some extent. This structural change that indicates a gradual and continuing shift from dependency on revenue collection at import stage, ought to be considered as a positive development.

⁴ A recent newspaper source suggests that NBR, in a report, has projected a revenue shortfall of Tk. 1,000 crore at the end of FY2009-10. See http://www.thefinancialexpress-bd.com/more.php?news_id=88698 for details.

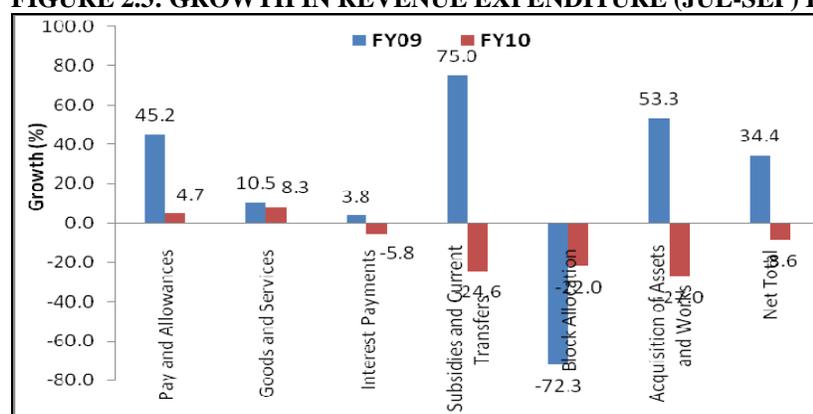
⁵ The required growth rate for NBR sources is for the period of December to June, while the required growth rates for non-NBR sources are for the period of October to June.

⁶ Income and direct taxes, as is known, are generally seen to be more equity-friendly compared to indirect taxes which are perceived to be regressive.

2.2 Revenue Expenditure

The first quarter of FY2008-09 recorded a high growth of 34.4 per cent in revenue expenditure, influenced by high prices that were prevailing both at the domestic and international markets at the time on account of higher costs of subsidies, and larger transfers. Similarly, significantly lower prices observed during the first quarter of FY2009-10 had resulted in lower revenue expenditure of the government, posting a decline of 8.6 per cent; effect of the high benchmark has also contributed to this negative growth. The fall in total revenue expenditure is mostly accounted for by a lower expenditure in subsidies and transfers (declining by 24.6 per cent compared to Jul-Sep of FY2008-09). Among the other two major heads of revenue expenditure, interest payments also recorded a fall of 5.8 per cent while pay and allowances registered a usual growth rate of 4.7 per cent⁷ (Figure 2.3).

FIGURE 2.3: GROWTH IN REVENUE EXPENDITURE (JUL-SEP) IN FY2008-09 & FY10



Source: Monthly Fiscal Report (various issues), Ministry of Finance

It may be noted that revenue expenditure by the government during the first quarter of FY2009-10 amounted to only 15.9 per cent of the total revenue expenditure budget (which was 21.9 per cent during the corresponding period of FY2008-09). This has created some space for the government to accommodate future expenses. However, it needs to be kept in mind that the expenditure from the new pay scale for government employees is yet to be reflected in the available expenditure figures. At the same time, the new stimulus package adopted in December 2009 was also likely to add to the subsidy expenditure. Gradually increasing oil prices in the global market, underpinned by signs of recovery in the global economy, will also create additional demand on account of increased subsidy, especially over the later part of the fiscal year. Thus, revenue expenditure situation for the third and subsequent quarter of FY2009-10, as it becomes available, could evince a somewhat different picture when compared with the picture of the first few months of FY2009-10.

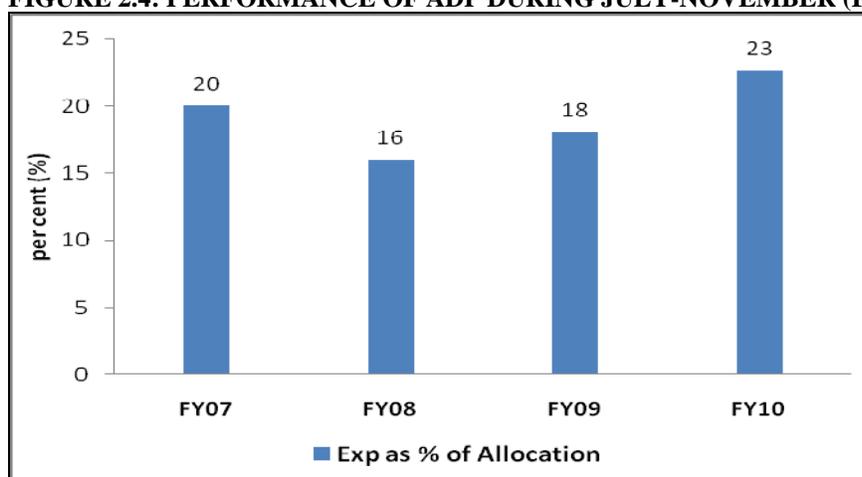
2.3 Annual Development Programme (ADP)

As is known, ADP allocation and implementation rates (as percentage of GDP) had been on the decline over the last decade. The ADP for FY2009-10 was fixed at Tk. 30,500 crore which was

⁷ These three heads of revenue expenditure (Pay and Allowances, Interest Payments and Subsidies and Current Transfers) contributed 93.0 per cent of the total revenue expenditure during Jul-Sep of FY2009-10.

the largest allocation for public investment programme in the history of Bangladesh, in monetary terms. Implementation of ADP during July-November of FY2009-10 has improved considerably compared with the corresponding periods of FY2006-07, FY2007-08 and FY2008-09 (Figure 2.4). Expenditure records show that during the first five months of the fiscal year 22.6 per cent of the total ADP allocation has been utilized. Latest released government statement indicates that the implementation of ADP during the first half of FY2009-10 could be 28 per cent of total allocation. This is a welcome record when considered in light of historical trends; however, this would also mean that over the next six months 72 per cent of the ADP allocation will need to be spent if the ADP target is to be attained.

FIGURE 2.4: PERFORMANCE OF ADP DURING JULY-NOVEMBER (FY07 TO FY10)



Source: IMED.

In terms of actual expenditure in monetary terms, performance of ADP utilisation in FY2009-10 registered a 52.3 per cent growth over the corresponding period of FY2008-09 (Tk. 6,901 crore and Tk. 4,531 crore respectively). By any account, this is a significant improvement over recent performance on account of development expenditure in Bangladesh. If the line ministries are able to continue this upward trend, this is expected to have positive implications for the economy from the perspective of employment generation, infrastructure development and *crowding-in* private sector investment. However, the pace of implementation will need to be further accelerated.

Project assistance utilisation for the first five months of FY2009-10 stands at Tk. 2896 crore (22.5 per cent) of the original allocation. To compare, for the same period in FY2008-09, Tk. 1833 crore (15 per cent) of total project aid allocation was utilised. It is widely believed that the recent modifications made in case of process of awarding ADP projects to bidders and concern over some changes in procurement rules⁸ had somewhat slowed down the implementation of aided projects because of uncertainties arising out of donor reaction.⁹

⁸Such as provision of lottery for awarding projects and exclusion of experience requirement for projects not exceeding Tk. 5 million.

⁹This has since been resolved by the government decision that changes in procurement rules will only be applicable for government-funded projects.

The top five ministries (in terms of allocation) received 63.1 per cent of the total ADP allocation. Among these, Local Govt. Division had the highest utilisation rate at 30.5 per cent while Ministry of Communication had the lowest utilisation rate at 12.5 per cent; Power Division, focus of much attention was able to use, only 17.8 per cent of its total allocation. These five ministries had an average implementation rate of 24.8 per cent.

The 20 ministries that were allowed to develop their respective budgets under the Medium Term Budgetary Framework (MTBF) initiative had an implementation rate of 24.6 per cent, only insignificantly higher than the overall implementation rate of 22.6 per cent. Among these ministries, Energy and Mineral Resources Division and Ministry of Land had the highest implementation rates, at 66 per cent and 57 per cent respectively, while Ministry of Fisheries and Livestock (8 per cent), and Ministry of Housing and Public Works (4 per cent) experienced rather poor implementation rates.

In view of the global financial crisis, and the need for much more developed infrastructure to improve the investment scenario in the country, implementation of the ADP is critically important indicator. As was seen, there are some signs of improvement in this respect especially in terms of absolute amount of money spent. However, what is no less important is the efficacy and the quality of implementation. Here, a renewed effort is called for better monitoring of the project implementation, and a continuing assessment of whether the expected outcomes were being achieved.

Earlier, budget analysis of CPD had mentioned how size of the ADP carries over the burden of backlog of “expired” and/or “aged” projects. This problem could get further aggravated in FY2009-10 unless special attention is put on the issue of completion of projects on time. An earlier CPD study revealed that issues related to early stages of ADP implementation, such as “tender process” and “land acquisition,” have emerged as major bottlenecks which indeed implied an upstream (digressive) movement of the impediments in the project implementation cycle. In other words, in recent times launching of a project itself has become a challenge along with the challenge of maintaining the timeline of implementation. The government is expected to make a mid-term revision of ADP allocation in this month which is a welcome decision. It is hoped that this exercise will consider not only the monetary utilisation of projects, but also put under scrutiny the quality aspects of ADP utilisation.

2.4 Budget Deficit and Financing

Price slide and lower subsidy burden along with low ADP expenditure had resulted in decline in budget deficit during FY2008-09 by 6.9 per cent compared to FY2007-08. The first quarter of FY2009-10 recorded a Tk. 963.0 crore deficit (excluding grants¹⁰) which was more than 33 times (!) of that of the matching period of FY2008-09 (of 26.6 crore).¹¹ Higher deficit of the current fiscal year could be attributed, in a positive tone, to improvements in the pace of ADP implementation; ADP expenditure during this period of FY2009-10 was higher by about Tk. 740

¹⁰ Budget deficit during Jul-Sep of FY2009-10 amounts to Tk 917.5 crore if grants are included

¹¹ This figure which is mentioned in the September 2009 issue of Monthly Fiscal Report of Ministry of Finance should, however, be interpreted with some caution. It appears that significant methodological restructuring has been made in the reporting of the Ministry.

crore. On the other hand, bearing in mind a Tk. 30,182.6 crore deficit that has been projected for the current fiscal year in the budget, the first quarter deficit was still on the low side.

With regard to financing of the deficit, it is important to note that foreign financing in net terms was negative during the first quarter. Gross foreign financing was of Tk. 721 crore, which was Tk. 1,138 crore during the corresponding period of FY2008-09 (Table 2.1). However, amortisation payment of Tk. 937.2 crore in the current fiscal year resulted in a net outflow of Tk. 215 crore, which was an inflow of Tk. 219.1 crore in the matching period of FY2008-09.

TABLE 2.1: BUDGET DEFICIT AND ITS FINANCING DURING THE FIRST QUARTERS OF FY2008-09 AND FY2009-10

Description	Jul-Sept FY09	FY10	
		Budget	Jul-Sept
Foreign Borrowing-Net	187.5	8672.4	-215.5
Foreign Borrowing	1106.7	13214.9	721.6
Amortisation	-919.3	-4542.4	-937.2
Domestic Borrowing	-160.9	16380.1	1133
Borrowing from Banking System (Net)	3117	12580.3	3047.3
Long-Term Debt (Net)	3119	12577.4	2507.9
Short-Term Debt (Net)	-2	2.9	539.4
Non-Bank Borrowing (Net)	-3277.9	3799.8	-1914.2
National Savings Schemes (Net)	726	3276.9	2712.3
Others	-4003.9	523	-4626.5
Total - Financing :	26.6	25052.6	917.5

Source: Monthly Fiscal Report, Ministry of Finance, September, 2009.

In the event of the decline in foreign financing, the government opted for domestic sources in financing of the deficit. Total domestic borrowing amounted to Tk. 1133 crore in the first quarter of FY2009-10, which was negative Tk. 161 crore in the previous year. However, it is interesting to note that non-bank borrowing amounted to negative Tk. 1914.2 crore during the first quarter of FY2009-10, notwithstanding the fact that net sale of NSD certificates recorded a phenomenal growth of 273.6 per cent during this period. This is due to other non-bank sources (which include treasury bills and bonds held by the NBFIs) that contributed (-) Tk. 4626.5 crore in deficit financing, perhaps owing to disinvestments of the NBFIs in government treasury bills and bonds. However, the case was similar in the previous fiscal year.

Owing to negative non-bank and foreign financing, high bank borrowing of Tk. 3047.3 crore was recorded during the first quarter of FY2009-10. High growth in bank borrowing (45.2 per cent) provided the government with low-cost financing for the aforesaid budget deficit. However, in view of the potential inflationary pressure in near future, emanating from prospects of global economic recovery and associated price hike in the global commodity market, it is perhaps desirable to opt for non-bank sources as bank borrowing tends to be more inflationary compared to non-bank borrowing. It will also be logical to predict a heightened financing pressure in the near future from improved ADP implementation that was observed in the later months of the ongoing fiscal year as well as from implementation of the new pay scale and the declared

stimulus package. On the other hand, inflow of foreign assistance may experience upturn in the coming months (as indicated by higher commitments of the World Bank and the ADB for the current fiscal year¹²) that could lead to reduced pressure on domestic financial resources.

Whilst analysing fiscal indicators, a number of data issues have cropped up that need to be highlighted and duly addressed. As was noted above, Monthly Fiscal Report of the Ministry of Finance (for the month of September, 2009) suggests a Tk. 26.6 crore deficit for the first quarter of FY2008-09. However, September 2008 issue of the publication reports the amount at Tk. 3086.8 crore (!) for the same period of FY2008-09. On the other hand, Bangladesh Bank reports the deficit for the same period to be Tk. 7538 crore. Deficit figure for the first quarter of the current fiscal year also differs between the Bangladesh Bank report and the MoF report. These issues need to be settled to facilitate analysis of the current state of economic affairs and to undertake appropriate policy planning.

3. MONETARY SECTOR

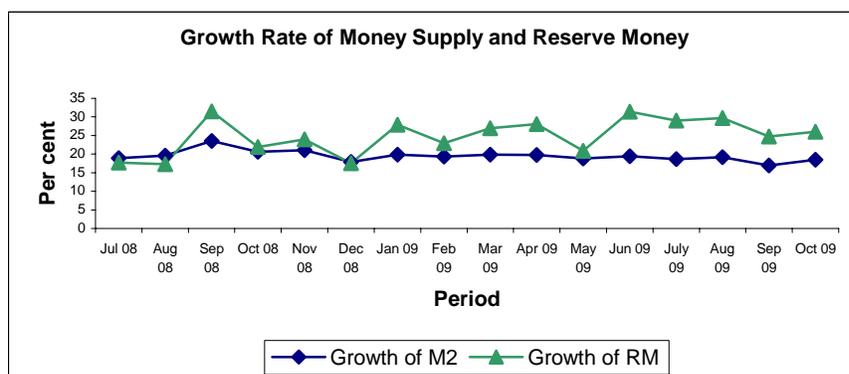
Bangladesh has successfully cushioned itself from the headwinds of the ongoing financial crisis and remained largely unaffected by the global economic slowdown mainly due to its limited openness to short term capital flows, and the robust performance of its export sector and remittance flows. However, the emerging challenges in an increasingly uncertain global economic environment require that the monetary policy stance of the country play a key role in stabilising inflation, sustain a high trend of economic growth while maintaining an exchange rate that would uphold the exporters' and consumers' interest. Taking note of the trends in the global commodity markets, the Bangladesh Bank in its Monetary Policy Statement (MPS) for the first half of the FY 2009-10 emphasised mainly on credit growth to support a targeted GDP growth of 6.5 per cent and reduction of money supply through a flooring of the Cash Reserve Ratio (CRR). Since then a number of changes have taken place in the monetary sector of Bangladesh which will need to be addressed in the upcoming MPS. The following sections provide an overview of these changes in terms of a number of important indicators pertaining to the monetary sector during the second half of FY 2008-09 and the first half of FY 2009-10.

3.1 Money Supply

Data shows that broad money (M2) has increased by 18.5 per cent in October 2009 compared to October 2008 (Figure 3.1). On the other hand, during July-October period of FY 2009-10 the M2 increased by 5.42 per cent as opposed to 6.06 per cent during July-October of FY2008-09. Reserve money (RM) as of October 2009 had increased by 26.04 per cent compared to October 2008 and the main determinant for this, net foreign assets component, has experienced an increase of 68.59 per cent during the same period. Figure 3.1 shows the trend of M2 and RM over the years.

¹² The World Bank and the ADB have recently committed increased annual assistance to Bangladesh over the next three years: USD1096.90 million and USD800 million (annually) respectively.

FIGURE 3.1: GROWTH RATE OF MONEY SUPPLY AND RESERVE MONEY



Source: Bangladesh Bank.

The decline in M2 can be related to the decline of inflation rate in FY 2008-09. Inflation rate started to increase towards the end of 2007 and beginning of 2008 due to continued price hike in the global commodity market and increase in domestic food prices. Since October 2008 inflationary pressure started to ease very slowly from a rate of 10 per cent inflation (12-month annual average CPI, 1995-96 = 100) experienced in July 2008. Inflation rate continued to decline throughout calendar years 2008 and 2009 due to a rapid fall of commodity prices including fuel prices in the international market and bumper production of boro crop in the country. As a result, inflation rate was well within the government's projected rate of 9 per cent in the FY 2008-09. In October 2009 the 12 month average inflation rate came down to 5.14 per cent compared to 9.8 per cent in October 2008. Point to point inflation rate also decline from 7.26 per cent in October 2008 to 6.71 per cent in October 2009.

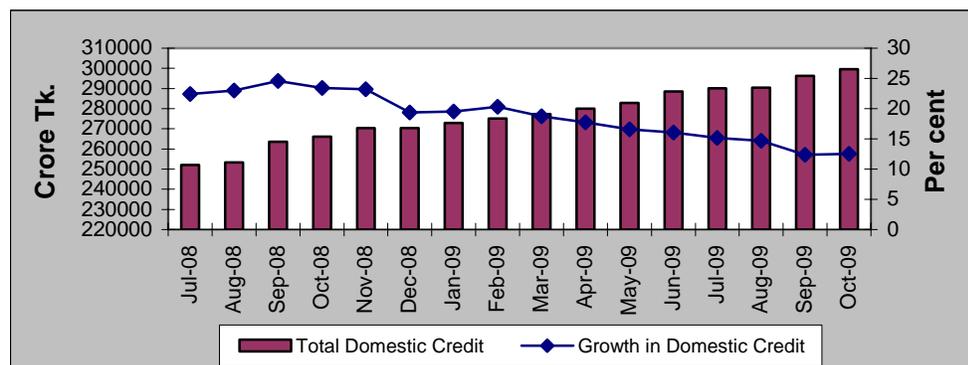
Though food inflation was much higher than non-food inflation the increase in non-food inflation had also been significant. The 12 month average non-food inflation, particularly due to high price of petroleum products was as high as 7.31 per cent in January 2008 which came down to 5.33 per cent in January 2009 and to 5.23 per cent in October 2009 as opposed to 5.89 per cent in October 2008. The 12 month point to point food inflation rate was 8.08 per cent in October 2008 which came down to 7.78 per cent in October 2009. The 12 month point to point non-food inflation declined to 5.07 per cent in October 2009 from 5.95 per cent in October 2008. It is to be noted that inflation rates in South Asian countries are also on a declining trend except for India where in the first quarter of FY 2009-10 the economy has faced an inflation rate of 11.7 per cent compared to 4.7 per cent in Bangladesh, 10.7 per cent in Pakistan and 0.9 per cent in Sri Lanka.

3.2 Domestic Credit

Domestic credit which stood at Tk. 299545.10 crore in October 2009 experienced an increase of Tk. 33364.6 crore or by 12.53 per cent from October 2008 (Figure 3.2). However, domestic credit had increased by almost 23.4 per cent over the period October 2007 and October 2008. On the other hand, domestic credit had only increased by 3.81 per cent over the period July-October 2009 compared to 7.04 per cent increase in July-October 2008. The increase in domestic credit over the period October 2008-2009 and October 2007-2008 can be mainly attributed to private sector credit which increased by 15.4 per cent and 24.7 per cent respectively over this period.

Public sector credit only increased by 3.72 per cent during October 2008 and October 2009, a significant fall from the increase of 19.6 per cent it had experienced during October 2007 and October 2008. Credit to the “other public sector” though showing an increase of 6.58 per cent over the period October 2008 and October 2009 reflects a fall from 14.06 per cent over the period October 2007 and October 2008.

FIGURE 3.2 DOMESTIC CREDIT

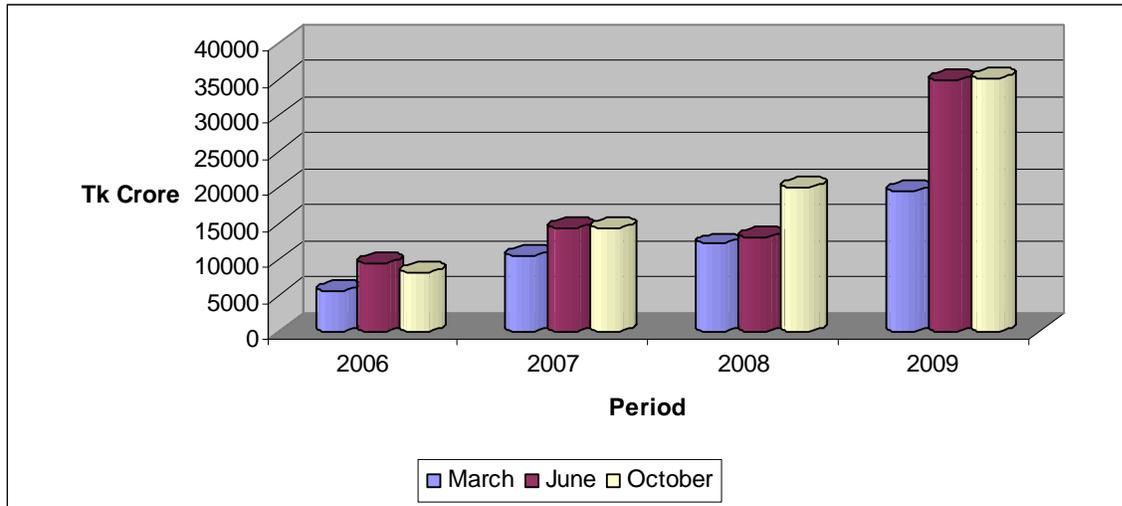


Source: Bangladesh Bank.

3.3 Excess Liquidity

One of the uncomfortable features of the monetary sector in FY 2008-09 had been the increase of excess liquidity with the scheduled banks which continued to show up in the first few months of FY 2009-10. When the first quarter of the FY 2009-10 is compared with the first quarter of FY2008-09, the rate of growth of excess liquidity is only 1.0 per cent during June-October 2009-10 as opposed to 60.56 per cent during the same period of FY2008-09. The lower growth rate of excess liquidity in recent months is mostly because of the fact that excess liquidity has already been on the rise, at a faster rate, since February 2009 and reached record high to Tk. 34,762.08 crore in June 2009 (Figure 3.3). In October 2009 excess liquidity stood at Tk. 35111.1 crore compared to Tk.20853.9 crore for the corresponding month of the previous year. With high excess liquidity and low demand for credit banks are investing in government treasury bills (T-bills) which are considered to be risk-free investments. The rates of 91-day, 182-day and 364-day T-bills were 7.87, 8.08 and 8.56 per cent respectively in October 2008 which declined to 2.14, 3.51 and 4.57 per cent respectively in October 2009. The impact of decline in excess liquidity has also started to be reflected in call money rate which was 5.02 per cent in December 2009 compared to 1.71 per cent in June 2009.

FIGURE 3.3 EXCESS LIQUIDITY



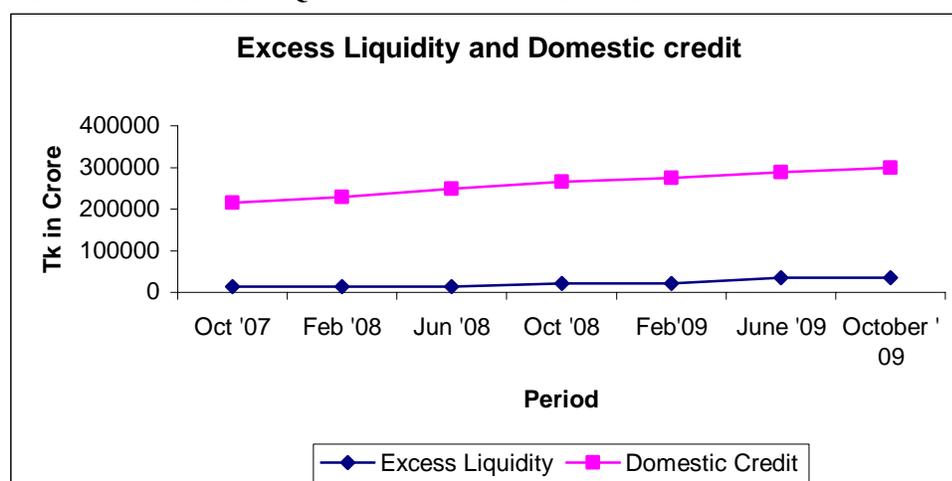
Source: Bangladesh Bank

Movements in excess liquidity in recent months reflect to a certain extent the domestic credit scenario of the country. Compared to the end of October 2008, growth in excess liquidity at the end of October 2009 was 62.76 per cent; in contrast, the growth in domestic credit was only 12.53 per cent; credit to the public sector grew by 3.72 per cent whilst credit to the private sector grew by 15.42 per cent (Figure 3.4). Lower growth in domestic credit and high excess liquidity with banks indicate that pace of investment had not picked up following assumption of power by the newly elected government. As has been mentioned in the IRBD 2008-09 of CPD, during the preceding CTG period the country experienced a dull investment scenario due to the anti-corruption drive, global financial crisis and uncertainties with regard to future direction of the country.

Excess liquidity situation reflects lack of appetite of the business sector for credit which could be due to the combined impact of slow recovery of the confidence level among the business community, global economic slow down and lack of infrastructural facilities, particularly supply of gas & power. Lack of demand is also reflected through the fact that even after the reduction of Repo and Reverse Repo to 4.5 per cent and 2.5 per cent in November and December 2009 there was no improvement in the credit disbursement scenario. In March 2009 these rates were reduced to 8.5 per cent and 6.5 per cent respectively for Repo and reverse Repo respectively from 8.75 per cent and 6.75 per cent respectively in December 2008. One possible way to ease the situation could have been by increasing economic activities through infrastructural investments under Public Private Partnership (PPP) initiative which was introduced in the budget of FY 2009-10. Unfortunately, no visible movements are in sight, as of now, with respect of the PPP initiative making any headway.

Low level of credit flow from banks also has a knock-on negative impact on the profitability of these institutions which in turn could reduce the income of the governments as banks will need to pay less tax due to lower profit.

FIGURE 3.4 EXCESS LIQUIDITY AND DOMESTIC CREDIT



Source: Bangladesh Bank.

3.4 Industrial Credit

Continued sluggishness in investment is also reflected through disbursement of industrial term loan. Industrial term loan disbursement stood at Tk. 5403.23 crore for the period July – September 2009 registering an increase of 9.14 per cent when compared to the period July-September 2008 (Table 3.1). Except for foreign banks and non bank financial institutions which reflected a negative growth of 86.24 per cent and 21.59 per cent respectively, all other banks showed an increase in term loan disbursement over the period July-September 2009 compared to the same period of the previous year. State owned commercial banks (SCB) posted highest growth in disbursement, of almost 75 per cent, but experienced 40.0 per cent lower level of recovery over the above mentioned period

Disbursement of working capital evinces an insignificant increase of 2.03 per cent even though recovery shows a positive growth of 10.96 per cent over the period July–September 2009 and July-September 2008. The SCBs registered a negative growth of 45.80 of working capital disbursement when the July-September 2009 and July-September 2008 periods are compared. Foreign Banks have recorded the highest disbursement of working capital of 20.83 per cent and recovery of 67.22 per cent in July-September 2009 compared to the same period in the previous year.

TABLE 3.1: DISBURSEMENT OF TERM LOANS AND WORKING CAPITAL

Banks and Financial institutions	Loans Disbursed as of July to Sep 08			Loans Disbursed as of July to Sep 09		
	Working Capital	Term Loan	Total	Working Capital	Term Loan	Total
SCBs	1079.92	138.98	1218.9	585.37	243.12	828.49
PCBs (D)	9927.43	3303.49	13230.92	10362.96	4445.81	14808.77
PCBs (F)	987.03	793.53	1780.56	1192.61	109.22	1301.83
SBs	316.39	81.74	398.13	372.49	108.59	481.08
NBFIs	104.82	633.19	738.01	153.7	496.49	650.19
Total	12415.59	4950.93	17366.52	12667.13	5403.23	18070.36

Source: Bangladesh Bank.

3.5 Agricultural Credit

The central bank has made disbursement of agricultural credit mandatory for all commercial banks. In light of this, disbursement of agricultural credit during July-November 2009 stood higher at Tk. 4249.69 crore compared to Tk. 3378.56 crore during July-November 2008, a growth of 25.78 per cent. This is mainly due to the incremental allocations of the specialized banks such as Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB). The BKB disbursed a total of Tk. 1602.67 crore and RAKUB disbursed Tk. 200.69 crore, the highest amongst all financial institutions. ‘Crop loan’ and ‘others’ under agricultural credit, followed closely by the head ‘poverty alleviation’ accounted for highest disbursement of agricultural credit which amounted to Tk.1452.65 crore, Tk.1187.64 crore and Tk.1008.19 crore respectively. Both government and private commercial banks contributed to this.

3.6 Loan Default Scenario

Total classified loan for July-September of FY2009-10 stood at Tk. 2385.43 crore, registering a decrease of almost 6.63 per cent over the corresponding figure of July-September of FY2008-09 (Table 3.2). Local private banks and non-bank financial institutions accounted for an increase of almost 6.80 per cent and 3.86 per cent respectively as on September, FY2009-10 over the same period of the previous year. Foreign banks, which were unable to make any progress in reducing classified loans, registered an increase by 50.16 per cent over the above mentioned period. However, state-owned commercial banks were able to show significant improvement in terms of reducing their classified loans by 16.66 per cent. Though the percentage share of non-performing loans (NPL) to total outstanding loan in all commercial banks has been declining over the last few years, the rate of decline was not fast enough to reach single digit level. In June 2007, the share of classified loan to total outstanding loan was 14.04 per cent at the end of September 2007. This declined to 12.34 per cent at the end September 2008 and to 10.36 per cent in 2009. The high rate of NPL with the banks, particularly with the SCBs, reflects the need for significant improvement in services provided by these institutions, in terms of quality and efficiency. Evidently, proper feasibility of projects before sanctioning of loans and supervision of loan recovery process have to be significantly strengthened if the amount of NPL is to be reduced. In this connection, the central bank has recently instructed the commercial banks to follow up cases of classified loans more closely to correct the existing situation.

TABLE 3.2: CLASSIFIED LOAN

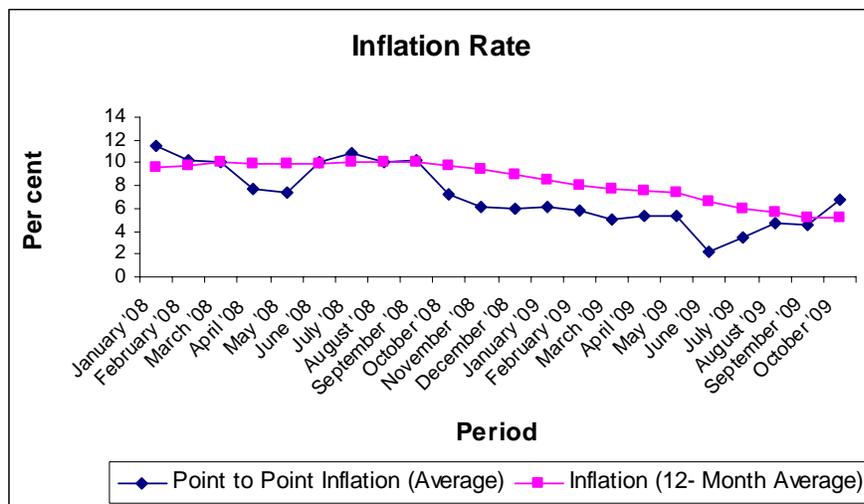
Bank Type	As of September 08 (Tk. Cr)	As of September 09 (Tk. Cr)	Percentage changes
SCBs	14343.79	11954.28	-16.66
PCBs	6716.78	7173.28	6.80
FBs	249.83	375.15	50.16
DFIs	3761.74	3906.8	3.86
Total	25072.13	23409.51	-6.63

Source: Bangladesh Bank.

3.7 Inflation

Inflation rate declined in 2009 due to a rapid fall in commodity prices including fuel prices in the international market and bumper production of boro crop in the country. As a result, inflation rate was well within the government's projected rate of 9 per cent in the FY 2008-09. In October 2009 12 month average inflation rate had come down to 5.14 per cent compared to 9.8 per cent in October 2008 (Figure 3.5). The 12 month point to point inflation rate also declined from 7.26 per cent in October 2008 to 6.71 per cent in October 2009.

FIGURE 3.5: INFLATION RATE



Source: Bangladesh Bank.

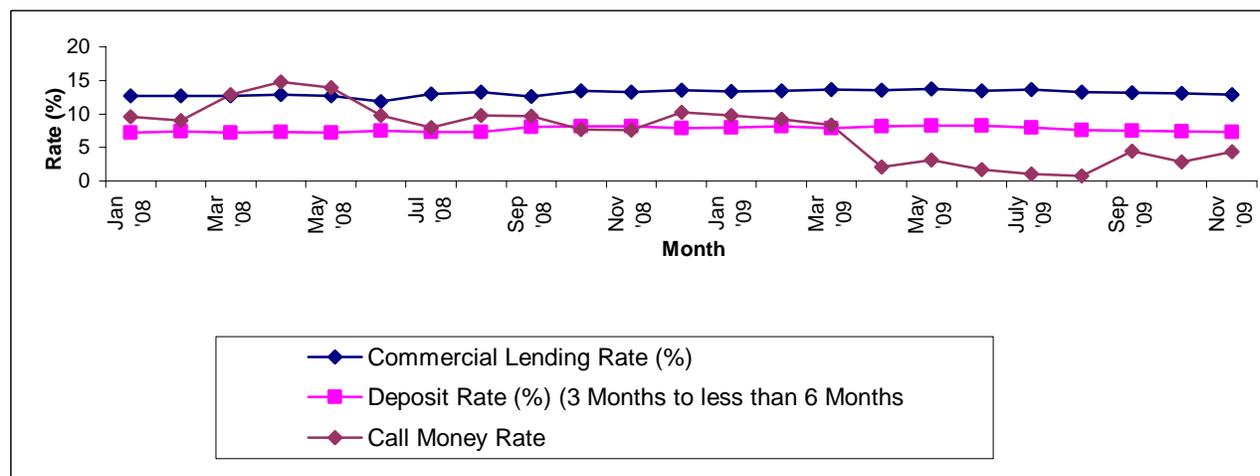
Even though average inflation has remained low at the end of October, 2009, there are possibilities for inflation to gain pace in the coming months. Implementation of the pay scale of the government employees could add to the inflationary pressure when fully implemented. *First*, the implementation of the annual development programme (ADP) is expected to gear up during the second half of FY 2009-10 which is likely to increase the money in circulation. *Second*, the recently observed higher trend in price of rice could continue. *Third*, high foreign exchange reserves and robust remittance flow could also add to inflationary pressure.

3.8 Interest Rate

In view of the high spread between lending and borrowing rates, interest rate has continued to be a debated issue for quite some time now. In 2008, the Bangladesh Bank went so far as to put a cap on the lending rate to 13 per cent. As of November 2009, commercial lending rate has come down 12.87 per cent compared to 13.24 per cent in November 2008 (Figure 3.6). Over the period of last 23 months the month of May 2009 registered the highest lending rate of 13.77 per cent. Additionally, deposit rate had also come down to a 7.33 per cent as of November 2009 compared to 8.15 per cent in the corresponding month of the previous year. This increase in the interest rate spread (IRS) implies that there has been a deeper cut in deposit rates by the banks when compared to cuts in lending rates. Consequently, a rise in net sales of National Savings Directorate (NSD) certificates has been observed which stood significantly higher at Tk. 2289.59 crore in October 2009 against Tk. 1036.04 crore in October 2008. The cut in deposit rate resulted

in small investors finding NSD certificates more attractive as an invest opportunity since these guaranteed higher rates of return. This will no doubt increase future debt burden of the government - the October 2009 figure showed an increase of outstanding borrowing at 14.04 per cent compared to that of October 2008 figure. However, this type of borrowing would perhaps have a positive impact on inflation situation.

FIGURE 3.6: LENDING AND DEPOSIT RATES



Source: Bangladesh Bank.

The reasons for high IRS in Bangladesh are mainly low efficiency in the banks and high risk of lending. Banking system is yet to be automated totally, and efficiency level of the system is low. This increases cost of operation and disbursement and supervision of loans. Besides, since the probability of loan default is very high, banks are not comfortable to reduce lending rates further which could help to narrow down the spread.

3.9 Foreign Exchange Reserve

Foreign exchange (forex) reserve situation has improved quite significantly in recent times and reached an all time high of USD 10.26 billion (04 January 2010) compared to USD 5.82 billion on the same date in 2009. Buoyant foreign remittance flow, steady export revenue and lower import expenditure have contributed to this. The task at hand is to manage the reserves prudently ensuring its concordance with other aspects of monetary policy such as inflation and exchange rate policies. Portfolio management of the reserves and risk management are also important in this context.

With a view to utilise this significant amount of forex the Bangladesh Bank has started to relax certain regulations guiding utilisation of forex reserves. One such initiative is the permission given to local banks to provide loans in foreign currency to local companies. Earlier, companies with hundred per cent foreign equity could only give loans to them in foreign currency and local companies needed permission from the offshore banking unit of Bangladesh Bank for this. Some of the foreign banks (Citibank N.A., HSBC, Standard Chartered Bank, Woori Bank and Bank of Ceylon) working in the country had already started offshore banking more than ten years ago. Some local banks could also give loans in foreign currency with the permission of the central

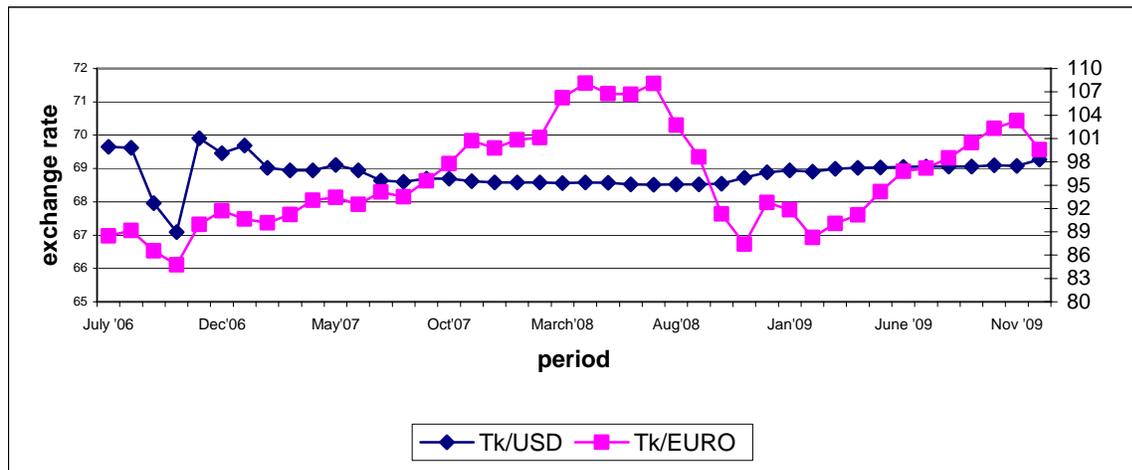
bank. At present, six private commercial banks have received permission to go for offshore banking. This initiative has met the long standing demand of large local companies for making foreign currency loans easily available to operate in the global market. This facility could encourage Bangladeshi investment abroad and as a result these companies will be able to do business with their own foreign currency in future. However, in order to continue the operation of offshore banking smoothly, due care should be taken that enough reserves are there in future. A few large companies have already availed of this facility while others are waiting in the line.

The other ways to make good use of forex reserves could be to diversify the mode of reserve. For example, the central bank can buy gold with a portion of the reserve as the central banks in some of the other countries including India are going for this option.

3.10 Exchange Rate

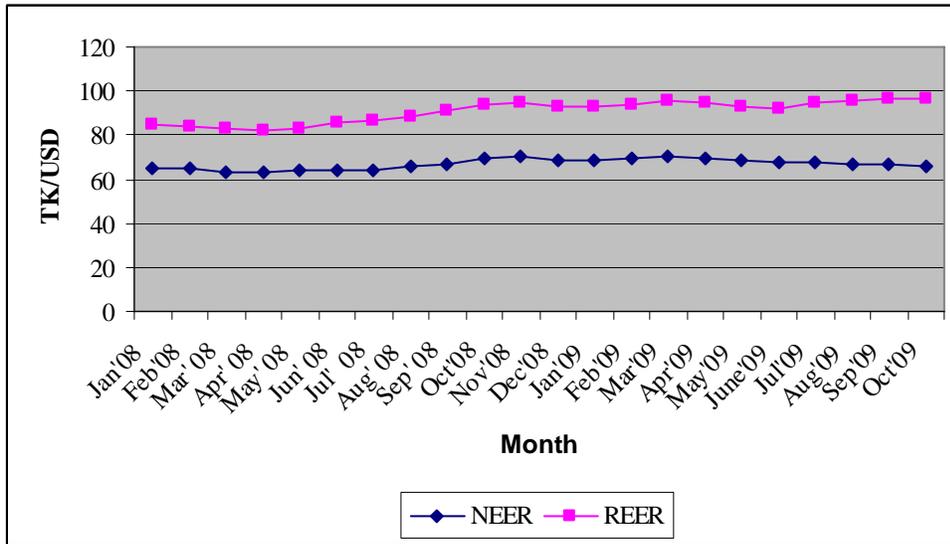
The exchange rate between Bangladesh Taka (BDT) and the United States dollar (USD) has remained fairly stable with the BDT depreciating by a small amount against USD to Tk. 69.27 as of December 2009 when compared to Tk. 68.89 in December 2008 (Figure 3.7). There is no Euro/BDT market in Bangladesh and Euro/BDT rate is calculated from the traded rates of USD/BDT. BDT has depreciated against Euro from Tk. 92.75 in December 2008 to Tk. 99.57 as of December 2009. BDT has also depreciated against the Indian rupee (INR), albeit only marginally, by 2.8 per cent. However, depreciation of BDT against the INR in recent months will help the Bangladeshi exporters especially as the export from Bangladesh to India is showing promising signs of growth. The real effective exchange rate (REER) of BDT against USD has traditionally been lower than the Nominal Effective Exchange Rate (NEER), undervaluation of BDT against USD implies that BDT has a depreciated value in terms of REER (Figure 3.9).

FIGURE 3.7: EXCHANGE RATES



Source: Bangladesh Bank.

FIGURE 3.8: NOMINAL AND REAL EFFECTIVE EXCHANGE RATE



Source: Bangladesh Bank.

Performance of the monetary sector has been mixed during the calendar years 2008, and early months of FY2009-10. Though inflation rate experienced downward trend in the first few months, it has started to pick up in the recent months. Foreign exchange reserves also reached a record high level. However, flow of domestic credit is yet to pick up. Future monetary policy stance of Bangladesh Bank will have to take measures to keep inflation rate down since the increasing domestic prices, rise in global commodity prices and high foreign exchange reserves may put further pressure on the inflation rate. Monetary policy should be geared towards containing inflation and stimulating investments in productive sectors.

Monetary sector policies of a country basically are driven by both domestic and global factors. The purpose of monetary policy in countries such as Bangladesh is not only to achieve growth but to eradicate poverty and inequality. At present the Bangladesh Bank is striving for achieving these objectives through emphasizing the need for credit to sectors such as agriculture and small and medium enterprises (SME). While these initiatives are very important to fulfill the objectives of meeting the needs of those who are lagging behind, and are important agents for change in the country, the role of the central bank to achieve high growth through large investments, management of exchange rates to encourage exporters, importers and remitters, prudent utilisation of foreign exchange reserves, productive use of excess liquidity and contain the inflation growth rate are also critical. Along with pursuing accommodative monetary policy institutional reforms in the financial sector will need to be continued with a view to instilling dynamism in the market by encouraging greater efficiency. Encouraging offloading of bank shares in the capital market, improving loan default scenario and ensuring compliance with new requirements and regulations in line with Basel II conversions¹³ will be important issues that the future MPS of the Bangladesh Bank will need to address.

¹³ Basel II will require, inter alia, increase of capital adequacy ratio by banks.

4. REAL SECTOR

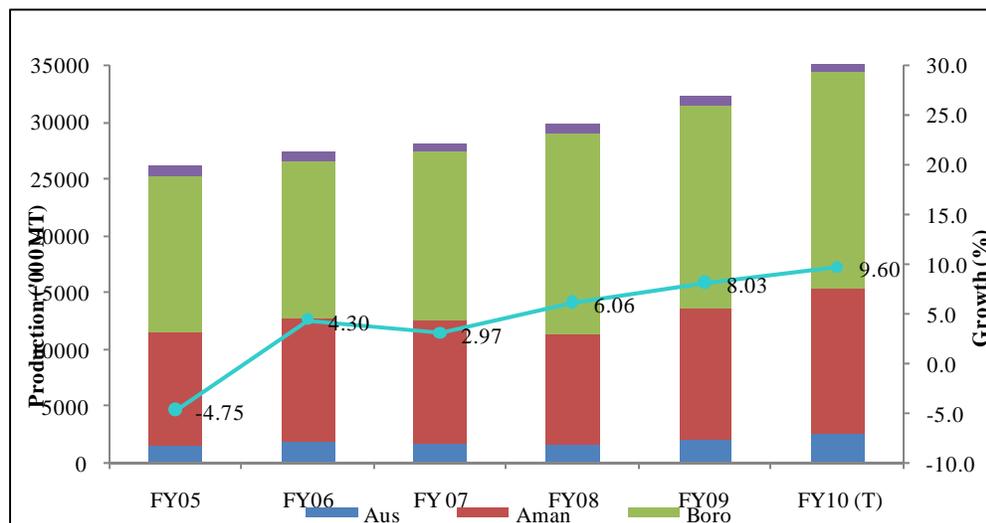
4.1 Agriculture

Production and Procurement of Food grains

According to the final estimates of the Bangladesh Bureau of Statistics (BBS), total production of food grains (rice and wheat) in FY2008-09 was 32.16 million metric tons (mmt) (Aus: 1.89 mmt, Aman: 11.61 mmt, Boro: 17.81 mmt and wheat: 0.85 mmt) which was 8.0 per cent higher than the previous fiscal year (FY2007-08) (Figure 4.1). Higher production of food grains in FY2008-09 was due to good harvest of rice in all the three seasons (Aus, Aman and Boro) and wheat. Total rice production in FY2008-09 was 8.2 per cent higher than previous year.

The Department of Agricultural Extension (DAE) has set the operational target for production of food grains in FY2009-10 at 35.25 mmt (Aus 2.49 mmt, Aman 12.74 mmt, Boro 19.00 mmt and wheat 1.02 mmt) which was 9.6 per cent higher than actual production in FY2008-09. According to the estimates of the BBS, total Aus production in FY2009-10 is 1.71 mmt, which is 9.7 per cent lower than previous year (FY2008-09) but 31.3 per cent less than the targeted production level of FY2009-10. Cultivation of Aman rice in some areas was affected by early drought in 2009. The MoA provided no-cost electricity for irrigation pumps in the drought-prone areas for Aman cultivation. Farmers have by now harvested the Aman crop. According to the DAE, total production of Aman rice is 13.10 mmt (B. Aman: 0.51 mmt, and Local and HYV T. Aman: 12.59 mmt), which is 12.83 per cent higher than actual production in FY2008-09 and 3.15 per cent higher than the production target in FY2009-10. However, achievement of food grain production target in FY2009-10 will mainly depend on the production of Boro rice, which contributes more than 55 per cent of total food grains in Bangladesh.

FIGURE 4.1: FOOD GRAIN PRODUCTION TARGET IN FY2009-10



Source: Bangladesh Bureau of Statistics (BBS) and Department of Agricultural Extension (DAE).

Boro production in the current season has special significance due to recent developments in the global food production situation. Global rice production in 2009-10 is projected to be lower than previous year. According to the USDA Rice Outlook (11 December 2009), global rice

production in 2009-10 will decline by 3.0 per cent; production is reckoned to be 433.9 mmt. Decline in production is primarily due to reduction in the cropped area. Substantial decline in production in India, due to erratic monsoon, has been forecasted for this year. Rice production in the Philippines is going to be lower due to damage from several Typhoons. On the other hand, production in Uruguay, Brazil and Argentina is likely to drop by 5 per cent because of drought. FAO Rice Market Monitor (September 2009) also predicted a decline in rice production in 2010. According to the first advanced estimate of the Indian government (made by the Department of Agriculture and Cooperation on 3 November 2009), production of Kharif rice will be 69.45 mmt in 2009-10 against 84.58 mmt in 2008-09 (i.e. reduction of 15.13 mmt of rice). In response to the emerging situation, the government of India has removed 70 per cent import tax on certain varieties of rice effective from October 2009. Duty-free imports of semi and wholly-milled rice will now be permitted until 30 September 2010. It may be noted that India has been continuing ban on export of non-Basmati rice since April 2008. As is known, during the food crisis in 2007 and 2008, export restrictions imposed by India had a negative impact on food grains prices in Bangladesh and also on international rice price. India was also thinking to import from the global market to increase its public food stock but after assessing the stock position of rice in December 2009, Indian government decided not to import rice for their central pool.

Directorate of Food has started to procure Aman rice in Bangladesh since December 7, 2009 at a price of Tk. 22 for one kg of rice and Tk. 14 for a kg of paddy. The government has declared that it will procure 300 thousand mt of rice equivalent (comprising 150 thousand mt of paddy and 200 thousand mt of rice) until 28 February 2009. At present, farmers are selling paddy at the rate of Tk. 14.50 to Tk. 15.00 per kg; average wholesale price of coarse rice was Tk. 22.67 per kg in December 2009. Consequently, as of now, progress of Aman procurement was low. Until 26 December 2009, total procurement of Aman was only 560 mt of rice equivalent (comprising 546 mt of rice and 22 mt of paddy). Considering the public stock situation of food grains (more than 1100 thousand mt of rice and wheat) and farm level prices of paddy and rice (which is higher than procurement price), the government should not be worried about achieving the target of Aman procurement. The government may now focus on ensuring Boro production. It will be prudent to announce now the procurement price of Boro paddy and Boro rice in 2010. A recent CPD study¹⁴ projected that average cost of production of upcoming Boro paddy and Boro rice was likely to be Tk. 11.88 and Tk.18.84 per kg, respectively. Therefore, the government may declare procurement price for Boro paddy and Boro rice at Tk. 15.00 per kg and Tk. 25.00 per kg, respectively and set the target of Boro Procurement at 1500 thousand mt of rice equivalent in 2010. In 2009, procurement price of Boro paddy and rice was fixed at Tk. 14 and Tk. 22 per kg, respectively and total amount of Boro rice procurement at the time was 1196 thousand mt.

Input supply and subsidy for the crop sector

Fertilizer: It goes without saying that supply of adequate level of fertilizer, in time, was essential to ensure agricultural production. According to the Ministry of Agriculture (MoA), fertilizer use in FY2008-09 was 28.00 lakh mt comprising 24.00 lakh mt of Urea, 2.00 lakh mt of TSP, 0.50 lakh mt of DAP and 1.50 lakh mt of MoP (Table 4.1). It was substantially lower than any year over the last five years. Low use of fertilizers, particularly non-urea fertilizers (such as

¹⁴ Deb, U.; Khaled, N.; Bairagi, S.K.; Al Amin, M.; Ahamad, M.G. and Tasnima, K. (2009). Achieving Boro Rice Production Targets in FY2009-10: Challenges and Actions Required. Keynote paper presented at the CPD Dialogue held at the CIRDAP Auditorium, Dhaka on 23 December 2009.

TSP, MoP and DAP), may be explained by exorbitantly high price of those fertilizers which prevailed during the first half of the fiscal year (July 1, 2008 -January 12, 2009). In December 2008, compared to May 2008, price of urea fertilizer at the farm level increased from Tk. 6 to Tk. 14 per kg, price of TSP from Tk. 34 to Tk. 75-80 per kg, price of DAP from Tk. 39 to Tk. 90 per kg, and price of Murate of potash (MoP) from Tk. 30 to Tk. 45-48 per kg. It was reported that farmers used lower quantity of non-urea fertilizer in the Aman season and for cultivation of potato and winter vegetables because of the prevailing high price. Under this circumstance, on 13 January 2009, the newly elected government fixed the price of TSP, MoP and DAP at Tk. 40, Tk. 35 and Tk. 45 per kg, respectively. It was a timely decision to provide subsidy for non-urea fertilizer which contributed to promoting balanced fertilizer use and reduction in cost of production. The government was able to implement the decision at the local level and farmers could obtain fertilizers at the declared prices. The MoA has estimated total demand for fertilizer in FY2009-10 to be 40.95 lakh mt comprising 28.00 lakh mt of Urea, 5.95 lakh mt of TSP, 2.50 lakh mt of DAP and 4.50 lakh mt of MoP. Estimated fertilizer demand in FY2009-10, compared to the last year is substantially high for all fertilizers.

TABLE 4.1: SUPPLY OF FERTILIZER IN BANGLADESH

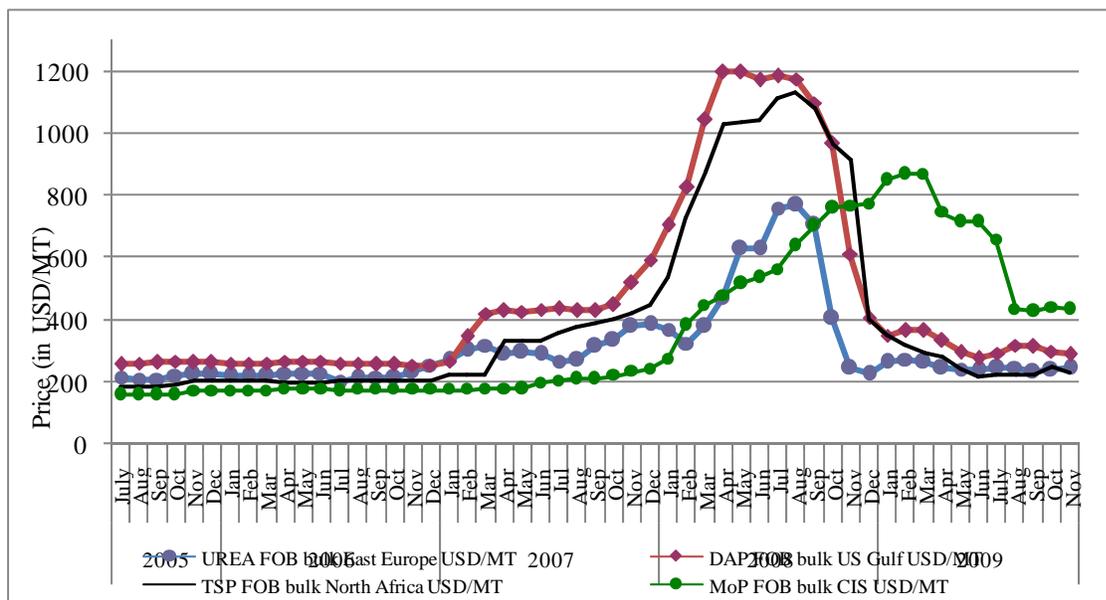
(in lakh MT)

	FY2005-06	FY2006-2007	FY2007-08	FY2008-09	FY2009-10 (Allocation)
Urea	24.61	25.27	26.68	24.00	28.00
TSP	4.36	3.4	4.61	2.00	5.95
DAP	1.3	1.15	2.50	0.50	2.50
MoP	2.91	2.3	4.01	1.50	4.50
Total	33.18	32.12	37.80	28.00	40.95

Source: DAE, MoA.

International prices of all types of fertilizers have decreased significantly between January and November 2009 (Figure 4.2). Within this period, international price of urea decreased from USD 263 to USD 245 per mt (i.e. 7 per cent decrease), while that of DAP decreased from USD 351 to USD 290 per mt (17 per cent decrease). During this same time, price of TSP decreased from USD 350 to USD 229 per mt (around 35 per cent decrease), and price of MoP decreased from USD 853 to USD 435 per mt (about 49 per cent decrease). In view of the decline in fertilizer prices in the international market, and to promote balanced use of all fertilizers, recently (on November 2, 2009) the government has announced reduction of administered price of non-urea fertilizers. Administered prices of a kg of TSP, MoP and DAP have been re-fixed at Tk. 22.00, Tk. 25.00 and Tk. 30.00 from Tk. 40.00, Tk. 35.00 and Tk. 45.00, respectively. With the reduction of administered price of non-urea fertilizers, use of such fertilizers is expected to increase substantially in FY2009-10 and beyond. Considering the currently prevailing low prices of fertilizers in the international markets, government may now consider importing the required amount of fertilizer for the coming seasons.

FIGURE 4.2: INTERNATIONAL PRICES OF FERTILIZERS (UREA, DAP, TSP AND MOP): JULY 2005 - NOVEMBER 2009



Source: Commodity market review (various issues), World Bank.

Diesel and Electricity for Irrigation: Production of Boro rice also depends on diesel irrigated irrigation. About three-fourth of the total irrigation in Bangladesh is under diesel operated engines. Cost of irrigation is higher in Bangladesh than in India (Punjab and Andhra Pradesh), Thailand and Vietnam. Considering this, recent government decision to provide Tk. 350 crore as subsidy for diesel is a pragmatic decision. During the Boro season (November-March) of FY2008-09, consumption of electricity by irrigation pumps was 764.08 mkwh (PDB and REB). This year (FY2009-10), the government has directed Power Development Board (PDB) to ensure 1664 MW daily for use by irrigation pumps in the Boro season, but PDB will perhaps be able to supply only about 1288 MW daily. The government has also declared that it will continue with the 20 per cent subsidy for electricity used in irrigation pumps. Timely implementation of these decisions will hopefully yield positive results.

Agricultural Credit: The government had earlier announced that it will put special emphasis on expansion of agricultural credit to the farmers in FY2009-10. Private Banks and NGOs have been encouraged and are being engaged in distribution of agricultural credit. In the national budget for the fiscal year FY2009-10, Tk. 11,512.30 crore has been put on account of agricultural credit which is 24.0 per cent higher than that of actual distribution in the FY2008-09. For the first time in Bangladesh’s history, Bangladesh Bank announced an allocation of Tk. 500 crore exclusively for the sharecroppers as agriculture credit during FY2009-10. This will be disbursed to the tenant farmers through BRAC. Government has also taken a number of strategies in its Annual Agriculture/Rural Credit Policy and Programme for FY2009-10 to meet up financing needs of the farmers through various local organisations. Through the agricultural credit policy, the banks have been directed to give priority to underdeveloped and neglected areas.

Agricultural loan disbursement and recovery showed a promising trend in FY2009-10 mainly due to Bangladesh Bank's strong move to encourage private commercial banks to provide such loans. During July-November of FY2009-10, total disbursement of agricultural credit stood at Tk. 4249.69 crore, which is 25.78 per cent higher than the disbursement during the comparable period of FY2008-09 (Table 4.2). On the other hand, total disbursement of agricultural credit in the first five months was 36.9 per cent of the total target for FY2009-10. On June 2009, Bangladesh Bank issued a directive to all state-owned commercial banks to suspend agricultural loan recovery activities in *Aila-hit* areas for the next one year. Recovery of agricultural credit during July-November in FY2009-10 stood at Tk. 4,049.09 crore (86.5 per cent higher than the comparable months of FY2008-09). Thus, in net terms, credit to the agriculture sector registered a significant rise both in terms of credit inflow and recovery. The maximum increase has taken place in case of credit disbursement for irrigation equipment, livestock and crop sub sectors.

TABLE 4.2: AGRICULTURAL CREDIT DISBURSEMENT IN FY2009-10

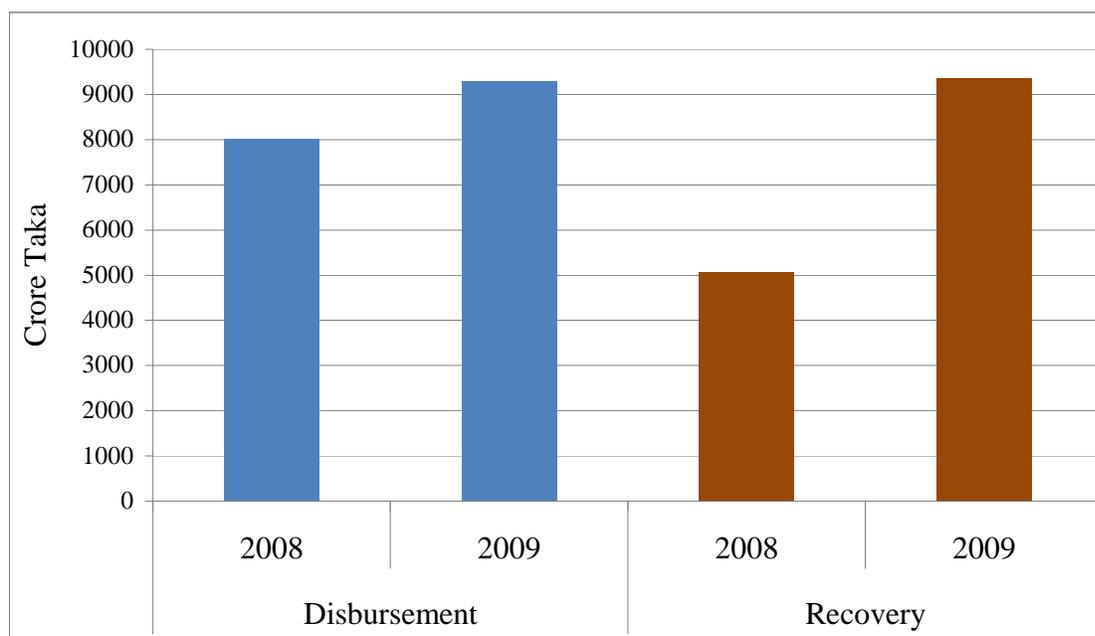
(Crore Tk..)

Agriculture credit	Disbursement in FY08	Disbursement in FY09	Disbursement (July-Nov'FY09)	Disbursement (July-Nov'FY10)	Growth of Disbursement in FY10 as % of FY09
Crop	2578.73	2084.17	1062.98	1452.65	36.66
Irrigation Equipment	13.79	102.19	19.37	28.86	48.99
Agriculture Equipment	34.03	107.16	26.2	28.48	8.70
Livestock	447.86	464.79	216.62	297.37	37.28
Fisheries	395.18	477.01	156.56	202.62	29.42
Grain Storage and Marketing	143.93	310.92	51.49	43.88	-14.78
Poverty Alleviation	2262.97	1945.07	625.1	1008.19	61.28
Others	2704.17	2793.15	1220.24	1187.64	-2.67
Total Disbursement	8580.66	9284.46	3378.56	4249.69	25.78
Recovery	6003.7	8377.62	2170.83	4049.09	86.52

Source: Bangladesh Bank (BB).

In 2009 (January to November), agricultural credit disbursement was Tk. 9305.84 crore while agricultural credit recovery was Tk. 9372.83 crore (Figure 4.3). During this period, agricultural credit disbursement and credit recovery was respectively 15.9 and 84.7 per cent higher than that of the comparable months in 2008. Recovery of agricultural credit was 63.2 per cent of agricultural credit disbursement in 2008 and 100.7 per cent in 2009.

FIGURE 4.3 DISBURSEMENT AND RECOVERY OF AGRICULTURAL CREDIT IN 2009 (JANUARY-NOVEMBER) AND 2008 (JANUARY-NOVEMBER).



Source: Bangladesh Bank.

Import of Food Grains

Imports of food grains to Bangladesh are made from two sources: food aid and commercial imports. The latter comes through both government and private channels. In FY2008-09, total food grain import was 3013 thousand mt (rice: 603 thousand mt and wheat: 2410 thousand mt) which was 12.8 per cent lower than total import in FY2007-08 (Table 4.3). Total import of rice in FY2008-09 was 70.5 per cent lower than that of the previous fiscal year. Total import of wheat (2410 thousand mt) was 17.9 per cent higher than that of FY2007-08, only 116 thousand mt of imported food grains (3.8 per cent of total import) was obtained as food aid. Most of the commercially imported rice by the public sector (386 thousand mt) in FY2008-09 was delivery of rice by India purchased in the previous fiscal year (FY2007-08). Amount of commercially imported wheat in FY2008-09 (2324 thousand mt) was 1.88 times of FY2007-08. The greater part (87.3 per cent) of the wheat import was done by the private sectors.

TABLE 4.3: IMPORT OF FOOD GRAINS BY BANGLADESH IN FY2008-09

(In Thousand MT)

Category of imports	FY2007-08			FY2008-09		
	Rice	Wheat	Total Food grains	Rice	Wheat	Total Food grains
Food Aid	80	175	255	30	86	116
Public Commercial Import	536	97	633	386	294	680
Private Import	1431	1138	2569	187	2030	2217
Total	2047	1410	3457	603	2410	3013

Source: Food Planning and Monitoring Unit (FPMU), Ministry of Food and Disaster Management.

During the first six months (July-December'09) of FY2009-10, there was no commercial import of rice (Table 4.4). On the other hand, commercial import of wheat was to the tune of 1925

thousand mt, which was 184.3 per cent higher than that of FY2008-09. Private sector imported 94.6 per cent of the commercially imported wheat. Increased production of rice in the country along with lower domestic price are the underlying factors for reduction in rice import in the current fiscal year. On the other hand, low level of domestic production along with increasing demand for wheat-based products has increased the demand for import of wheat. It may be recalled here that current wheat production (about 850 thousand mt) is not even 50 per cent of the highest production of wheat in FY1999-00 (1840 thousand mt). Production of wheat has declined in the country due to change in climate, lack of comparative advantage and opportunities for producing alternative crops (maize) with higher return.

TABLE 4.4: IMPORT OF FOOD GRAINS BY BANGLADESH IN FY2009-10

(In Thousand MT)

Category of imports	FY2008-09 (July- December)			FY2009-10 (July -26 December)		
	Rice	Wheat	Total Food grains	Rice	Wheat	Total Food grains
Food Aid	28.0	26.4	54.4	3.6	16.1	19.8
Public Commercial Import	396.0	201.0	597.0	0.0	104.8	104.8
Private Import	49.0	476.0	525.0	0.0	1819.8	1819.8
Total	473.0	703.0	1176.0	3.6	1940.8	1944.4

Source: Food Planning and Monitoring Unit (FPMU), Ministry of Food and Disaster Management and MISMD Division, Directorate General of Food.

As is known, the present government has its intention declared to attain self-sufficiency in food grains by 2012 and reduce dependence on import of food grains, particularly rice. An analysis of food grain imports during the last one year (2009) of the present government show that only 147 thousand mt of rice was imported in the country in 2009 against an import of 1685 thousand mt of rice imported in 2008 (Table 4.5). Quantity of wheat imported in 2009 was 3662 thousand mt which was 3.26 times more than that of the previous year.

TABLE 4.5: IMPORT OF FOOD GRAINS BY BANGLADESH IN 2008 and 2009

(In Thousand MT)

Category of imports	2008			2009		
	Rice	Wheat	Total Food grains	Rice	Wheat	Total Food grains
Food Aid	92.7	101.2	193.9	9.5	89.2	98.7
Public Commercial Import	590.7	201.0	791.7	0.0	199.2	199.2
Private Import	1001.2	820.2	1821.4	137.5	3374.0	3511.6
Total	1684.6	1122.0	2806.6	147.0	3662.4	3809.4

Source: Food Planning and Monitoring Unit (FPMU), Ministry of Food and Disaster Management.

4.2 Industrial Sector

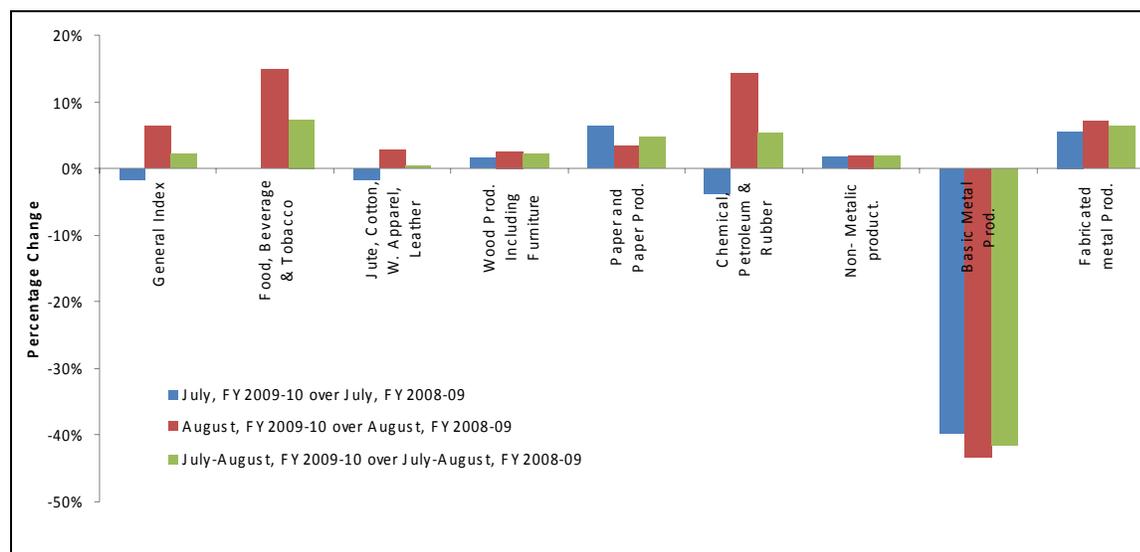
In recent times industrial sector of Bangladesh has experienced considerable volatility in terms of production, export and investment originating from various external and internal factors. Attaining 6 per cent growth for the industrial sector, as projected for FY2009-10, would be rather challenging and impressive in view of the emergent scenario. Regrettably, in absence of real time data, it is difficult to assess the performance of the industrial sector on an ongoing basis; it is still more difficult to make projections based on whatever data is available for FY2009-10. Annex 1

shows the poor state of information available with regard to major industrial sector indicators which should have been provided by concerned public and private sector organizations.

Industrial Growth

Large and medium scale manufacturing industries registered only 2.2 per cent growth during the first two months of the current fiscal year (July-August of FY2009-10 against corresponding period of the previous year) for which data is currently available. The growth was negative in July, 2009 (-1.8 per cent) (Figure 4.4). Because of the better performance in January-June 2009 period, the growth rate would appear to be better for the period January-August, 2009 (4.9 per cent over matched period of last year). All major industries demonstrated better performance during this period when compared to last year except basic metal products. Small scale industries, which are largely domestic market-oriented, have performed better by attaining a 7.5 per cent growth during January-June, 2009 when average growth of large and medium enterprises was 6.0 per cent.

FIGURE 4.4: CHANGES IN QIP OF LARGE AND MEDIUM SCALE MANUFACTURING INDUSTRIES, JULY-AUGUST PERIOD OF FY2009 AND FY2010



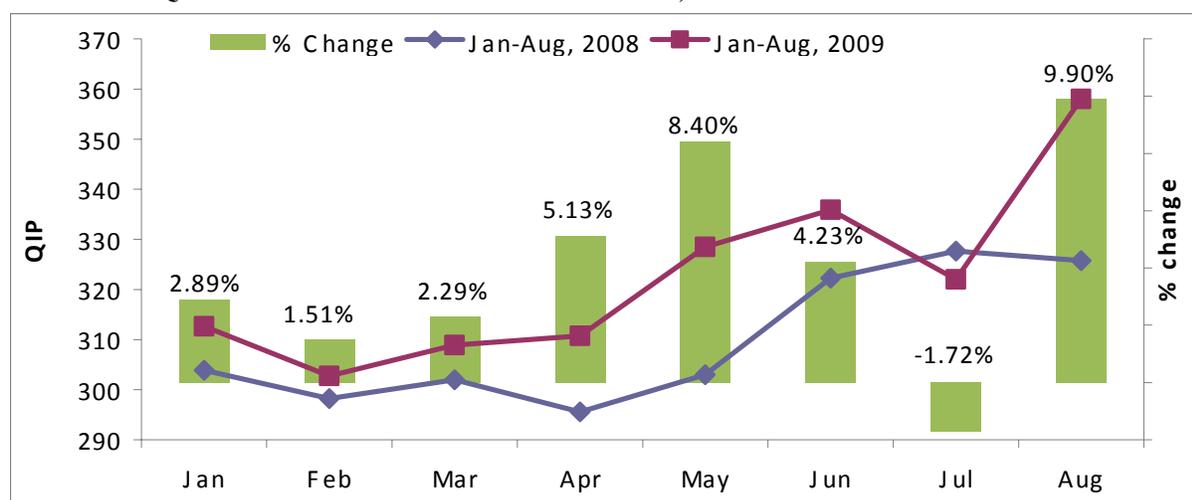
Source: Bangladesh Bank.

Major export-oriented industries were able to post only an insignificant growth in production during July-August, 2009 (growth of jute, cotton and wearing apparels was 0.4 per cent). Negative export growth of knitwear (-4.3 per cent) and woven wear products (-7.3 per cent) during July-October, 2009 would imply that production of these items have experienced a fall in the corresponding and preceding months. Rise of global demand for jute goods in first four months of FY2009-10 was yet to be reflected in the production of jute goods (growth was -0.19 per cent in August, 2009 on a point to point basis). In December, 2009 government decided to ban export of raw jute with a view to reduce its price in domestic market as well as to ensure its availability for local manufacturers. The decision has several implications: first, the decision was expected to reduce domestic price of raw jute but this did not happen (40.8 per cent high in December, 2009 compared to the previous year); second, the ban has covered export of 'stable fibre jute' which is categorised as 'raw jute'. The government should review its decision with

regard to export ban on jute fibres; indeed the government should undertake periodic review of the decision in order to avoid possible adverse affect on farmers.

Domestic market-oriented manufacturing industries have registered better growth performance in July-August, 2009 compared to those of export-oriented one. A QIP estimated separately for large and medium scale manufacturing enterprises, other than major export items (i.e. jute, cotton and wearing apparels, BSIC 32), indicates 4.1 per cent growth for those enterprises both in July-August, 2009 and in January-July, 2009 (Figure 4.4). Performance of public sector enterprises was rather mix; except for jute, production of other items such as cotton yarn, fertilizer and cement has declined in August, 2009 compared to the same period of the previous year.

FIGURE 4.5: QIP OF INDUSTRIES OTHER THAN JUTE, COTTON AND WEARING APPARELS



Source: BBS.

Electricity consumption by industrial and commercial units in a given time period could be a good proxy for analysing the performance of industrial activities. During July-October, electricity consumption for various kinds of industrial and commercial activities was 3107.99 Mkw, which was 8.6 per cent higher compared to the previous year. The rise in electricity consumption in July-October period indicates that there had been some rise in industrial production in the months of September and October in 2009. This is also corroborated by growth of export in the month of October and, also likely, November, 2009. Gas supply to all major economic activities related to industry has registered an increase of between 10 per cent and 19.5 per cent during July-October, 2009 except that of fertilizer industry (-18.3 per cent) (Table 4.6). A reduction of gas supply to fertilizer factories, as per government decision, has reduced monthly production in August, 2009 by 38.7 per cent. As is known, inadequate supply of electricity and gas has become a major constraint to use of capacity at enterprise level and new investments.

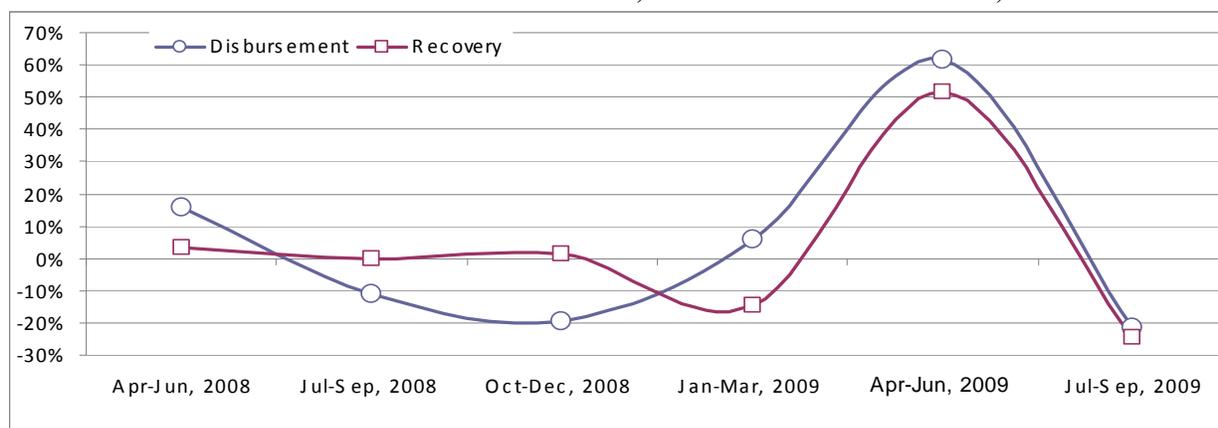
TABLE 4.6: CHANGES IN GAS SUPPLY FOR VARIOUS ECONOMIC ACTIVITIES (%) (JULY-OCTOBER, 2009 OVER JULY-OCTOBER, 2008)

Sources	Power	Fertilizer	Captive power	Industry	Commercial
Public	7.7	-20.6	-1.8	7.0	19.4
Private	30.0	-12.1	19.9	15.9	10.2
Total	15.4	-18.3	19.5	15.6	10.3

Investment in Industrial Sector: Term Loan, Working Capital, Outstanding Credit

Investment in the industrial sector, particularly disbursement of industrial term loans in July-September, 2009 was Tk.5403 crore, which was 9 per cent higher compared to the previous year. Trends in disbursement and recovery of term loans for large, medium and small scale industries indicate that the July-September quarter in 2009 experienced a deceleration after a rise in April-June, 2009 (Figure 4.6). The jump in April-June, 2009 was perhaps related to injection of fresh funds under the stimulus package announced by the government for export-oriented and domestic market oriented industries in April 2009. Net disbursement of term loans, however, does not show an encouraging flow of funds to small industries (Tk.72 crore at the end of September, 2009).

FIGURE 4.6: TRENDS IN CHANGES OF DISBURSEMENT AND RECOVERY FOR LARGE AND MEDIUM SCALE INDUSTRIES FROM APRIL-JUNE, 2008 TO JULY-SEPTEMBER, 2009



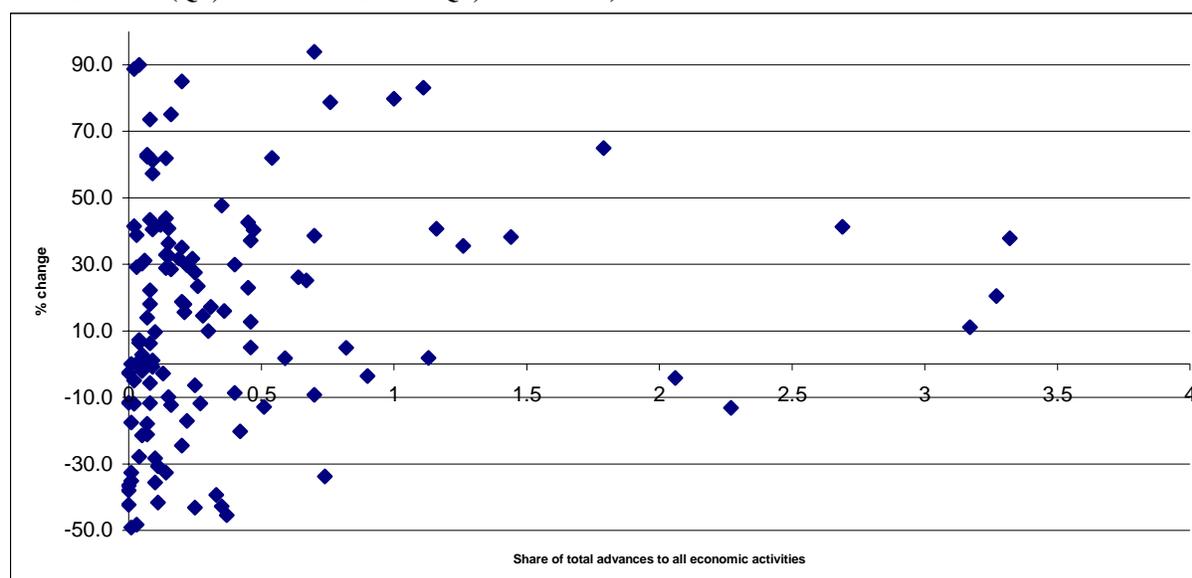
Source: Bangladesh Bank.

Note: Changes in distribution and recovery refers to percentage change in a specific quarter of a year over the immediate past quarter.

Outstanding position of advances made by commercial banks to industrial activities reached Tk.80,794.6 crore at the end of June, 2009, which was a 13 per cent higher than that of the same period of the previous year¹⁵. Distribution of outstanding advances shows that about half of all term loans are being used by various types of domestic market oriented industries. A large number of these enterprises have performed well in terms of outstanding balances in June, 2009 compared to June, 2008 (Figure 4.7). A surge in advances for the ship breaking industry (Tk.1,460.7 crore) which had a 94 per cent growth, corroborates to the recent spurt in ship breaking activities in the country.

¹⁵ However, this figure needs to be cautiously interpreted since a rise in advances could take place on account of higher disbursement, lower recovery of loans and the consequent rise in bad loans etc.

FIGURE 4.7: CHANGES IN ADVANCES TO SELECTED DOMESTIC MARKET ORIENTED INDUSTRIES (Q4, FY2007-08 OVER Q4, FY2008-09)



Source: Bangladesh Bank.

Service-related industries accounted for a very low share of term loans (1.95 per cent of the overall outstanding balance), although their contribution to GDP was significant. Growth of outstanding balances for advances to service industries would provide some indication about actual growth of services in FY2008-09. Services industries accounted for an outstanding balance amount of Tk.4,058.6 crore at the end of June, 2009, which was 14.3 per cent higher compared to the previous year. Advances made to working capital financing to services industries were significantly high (37.2 per cent) compared to that of term loan financing (8.7 per cent). Performance was better in case of hospitals (23 per cent), IT services (32.6 per cent), entertainment (6.2 per cent) and travel agencies (38.8 per cent). Performance was poor in case of cold storages (-12.3 per cent) and hotels and restaurants (-9.9 per cent). Advances made to various kinds of trading activities, which accounted for 35.3 per cent of the total share, were 15.6 per cent higher than in the previous year. Together, these have contributed to the 6 per cent plus growth posted by the services sector in FY2008-09.

However, overall sluggish investment scenario has contributed to piling up of excess liquidity in the system. As of October, 2009 banks had an excess liquidity of Tk.35110 crore, which was 81 per cent higher compared to the previous year. Although investment interest has posted a rise in July-November, 2009 period, according to data of investment registration at BOI, translating this into actual investment will hinge on a number of factors including reduction of the cost of finance and a lowering of overall production cost. The 13 per cent cap on industrial loan and other initiatives to lower business transactions which have been put in motion by the Bangladesh Bank are good moves. However, investors feel that interest rates should come down further.

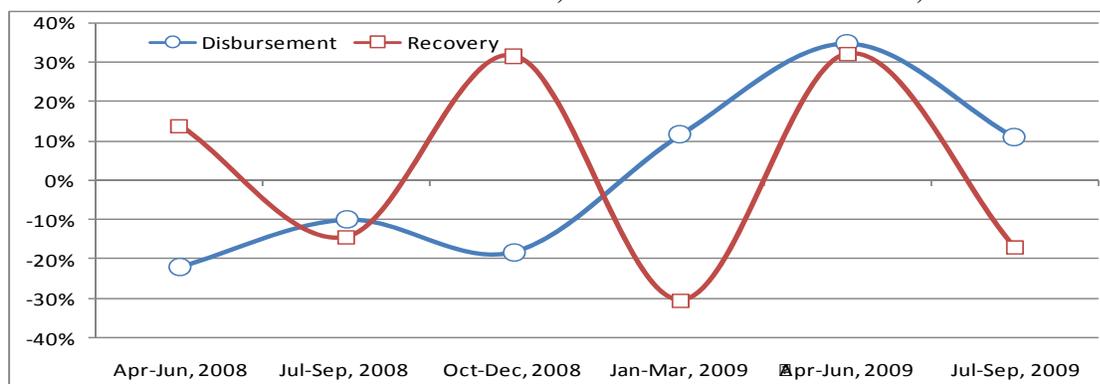
In view of persistently high foreign exchange reserve (USD10292.6 million, as of 22 December, 2009), the Bangladesh Bank has allowed alternative financing opportunities for investment by allowing off-shore banking facilities for local companies. For example, Bangladesh Bank is currently financing 75 per cent of a USD20 million project of a local company. The total finance

for this project will be about USD15 million payable in 7 years with 2 years of grace period. The rate of interest is six months LIBOR plus 3.5 per cent with certain additional fees (commitment fee, project examination fee and closing fee etc.). Since effective rate of interest from this window was lower compared to the existing market rate, other companies are also expected to be interested to access this fund. It is envisaged that Bangladesh Bank will further extend this window to meet the increasing demand for foreign exchange funds.

Financing Small and Medium Enterprises

The government has put special effort to enhance access to credit for small and medium enterprises (SMEs). This includes financial support as well as organizational restructuring (i.e. opening up a new department called ‘SME financing’ in the Bangladesh Bank). At the end of the first quarter of FY2009-10 (July-September period), the overall outstanding balance to SMEs was Tk.42485.8 crore, which was 4.4 per cent higher compared to the same period of the previous year. Financing to SMEs has experienced significant rise during April-June, 2009 (possibly related to the announcement of the first stimulus package in April, 2009) when the overall outstanding balance reached Tk.48473.5 crore, and its share increased to about 21 per cent of total advances (Figure 4.8). The rate of recovery, on the other hand, has oscillated during the last four quarters. However, high interest rate for commercial borrowing for SMEs continues to remain a concern. More importantly, it needs to be noted that the 13 per cent cap on term loan and working capital financing is not applicable to all SME projects.

FIGURE 4.8: TREND OF CHANGES OF DISBURSEMENT AND RECOVERY FOR SMALL SCALE COTTAGE INDUSTRIES FROM APRIL-JUNE, 2008 TO JULY-SEPTEMBER, 2009



Source: Bangladesh Bank.

Note: Changes in distribution and recovery refers to percentage change in a specific quarter of a year over the immediate past quarter.

It is encouraging to note that private commercial banks, as part of enhancing commercial lending, have increased disbursement of credit to SMEs. Their outstanding position on this account was 13.9 per cent higher at the end of September, 2009 (Figure 6). State owned banks’ outstanding position, on the other hand, declined at the end of September, 2009 (-17.8 per cent). Encouraging more investment in SME related activities would be a way to utilise the excess liquidity available with the commercial banks. The newly established ‘SME financing department’ is expected to play a critical role in this respect. However, in view of rise of classified loan (overall: 6.9 per cent and local private banks: 33.78 per cent in July-September, 2009) a more cautious efforts will be required in identifying appropriate candidates. Bangladesh

Bank's monitoring and supervision will need to be strengthened to contain the growth of classified loans.

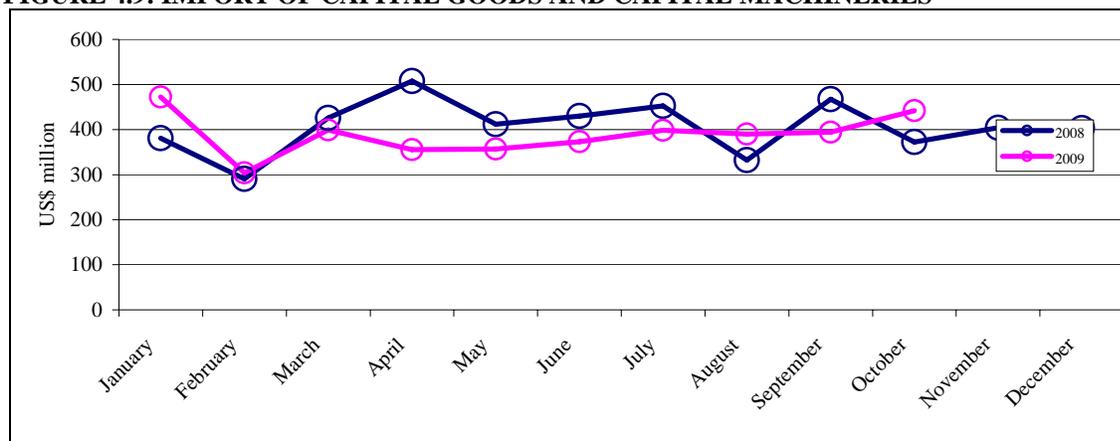
A number of small and cottage industries have registered growth in terms of outstanding advances (i.e. other than working capital). This includes rice, flour and pulse mills (61.9 per cent), dyeing and printing (41.5 per cent), and weaving industries (43.4 per cent). Growth was negative for several other industries, including paper and paper products, printing, publishing and allied industries, salt manufacturing, plastic and plastic products, cosmetics, and jute products. Performance of SMEs (in terms of advances of term loan and production) over the next two quarters of FY2009-10 will critically hinge on whether demand at both domestic and international markets pick up in the early months of 2010.

Apart from financing issues, government should ensure budgetary support for removing structural constraints of SMEs such as improvement of quality of products, development of the required human resources, support to market intelligence, and establishment of specialised industrial parks for SMEs. These have been highlighted in major policy documents, but will now need to be implemented through appropriate allocations.

Use of Raw Materials, Intermediate Products and Capital Machineries

During July-October, 2009 import of capital goods and capital machineries was worth USD1623.9 million, which was the same as in the previous year (Figure 4.9). However, a sluggish growth in imports, particularly in March-July, 2009 period (USD4070 million; growth -4.6 per cent) depressed the overall situation of import of capital machineries imports in January-October, 2009 period. Uncertainties in domestic market and sluggish demand in international markets have dampened demand for industrial raw materials and capital machineries. This is also reflected in lower amount of settlement of LCs for raw materials such as pharmaceuticals (-25%), raw cotton (-12.6%), yarn (-22.4%) and textiles (-10.7%). Import of other capital goods under the category 'miscellaneous' posted 8.8 per cent growth during July-October, 2009. This includes import of computer products, motor vehicles and their parts and electronic components.

FIGURE 4.9: IMPORT OF CAPITAL GOODS AND CAPITAL MACHINERIES



Source: Bangladesh Bank.

To encourage export diversification in terms of both products and markets, more encouragement will need to be provided for activities related to technology overhauling, technology acquisition, and import of machineries with higher productivity by investors.

Reform of the Public Sector Enterprises and Initiatives for Sick Industries

The draft *Industrial Policy 2009* now under consideration by the cabinet has strong policy directives in support of public sector enterprises. However, the government's initiative towards reviving industrial units which were earlier handed over to the privatisation commission has raised concerns from different quarters, for various reasons. First of all, in the absence of any major restructuring in areas such as technology, employment, operation and management, both at corporate and enterprise levels, there is little reason to expect that these mills could operate profitably. Second, because of the limited amount of government subsidies to various corporations, and despite the huge demand for such support, operation of public sector mills is no more an attractive venture that it used to be even from the 'populist' point of view - ensuring employment in the current over-employed units, and high workers' wages, would require injection of significant amount of subsidies from the government, something the government is finding increasingly difficult (e.g. to revive Daulatpur Jute Mills Ltd.). Third, many public sector jute mills have not been in operation for a long time, or were operating at less than full capacity. As such, these units required substantial resources for overhauling and new initiatives in different areas, such as technology infusion, fixing of operational and financial inefficiencies, improved management and worker relations. More importantly, even significant injection of resources to overhaul these mills will hardly guarantee that these mills would run profitably, unless and until efficiency-based management and operation systems are put in place in public sector enterprises. These involve difficult policy choices which the government will need to address on an urgent basis.

In view of reviving closed sick industries and to ease exit of some of those, the government has decided to provide some policy support. Government has recently formed two committees; one committee is working on preparing the draft Act related to the sick industries and the other one is on identifying the actual number of sick industries in the country. According to the Bangladesh Sick Industries Association, there were a total of 700 sick industries have been registered in the country, of which 270 units are related to garment sector, 108 units to specialised textile mills and 80 units to tanneries. However, there are doubts about the actual number of sick industries in the country. Some of the sick industries are beyond repair: a number of these enterprises were sick because of 'tendency of falsehood' of entrepreneurs, ineffective or inoperative existence for prolonged period (some times even for 15 years) and use or installation of outdated technologies and machineries. In this context, the policy directives for financing sick industries needs to be taken with due caution. The newly established Bangladesh Development Bank Ltd (BDBL)¹⁶ ought to practice due diligence in its dealing with both new and sick projects.

4.3 Foreign Direct Investment

Foreign direct investment did not gain momentum in FY2009-10 as only USD207 million worth of investment took place in July-October, 2009 which was about half that of the same period of

¹⁶ As is known, the BDBL has recently been established through merger of the Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS).

the previous year (USD402 million) (Table 4.7). Investment in EPZs during July-November, 2009 was in better shape (USD90.3 million) compared to the previous year (USD65.3 million). In general foreign investment outflow has been low in 2009 in the backdrop of global financial crisis. That domestic investment did not pick up has also contributed to this. As it happened last year, the telecom sector may experience one or two incidences of acquisition in this year. This would contribute to more FDI flow in the county. Similar is the case of portfolio investment; foreign investors have yet to regain confidence in order to invest in emerging and developing countries capital markets. However, local investors have been coming to the country's capital market in increasing numbers and with increasing investible resources.

TABLE 4.7: FOREIGN INVESTMENT (IN MILLION USD)

	January -October			July- October		
	2008	2009	Percentage change	FY 2008-09	FY 2009-10	Percentage change
FDI	865	442	-48.9	402	207	-48.5
Portfolio Investment	-8	-140		-7	-29	

Source: Bangladesh Bank.

From the balance of payment (BoP) perspective, FDIs' contribution in January-June, 2009 was rather disappointing (Table 4.8). FDI flow after deducting FDI related outward flow was negative (USD-193 million) during the January-June, 2009 period since a total of USD428 million has been transferred out of the country by foreign companies during this period, against new investment of USD235 million. A substantial part of the outward transfer had taken place in terms of transfer of income by oil, gas and power companies, which was USD332 million. This amount of outward transfers was more than the total FDI invested during January-June period. A large outward flow of income of foreign companies also indicates that surplus generated by FDI companies is not being ploughed back to the economy of Bangladesh.

TABLE 4.8: FDI INFLOW AFTER DEDUCTING FDI RELATED OUTWARD FLOW

	January-June, 2007	January-June, 2008	January-June, 2009	% change in Jan.-Jun, 2009 over Jan.-Jun,2008
FDI Inflow	381.34	483.66	235	-51.4
FDI Transfers	324.28	271.91	428.04	57.4
Royalties and license fees	4.89	5.08	5.83	14.8
Profit and dividends	93.58	76.01	89.94	18.3
Earnings of oil, gas and power companies	225.81	190.82	332.27	74.1
FDI Inflow after Deducting FDI related Outward Flow	57.06	211.75	-193.04	-191.2

Source: Bangladesh Bank Enterprise Survey.

Investment in EPZs was largely concentrated in four out of the eight EPZs in the country (Table 4.9). Apart from Dhaka and Chittagong, investors are taking interest in investing in Adamjee and Karnaphulli EPZs, which received USD52.7 million and 27.8 million worth of investment in January-November, 2009, respectively. This is perhaps because of locational advantages and availability of land for establishing state of the art factories. Because of locational disadvantage and poor infrastructure, Mongla, Uttara and Ishawardi EPZs are yet to attract high levels of

investment. Investment in EPZs, according to registration data, has targeted traditional industries such as textile, garments, knitwear, footwear and garments accessories. However, it is footwear, leather and plastic industries that are gaining more attention from foreign investors and their share in the registration of FDI has increased in 2009. It is pertinent to mention here that government policy towards establishing special economic zones (SEZs) should not lead to discrimination against incentives provided to enterprises in existing EPZs.

TABLE 4.9: EPZ WISE PERFORMANCE OF CURRENT INVESTMENT (IN MILLION USD)

EPZs	January-November			July- November		
	2008	2009	Percentage Change of 2009 over 2008	FY 2008-09	FY 2009-10	Percentage Change of FY 2009-10 over FY2008-09
Chittagong	90.532	48.16	-46.80	18.84	22.84	21.23
Dhaka	85.993	17.11	-80.10	17.38	6.3	-63.75
Adamjee	31.45	52.69	67.54	12.13	44.67	268.26
Karnaphulli	11.7	27.82	137.78	5.03	5.42	7.75
Comilla	8.513	6.22	-26.94	4.99	3.38	-32.26
Mongla	2.067	0.87	-57.91	0.09		
Ishwardi	6.802	12.05	77.15	6.7	6.55	-2.24
Uttara	0.229	1.21	428.38	0.14	1.18	742.86
All	237.286	166.13	-29.99	65.30	90.34	38.35

Source: BEPZA.

Data shows that the registration of new investment by foreign companies (USD549 million) during July-November, 2009 has increased by 130 per cent (Table 4.10). However, a depressed investment situation during January-June period led to a declining growth during the January-October period in 2009 (-16.6 per cent). In order to encourage investment, the draft industrial policy 2009 has strongly emphasized on the need for providing one-stop service facility by the BOI in an appropriate and adequate manner.

TABLE 4.10: REGISTRATION OF LOCAL AND FOREIGN INVESTMENTS WITH BOI (IN MILLION USD)

Registration	January-November			July-November		
	2008	2009	% change	FY 2008-09	FY 2009-10	% change
Local Units	1539	1294	-15.92	553.00	585.00	5.79
Local Investments	3018.83	2460.42	-18.50	1175.24	1268.29	7.92
Foreign Units	138	119	-13.77	63.00	57.00	-9.52
Foreign Investments	799.65	667.09	-16.58	238.28	549.18	130.48

Source: Board of Investment (BOI).

A new set of investment opportunities as proposed in the Draft Industrial Policy 2009 will hopefully contribute to increased investment in the country. Establishment of special economic zones, high-tech parks and more private EPZs could open new opportunities for investment. The initiative of 'one district one product' type of investment in new industrial parks should be designed in such a manner that appropriate backward and forward linkages along the value chains are established. The announcement in the policy with regard to adherence to intellectual property rights (IPRs) in case of ICT and high-tech products and processes was a welcome move.

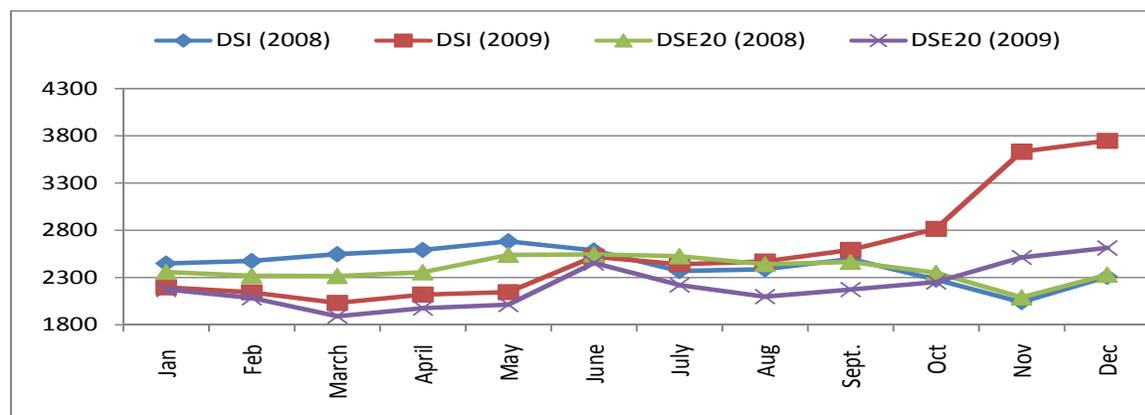
However, much will hinge on adequate supply of electricity, availability of skilled labour force and compliance with labour standards. All these should receive priority attention of policymakers.

4.4 Capital Market

The capital market of the country has experienced renewed vigour during July-December, 2009. During this time, the average index value of DSI increased by 27.5 per cent and that of the CSI increased by 51.8 per cent (Figure 4.10). This sharp rise is, in part, attributed to the trading operation of the largest telecom company of the country, Grameen Phone (GP), during November, 2009. Growth of DSI value before GP's operation was only 8.2 per cent (July-October, 2009).

The year 2009 is envisaged to be challenging in terms of market management. First because of the challenge of maintaining the current momentum in the market against the bearish situation in global capital market, and second, ability to effectively handle any possible adverse consequences on the market of flotation of shares of GP, third, guarding against market manipulation. The market, however, performed reasonably well, without any major set backs (e.g. high level of market capitalisation and daily turn over, operation of 2 million BO accounts). This gives reason for optimism.

FIGURE 4.10: MONTHLY TREND OF SHARE PRICE INDICES AT DSE



Source: DSE website.

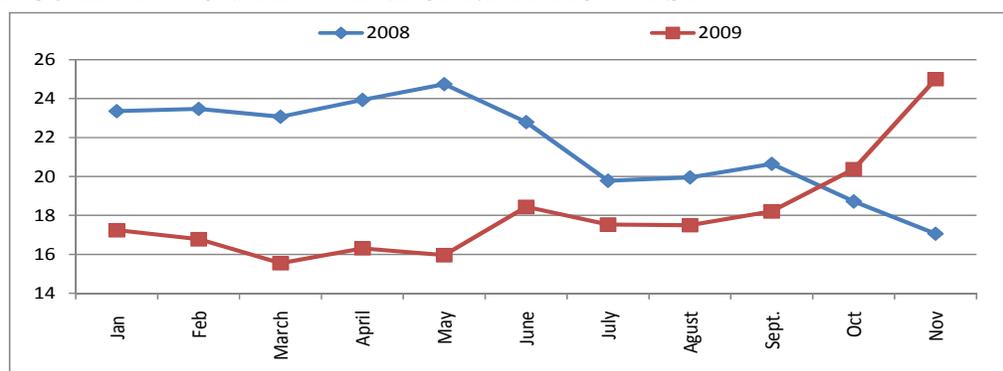
Market capitalisation has increased significantly during July-December, 2009 in the DSE and reached USD27.5 billion in December, 2009; however, it is still considered to be low compared with other major stock exchanges of South Asian countries (29 per cent for DSE vis-à-vis 55 per cent for BSE, India in 2008). During January-December, 2009, overall market capitalisation in the DSE has increased by about 54.7 per cent. The market, however, has suffered from a low level of product diversification and a lack of deepening of the market through introduction of new instruments and new players. Although market concentration with dominance of financial institutions, has somewhat decreased with inclusion of GP in the capital market, the market continues to remain largely undiversified (Table 4.11). The manufacturing sector's share in overall market capitalisation did not show any noticeable change, a major weakness.

TABLE 4.11: SHARE OF MARKET CAPITALISATION OF DIFFERENT SECTORS AT DSE

Sector	January, 2008	November, 2008	January, 2009	November, 2009
Financial Sector	62.05	58.39	51.96	41.84
Banks	56.36	48.37	41.86	32.49
Manufacturing	20.56	23.7	27.26	22.45
Pharmaceuticals	8.42	10.95	11.91	8.96
Textile	1.98	1.82	2.36	2.85
Engineering	2.15	2.29	3.4	3.91
Service & Miscellaneous	16.81	17.55	20.44	35.52
Fuel & Power	14.09	13.07	14.56	12.65
Telecommunication	N/A	N/A	N/A	16.34
Corporate Bond	0.58	0.37	0.34	0.19
Grand Total	100	100	100	100

Source: DSE website.

The price earning (P/E) ratio in the DSE, an indicator of the quality of investment as well as the efficiency of the capital market, has remained between 15 and 18 during January-September, 2009 period (Figure 4.11). With the initiation of operation of GP in the market, the ratio jumped up to 24 in November, 2009 which is not a healthy indication for the market.¹⁷

FIGURE 4.11: MONTHLY TREND OF P/E RATIO AT DSE

Source: DSE website.

Offloading of a number of IPOs in FY2009-10 indicate some positive changes as regards the interest of new companies in capital market. Interestingly, a large part of these companies are non-financial institutions indicating some diversification (Table 4.12). A total of 13 companies have off-loaded shares in the country's capital market out of which 10 companies are non-financial entities and activities. These include four companies that are related to manufacturing and one related to telecommunication. Earlier the significant number of IPOs belonged to the category of financial institutions- in FY2009, out of 13 IPOs, 8 were related to financial institutions. The offloading of the shares of Grameen Phone is a positive signal for the capital market of Bangladesh. In November, 2009, Grameen Phone has started to trade in the market with a total market share of 12.5 per cent, and has become a dominant market player, along with

¹⁷ However, P/E ratio in some major markets of South Asian countries are relatively better; it was 13.77 for the BSE, India at the end of 2008.

the financial institutions. Market capitalisation has increased by 17.3 per cent and share price index jumped up 765 points thanks to GP. Although there were concerns regarding the impact of such a big IPO, both in terms of volume of capital and number of shares, in the context of the low-base of DSE and CSE, the doubters were proved wrong. Effective management by both DSE and CSE and close monitoring by the SEC reduced the possible attendant risks. Rather, GP's inclusion in the market has improved market operations; thanks to this, daily trade volume, price indices, market capitalization and other market performance indicators have been showing robust signs. It is hoped that, being inspired and encouraged by the GP experience other large scale multinationals and manufacturing companies will also start to take interest to offload their shares.

TABLE 4.12: IPO PERFORMANCE AT THE DSE

Year	January-December			July-December		
	2008	2009	% change	2008	2009	% change
No. of IPO's	12	17	41.67	9	13	44.44
Total Issued Shares (after IPO) (million)	135.36	2079.10	1435.99	89.00	1974.81	2118.88
Public offer as percentage of total Issued Shares (after IPO)	33.07	31.78 (72.31)	-3.84 (118.69)	30	29.31 (71)	-1.95 (137.56)
Total paid up capital (after IPO) (in crore Tk.)	737	2294.53	211.33	575	2152	274.20

Source: Calculated based on information of DSE website.

Note: Figures in the parenthesis are without share of Grameen Phone.

In recent times the government has made a number of decisions in order to increase the depth of the capital market, improve transparency and accountability in the market, and raise the awareness of investors. These include, suspension of trading of a number of 'Z' category shares, making the submission of monthly reports on stock portfolios mandatory, and introduction of lock-in periods (barring the sales of new convertible shares), regulating the margin of loan, and minimum IPO floatation size etc. SEC's proactive role in recent period has contributed to improvements in market efficiency. However, a broad-based consultative mechanism needs to be set up in order to raise the quality of its decisions and to strengthen its regulatory and supervisory function. An appropriate incentive mechanism should be set up to encourage new companies to enter the capital market (e.g. reducing minimum size of IPO floatation for new companies). The practice of book-building should be encouraged for all new companies.

A separate and time-bound judiciary system may be considered to settle capital market related cases, restore the investors' confidence, and protect their investment as per law and relevant provisions. Considering the complicity and distinctive nature of the capital market, a separate judiciary mechanism should be set up for settlement of disputes in the share markets (within a specified time limit). In order to deepen the capital base, the government should also consider mobilisation of funds from the capital market for large scale infrastructural projects, such as "Padma Bridge". PPP-funded projects should also have provisions to raise equity from the capital market. Expansion of share markets and brokerage facilities across all important financial centres of the country needs to be expedited considering the growing interest of citizens in the

country's capital market. Appropriate educational programmes on how capital market functions should be introduced as part of education programmes. The government should also take expeditious steps to offload shares of its own enterprises in the country's capital market. This will help increase the depth of the market as well as its diversification and also will give positive signals to private sector companies to be enlisted in the market.

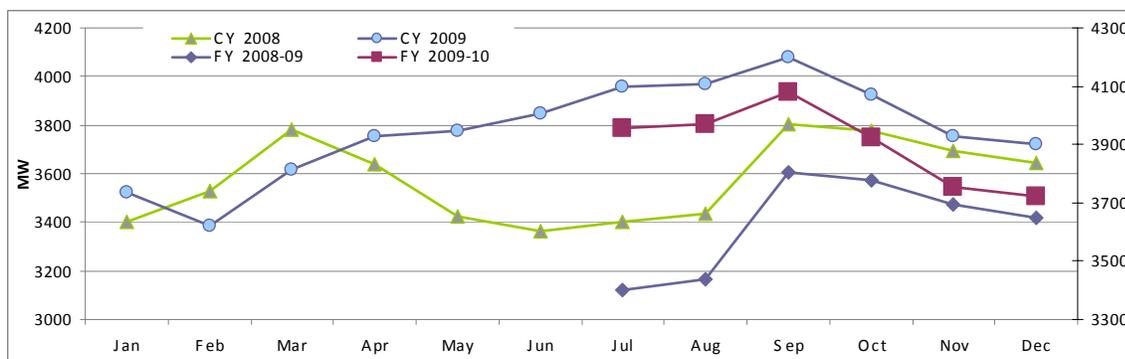
4.5 Power Sector

It goes without saying that shortage of power and energy sector has emerged on the *Achilles' heels* of Bangladesh's industrial development. The present government's election manifesto accorded this problem the third highest priority. Inadequate power supply has long been plaguing the country's investment and business activities and as a result, new investments have been discouraged.

State of Electricity Generation

In January 2009, maximum electricity generation was 3524.82 MW; by December, 2009 this had increased to 3721.49 MW (with an additional 196.67 MW) (Figure 4.12). Similarly, on a month-on-month basis average maximum electricity generation had increased by 75 MW in December 2009 against December 2008. In FY2009-10 (Jul-Dec), maximum electricity generation increased by 274.14 MW over the corresponding period of the previous fiscal year. It may be mentioned here that the highest average maximum generation in Bangladesh's history was recorded in September, 2009 (4296 MW). One of the reasons that could explain this increase is that in 2009 (as of December), 475 MW capacity was added to the national grid (356 MW new installation from 12 plants comprising 4 rental and 8 IPPs, and the remaining from overhauling of existing power plants). It may be mentioned here that the commissioning of these plants was conducted during the CTG's tenure in 2007-08. Table 4.13 shows that an additional 286 MW was installed during FY 2009-10 (Jul-Dec).

FIGURE 4.12: MAXIMUM ELECTRICITY GENERATION: FY09 VS FY10 AND CY08 VS CY09



Source: BPDB.

Note: CY denotes Calendar Year.

TABLE 4.13: INSTALLED CAPACITY, GENERATION OF ELECTRICITY, AND DEMAND-SUPPLY GAP

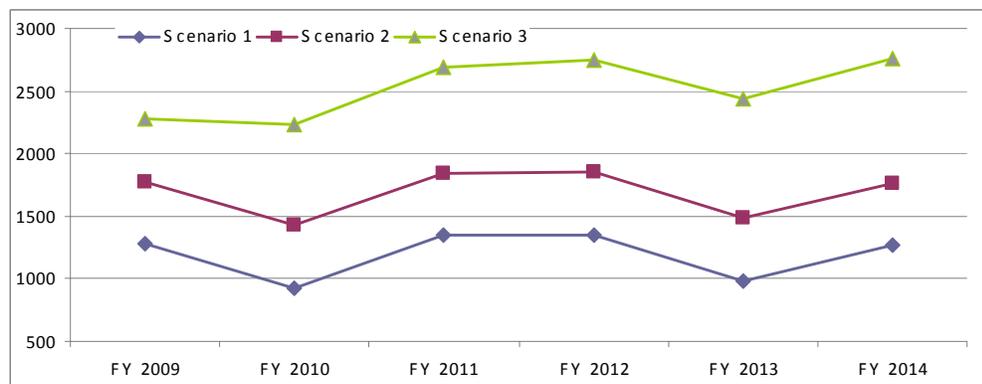
Fiscal Year	Installed Capacity (MW)	Generation as % of Installed Capacity	Maximum Demand* (MW)	Maximum Generation (MW)	Maximum Demand Supply Gap (MW)
2001-02	4230	76	3659	3217.5	441.5
2005-06	5245	72	4693	3782.1	910.9
2008-09	5719	73	6066	4162.1	1903.9
2009-10 (up to Dec)	6005 (p)	72	6608 (5500)n	4296	2312 (1204)o

Source: BPDB and Power System Master Plan update.

Note: * denote demand based on PSMP, p' denote in December, n' denote current maximum demand, o' denote current demand supply gap based on current demand.

The yawning demand-supply gap has prevented the country's industrial and other sector to operate in full capacity and translate its possibilities and potentials into realised benefits. It may be recalled that in FY2001-02, the gap between demand and supply was only 441.5 MW which reached 1903.9 MW in FY2008-09 (Figure 4.13). In January 2009, the power sector master plan (PSMP) estimated the demand-supply gap to be 575.2 MW (maximum) which further widened to 1903.9 MW in June and 2312 in December. The government has recently revised its demand estimates, considering the recent developments in the demand-supply management dimension. The table reveals the gap (based on the revised demand estimate) to have narrowed down from 1903.9 MW (in FY2008-09) to 1204 MW (in FY2009-10, up to December).

FIGURE 4.13: DEMAND-SUPPLY GAP PROJECTION



Source: BPDB and Power System Master Plan update.

Note: Scenario 1: Max. Demand (revised)-Supply Gap (without fuel constraints)

Scenario 2: Max. Demand (revised)-Supply Gap (with gas crisis)

Scenario 3: Max. Demand (PSMP)-Supply Gap (with gas crisis)

Ongoing Power Plants

In terms of long-term projections, the government has estimated the demand-supply gap under three scenarios, using the revised demand estimates, excluding scenario three where the PSMP's projections have been applied. Nevertheless, all the projections share a common feature – the demand-supply gap is anticipated to experience a sharp fall starting from FY2012 to FY2013, and wherefrom it would peak once again indicating the urgency for a long term comprehensive plan of action.

Government run 480 MW capacity power plant (Fenchuganj 90 MW, Siddhirganj 240 MW and Shikalbaha 150 MW) is expected to start generating electricity by March 2010. Four RPP (Fenchuganj, Bogra, Shikalbaha and Ashuganj) are projected to generate 187 MW of electricity by 2010. The government's Purchase Committee has approved establishing 5 out of 8 RPP with a capacity of 230 MW which will be added to the national grid in near future. These awards are awaiting the final approval. Subject to approval by the purchase committee for establishment of the remaining 3 RPP of 300 MW, it is envisaged that a total of 1197 MW will be added to the national grid in 2010.

The table 4.14 below highlights some of the initiatives (both past and present) that have been taken to boost power and energy sector of the country.

TABLE 4.14: STATUS OF THE POWER PLANT (AS OF DECEMBER, 2009)

Time frame and Status	Govt/Private Initiatives	Capacity (MW)
Earlier (and Ongoing) Initiatives:		
By 2010 (under construction)	Government run (Fenchuganj 90, Siddhirganj 240 and Shikalbaha 150)	480
	Private Rental (Fenchuganj, Bogra, Shikalbaha and Ashuganj)	187
By 2011 (Tendering complete and under process)	Government Run (Sylhet CCPP)	150
By 2012 (under process)	Govt. Run (Siddhirganj (1), Chandpur (2), Khulna (3), Shirajganj (4), Bibiyana (5))	1200
By 2013 (Confirm financing)	Govt run (Bhola, Boropukuria, Shirajganj)	725
By 2014 (Confirm financing)	Govt run (Haripur, Bheramara)	720
Total		3462
Present Govt Initiatives:		
By 2010 (approved by purchase committee)	5 Rentals	230
By 2010 (awaiting for approval by purchase committee)	3 Rentals	300
By 2011 (Tendering ongoing)	10 government run projects (peaking plant)	820
By 2012 (looking for investors)	IPP (Savar and Kaliakoir, Gazipur)	200
By 2013 (looking for investors)	IPP (Bibiyana combined, Meghna ghat and Bhola)	750 - 1250
By 2014-2015 (through Imported Coal and looking for investors)	Government	2600
Total		5400*

Note: 1. Tendering process completed and awaiting World Bank's confirmation

2. Purchase committee approved, 3. Project evaluation report has been sent to ADB

4. Evaluation of tender is ongoing, 5. RFP in assisting from WB ongoing

* Considering highest targets of 1250 MW

Source: BPDB.

Current Initiatives against Manifesto Commitments

It is estimated that by 2014, a total of 3462 MW will be generated as a result of earlier and ongoing initiatives. However, this is still well below the government's pledge set out in its manifesto (7,000 MW by 2013). Implementation of the government's recent plan to generate 2830 MW by 2013 will perhaps ease the situation of meeting the manifesto targets.

The current government's election manifesto, amongst others, mentioned that a three-year crash program will be adopted to facilitate speedy implementation of ongoing and under consideration

power generation projects; in addition to this, import of electricity from neighbouring countries has also been mentioned as a possible option. It is encouraging to note that the government has been taking initiatives to import electricity from neighboring countries, particularly from India. The Cabinet has approved, in a draft MoU, power trading between India and Bangladesh, which could be signed in January 2010 at the time of Prime Minister's visit to India. Assuming the MoU comes into effect, it could become the first step for setting up a major energy ring in the SAARC region.

Nevertheless, nothing has yet been decided as regards the already designed draft National Coal Policy. The three-year crash programme could suffer in absence of this since coal-fired electricity station was envisaged to be an integral part of the government's ambitions in the power sector. The BPDB has revised its plan for power generation at least four times in 2009. The task now is to take concrete steps to realise the plans.

Energy Management

To deal with the frequent power outages, the government has taken a number of measures to manage energy flow and to save power. However, to date, no data is available to verify exactly how much energy has actually been saved. Some of the measures that have been taken include:

- Shifting peak load by changing shop closing time
- Staggering Holidays
- Replacing incandescent lamp by CFL bulbs
- Introduction of daylight saving time (DST)
- Efficiency improvement programme by enhancing energy auditing

Further, the government's Budget FY2009-10 provided fiscal incentives to make use of solar energy sector.

Attracting FDI

To attract foreign investors¹⁸, the government has planned to organise *Bangladesh Investment Conference and Road Show*¹⁹ on Power and Energy Projects in London, Singapore and New York between December 2009 and January 2010. The first Road Show was held in London during mid-December, though the outcomes and results are yet to be disclosed to the public.

Gas Production

In the recent past gas production has increased at a rate of 6 to 8 per cent per year. In FY2009-10 (July-October), production of gas achieved a record 9.35 per cent growth (compared to FY2008-09, Jul-Oct) with a total production of 6653.12 mmcm, indicating an increased use of current reserves (Table 4.15). Nevertheless, Bangladesh continues to face a daily shortage of more than 250 mmcfd.

¹⁸ The government has estimated the total investment for building 530 MW Rental to be USD 424 million, whilst in the case of the 2000 MW Coal PPP, it would cost USD 3 billion. In case of the first track 800 MW Peaking Plant, an investment of USD 700 million is required (source: BPDB).

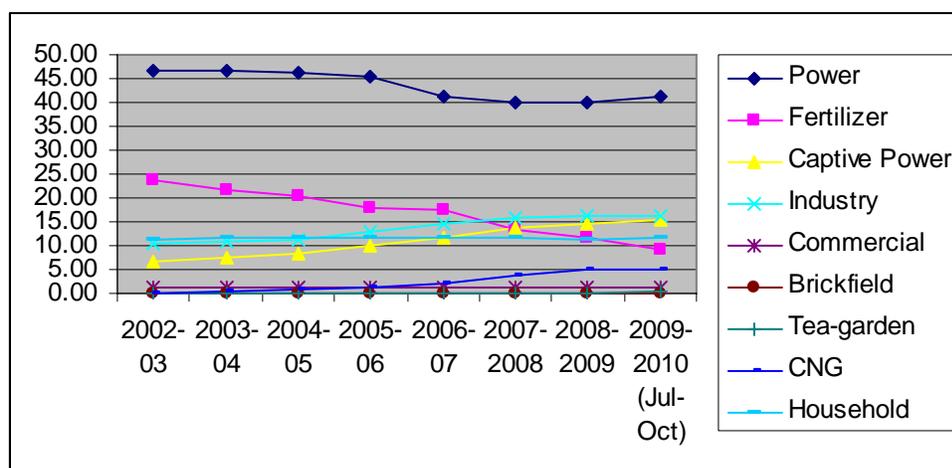
¹⁹ Besides six power plant projects of 3925 MW, four renewable energy projects of 105-210 MW and one LNG terminal projects of 3.5 million tones/annum capacity (in Chittagong) was also presented in that Conference

TABLE 4.15: GAS PRODUCTION IN DIFFERENT FISCAL YEARS (MMCM)

Fiscal Year	Petrobangla	IOC	Total	Growth rate (per cent)
2002-03	9449.1	2476.7	11925.9	
2005-06	10116.6	4804.3	14920.8	8.3
2008-09	9222.06	9288.66	18510.7	8.08
2009-10 (July-Oct)	3119.9	3533.23	6653.12	9.35

Source: MIS Report, Petrobangla

Diversified use of gas has been on the rise over time. Its use for industrial and commercial purposes, and for conversion into CNG (Figure 4.14) has been increasing in the recent past. Lack of a proper gas transmission system is contributing to the recent problem of gas shortage both at the household and industrial levels. To solve this problem, Titas is also considering suspension of gas supply to UFFG (Urea Fertilizer Factory) at Ghorashal and staggering holidays to various industries. New connections of gas have also been stopped. Under the short-term programme, completion of drilling of at least five wells was targeted by December 2009; however, most of the works remained incomplete as per the schedule under the plan. Similarly, under the mid-term plan, the drilling of 5 appraisal and development wells, work-over of 4 wells, and drilling 4 wells in different fields by the BAPEX were targeted which also suffered the same fate - lack of progress. Rapid and effective implementation to install compressor and modernisation of government run wells could ease the situation in near future.

FIGURE 4.14: CONSUMPTION OF GAS IN DIFFERENT SECTORS

Source: MIS Report, Petrobangla.

As is known, share of private companies in overall gas distribution has been increasing over the past years. Petrobangla's share of gas production was 55 per cent in FY2006-07 which came down to 47 per cent in FY2009-10 (Jul-Oct).

Offshore gas exploration

It may be said with confidence that alternatives other than gas exploration will not address and improve the country's gas situation from the medium term perspective. In October 2009, three offshore blocks were awarded to two international oil companies (IOCs). A number of issues (both from economic and legal perspectives) are now being debated which relate to absorption

capacity in terms of financial and technical abilities of the government, efficacy of Petrobangla in utilising gas for internal purposes and in general, the country's weak physical infrastructure in facilitating the transportation of gas; ownership disputes, and issues of legal concern.

Bangladesh citizens have a strong interest relating to everything happening in power energy and gas sectors. In view of this, transparency needs to be ensured starting from the adoption of relevant plans to its execution stage as part of its commitments to implement the Freedom of Information Act. Recently, the government has submitted notifications of arbitration to India and Myanmar to settle the disputes regarding maritime territories in the Bay of Bengal for the purposes of gas exploration. The government has also notified the maritime boundary dispute to the mandatory arbitration under the 1982 United Nations Convention on the *Law of the Sea*. To consolidate domestic presence in the energy sector and establish command over potential benefits, further strengthening of BAPEX has now assumed critical importance from Bangladesh's long term growth perspective.

5. EXTERNAL SECTOR

5.1 Export Sector Performance

In view of the global financial crisis, it was apprehended that Bangladesh's export would suffer a significant setback due to the falling demand of exportable goods in the developed countries. Indeed, in 2008 global trade had comedown by 11.2 per cent; in 2009 the growth is projected to be much lower, at (-) 12.2 per cent, compared to recent trend rates. However, overall export performance of Bangladesh had been quite resilient, registering a double digit growth of 10.28 per cent in FY2008-09 over FY2007-08. Though this growth rate showed some declining trend across all four quarters of FY2008-09, even posting got negative growth rates in the second and fourth quarters, it need to be kept in mind that performance in FY2008-09 was recorded against significantly high growth rates of the previous fiscal year. Export growth became negative in the first quarter of FY2009-10 (July-September) when overall export growth was (-) 11.7 per cent. Export picked up in October (+18.4 per cent growth), but overall export during the first four months of FY2009-10 remained USD 5.25 million which was (-) 6.66 per cent lower than that of the comparable months of FY2008-09 (Table 5.1). This performance, however, needs to be seen in the backdrop of the benchmark of significantly high (30.66 per cent) export growth of the comparable months of FY2008-09 over FY2007-08. It may be mentioned here that in the backdrop of the global recession of the recent past, regional countries have also suffered serious setbacks in terms of their export growth (e.g. India: (-) 26 per cent, Pakistan: (-) 11.5 per cent, Sri Lanka: (-) 16.8 per cent).

TABLE 5.1: QUARTERLY EXPORT GROWTH (%) OF MAJOR COMMODITIES

Sectors	FY2008-09					FY2009-10	
	Q1	Q2	Q3	Q4	Jul - Oct	Q1	Jul - Oct
RMG	44.6	5.4	12.7	3.8	32.53	-9.7	-5.66
<i>Woven RMG</i>	36.7	6.3	9.9	4.0	27.03	-9.7	-7.32
<i>Knit RMG</i>	52.0	4.6	15.8	3.6	37.48	-9.7	-4.28
Non-RMG	35.7	-22.2	-16.4	-14.8	30.66	-13.1	-78.67
Of which:							
<i>Raw Jute</i>	-27.6	5.6	-38.1	22.0	-17.85	27.9	56.48
<i>Tea</i>	36.3	-28.5	-41.5	-56.6	28.18	-85.6	-77.09
<i>Frozen Foods</i>	15.7	-24.3	-32.2	-21.0	14.93	-37.9	-28.57
<i>Leather</i>	-6.3	-50.2	-41.4	-46.8	-16.23	-24.6	-15.83
<i>Jute Goods</i>	-4.3	-32.1	-18.1	-7.2	-7.47	5.2	20.95
<i>Chemical</i>	195.8	-13.8	15.0	-28.4	132.90	-58.0	-46.55
<i>Engineering Prod</i>	30.9	-55.8	-7.6	-8.8	11.92	-10.5	8.94
<i>Home Textile</i>	27.8	-3.9	38.4	-9.1	26.41	-19.6	-12.77
<i>Footwear</i>	49.0	8.8	3.7	-13.6	46.73	-3.0	-7.83
<i>Others</i>	54.6	-17.1	-18.9	-10.3	33.04	-6.8	-90.74
Total Export	42.5	-1.6	6.0	-0.6	30.66	-11.7	-6.66

Source: Calculated from EPB.

A break down of the growth dynamics of aggregate export performance reveals that the fall in total export (-6.66 per cent) was accounted for both fall in volume (-3.8 per cent) and average prices (-2.8 per cent) (Table 5.2). Thus, the decline in export growth in the first four months of FY2009-10 was both volume-driven and price-driven.

TABLE 5.2: DECOMPOSITION OF THE EXPORT GROWTH (%) DYNAMICS

Indicators	FY2007-08	FY2008-09	FY2008-09 (July-October)	FY2009-10 (July-October)
Total Export Growth	(+) 15.9	(+) 10.3	30.7	(-) 6.7
<i>of which</i>				
Volume Index Growth	(+) 14.1	(+) 11.9	(+) 24.6	(-) 3.8
Price Index Growth	(+) 1.8	(-) 1.6	(+) 6.1	(-) 2.8

Source: Compiled from EPB.

If the entire calendar year is considered, export earnings during the first ten months of 2008 (January-October, 2008) increased by 29.0 per cent compared to the corresponding period of 2007. By any measure, this was a stellar performance. In 2009, though, total export declined somewhat, by (-) 1.2 per cent, during January-October period of 2009 against the corresponding period of 2008. Export of RMG posted a 31.1 per cent growth in the first ten months of 2008 over 2007. During the abovementioned months of 2009, RMG export was able to retain its hold, registering a positive growth of 2.5 per cent. In view of the export performance of the majority of her competitors, this was quite an achievement. Export earnings of tea, leather, frozen food and chemical, however, could not withstand the gravity of the falling demand in the international market and experienced sharp decline in 2009 over the comparable months of 2008 (Table 5.3). Indeed, non-RMG exports declined by (-) 13.2 per cent in the first ten months of 2009 compared to matched period of 2008.

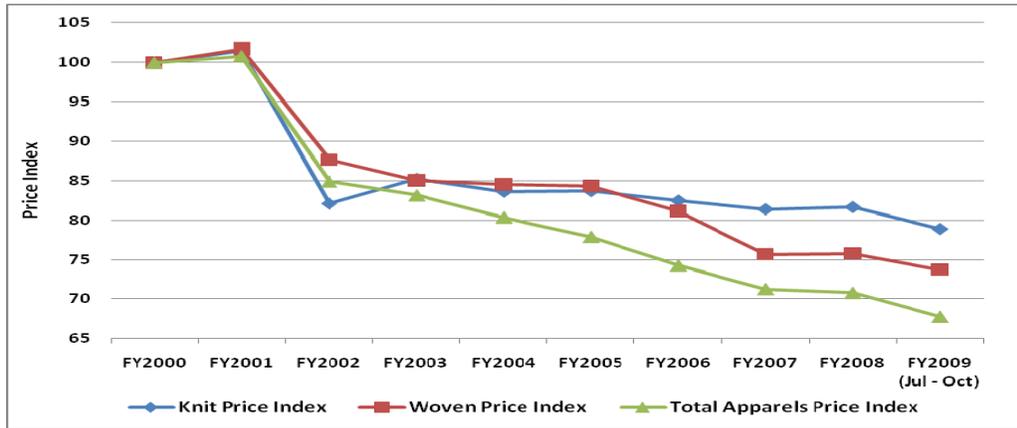
TABLE 5.3: EXPORT GROWTH (%) OF BANGLADESH'S MAJOR COMMODITIES (JANUARY-OCTOBER)

Sector	2008 (January - October)	2009 (January - October)
RMG	31.1	2.5
<i>Woven RMG</i>	25.4	1.4
<i>Knit RMG</i>	36.7	3.5
Raw Jute	-0.7	11.7
Tea	26.9	-62.9
Leather	-6.6	-34.3
Jute Goods	-3.5	0.8
Frozen Foods	16.1	-27.5
Chemical	46.2	-57.0
Engineering Products	-0.3	-2.0
Home Textile	15.8	0.1
Footwear	36.9	-6.4
Total Export	29.0	-1.2

Source: Calculated from EPB.

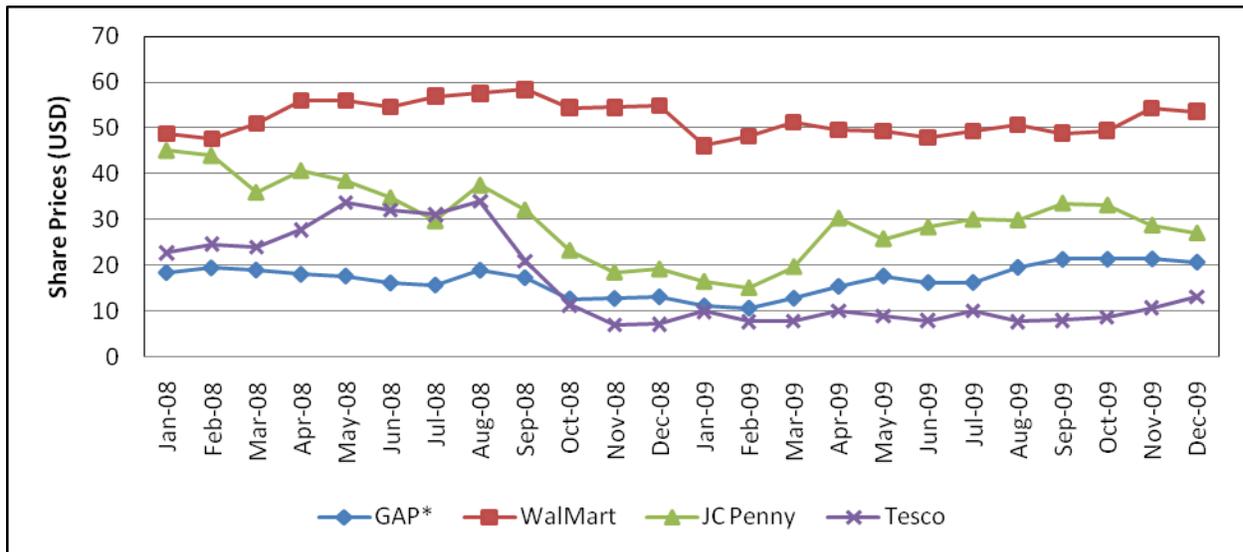
Export growth of apparels, which currently contributes 76 per cent of total export earnings (in FY2008-09), lost the long-held impressive figures in FY2009-10. The anxiety of possible downturn in apparel sector was proven right – export of RMG posted negative growth in second and third quarters of FY2008-09 followed by (-) 9.7 per cent growth in the first quarter of FY2009-10 over the same period of FY2008-09. During the first four months of FY2009-10, the growth figure for RMG export stood at (-) 5.66 per cent (Figure 5.1). However, as was mentioned earlier, this was attained against the backdrop of very high growth rate of 32.53 per cent achieved during the equivalent months of the previous fiscal year. L/C opening and import of inputs for the apparel industry in the abovementioned months of FY2009-10 also posted negative growth figures, and indicating export slowdown. This was also corroborated by the Utilisation Declaration records as well. Figure 5.2 shows that share prices of some of the major US retailers started to fall from September 2008 but from February 2009, retailers appear to have weathered the worst period which transmits some encouraging signs with regard to rise in demand in the upcoming months.

FIGURE 5.1: DYNAMICS OF APPARELS PRICE INDEX



Source: CPD Trade Database.

FIGURE 5.2: STOCK PRICE OF SOME GLOBAL RETAIL STORES



Source: CPD's calculation based on Yahoo Finance (<http://finance.yahoo.com>).

Estimation based on the USITC data shows that total apparel import to the US declined by (-) 13.13 per cent during January-October of 2009 over the same period of 2008. Import declined by (-) 3.27 per cent from Vietnam and (-) 22.46 per cent from Cambodia during this period. However, the US's import of apparel items from Bangladesh and China increased by 0.59 per cent and 0.36 per cent respectively (Table 5.4).

TABLE 5.4: GROWTH IN THE US IMPORT OF APPAREL ITEMS (KNIT & WOVEN)

Country	2009 (Jan-Oct) over 2008 (Jan-Oct)		
	Knit (HS61)	Woven (HS62)	Apparels (Knit & Woven)
Bangladesh	-7.84	3.82	0.59
China	5.77	-3.93	0.36
Vietnam	1.56	-8.98	-3.27
Cambodia	-20.35	-26.69	-22.46
World	-11.97	-14.34	-13.13

Source: CPD Estimates from USITC Trade Database, 2009.

Withdrawal of the US quota restriction on imports from China in January 2009 coupled with China's aggressive response to the global shock (e.g., raising tax rebates on lower-end export items, currency support, export subsidies in addition to other export incentives), have contributed to reviving China's export to the US market. Unit price cut by Chinese manufacturers may have also raised competitiveness and stimulated demand for China's RMG products in developed country markets. Along with external factors, domestic supportive policies to stimulate demand have helped China's export sector, particularly apparels.

Terms of Trade

Bangladesh recently experienced considerable deterioration on terms of trade (ToT) due to the sharp fall in apparels price. If import prices are compared with apparels price index, the ToT would fall by (-) 1.96 per cent in 2009 over 2008. While in 2006 to import a barrel of crude petroleum Bangladesh had to export 2.29 dozens of RMG, by 2008, this had increased to 3.62 dozen; however, at the end of October 2009, this declined to 1.74 dozen due to the sharp decrease in global oil price. With the rising trend in fuel prices, this is set to deteriorate once again. Similarly, to import one ton of rice in 2006 Bangladesh had to export 0.53 tons of jute goods, in 2008 it was 1.14 tons and in the October 2009 to import the same amount of rice Bangladesh has to export 0.98 tons of jute goods (Table 5.5). This trend is similar for wheat and soybean oil as well. In spite of fall in global commodity prices, purchasing power of Bangladesh's export has not yet been able to reach the level which was there in 2006 for most of the major imported commodities. In view of the expected rise in global commodity prices in the near future, all indications are that Bangladesh's TOT will suffer further deterioration in FY2009-10.

TABLE 5.5: FALLING PURCHASING POWER OF EXPORTS

	dozens of RMG			Rise (in times) b/a	Rise (in times) c/a	Tons of Jute Goods			Rise (in times) e/d	Rise (in times) f/d
	2006 (Avg) (a)	2008 (Avg) (b)	2009 (Jan-Oct) (c)			2006 (Avg) (d)	2008 (Avg) (e)	2009 (Jan-Oct) (f)		
1 barrel of Oil (Fuel)	2.29	3.62	1.74	1.58	0.76	0.11	0.17	0.10	1.51	0.92
1 ton of rice	10.76	24.42	16.44	2.27	1.53	0.53	1.14	0.98	2.16	1.85
1 ton of wheat	6.92	11.86	6.48	1.71	0.94	0.34	0.55	0.39	1.63	1.13
1 Metric Ton Soyabean Oil	20.75	45.75	24.13	2.20	1.16	1.02	2.14	1.43	2.10	1.41

Source: CPD Trade Database, 2009.

Fiscal Stimulus Packages

Keeping the global financial crisis in view, the Bangladesh government declared a stimulus package of Tk. 3,420 crore (USD 488.6 million) in April 2009 to address the attendant challenges. In addition, to sustain competitive edge at a time of falling global prices and declining demand for Bangladesh's exportable goods, Tk. 450 crore (USD 64.0 million) was allocated in the form of cash subsidies for export industries which are the most affected by the crisis. These were jute, shrimp and footwear for which cash incentives were raised by 2.5 per cent. A second stimulus package was proposed in the national budget for FY2009-10, worth Tk. 5,000 crore (USD 714.3 million), with a view to continue the incentives and policies put forward in the first package. According to some reports, Tk. 3046 crore (USD 435.1 million) was allocated for cash subsidies of which Tk. 1,311 crore (USD 187.3 million) has already been disbursed.²⁰ A part of this allocation was earmarked for export-oriented sectors; however, major share was allocated to stimulate domestic demand and for the agriculture sector. No targeted allocation was made for the export-oriented apparels sector.

In order to address the specific problems of the export-oriented RMG sector, the largest contributor to Bangladesh's export earnings, the government has recently, in November 2009, announced the third stimulus package. Provisions in the package include cash incentives for the exporters to new markets (markets other than the US, Canada and the EU), special incentives for SMEs in apparel sector that have exported up to USD 3.5 million, subsidy on electricity usage (of 10 per cent usage, until 30 June 2010) for SMEs who do not own captive or diesel run generator, reduction of L/C advising charge, L/C amendment and transfer fees, etc. Limit of Export Development Fund (EDF) was to be raised by combining the resources of three commercial banks, while the government would create a Contributory Fund with Tk. 300 crore (USD 42.9 million) as seed money. Besides supports for the RMG industries, the third package also includes cash incentives export-oriented yarn sector and for shipbuilding and crust leather industries (*Please see Annex 2 for a detailed overview of the Third Stimulus Package*).

It is important to note here that the latest stimulus package has made an important attempt to assist diversification of export market for the RMG sector. A narrow range of products, largely concentrated in few destinations have rendered Bangladesh's export flow vulnerable to external shocks and market volatility. Prospects of potential RMG markets such as Japan, which have LDC-friendly rules of origin policies, need to be seriously examined and appropriate policy ought to be put in place. Besides policy interventions, diplomatic initiatives also need to be taken. To diversify the export basket, markets for highly prospective items such as shipbuilding, pharmaceutical industries, leather industries, agro-products, ceramic industries, light engineering industries, computer software, electric and electronic products and products of horticulture and floriculture need to be explored. Success will depend on ensuring quality, timely delivery, compliance with SPS-TBT requirements, ensuring environment friendliness process. Raising productivity, lowering costs and ensuring competitive edge of Bangladesh's exportables will play the defining role in this context.

²⁰ However, detailed information are not available with regard to timeframe and sectors for which this has been done.

BOX 5.1: DECLINING FROZEN SHRIMPS EXPORT

Shrimp Industry is the second largest foreign exchange earner after the export-oriented Ready Made Garments sector of Bangladesh. This sector began to grow rapidly in the 1990s, but was not appropriately attuned to the demands of sanitary facilities, technology adoption and training requirements that were called for in view of the increasingly rising stringent SPS-TBT compliance standards of the global market, particularly in the EU. These issues surfaced in late 1990s when shrimp export from Bangladesh faced sanctions from the United States Food and Drug Administration. In 1997 the EU banned imports of fishery products from Bangladesh following complaints about non-compliance with HACCP regulations and serious concerns about hygiene compliance in shrimp processing establishments. The loss from ban on export to EU during those 5 months (August – December 1997) was to the tune of USD 15 million. The ban was lifted after adequate measures were taken to ensure compliance with EU regulations. Earlier this year (2009), in a repeat exercise, the EU cancelled more than 50 consignments of fresh water shrimp (*Galda*) upon detection of health hazardous antibiotic-*nitrofurans*. The total value of the consignments amounted to more than Tk. 60 crore (about USD 8.7 million). In concordance with the GoB, the Bangladesh Frozen Food Exporters Association has decided to voluntarily suspension *galda* exports to the EU for a period of six months, starting from April 19, 2009 (*voluntary export restraint or VER*). This had adverse implication for Bangladesh's export oriented shrimp industries. After registering a growth of 3.64 per cent in FY2007-08, earning from frozen food has comedown by (-) 14.83 per cent to USD 454.85 million during FY2008-09 (from USD 534.07 million a year ago).

Relevant stakeholders were of the opinion that the health hazardous elements came from fish-feeds, although the use of *nitrofurans* is prohibited in Bangladesh. Some of these harmful ingredients were coming through illegal channels. Some suspect that *nitrofurans* exists in the chicken feed that shrimp producers use (chicken-waste) as fish feed. In *Shatkhira* alone there are 58 shrimp processing units for about 17000 shrimp farms and it is difficult to track down the offenders since the value chain is extensive and rather complex.

The ministry of fisheries and livestock and the department of food meticulously has attempted to address this issue by banning nitrofurans use in 2008 but more rejections occurred in 2009, which could have resulted in blacklisting of Bangladesh shrimp products in Europe. To address this problem Bangladesh Shrimp & Fish Foundation (BSFF) has also taken help from foreign consultant who will review and identify any lapse and gaps in Bangladesh laboratory testing of shrimp for nitrofurans and their metabolites the consultant would also identify possible reasons why shrimp tested and certified to be nitrofurans free in Bangladesh, is often found to contain nitrofurans when the same shrimp is tested at the EU port of entry. He would recommend practical measures to effectively remedy the problem.

Recently, Bangladesh's frozen food exporters have decided to withdraw their voluntary suspension of fresh water prawn exports to Europe (from the last week of November 2009). It is hoped that the government would extend all possible cooperation to shrimp producers/exporters to successfully address this challenge. Of importance will be the setting up of a high standard testing lab. In order to expand markets for Bangladesh's shrimp exports, producers, on their part, will have to ensure adherence to international standards, and high quality, particularly with regard to health, environment and labour standards.

5.2 Key Features of the Import Sector

During the first four months of the FY2009-10, total import payments declined by (-) 14.97 per cent to USD 7.16 billion compared to the corresponding months of FY2008-09 (Table 5.6). The lower import was partly due to decrease in global commodity prices coupled with lower volume of purchase by local importers. Though import growth was quite robust over the recent years, it started to fall gradually since the second quarter of FY2008-09. The first quarter of FY2009-10 registered (-) 19.0 per cent growth given the fact that this negative growth was benchmarked against extremely high import growth (37.7 per cent) of the first quarter of FY2008-09. Lower import payments, however, have helped to keep the balance of payment situation at a comfortable level. Moreover, tagging up with incredibly high remittance growth, this has led the

country's economy to accumulate a record high foreign exchange reserve.²¹ However, increasing trend of commodity prices in international market, experienced over the recent past months, indicate that import payments would go up in the coming months.

TABLE 5.6: IMPORT SITUATION OF SOME COMMODITIES IN FY2008-09 AND FY2009-10

(Million USD)

Items	FY2008-09 (Jul-Oct)	FY2009-10 (Jul-Oct)	Growth (%)
Food Grain (A.)	239.70	235.60	-1.71
Rice	158.50	4.20	-97.35
Wheat	81.20	231.40	184.98
Other Food Items (B)	7729.80	6559.67	-15.14
Milk and Cream	32.30	19.60	-39.32
Spices	25.50	43.20	69.41
Oil Seeds	28.80	61.20	112.50
Edible Oil	311.60	390.40	25.29
Pulses al sort	48.80	89.40	83.20
Sugar	156.40	134.60	-13.94
Clinker	97.40	83.90	-13.86
Crude Petroleum	403.10	142.50	-64.65
POL	890.30	550.60	-38.16
Chemicals	355.50	296.80	-16.51
Pharmaceutical Products	32.80	24.60	-25.00
Fertilizer	597.50	208.10	-65.17
Dying, Tanning, etc.	112.00	86.60	-22.68
Plastic and Rubber articles	321.40	295.30	-8.12
Raw Cotton	460.10	402.20	-12.58
Yarn	305.50	237.20	-22.36
Textile and Articles Thereof	747.50	667.50	-10.70
Staples fibre	42.30	41.80	-1.18
Iron and Steel and other base metals	475.90	419.50	-11.85
Capital Goods and Others (D)	1623.90	1623.87	0.00
Capital Machinery	541.50	504.37	-6.86
Other Capital Goods	1082.40	1119.50	3.43
Others	661.20	740.80	12.04
Sub Total (A+B+C+D)	7969.50	6795.27	-14.73
Imports of EPZ (E)	446.50	361.00	-19.15
Grand Total (A+B+C+D+E)	8416.00	7156.27	-14.97

Source: Computed from Bangladesh Bank Data; 2009.

Food grain import posted a negative (-) 30.19 per cent growth over the first ten months of 2009 against comparable period of 2008. Import of rice was (-) 93.34 per cent lower for the same period. During July to October of FY2009-10, as compared to the corresponding period of FY2008-09, import payment for rice declined further by (-) 97.35 per cent. This downward trend was underpinned by an impressive Boro harvest of the last season. In addition to this, as is known price of foodgrains in international market was exceptionally high during the abovementioned months of FY2008-09 when compared to the corresponding months of FY2009-10. Among other food items, import of edible oil fell by (-) 6.83 per cent in the first ten months of 2009 compared to that of 2008. However, recently (during July to October of FY2009-10)

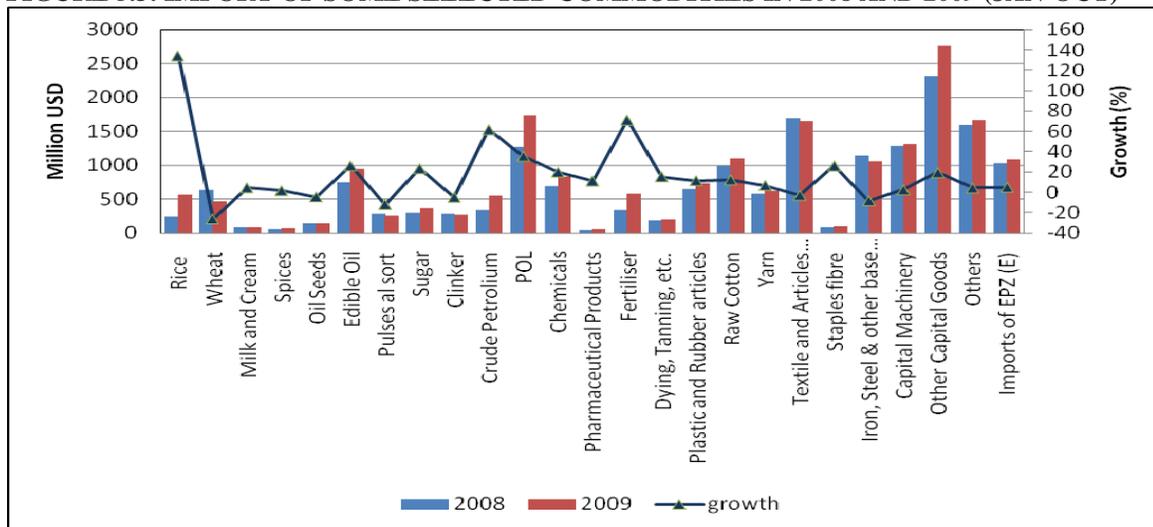
²¹ On 10 November 2009, foreign exchange reserve crossed USD 10 billion mark for the very first time in history.

import of edible oil registered 25.29 per cent growth because of the soaring price in the international market.

Synchronizing with the declining trend of crude petroleum price in the international market, import payment for this particular item declined by (-) 64.65 per cent during July to October of FY2009-10 over the same months of FY2008-09; however, indication of rising international price of crude oil may signal a rise in payments on account of crude oil import in the coming months.

Even though import growth of capital machineries are on the decline (registering a negative growth of (-) 6.86 per cent in July – October FY2009-10) due to falling global demand and lack of domestic investment, recent trends in L/C Opening transmits some encouraging trends (an increase of 13.94 per cent in July – October FY2009-10 compared to the equivalent period of FY2008-09). Whether this is a sustained trend in view of the anticipated recovery in global demand for manufacturing products remains, however, to be seen. Fall in import growth for raw cotton, yarn and ‘Textile and Articles Thereof’ over the same period may be attributed to declining export of apparels in the backdrop of falling global demand due to the global financial crisis. Year on Year comparison of the first ten months of 2009 over the same period of 2008 also coincide with negative growth of RMG related imports (Figure 5.3).

FIGURE 5.3: IMPORT OF SOME SELECTED COMMODITIES IN 2008 AND 2009 (JAN-OCT)



Source: CPD Trade Database.

5.3 L/C Opening and Settlement

Import L/Cs opened during the first six months of the FY2009-10 registered 23.65 per cent growth over the comparable period of FY2008-09 indicating a rise in import demand. L/Cs settled during this period were worth USD 10.6 billion which was (-) 6.14 per cent less than that of the same months of FY2008-09. Growth rates in terms of opening and settlement of L/Cs during January to December of 2009 were (-) 1.88 and (-) 6.14 per cent respectively compared to the same months of 2008.

TABLE 5.7: OPENING AND SETTLEMENT OF L/Cs IN 2008 AND 2009 (JANUARY - OCTOBER)

Year	L/C Opening			L/C Settlement		
	FY2008-09	FY2009-10	Growth (%)	FY2008-09	FY2009-10	Growth (%)
Consumer Goods	1299.18	834.27	-35.78	1035.06	719.98	-30.44
Rice	785.83	17.98	-97.71	704.96	44.57	-93.68
Wheat	513.35	816.29	59.01	330.10	675.41	104.61
Intermediate Goods	2091.06	1801.62	-13.84	1768.08	1733.41	-1.96
Industrial Raw Materials	8238.88	6973.45	-15.36	7593.66	6511.75	-14.25
Cotton Yarn	460.17	420.54	-8.61	435.13	366.75	-15.71
Cotton Yarn BBLCs	284.49	272.57	-4.19	452.24	235.97	-47.82
Textile Fabrics Accessories	2733.38	5281.44	93.22	2502.03	5344.52	113.61
Textile Fabrics Accessories BBLCs	2540.14	2334.64	-8.09	2324.70	2348.12	1.01
Fabrics	1930.26	1755.63	-9.05	1767.81	1787.74	1.13
Accessories	609.88	579.01	-5.06	556.89	560.38	0.63
Petroleum and Petroleum Products	2498.39	1575.19	-36.95	2217.31	1391.39	-37.25
Capital Machinery	1422.76	1132.34	-20.41	1293.60	1077.17	-16.73
Textile	423.28	229.95	-45.67	400.53	267.58	-33.19
Machinery for Misc Industries	1496.02	1617.49	8.12	1327.44	1463.14	10.22
Other LCs	3520.70	3770.57	7.10	2983.40	3157.29	5.83
Commercial Sector	1882.62	1953.74	3.78	1647.53	1687.08	2.40
Industrial Sector	1638.08	1816.83	10.91	1335.88	1470.21	10.06
Total	21715.59	19351.93	-10.88	19187.27	17142.62	-10.66

Source: CPD Trade Database.

Opening of L/Cs for capital machinery posted 13.94 per cent growth during July to October of FY2009-10 (Table 5.8). This is a promising sign indicating improvement in import of capital machineries which in turn indicates some improvements in the domestic investment scenario. L/Cs settled for capital machineries during the abovementioned period decreased by (-) 19.86 per cent against the same period of the previous fiscal year. Though L/C opening for cotton yarn registered a positive growth rate for this period, there was serious setback in case of textile fabric and accessories (-8.21 per cent).

TABLE 5.8: OPENING AND SETTLEMENT OF L/Cs IN FY2008-09 AND FY2009-10 (JULY - OCTOBER)

Year	L/C Opening			L/C Settlement		
	FY2008-09	FY2009-10	Growth (%)	FY2008-09	FY2009-10	Growth (%)
Consumer Goods	291.56	444.89	52.59	240.21	244.91	1.96
Rice	3.51	0.23	-93.47	151.97	2.69	-98.23
Wheat	288.05	444.66	54.37	88.24	242.22	174.50
Intermediate Goods	789.98	754.22	-4.53	646.50	660.87	2.22
Industrial Raw Materials	3312.03	3007.12	-9.21	3350.45	2627.01	-21.59
Cotton Yarn	149.96	166.86	11.27	205.24	144.95	-29.38
Cotton Yarn BBLCs	99.52	115.19	15.74	134.02	93.45	-30.27
Textile Fabrics Accessories	1093.81	1003.98	-8.21	1083.52	958.46	-11.54
Textile Fabrics Accessories BBLCs	1019.68	957.26	-6.12	1013.67	909.90	-10.24
Fabrics	771.87	730.00	-5.42	777.49	688.19	-11.49
Accessories	247.81	227.26	-8.29	236.18	221.71	-6.13
Petroleum and Petroleum Products	922.56	874.12	-5.25	922.57	517.76	-43.88
Capital Machinery	461.86	526.25	13.94	557.96	447.15	-19.86
Textile	109.63	121.54	10.86	176.49	105.19	-40.40
Machinery for Misc Industries	613.11	612.52	-0.10	536.64	584.12	8.85
Other LCs	1303.60	1661.11	27.42	1279.45	1289.43	0.78
Commercial Sector	800.73	755.62	-5.63	720.53	659.14	-8.52
Industrial Sector	502.88	905.49	80.06	558.93	630.29	12.77
Total	8002.07	8725.87	9.05	7893.05	6813.39	-13.68

Source: CPD Trade Database.

In case of consumer goods, opening of L/Cs was 52.29 per cent higher during the first four months of the FY2009-10 when compared to the corresponding period of FY2008-09. However, this high growth figure is attributed to L/Cs opened for the import of wheat which registered a 54.37 per cent growth in this period. L/Cs opened for rice import also fell short by (-) 93.47 per cent over the corresponding period. Settlement of L/Cs for rice also displayed highly negative growth.

5.4 Remittances and Overseas Employment

Over the recent past remittances have emerged as an increasingly important component in economies of many developing countries. According to the World Bank, in 2009, barring Bangladesh, Nepal and Pakistan and other countries of South Asia were poised to suffer from some deceleration in remittance inflows. Remittance to Bangladesh was projected to grow by almost 16 per cent from the previous year and surpass the USD 10 billion mark. Recently published official data supports this projection: in 2009, inflow of remittance has crossed the USD 10.0 billion mark to reach USD 10.72 billion (Table 5.9).

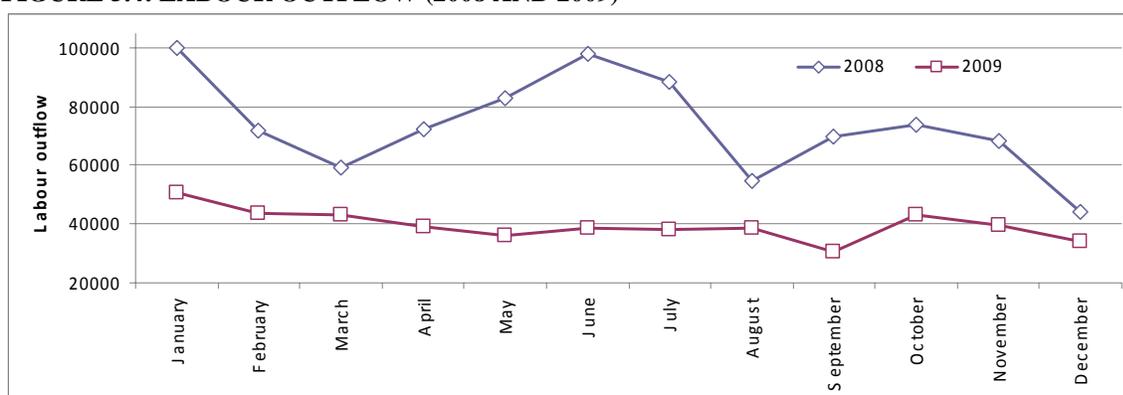
TABLE 5.9: INFLOW OF REMITTANCE TO BANGLADESH

Year	Remittance (Million USD)	Growth (%)
FY2008	7917.1	22.42
FY2009	9691.5	
FY2009 (Jul-Dec)	4504.73	22.89
FY2010 (Jul-Dec)	5535.00	
2008 (Jan-Dec)	8981.32	19.36
2009 (Jan-Dec)	10720.00	

Source: Bangladesh Bank.

In the backdrop of the bleak outlook in remittance inflows worldwide, the Bangladesh performance in FY2009-10 must be seen as exceptional.²² Following the high growth trend of the previous fiscal (22.42 per cent in FY2008-09), in FY2009-10 (Jul-Dec), remittance recorded a 22.89 per cent growth over the corresponding period (Table 5.9). Similarly, on a year-on-year (y-o-y) basis, remittance increased by 19.36 per cent in 2009 compared to 2008. It may be mentioned here that the CPD had earlier estimated that remittance flow in FY2009-10 would be USD 10.6 billion which would imply that for the remaining of this fiscal (6 months), remittance inflows on a monthly basis will have to be approximately USD845.0 million. Despite some discouraging developments in recent months, such as fall in the number of people leaving abroad for work and increase in the number of returnee migrants, remittance inflow has maintained buoyancy. It is reckoned that initiatives taken by Bangladesh Bank over the recent past to encourage sending of remittances through formal channels (e.g. antimoney laundering act, permission for more active involvement of intermediaries), financial crisis (safety of savings in country's financial institutions rather than western banks) and stability of exchange rate of BDT have also contributed to this large flow.

As is evident from Figure 5.4, export of manpower from Bangladesh has been on a declining trend for some time now. Compared to 2008, labour outflow declined by 46 per cent in 2009. When fiscal timeframe is considered, labour outflow decreased by 44 per cent in the first six months of FY2009-10 (Jul-Dec), compared to the same period of FY2008-09.

FIGURE 5.4: LABOUR OUTFLOW (2008 AND 2009)

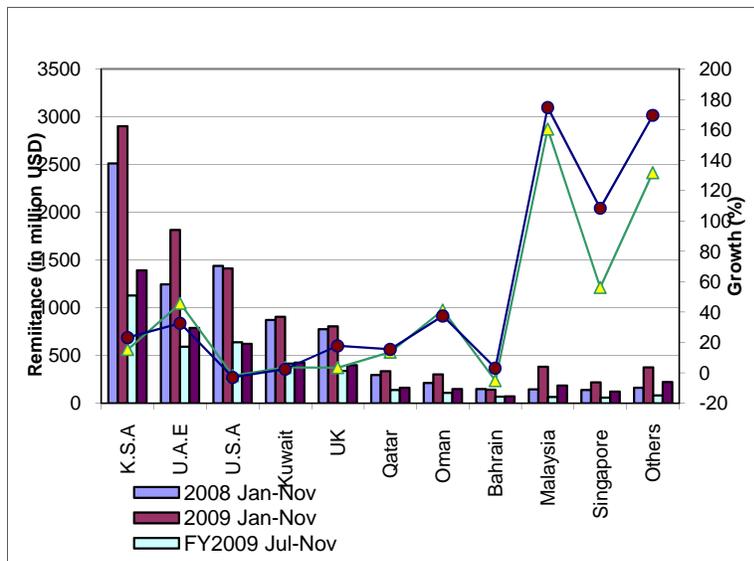
Source: BMET.

²² Although experience of past recessions shows that remittance flows tend to be more resilient than export of goods.

With regard to returnee migrants, information reported in the media, citing BMET sources, indicates that a total of 72,210 workers have returned home in 2009. This was 20 thousand more than in 2008. However, workers had returned home in 2009, though this number should be carefully interpreted given the intertemporal nature of labour migration. On a positive note, in view of recent diplomatic efforts by the government, the UAE is once again considering to hire workers from Bangladesh in the near future.²³ *Remittances Prices Worldwide* data affirms that though the average total cost of remitting to the country has declined significantly in early 2009, in the third quarter of 2009, despite government efforts to streamline the remitting process (such as the *Remittance Payment and Partnership* project), cost of remitting (for example USD200 from Saudi Arabia) has increased by 53 per cent against the first quarter cost.²⁴

With the decrease in workers emigration alongside the rising number of returnee migrants, the growth in remittance flow to Bangladesh may appear paradoxical. However, along with possible causes cited earlier, it needs to be added that some other positive changes have also been taking place including diversification of sources of remittance earnings. It is no surprise that Saudi Arabia, followed by the UAE and the USA, continues to dominate the share of the total remitted amount (Figure 5.5). In recent times, there has been some shift to non-traditional markets. It is of interest to note that ‘Others’ category witnessed a doubling of remittance inflow in both the ongoing fiscal year (Jul-Nov) and also in 2009 compared to the corresponding periods of 2008. Additionally, in recent years the share of semi-skilled/skilled emigrants compared to unskilled emigrant has also been on the rise. This was also likely to have positive impact on remittance flow.

FIGURE 5.5: COUNTRY-WISE REMITTANCE FLOW TO BANGLADESH (IN MILLION USD)



Source: Bangladesh Bank.

²³ In November 2009, the Prime Minister visited UAE where this commitment was made by the host government.

²⁴ The Bangladesh Remittance and Payments Partnership (RPP) Project is a £5.5 million (USD 11 million) initiative developed by DFID, the Bangladesh Bank and the Ministry of Finance. It is expected to be completed by end 2009.

In view of the rising flow of remittances and its possible implications (in terms of inflation and asset-price bubble, i.e., real estate), it is critically important that the government takes appropriate institutional measures, as well as fiscal incentives, towards making productive use of this resource. The government has recently initiated a three-year project titled 'Promoting Decent Work through Migration', which is to be launched by the Ministry of Expatriates' Welfare & Overseas Employment by July 2010.²⁵ Also, the government has allocated USD10.5 million as a revolving fund, whose monthly interest would be channelled towards ensuring welfare of the migrant workers. It is encouraging to note these renewed efforts to support returnee migrants. However, policymakers must focus on addressing the needs of new markets, and prepare the potential migrant work force accordingly. Demographic dynamics in developed countries indicates that by 2020 there will be growing demand for service providers in caring of those countries (urges, medical practitioners, medical technical hands etc). A comprehensive strategy will need to be developed for putting in place the supply-side capabilities in view of the emerging demands of the global labour market.

5.5 Balance of Payments

The BOP position of Bangladesh remains healthy at the end of FY2008-09 as well as the first quarter of FY2009-10 thanks to larger current transfers' particularly from the worker's remittances. The overall BOP of Bangladesh reached USD 2058 million in FY2008-09 from USD 331 million in FY2007-08. Current account balance also followed similar trend, increasing from USD 702 million in FY2007-08 to USD 2536 million in FY2008-09. Trade balance, as has been the trend in recent years, recorded a deficit of USD 4708 million in FY2008-09; this was lower compared to the previous year's deficit of USD 5330 million.

TABLE 5.10: BALANCE OF PAYMENTS

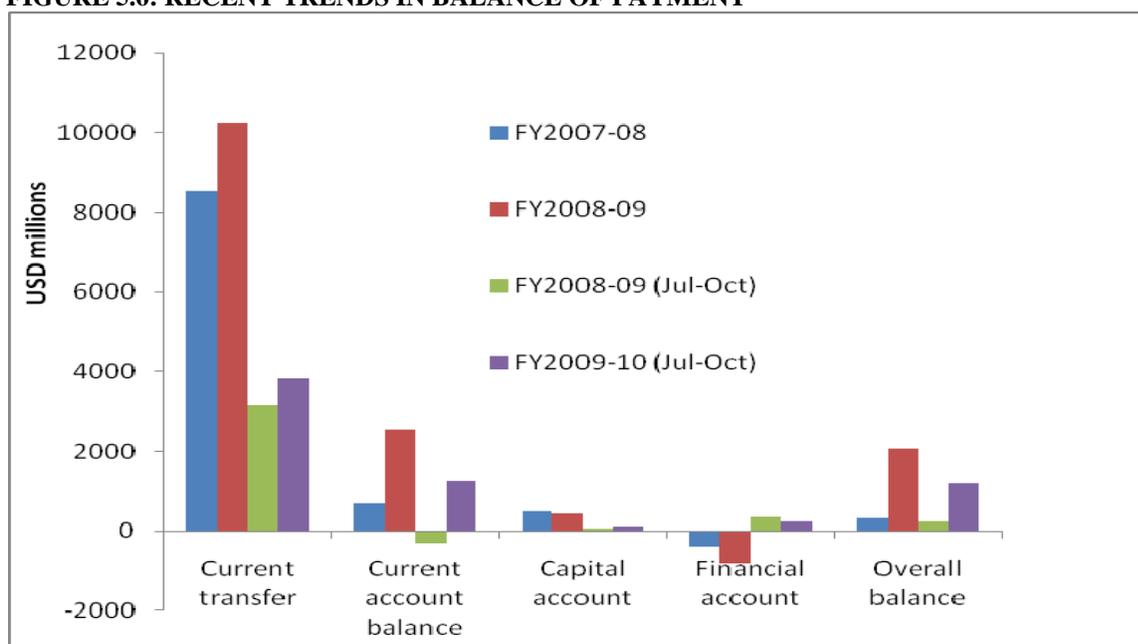
Items	FY2007-08	FY2008-09	FY2008-09 (Jul-Oct)	FY2009-10 (Jul-Oct)
Trade balance	-5330	-4708	-2329	-1539
Services	-1525	-1621	-880	-532
Current transfer	8551	10226	3140	3807
<i>official transfers</i>	149	72	5	8
<i>private transfers</i>	8402	10154	3135	3799
<i>of which workers' remittances</i>	7915	9689	2985	3610
Current account balance	702	2536	-325	1258
Capital account	509	451	64	111
Financial account	-392	-808	357	237
Errors and omissions	-488	-121	131	-412
Overall balance	331	2058	227	1194

Source: Monthly Economic Trends, Various issues, Bangladesh Bank.

²⁵ The objective of this project with a budget of USD 3.5 million is to provide returnee migrants with necessary support, such as access to finance, programmes for entrepreneurship development, training and most importantly, building capacities for re-emigration. This project aspires to utilise the skill and expertise of returnees in skill development and other related sectors.

In the first four months of FY2009-2010, the trade balance recorded a lower deficit of USD1539 million during July - October, 2009 compared to the deficit of USD2329 million during July - October, 2008. It is mainly lower import payments, however, have kept the balance of payment situation at a comfortable level. This could change in the coming months in view of this commodity prices. Improvement of trade balance situation will hinge on Bangladesh's ability to realise export diversification in terms of markets and products. Due to larger current transfers of USD3807 million current account balance recorded a surplus of USD1258 million during July - October, 2009 against the surplus of USD325 million during July - October, 2008. The overall balance showed a surplus of USD1194 million in the said period of 2009 against a surplus of USD227 million in the comparable period of 2008.

FIGURE 5.6: RECENT TRENDS IN BALANCE OF PAYMENT



Source: Monthly Economic Trends, Various issues, Bangladesh Bank.

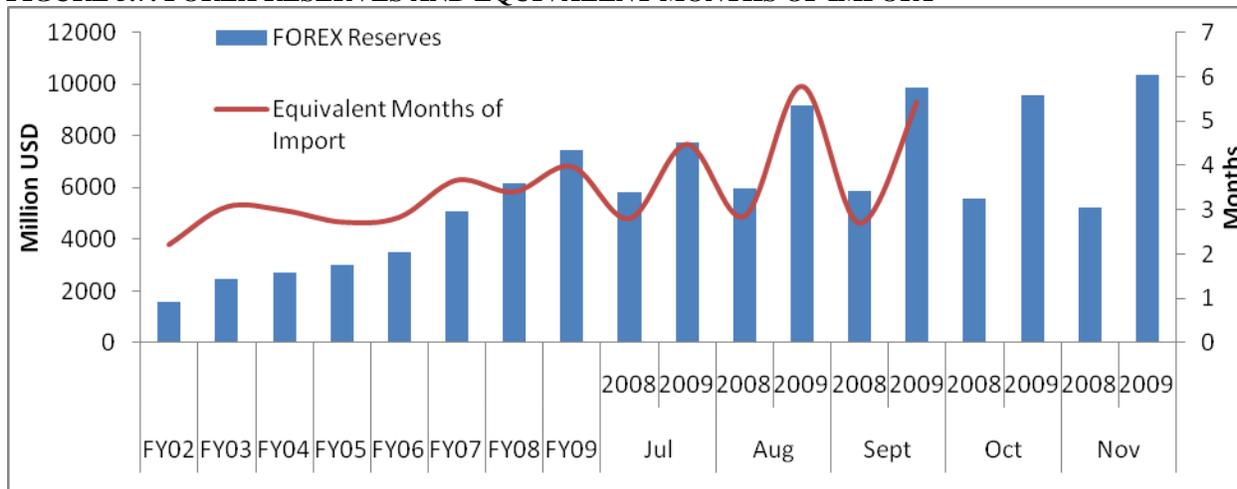
The key to controlling or reducing a balance of payments deficit, in the long term, for Bangladesh economy is its ability to maintain a low level of inflation alongside putting in place the necessary productive capacity to meet domestic demand and ensure sustained growth of exports. A sustained improvement in balance of payments will require improved efficiency and productivity in export-oriented sectors and ability to exploit opportunities in export markets through product diversification and upward movement along the value chain. Both goods and services markets will need to be targeted. The recently designed export-policy should give some guidance in this context. A number of 'strategic' sectors should be identified for concerted policy support to help their emergence as major exportables over the next decade.

5.6 Foreign Exchange Reserves

In the backdrop of the buoyant growth in remittance flow to the country, coupled with impressive growth in export earnings and depressed demand for imports, foreign exchange (FOREX) reserves of Bangladesh posted a 49.29 per cent increase at the end of November 2009,

as against the corresponding month of 2008. Gross foreign exchange reserves of the Bangladesh Bank stood at USD 10.34 billion as of end November, 2009, against USD 5.25 billion as of end November, 2008.

FIGURE 5.7: FOREX RESERVES AND EQUIVALENT MONTHS OF IMPORT



Source: CPD Trade Database, 2010

Figure 5.7 depicts the growth in forex reserves and its equivalency in terms of months of import. The current forex reserve is equivalent to about 6 months of Bangladesh’s total import payment. Appropriate use of the rising reserves will be a major policy challenge for Bangladesh in the near and medium terms. Bangladesh bank should seek to maximize the value of current USD 10 billion reserves, within the prudent risk limits, so that reserves are available when these are needed. Foreign reserve management strategies should be consistent with and supportive of a country's specific policy environment, in particular its monetary and exchange arrangements. Bangladesh Bank has been able to keep exchange rate of BDT stable through periodic market interventions. Taking advantage of high reserves it has also changed rules for accessing loans in foreign exchange. Future reserve management should seek to ensure that: (i) adequate foreign exchange reserves are available for meeting a defined range of objectives; (ii) liquidity, market, and credit risks are controlled in a prudent manner; and (iii) subject to liquidity and other risk constraints, reasonable earnings are generated over the medium to long term on the funds invested.

Recently a number of countries including China, India, Mexico, Philippines, Venezuela, and Equator are buying gold and reserving the gold as a foreign reserve as a response to falling dollar price, higher inflation and steady rise in gold prices. In view of the changing dynamics in the foreign currency market, Bangladesh Bank will need to remain proactive in monitoring changes in the composition of its forex reserve currency basket and will have to take appropriate measures to safeguard the purchasing power of the country’s forex reserves, and also its earning capacity through prudential management of the reserves.

5.7 Sustaining Aid Flows

Amidst the global financial crisis since mid-2008, net receipts of foreign aid in FY2008-09 decreased to USD 1,085.91 million, against USD 1,475.52 million in FY2007-08, recording a (-) 25.7 per cent fall. For the ongoing fiscal, the inflow of foreign aid has been estimated at USD 2,625.0 million (grant: USD 760 million; loan USD 1,865 million). Following the declining trend in aid flows, the figures for July-October FY2009-10 are also on the downside, indicating a fall of (-) 62.4 per cent in net foreign aid compared to the corresponding period of the previous fiscal. Gross disbursement also decreased by 41 per cent in the period under consideration (Table 5.11).

TABLE 5.11: FOREIGN AID SCENARIO (IN MILLION USD)

Month	FY2009-10			FY2008-09		
	Total Aid	Payment (Principal)	Net Foreign Aid	Total Aid	Payment (Principal)	Net Foreign Aid
July	67.11	59.00	8.11	80.01	55.95	24.06
August	43.18	29.00	14.18	235.23	30.02	205.21
September	163.54	40.00	123.54	244.99	46.81	198.18
October	90.28	78.40	11.88	56.05	63.77	-7.72
Jul-Oct	364.11	206.40	157.71	616.29	196.55	419.74

Source: Bangladesh Bank.

The other side of the story is, nevertheless, quite encouraging given the enhanced aid commitments. Both the World Bank and the ADB have recently committed to substantially increase their annual assistance package to Bangladesh for the next three years – USD1096.90 million and USD800 million respectively. It is to be noted that in recent times, amendments of the PPA 2006 and the PPR 2008 have given rise to some tension between the GoB and some of the major development partners, particularly, the World Bank. Some parts of the proposed amendments have drawn criticisms from a number of development partners which relate to provision of lottery for awarding projects, exclusion of requirement of experience for projects not exceeding Tk. 5 million (USD0.07 million) etc.

In spite of the fact that the role of aid has been diminishing over the last decade, it continues to play an important role in Bangladesh's development efforts. Aid finances about one-third of the total fiscal deficit of Bangladesh (the projected share of net foreign financing in Budget for FY2009-10 is 29.7 per cent); about a-half of ADP is financed by Aid. Contentious issues relating to the amendments should be settled expeditiously to avoid delays in funds for ADP implementation. During the first five months of FY2009-10, 23 per cent of the project aid allocation has been utilized. It is pertinent to underline here that actual disbursement will hinge more on Bangladesh's capacity to absorb the aid rather than the availability of aid itself. Most importantly, underutilisation of ADP allocations will be costly from the perspective of creating employment opportunities increasing domestic demand and stimulating private investments.

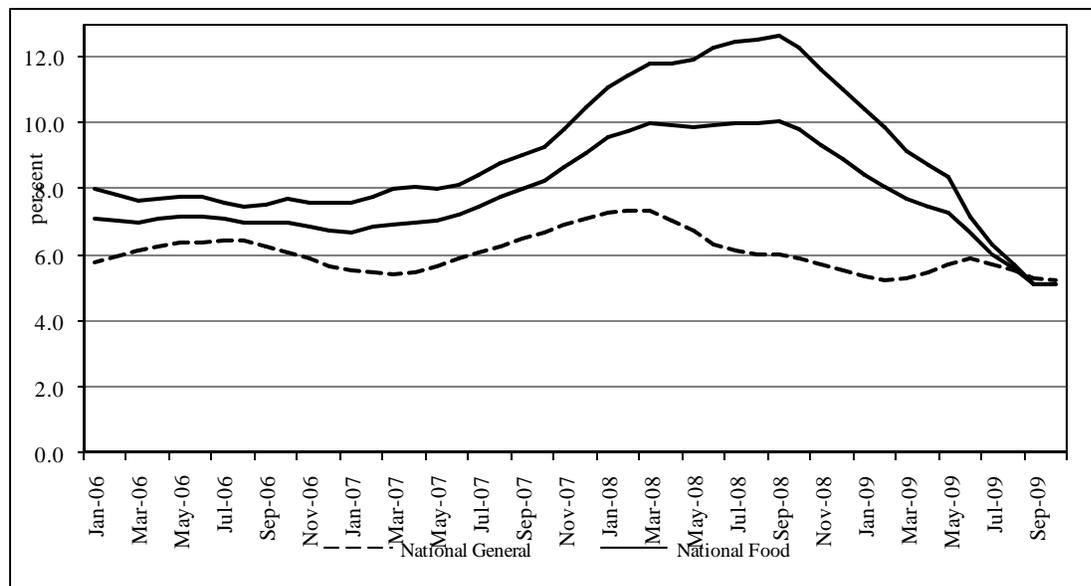
6. INFLATION AND PRICE

6.1 Trends in inflation

Bangladesh was enjoying lower inflation rates of below 6 per cent during the early years of the current decade. However, since the beginning of 2004 inflation started to show rising trend. An analysis of trends in inflation (moving average) during January 2006 to October 2009 shows that food inflation was higher in this period than non-food inflation, at the national level (Figure 6.1). Highest inflation rate for food was 12.63 per cent in September 2008. Since September 2008, food inflation has been on a declining trend, at the national level. Non-food inflation experienced a declining trend during December 2002 to May 2005. Non-food inflation posted a rise and reached its highest level (7.35 per cent) in February 2008. Since then, trends in non-food inflation some degree of volatility. General inflation in Bangladesh has increased from 1.90 in July 2001 to 10.05 in September 2008 (highest level). Since September 2008, general inflation has been declining at the national level. In October 2009, general inflation was 5.11 per cent. It may be noted here that the targeted inflation (as per National Budget for FY2009-10 and Monetary Policy Statement for July-December 2009) in FY2009-10 was 6.5 per cent.

A comparison of inflation in rural and urban areas during January 2006 to October 2009 revealed that both general and non-food inflation was higher in rural areas than in the urban areas. During this period, food inflation was higher in urban areas than in rural areas except in February-July 2009 when rural food inflation was higher than urban food inflation.

FIGURE 6.1: TRENDS IN INFLATION (MOVING AVERAGE): JANUARY 2006 TO OCTOBER 2009

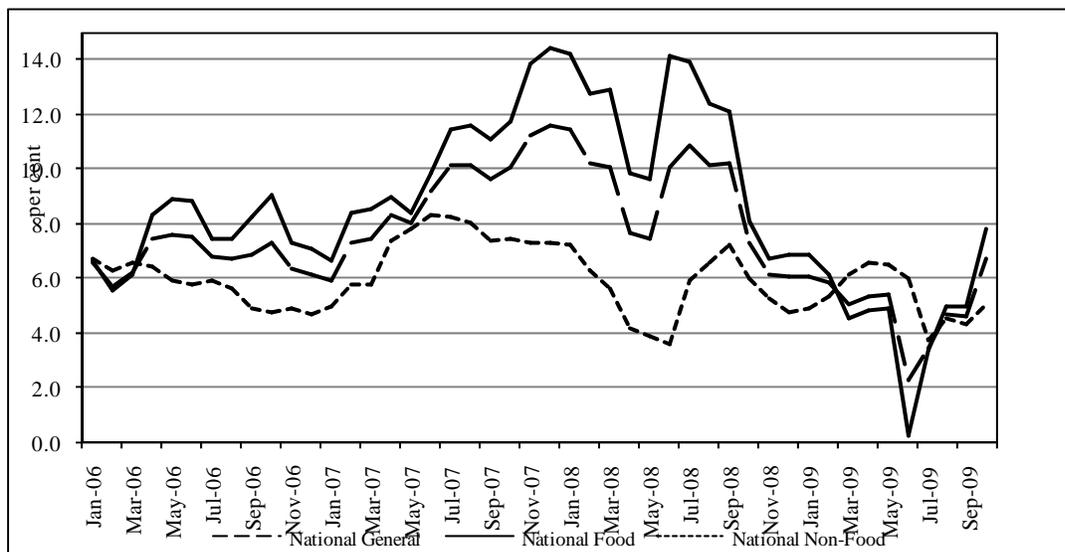


Source: Bangladesh Bureau of Statistics (BBS).

In 2009, inflation (point-to-point basis) was generally low until June but started to increase subsequent to this (Figure 6.2). Between June and October 2009, general inflation increased from 2.25 to 6.71 per cent at the national level, from 2.13 to 6.62 per cent in rural areas, and from 2.55 to 6.96 per cent in urban areas. During this period, food inflation at the national level increased

from 0.25 to 7.78 per cent, rural food inflation increased from 0.05 to 7.26 per cent, and urban food inflation increased from 0.71 to 9.00 per cent. On the other hand, non-food inflation decreased from 5.94 to 5.07 per cent at the national level, 6.33 to 5.34 per cent in rural areas and 4.92 to 4.34 per cent in urban areas.

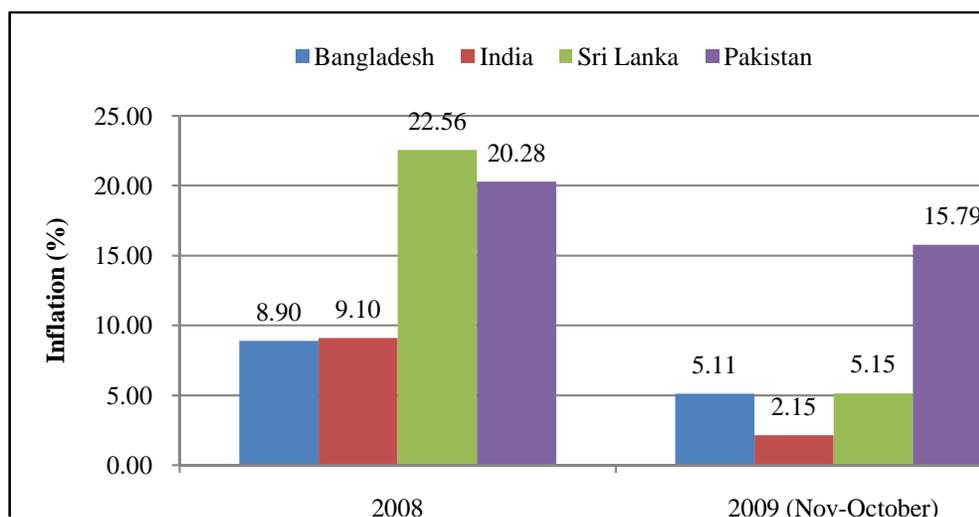
FIGURE 6.2: TRENDS IN INFLATION (POINT-TO-POINT): JANUARY 2006 TO OCTOBER 2009



Source: Bangladesh Bureau of Statistics (BBS).

A comparison of inflation (moving average) in Bangladesh with that of other South Asian Countries (India, Pakistan and Sri Lanka) reveals that inflation in Bangladesh (8.90 per cent) in 2008 was lower than that of India (9.10 per cent), Pakistan (22.56 per cent) and Sri Lanka (20.28 per cent) (Figure 6.3). During the first 10-months of 2009 (January-October), inflation in Bangladesh (5.11 per cent) was lower than Sri Lanka (5.15 per cent) and Pakistan (15.79 per cent) but higher than India (2.15 per cent).

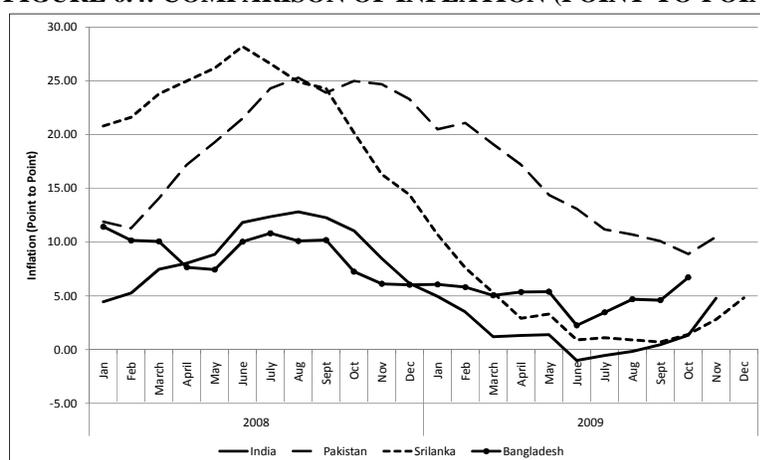
FIGURE 6.3: COMPARISON OF INFLATION (MOVING AVERAGE) IN SOUTH ASIAN COUNTRIES



Source: Bangladesh Bank; <http://eaindustry.nic.in>; <http://sbp.org.pk>; <http://statistics.gov.lk>.

During July-October 2009, inflation (point-to-point) in Bangladesh was higher than in India and Sri Lanka, but lower than that of Pakistan. Since July 2009, inflation rate (point-to-point basis) has been increasing in Bangladesh, India, and Sri Lanka (Figure 6.4). It was declining in Pakistan until October 2009, but showed a reverse trend in November 2009 (10.5 per cent). In late November 2009, Central Bank of Pakistan projected that inflation will remain in the vicinity of 11 per cent by the end of FY2009-10 (June 2010). In November 2009, India's inflation rate was 4.78 per cent but the Reserve Bank of India has projected that India's inflation rate will increase to 6.5 per cent by March 2010. Sri Lanka is expecting that inflation will be in the range 5-6 per cent by the end of 2010. During the last six months (July to December 2009) prices of rice, wheat, soyabean oil, milk powder, sugar, Crude Oil has been showing fluctuating but rising trend in the international market (see section 6.2 for details). Consequently, Bangladesh must pursue a proactive policy with regard to controlling the inflationary situation in the coming months through prudent monetary and fiscal policies.

FIGURE 6.4: COMPARISON OF INFLATION (POINT-TO-POINT) IN SOUTH ASIAN COUNTRIES



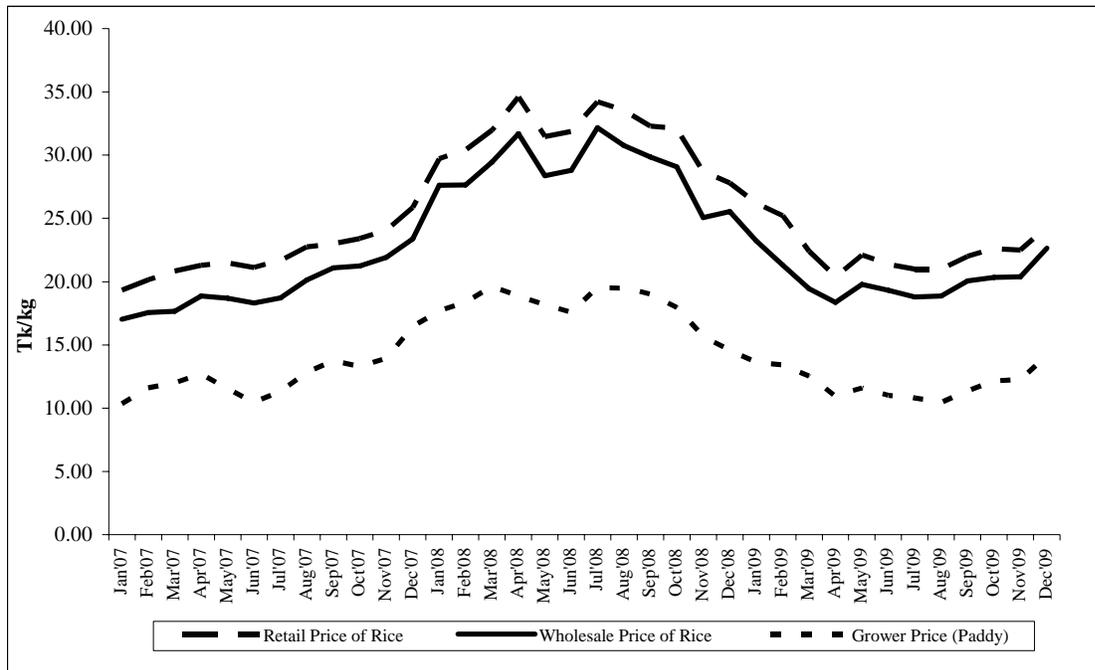
Source: Bangladesh Bank; <http://eaindustry.nic.in>; <http://sbp.org.pk>; <http://statistics.gov.lk>.

6.2 Trends in Prices and Variability in Prices

The government has announced its intention to keep prices of essential commodities stable and at affordable levels. This section analyses both price and variability situation in the country in comparison with the international situation. In recent months, domestic rice prices have been on the rise (Figure 6.5). In December 2009, average wholesale price of coarse rice was Tk. 22.66 per kg. On the other hand, retail price of rice was Tk. 24.33 per kg. Farm level price of paddy was Tk. 14.50 per kg. There is high correlation between wholesale price, retail price and farm level price of paddy. The recent rise in price of coarse rice has thus far acted as an incentive for the farmers. Paddy price at the farm level, if it increases up to Tk. 15 to Tk.16 per kg, should not be seen as a concern since this price will be an incentive to farmers to go for higher production

of Boro rice. However, if it rises beyond this point, consumers then may consider the price of rice to be too high. It may be recalled that domestic prices (both for wholesale and retail) of coarse rice increased significantly during February 2007 to April 2008, which had a negative impact on food security and poverty in the country at that time. The situation eased to some extent after the harvest of Boro rice in May 2008 but started to decline from September 2008 when global price situation eased and possibility of a good production of Aman season emerged.

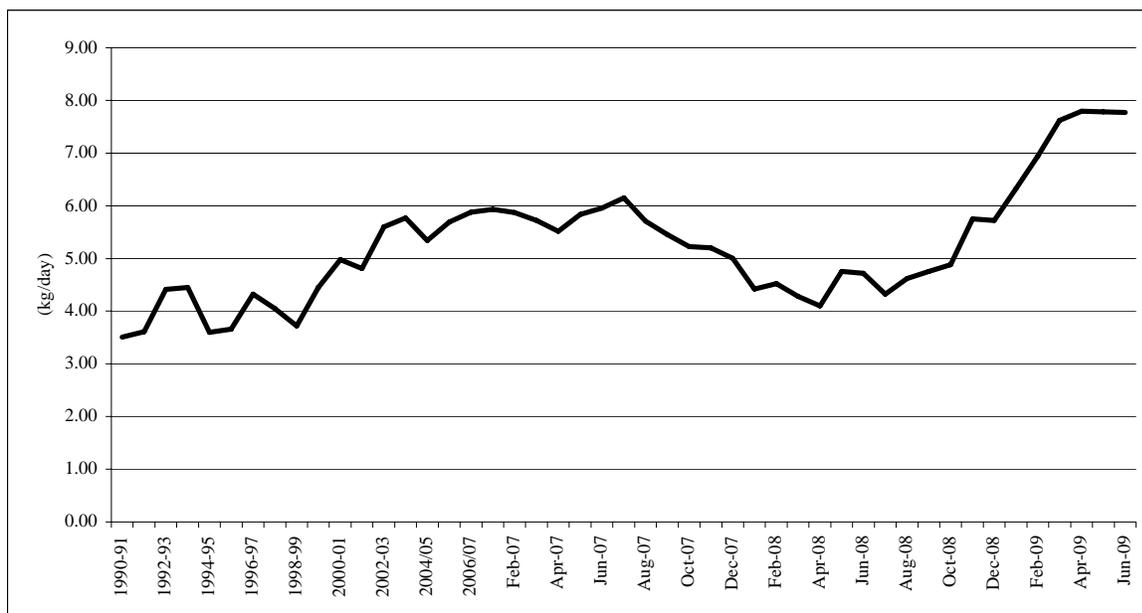
FIGURE 6.5: MONTHLY WHOLESALE AND RETAIL PRICE OF RICE (COARSE) AND PADDY PRICE AT THE FARM LEVEL: JANUARY 2007 TO DECEMBER 2009



Source: Department of Agricultural Marketing (DAM).

As is known, decline in rice price has positive impact on real wages and food security. Agricultural labour wage (in terms of rice equivalent) has substantially increased during the early months (January-June) of 2009, because of decrease in rice price (Figure 6.6). Rice equivalent daily wage of agricultural labourers has increased from 4.10 kg rice in April 2008 to 7.78 kg in May 2009. Keeping rice price at a lower level is thus important for food security, from the perspective of consumers as well as for increasing real wage of workers. On the other hand, increase in rice price works as an incentive to the farmers. Therefore, balancing the interests of farmers and consumers will be a major challenge for the government in 2009. To this end, keeping input prices low and the attendant subsidies will play an important role in terms of reducing the cost of production at the farmers levels.

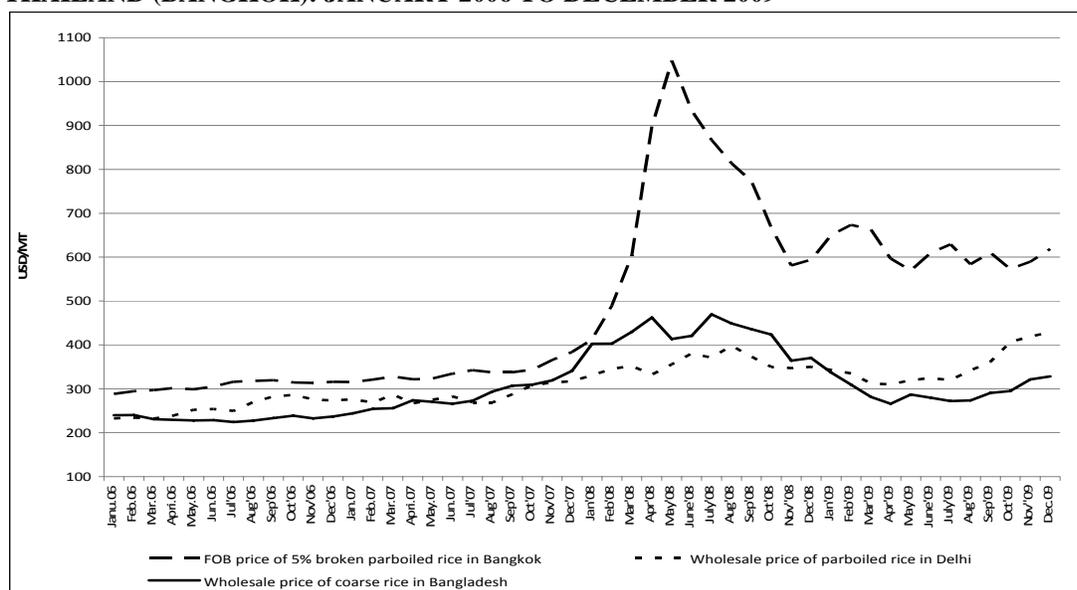
FIGURE 6.6: AVERAGE DAILY RICE WAGE OF AGRICULTURAL LABOUR (WITHOUT FOOD) IN BANGLADESH: 1990-91 TO JUNE 2009



Source: Bangladesh Bureau of Statistics (BBS), Monthly Statistical Bulletin (*various issues*).

A comparison of rice prices in Bangladesh, India and Thailand since July 2006 reveals that rice price in Bangladesh was lower than that of Thailand (Figure 6.7). Rice price in Bangladesh was generally was also lower than in India, with some exceptions. International price of rice were at exorbitantly high levels during mid-2007 to mid-2008. Rice price has been increasing again since October 2009. In December 2009, average wholesale price of coarse rice in Bangladesh was Tk. 22,660 per mt (USD 328), compared to USD 429 in India (Delhi) and USD 619 (5 per cent broken parboiled rice) in Thailand (Bangkok). Rice price in Thailand has increased from USD 573 per mt in October 2009 to USD 619 per mt in December 2009. It is thus clear that imported rice from world market will cost higher and will result in higher domestic prices unless the government goes for massive subsidy which may be unsustainable. In view of the emerging situation, a renewed effort to raise domestic productivity and production will be crucial in coming days.

FIGURE 6.7: COMPARISON OF DOMESTIC RICE PRICES IN BANGLADESH, INDIA (DELHI) AND THAILAND (BANGKOK): JANUARY 2006 TO DECEMBER 2009



Source: Department of Agricultural Marketing (DAM) for Bangladesh; Thailand Rice Exporters Association for Bangkok; and Ministry of Consumer Affairs, Food and Public Distribution, Government of India.

Comparison of average retail prices of essential commodities in 2009 and 2008 in Dhaka indicate that annual average price of coarse rice, Atta, soybean oil and milk powder was lower in 2009 than in 2008 (Table 6.1). On the other hand, average annual retail prices of lentil, eggs, potato, onion and sugar were higher in 2009 than in 2008. Variability in monthly average retail prices of all these commodities was measured for 2009 and 2008 using coefficient of variation. In 2009, variability in prices increased for rice, atta, onion and sugar. Price variability has decreased for most of the commodities: lentil, eggs, potato and milk powder. In other words, prices of these commodities were relatively stable at a high level in 2009.

TABLE 6.1: COMPARISON OF RETAIL PRICES AND VARIABILITY IN RETAIL PRICES IN DHAKA: 2008 AND 2009

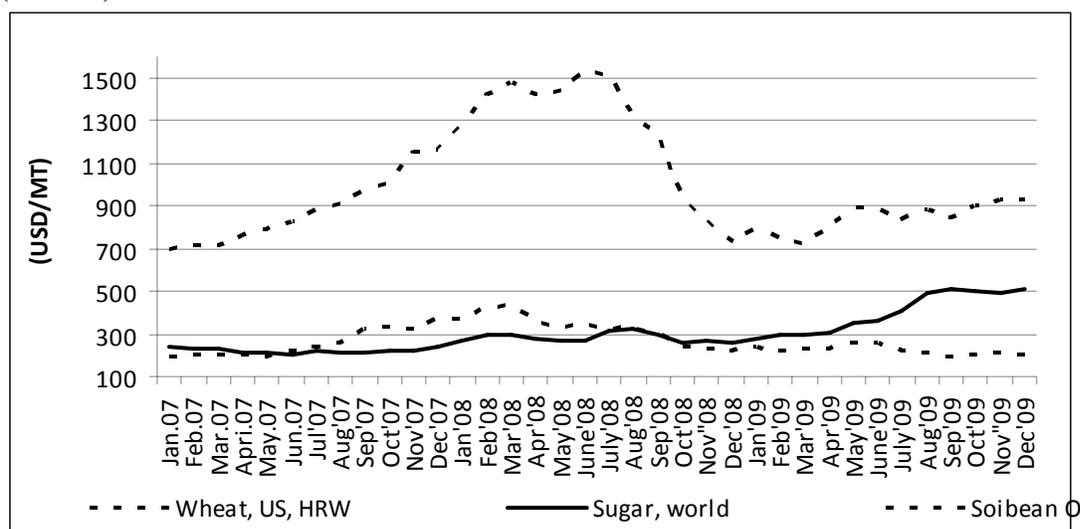
Month	Average Retail Price			Variability in Monthly Retail Prices (Measured through Coefficient of Variation (%))		
	2008	2009	% Change	2008	2009	Change in CV
Rice (Coarse)	31.55	22.60	-28.38	6.63	7.89	Increased
Atta (Packed)	39.29	20.75	-47.19	11.30	11.84	Increased
Lentil (imported general)	92.73	102.95	11.01	11.20	7.15	Decreased
Egg (Hen)	23.12	26.79	15.87	15.72	6.88	Decreased
Egg (Duck)	24.40	28.33	16.09	11.20	5.67	Decreased
Potato (Holland white)	16.33	23.51	43.98	29.54	23.13	Decreased
Egg Plant	23.15	27.78	20.00	30.58	23.11	Decreased
Soybean oil (1 liter pack)	108.21	81.13	-25.02	12.94	5.67	Decreased
Onion (Imported)	22.21	25.97	16.93	24.14	28.47	Increased
Milk Powder (Dano)	530.25	517.53	-2.40	3.86	2.25	Decreased
Sugar	36.75	42.35	15.23	12.15	22.68	Increased

Note: Coefficient of variation was calculated as $CV = (\text{Standard Deviation}/\text{Mean}) * 100$.

Source: Authors calculation based on data collected from Department of Agricultural Marketing (DAM).

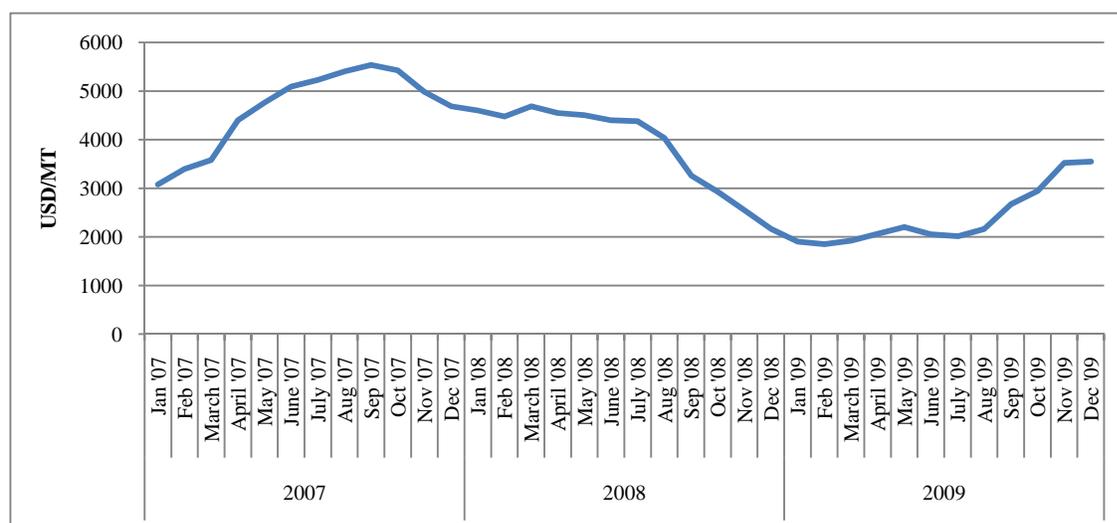
International price of wheat, and soybean oil (crude) were significantly high during mid-2007 to mid-2008. At that time, price of sugar had risen at a relatively lower pace but price of sugar was on the rise since December 2008 (Figure 6.8). International price of sugar has almost doubled during the last one year (increased from USD 259 per mt in December 2008 to USD 510 per mt in December 2009). Wheat price had been declining during March 2008 to September 2009 and started to increase after that. Wheat price has increased from USD 191 per mt in September to USD 206 per mt in December 2009. As is known, Bangladesh imports most of her crude soybean oil from the international market, primarily from Argentina, Brazil and USA. Crude soybean oil is refined and marketed by a number of companies in the country. After the very high price of crude soybean oil in the international market during 2007 and 2008, prices returned to normal trends in November 2008 and remained low till March 2009. Since April 2009, price of crude soybean oil has been showing fluctuating but rising trend. International price of crude soybean oil increased from USD 725 per mt in March 2009 to USD 933 per mt in December 2009. As was the case with many other commodities, price of milk powder at the international market was very high during mid-2007 to mid-2008 (Figure 6.9). It had been on the decline between June 2008 to February 2009. After February 2009, the international market price of milk powder started to rise again. In December, 2009 the per unit price of milk powder rose as high as 3550 USD per metric ton which was about 92 per cent higher than the prevailing lowest price in February 2009. During FY2009-10 (July to December) the growth of price was 76.4 per cent which was (-)50.6 per cent during the comparable months of previous fiscal year. Bangladesh, being a net importer of milk, suffered from the adverse affect of the rising international market price. Government should have both long term and short term plan so that the interest of both consumers and producers could be maintained.

FIGURE 6.8: TRENDS IN INTERNATIONAL PRICES OF WHEAT, SUGAR AND SOYBEAN OIL (CRUDE): JANUARY 2007- DECEMBER 2009



Source: Commodity Market Review, The Pink Sheet (Various Issues), World Bank.

FIGURE 6.9: TRENDS IN INTERNATIONAL PRICES 26% WHOLE MILK POWDER: JANUARY 2007-DECEMBER 2009



Source: Agricultural and Applied Economics, UW Madison.

Comparison of international prices of essential commodities in 2009 and 2008 revealed that annual average price of coarse rice, wheat, soybean oil (crude) and milk powder decreased in 2009 than in 2008 (Table 6.2). On the other hand, average annual international price of sugar was higher in 2009 than in 2008. In 2009, variability in prices increased for sugar and milk powder but decreased for coarse rice, wheat, and soybean oil (crude). In other words, international price of sugar was unstable in 2009 but international prices of other commodities were relatively stable in 2009, than in 2008.

TABLE 6.2: COMPARISONS OF INTERNATIONAL PRICES (FOB) AND VARIABILITY IN INTERNATIONAL PRICES, 2008 AND 2009

Commodities	Average International Price (USD/MT)			Variability in Monthly Retail Prices (Measured through Coefficient of Variation (%))		
	2008	2009	% Change	2008	2009	Change in CV
Rice (Thailand, 5 % broken parboiled rice)	723.41	613.68	-15.17	26.91	5.62	Decreased
Wheat (US, No. 1, Hard Red Winter)	325.94	224.07	-31.26	21.98	9.70	Decreased
Sugar (World, International Sugar Agreement (ISA))	282.14	399.30	41.53	7.68	24.09	Increased
Soybean Meal (Brazil)	333.96	332.44	-0.45	15.40	13.11	Decreased
26% Whole Milk Powder	3876.42	2405.33	-37.95	23.20	25.77	Increased

Source: Authors calculation based on data collected various issues of Commodity Market Review (The Pink Sheet), World Bank.

6.3 Outlook for Inflation

As the above discussion on recent price trends suggests, increase in inflation rate that was observed in the month of October is likely to sustain for the later months of November and December (when the relevant data are made available). Inflation in Bangladesh tends to be driven by food prices. Price of rice, constituting major weight in the product basket based on which food inflation is estimated, is moving upward during post-October period as well. Outlook for global recovery in the next half of the fiscal year signals that prices are expected to go up in the international market. Bangladesh have suffered in the past from rational and irrational transfer of price pressure from the global to the domestic market in the absence of effective safeguard and market intervention mechanisms in place. As a consequence, apprehensions of higher prices in the global market in near future could lead to price pressure in the domestic market of Bangladesh as well. Monetary aggregates also suggest that inflation may become a concern in the near future. Credit flows have gained momentum in the recent months; along with high credit growth in the agricultural sector that was mentioned above, growth in industrial credit disbursement has also been on the rise. This may create inflationary pressure in the economy. Along with surplus liquidity in the banking system, reserves of foreign currencies have also gone up to a record high level. Higher reserves will mean additional money circulating within the economy against a significant part of it, contributing to inflationary pressure. This situation could get further aggravated with lower growth of imports. Remittance flow has remained robust which is, in general, inflationary in nature. At the same time, projections of shortfalls in rice production by countries which are major consumers of rice have raised concerns about higher global demand²⁶ which could lead to higher prices in the global market in the near future, restricting the scope for rice imports as an intervention mechanism. Managing inflation, thus, could once again emerge as the most critically important challenge for Bangladesh from the perspective of macroeconomic management in 2010.

Following actions are required to combat the likely inflationary pressure in the coming months: (i) ensure higher production of agricultural commodities particularly Boro rice. To this end, to encourage farmers, the government may declare procurement price of Boro rice in advance at Tk. 25 per kg of rice and Tk. 15 per kg of paddy along with assured supply of fertilizer, electricity and diesel for irrigation, and agricultural credit. (ii) to reduce likely increase in subsidy burden for fertilizer adequate import of fertilizers may be made urgently. (iii) import duty of essential goods may be maintained at the current level. (iv) spread of prices at different level Import price, wholesale price, retail price and farm level should be monitored and maintained at a reasonable level. (v) open Market Sale, and PFDS schemes (VGD, VGF, Food for Work, Test Relief) should be strengthened.

²⁶ As is known, only an insignificant share of global production of rice (5 to 7 per cent) is traded in the international market. This creates the possibility of high volatility in rice prices in global market when major importers go for out of trend import orders.

7. SOCIAL SECTORS

In line with its election commitments, the present government has given priority to health, education and social safety net programmes, which has been reflected in its various budgetary proposals and allocations. Along with the existing projects and programmes, the new government undertook a number of new initiatives towards human resource development. As per commitment of the AL government's election manifesto, per person allowance and beneficiary coverage has been increased for most of the allowance programmes. After assuming power in January 2009, the AL Government has shown repeated commitment and devised various initiatives toward strengthening delivery mechanisms relating to social sector development. These commitments were also reflected in the ADP allocation for FY2009-10.

The National Budget for FY2009-10 allocated a total of Tk.7,561.41 crore for social sector development, which is about 19 per cent higher than the RADP for FY2008-09 (Tk. 6,346.96 crore). ADP utilisation statistics for this sector over the first five months of FY2009-10 (July-November 2009) portrays a rather gloomy picture (29% total expenditure as percentage of ADP allocation) (Table 7.1) when compared to the full fiscal of FY2008-09 which was shared between the CTG and the newly elected government and when 87 per cent of the budgeted allocation was spent.

TABLE 7.1: SECTOR WISE PLANNED ALLOCATION AND EXPENDITURE IN FY 2008-09

Sub-Sectors	FY2008-09		FY2009-10	
	RADP Allocation	Expenditure as % of Allocation (July-June)	ADP Allocation	Expenditure as % of Allocation (July-Nov.)
Health				
M/O Health and Family Welfare	2615.04	77%	3063.79	24%
Education and Technology				
M/O Primary and Mass Education	2113.79	97%	2828.43	37%
M/O Education	985.54	96%	947.54	32%
M/O Science, Information and Communication Technology	106.09	94%	138.58	20%
Women Advancement and Children Affairs				
M/O Women and Children Affairs	116.54	99%	201.68	14%
Social Safety Net				
M/O Social Welfare	90.37	59%	102.31	10%
M/O Food and Disaster Management	191.08	86%	192.52	33%
M/O Labour and Employment	95.98	83%	17.63	54%
M/O Youth and Sports	32.53	86%	68.93	20%
Total	6346.96	87%	7561.41	29%

Source: IMED, Ministry of Planning, GoB.

7.1 Health

Ministry of Health and Family Welfare (MoHFW) registered only 24 per cent ADP utilisation for the first five months (July to November 2009) of the current fiscal. No doubt this performance is quite unsatisfactory given the challenge and need of delivering the health services

to the citizens, particularly the low income people. The total planned budget for ‘Health Nutrition and Population Sector Programme (HNPSP)’ for FY2009-10 has been earmarked at Tk. 2,871.43 crore of which only 25 per cent has so far been utilised till November of 2009. It may be noted here that although the HNPSP was initially designed to be completed by 2010, it was mainly due to underutilisation of the allocation which led to an extension of the project by another year (i.e. till 2011). Besides, a mere Tk.77 lac has so far been utilised for the National Nutrition Programme whereas the allocation for the current fiscal was made to the tune of Tk.173 crore. The programme coverage is also expected to be widened to another 63 upazillas in addition to the existing 109. With the government declared commitment towards ensuring nutrition to children and mothers’ welfare during its tenure in power²⁷, appropriate measures driven by pragmatic policy decisions need to be put in place to ensure timely delivery and effective use of the targeted resources.

Aiming to provide Essential Health Service Package (Health, Family Planning and Nutrition) to rural people from a one-stop service centre, the government also re-introduced the Community Clinic (CC) programme since January 2009. Put into effect under the new title ‘Revitalisation of Health Care Initiatives of Bangladesh’, the project is expected to incur cost amounting to about Tk.70 crore in FY2009-10. Until November 2009, expenses for the programme have been met from the budget allocated for the Primary Health Care projects, whereas a total of Tk.4.30 crore has been kept in the pipeline to procure and supply necessary medicine to these CCs. As of October 2009, a total of 10639 Community Clinics have been built or reconstructed in 479 upazillas, out of which 9525 are already functioning with the objective of providing basic healthcare facilities to the rural poor (Table 7.2).

TABLE 7.2: STATUS OF THE COMMUNITY CLINICS AS OF OCTOBER 2009

Division	No. of Upazilla	No. of Total CC (Built)	No. of Total CC Functioning
Dhaka	118	2935	2464
Chittagong	99	1659	1585
Rajshahi	125	3221	2910
Khulna	59	1387	1326
Barisal	40	771	622
Sylhet	38	666	618
Total	479	10639	9525

Source: Institute of Public Health, Ministry of Health and Family Welfare.

In the budget for FY2009-10, the government has allocated funds for expansion of healthcare infrastructure, ensure maternal health and nutritional demands of the citizens. To render better hospital-based facilities, number of beds has been upgraded to 50 from 31 in 135 hospitals with another 286 hospitals selected for the upgradation process. To ensure reproductive healthcare and population control, the ‘Maternal Health Voucher Scheme’ was initially started in 35 upazillas. The scheme is expected to be expanded to another 10 upazillas in the current fiscal year. However, although the National Budget for FY2009-10 allocated Tk.70 crore for the

²⁷ Election Manifesto of the Awami League

purpose, only about 26 per cent has so far been utilised till November 2009, indicating a rather slow progress in this regard.

7.2 Education

For the first time, the government decided to distribute 19 crore text books among all students of primary and secondary school free of cost in 2010. The proposed budget for this programme was Tk.310 crore. This certainly is a welcome initiative which is likely to contribute towards both increase in student enrollment and their retention at primary and secondary levels. The government has been able to implement this against formidable difficulties.²⁸ In the meantime, the government has already finalised the new Education Policy. As per government's election manifesto and budgetary commitment, the emphasises will be put on modernising the country's education system focusing on employment-oriented inclusive education system. The newly formulated education policy will hopefully contribute to this.

FY2009-10 is the first extended period of the nationwide umbrella programme titled Primary Education Development Programme 2nd phase ((PEDP II) which is being implemented under by the Ministry of Primary and Mass Education (MoPME) since 2003. According to available information, the government intends to extend the programme for another one year (i.e. FY2010-11). As of December 2009, about 44 per cent of the total allocation for Annual Operation Plan for the programme has been utilised.

The plan to introduce a *National School Feeding Programme*, to be implemented by the the MoPME from FY2009-10 is a positive step by the government. Initially, a total of 87 highest poverty prone upazillas would be selected based on the new poverty map. This programme will be financed jointly by World Food Programme (WFP) and the Bangladesh government. Currently, an amount of Tk. 1200 crore has been proposed for the project expenditure. It may be noted here that two similar programmes namely *Food for Education Programme (2007-2010)* and *School Feeding Programme (January 2009 to June 2013)* are already in operation in some poverty prone and remote areas of Bangladesh which are being administered by the government with assistance respectively from the WFP and the European Commission. The government is also contemplating to introduce *Child Friendly learning Centres* in 209 upazillas in 44 districts. Estimated cost for the project for the period of January 2010 to December 2012 is expected to be Tk.342.19 crore. Apart from these, the government has already approved 100 per cent subvention to registered and primary community school teachers in deserving areas and planned to prepare a set of pool teachers for all primary schools. It is hoped that these initiatives of the government towards uplifting the quality of education in the country will contribute towards achieving the Millennium Development Goals (MDGs) in terms of relevant indicators. The goal of ensuring compulsory IT education at the primary level by 2021 will hinge on the ability of the government to develop and depend on put in place the appropriate hardware, software and human ware elements of the strategy through a comprehensive strategy of implementation.

In addition to various programmes for quality enhancement in the primary education sector, the government, through the Ministry of Education, has also talked about giving priority to improve

²⁸ The goal was achieved in spite of the incidence of five at the press of the National Curriculum and Textbook Board (NCTB).

the enrolment and quality of secondary school education by both initiating new projects and continuing several ongoing programmes (Table 7.3). Available data indicate that out of the total allocation for these projects for FY2009-10, nearly 45 per cent could be utilised within the first five months of the current fiscal. However, the issue providing stipend for the female students at the higher secondary level should get due priority.

To encourage employment-oriented education, the government has planned to establish at least one government secondary school and one government technical institute in each upazila replacing the previously planned project to transform existing non-government schools into model schools in 306 upazillas. In addition to the above, the government has proposed to modernise Madrasha education and set up laboratories in each secondary school for the development of science education. It is hoped that these initiatives will contribute development of IT oriented education at the secondary level by 2013, as was stated in the AL election manifesto.

TABLE 7.3: STATUS OF MAJOR SECONDARY EDUCATION PROJECTS TILL NOVEMBER 2009

(in Lakh Tk.)

Name of the Project (Implementation Period)	Total Project Cost	Cumulative Progress up to June 2009	ADP Allocation for FY2009-10	Taka released upto 30 November 2009	Expenditure upto 30 Nov. 2009 (% of ADP Allocation)
Teaching Quality Improvement in Secondary Education Project (1/07/2005 to 30/09/2011)	64471	29649.19	6500	5024.74	78.1
Secondary Education Sector Development Project (1/1/2007 to 30/06/2013)	79333	16721.24	6400	5797.5	59.6
Secondary Education Quality and Access Enhancement Project (01/07/2008 to 30/06/2014)	118177	9901.65	14000	13282.5	43.6
Transformation of Existing non-government Schools into Model Schools in Selected 306 Upazilla Headquarters (01/01/2009 to 31/12/2013)	46577	7	900		
Higher Secondary Female Stipend Project (Phase IV) (01/07/2008 to 30/06/2011)	20054	3413.31	7000	5250	0.7
Life Skills Based Reproductive Health Education for In-school Youth and Adolescents through Peer Approach (01/01/2006 to 31/12/2010)	564	301.11	100	44.83	89
Total	329176	59993.5	34900	29399.57	45.1

Source: Directorate of Secondary and Higher Education, Ministry of Education.

7.3 Social Safety Net

The government, in line with its election manifesto, has made strengthening of Social Safety Net programmes a key policy plank in the budget for FY2009-10. In the budget for FY2009-10 the government had proposed to initiate a project titled *One Household, One Farm Programme* which aim to rehabilitate people with houses, credit and training for self-employment. Additionally, *Khas* land was to be provided where this was possible. No concrete information on progress of this initiative was, however, available. If implemented to its fullest extent, this initiative will no doubt be able to make significant contribution towards poverty reduction in the country.

The budget for FY2009-10 also proposed to increase per person allowance and beneficiary coverage for most of the cash support programmes. Monthly allowance for insolvent freedom fighters has recently been increased from Tk.1500 to Tk.2000. Besides, an additional 25 thousand freedom fighters have been listed as beneficiary for the project raising the number to 1.5 lakh. Initiative is underway to declare all national award-winning and war-wounded freedom fighters as Very Important Persons (VIPs). Once this is completed, freedom fighters will be able to travel by buses, trains and launches free of charge.

Employment Generation Initiatives

Employment Generation for the Hardcore Poor (EGHP)

As is known, the 100-Day Employment Generation Programme (100-DEGP) was discontinued in FY2009-10 and a new project titled Employment Generation for the Hardcore Poor (EGHP) was proposed with a view to support the poverty prone distressed people of the country, particularly those suffering from river erosion, seasonal floods and Monga. An allocation of Tk.1176 crore was initially proposed for the new project. The underlying objective of the project was to provide income oriented employment for these people during two lean periods (i.e. September to November, and March to April). The geographical coverage of the programme was expected to be concentrated only in highly poverty prone areas unlike the 100-DEGP which covered all 64 districts.

However, only a little more than 15 per cent (Tk.1,66,20 thousand for administrative expenses and Tk.177,54,12 thousand for wages to the labourers) of the budget allocation was earmarked for the first phase (September to November, 2009). It is important to note that, of the two lean periods, poverty situation is more acute during the aforesaid three-month phase. As of 31 December 2009, around 86 per cent of the project activities for the first phase has been completed. In this regard, the government has so far distributed 4,37,065 cards out of the allocated 4,43,853. As for the project beneficiaries, only about 24.5 per cent of the registered labourers were women, undermining the issue of gender equality.

It was expected that the programme would cover around 290 to 300 upazillas across the country.²⁹ However, as has been reported, the first phase (September to November 2009) covered 124 upazillas in 16 districts.³⁰ Although progress against phase-specific allocation

²⁹ Based on HIES 2005-06, total number of upazillas under extreme poverty were 290 (lower poverty line) to 300 (upper poverty line).

³⁰ Moreover, it could not be determined whether all of these 124 upazillas belonged to the extreme poverty region.

appears to be satisfactory (86 per cent), the full potential of the programme could not be realised due to narrowing down the initiative both in terms of resource allocation and geographical coverage.

In the above context, challenge for the next phase (March to April 2010) will not only be to expand the coverage areas to address the target hardcore people, but also to significantly increase both allocation and implementation to ensure effective utilisation of the resources allocated in the budget. Given the slower pace of labour absorption in the country, particularly in the industrial sector, successful implementation of the EGHP will hopefully provide some relief to the poverty-hit distressed people of the country.

One House One Farm

The proposed One House One Farm project has been approved recently by the ECNEC, to be implemented over the next five years (2010-2014). The allocation for this programme is Tk.1,197 crore. By setting up 578,400 farms, the government expects to create employment for around 29 lakh people, directly or indirectly, during the project life. As is designed, the project is to cover female-headed households, families having only land for homestead, marginal farmers with a maximum of 0.5 acres of land and wage labourers. It may be recalled here that the National Budget for FY2009-10 proposed an allocation of Tk.92 crore for the project for the current fiscal. It is expected that successful implementation of the project will contribute to rural development, but also discourage migration to urban areas. Besides, this is also likely to strengthen the *Ghore Fera* (Returning Home) programme which was designed to bring low-income people from urban areas to their villages.

National Service for Youths

A programme titled *National Service* for Youth has also been mooted with an allocation of Tk.20 crore. Initially, the beneficiaries for the programme were thought to include 6,700 youths from Kurigram and Borguna with higher secondary or higher qualification. Subsequently, the eligibility criteria were relaxed and now the target group will also include those having educational qualification of secondary level education. This has, however, increased the number of applicants for the programme. Available data shows that with the new criteria in place, as many as 44,412 applications were received from aspiring youths. Besides, about Tk.15.0 crore has already been disbursed for the selection survey. This indicates that not only the allocation made for this project will need to be significantly raised is going to be, but the authorities will also certainly face a hard time in selecting the limited number of candidates from the large number of applicants. Whilst, *per se*, this could potentially be a good project, its implementation, nation-wide, will be a major challenge and will involve significant resources. Selection of appropriate candidates, imparting training, trainers for the training, infrastructure for the training, job placement – all these will require careful planning. Otherwise, scarce resources may be wasted.

Public Food Distribution System (PFDS)

Public Food Distribution through monetised and non-monetised channels during the first six months of FY2009-10 was 36 per cent lower than the comparable period of the previous fiscal (Table 7.4). Mention may be made that this was for the first time that each female Member of the Parliament has been given the power to distribute 150 metric ton (mt) rice under test relief (TR)

programme in their constituencies. As for the rest of MPs, each of them has been allocated 350 mt rice for this purpose. As of 18 December 2009, government has admitted 2.9 lakh metric tons rice for Food for Work Programme (FFW) and 1.1 lakh metric ton rice as TR for rural infrastructure development during January to February 2010.

TABLE 7.4: CHANNEL WISE DISTRIBUTION OF FOOD GRAIN

(‘000 mt.)

Channel	Allocation FY2008-09	Distribution (July 1 - Dec 17, FY2008-09)		Allocation FY2009-10	Distribution (July 1 - Dec 18, FY2009-10)	
		Total	%		Total	%
		<i>Priced</i>				
Essential Priorities (EP)	219	98	45	279	113	40
Other Priorities (OP)	22	9	42	45	9	19
Large Employers (LE)	10	4	42	22	6	26
Open Market Sale (OMS)	194	188	96	600	2	0
Flour Mill (FM)	-	-	-	-	-	-
Fair Price Campaign (PC)	-	-	-	-	-	-
Hill Tracts/Others	0	0	0	0	0	-
<i>Sub Total</i>	<i>445</i>	<i>298</i>	<i>67</i>	<i>946</i>	<i>129</i>	<i>14</i>
<i>Non-Priced</i>						
Food for Work (FFW)	395	8	2	375	18	5
Test Relief (TR)	368	32	9	400	0	0
Vulnerable Group Development (VGD)	279	125	45	265	120	45
Vulnerable Group Feeding (VGF)	507	326	64	550	221	40
Gratuity Relief (GR)	43	6	15	64	22	35
VGF (Relief)	31	0	0	-	-	-
Hill Tracts/Others	92	30	33	75	12	16
<i>Sub Total</i>	<i>1715</i>	<i>529</i>	<i>31</i>	<i>1729</i>	<i>394</i>	<i>23</i>
Total	2160	827	38	2675	523	20

Source: FPMU, Bangladesh.

Utilisation of the Climate Change Fund

Bangladesh stands at the top of the *Global Climate Risk Index 2010* that reflects the country as the most severely affected and vulnerable in the world. Cyclone *Sidr* and *Aila*, the two high scale disasters that visited Bangladesh over two consecutive years are indicative of the state of vulnerability of the country that originated from climate change. The negative impacts of the climate change are not limited to the environment; rather, it has a significant impact on the livelihood pattern and income earning opportunities of particularly the low income people. To address the attendant challenges, the Bangladesh government has set up a *separate climate change fund*, whereby dedicated allocations have been made for this purpose in FY 2009 (worth Tk. 300 crore) and FY 2010 (worth Tk. 700 crore). Besides, the government has also prepared the *Bangladesh Climate Change Strategy and Action Plan 2009*. However, costing of the various components of the national action plan is yet to be made. As a result, the allocated funds continues to remain unused. It is, therefore, of utmost importance that the government prepares a long-term comprehensive strategy that includes management and building of the required infrastructure for appropriate utilisation of the *Climate Change Fund*. It is also notable in this

connection that the Japan International Cooperation Agency (JICA) has offered Tk.490 crore as *Climate Change Program loan* to Bangladesh for a three-year period (i.e. 2010-2012). Given the extent of threat Bangladesh is facing, government should pursue for support in the form of grants instead of loans from various international sources. The recent appeal to the international community in Copenhagen could serve as a starting point in this regard.

8. CHALLENGES FOR FY2009-10

Revitalising Investments

If the near and medium term GDP growth targets are to be achieved, the investment scenario in Bangladesh will need to be significantly re-energised. Investment has suffered from both a lack of infrastructure, including power and communication, and a lack of investor confidence in view of domestic uncertainties and global volatility. Inadequate power supply has emerged as a major bottleneck deterring industrial development in Bangladesh and has severely constrained investment and business activities in the country. New investments are being discouraged because of the power crisis, and existing ones are bearing the brunt of frequent outages, leading to damage of equipment, production disruption and cost escalation from more expensive alternative sources of power. A yawning gap between capacity and generation of electricity is emerging for a number of reasons, including gas shortages, ageing power plants and lack of new installment. In view of ongoing electricity shortages, the government stepped up with a number of short-term measures, including the introduction of daylight saving time, adjusting the day-off in the industry sector, reducing the time span during which shopping malls are allowed to remain open and encouraging small-scale private power generation. Owing to gas shortages, the government has recently decided to delimit/control the supply of gas to various industrial units (like fertilizer, yarn and textile industries) during evening hours. A recent CPD study evinced that at least 100 factories are waiting for electricity and gas connections, which the government is holding back in order to meet current demand. Investors rate ‘lack of electricity and gas’ as the singlemost important constraint to investment in Bangladesh.

In view of the above infrastructural development, particularly in power and energy, will be of critical importance. In this context, the announced public-private partnership (PPP) will need to be given due importance. Planned investment under the PPP initiative is around Tk. 7,000 crore, (about 1% of GDP). CPD in its budget analysis suggested that a “PPP Act” through the national parliament and setting up a strong institutional framework would be helpful to make the government’s commitment more credible in this regard. However, the PPP has been slow to take off over the past six months. Public investment has been on the slide for the past decade, with the deceleration attributed mostly to slow ADP implementation. To revive private investment, higher public sector investment is critical in the context of Bangladesh. Thus, a renewed effort will be needed in FY2009/10 to improve both the quantitative and the qualitative aspects of the ADP, which should then be able to stimulate and crowd in private sector investment. Towards this end, institutional as well as human resource capacities of relevant agencies of the government will need to be substantively strengthened and improved by putting in place adequate resources, capacity-building mechanisms and incentive structures. Quality of output and monitoring of outcomes will need to be accorded the highest priority in implementing the ADP.

To stimulate private sector investment, an appropriate interest rate policy could play an important role. In this case, the BB will need to play a leading part in order to reduce the spread between the lending and deposit rates, if need be by pursuing a proactive policy in the context of both the ceiling on lending and also the floor on deposit rates. In view of the constraints in mobilising adequate domestic resources, FDI will need to be encouraged. However, without improving the domestic investment situation and ensuring adequate power supply, it will be difficult to attract significant inflows of FDI. At the moment, encouraging FDI both in infrastructure and in modern sectors, focusing on both domestic and international markets, should be emphasised along with speedy implementation of development projects without compromising their quality. The proposed setting up of Special Economic Zones (SEZs) should receive priority attention given the positive role it could play in attracting FDI.

Stimulating the Export Sector

As is known, the government has come up with a number of measures (including cash subsidies) to address the challenges of global economic crisis. However, as latest data reveal, negative impacts of the global crisis on Bangladeshi exports have intensified in recent months. In view of the latest developments, raising efficacy of implementation of proposed policy decisions and the stimulus packages will be critical in the coming months. It is good to note that the provision for presumptive payment of 70 per cent of the cash subsidy claims made under the first stimulus has already been implemented. It will be important to settle the remaining claims (30 per cent) in a speedy manner: disbursement of this was to be made after due audits. Speedy implementation of the support given to export-oriented sectors in the second package will also be of critical importance. In view of the increasing competition from China, Vietnam and other countries, and against the backdrop of the incentives being provided by the competitors of Bangladesh, the country will need to make concentrated efforts to retain her market share. The stimulus packages are expected to help export-oriented sectors in addressing these concerns in the short run. At the same time, it is important that workers' welfare is kept at the centre of attention.³¹ Bangladesh will also need to further strengthen efforts towards market and product diversification so that once recovery of the global economy sets in, her exporters of goods and services are well-positioned to take advantage of the global recovery. For example, the interest shown by Japanese importers of apparels, the great promise of the export-oriented ship building industry, export prospects in the regional markets are some of the areas where targeted strategies will need to be pursued.

Consolidating Agriculture

Food security, given the experience in FY2008-09, should continue to merit highest priority in FY2009-10. In view of likely shortfall in global rice production in 2009-10, heightened importance in production of *Boro* rice needs to be ensured through timely and efficient delivery of fertilizer, wider availability of HYV seeds and the government's subsidy policy. Decision to continue with 20 per cent subsidy for electricity used in irrigation pumps has been a welcome measure. Recently announced policy initiative to provide Tk. 350 crore subsidy for diesel should also be helpful. Incentives to promote adoption of high-yielding varieties and technology adoption and adaptation should be ensured through appropriate delivery mechanisms. The recently introduced *Input Delivery Card* for distribution of agricultural inputs, loans and

³¹ As in Sri Lanka, policymakers could have considered attaching anti-retrenchment conditionalities to the support packages put in place.

subsidies is an excellent initiative which could serve as a base line for service delivery to farmers in the future. An added challenge will be to balance the apparently conflicting interest of consumers and producers. Procurement price should benefit the farmers and appropriate institutional mechanisms will need to be designed towards this by removing, as far as possible, the role of intermediate agents. Food storage facilities should be built up and there should be timely intervention in the market to ensure price stability. For this government's capacity to maintain adequate storage and warehousing capacities will be crucial.

Maintaining Fiscal Balance

In light of the growing need for development spending and to extend support measures to deal with the global crisis, there is an urgent need to stimulate revenue generation in Bangladesh. The challenge is that this will need to be done without disrupting the fiscal-financial incentives in support of producers and investment. It should be recalled here that public revenue in Bangladesh is highly import-dependent, with low share of direct tax in the total revenue. In view of the economic crisis and its various ramifications, on domestic economy, it is likely that growth of revenue from import duties will be subdued in near future. So exploiting the untapped reserve of direct tax sources must be seen as a major task by the government. Tax authorities ought to take concerted efforts to bring more people into the tax net. The government has already announced an initiative to add about 0.4 million new taxpayers to the tax net, through new tax surveys, by next year. However, it will be equally important to reach out to the large informal sector of the economy. Indications over the past two decades, the nominal income of certain sections of people living in municipality and upazilla (sub-district) areas has gone up significantly. However, owing to lack of presence of tax officials at peri-urban levels, collection of taxes from these areas has suffered in the past Tax mobilization effort, through more effective use of the Large Taxpayers' Unit (LTU), is also necessary. Owing to legal disputes, the NBR has not been able to go for the needed recruitment and human resource strengthening for a long period. The situation has now somewhat changed. An effective and authoritative revenue administration, staffed with a well-trained and motivated workforce and adequate IT support to track the paper trail, must be developed to realise the revenue objectives. NBR has observed recently that it will be able to collect an additional Tk. 1,000 crore within the existing tax system if the manpower and logistics support to the tax offices can be appropriately strengthened. In order to ensure clarity, transparency and predictability, tax laws need to be made taxpayer-friendly. Promoting the use of a 'self-assessment system', a measure being encouraged in recent time, could significantly increase the revenue of the government by bringing taxpayers in personal contact with the revenue administration without the help of intermediaries. The idea of online tax return submissions has also been mooted. The government has announced its intention to allow payment of tax and duties via cell phones which must be seen as a welcome initiative. Adequate preparation and IT support will need to be ensured. The projected revenue shortfall in FY2009-10 is mainly attributed to earnings from "dividend & profit" and "post office & railway" components of non-tax revenue. Accordingly, emphasis must be given to identify the causes of this prospective fall and take measures to correct the situation.

Bangladesh must guard against any possible slowdown in foreign aid flow by strengthening her revenue effort to generate additional resources. The need for larger size of the ADP in view of the country's increasing developmental needs, also calls for generation of additional resources through tax effort. Of critical importance will be to ensure financing of deficit in a non-

inflationary manner, through borrowings from the non-banking sector and through budgetary support from the aid component, to the extent possible.

Enhancing Employment Opportunity

The resilience of the Bangladesh economy in the face of global financial crisis during FY2008-09 contributed toward containing the adverse impact on Bangladesh's employment situation. However, with the lagged impact being more evident now, ensuring employment for those joining the labour market of the country called emerge to be a formidable challenge in 2010. In the backdrop of robust growth of the past few years, the agriculture sector of Bangladesh has played an important role by absorbing a significant share of the fast growing labour market of the country. However, since agriculture sector in Bangladesh is characterised by higher level of underemployment (i.e. lower working hours), the concern here is that a large part of this newly absorbed labour force has remained underemployed. This would mean that the actual number of unemployed (including underemployment) has been on a sharp rise in recent times. As evidence suggests, each year about 1.8 million additional people join the workforce of Bangladesh. A recent study by CPD finds that job creation in the industry sector is projected to be lower this year: only 0.4 million additional workers are expected to be employed in FY2009-10 (Table 8.1). Weakening manpower export would mean an increase in domestic labour supply by around an additional 0.4 million over FY2009-10 period. The large number of application for *National Service* for Youth also indicates the constricted job market. However, it will be difficult for the government to absorb all the willing youths in the proposed programme. On the other hand, implementation of *Employment for the Hardcore Poor* has been limited. One may expect that the government will make effective use of the employment programmes to reduce the increasing number of unemployed and underemployed persons.

TABLE 8.1: EMPLOYMENT AND LABOUR MARKET OF BANGLADESH,

(millions)

	FY2005/06	FY2008/09 (est.)	FY2009/10 (proj.)
Agriculture	22.8	25.0	25.6
Industry	6.9	7.9	8.3
Service	17.7	20.4	21.3
Total employment	47.4	53.3	55.2
Labour force	49.5	55.2	57.3
Unemployment rate (%)	4.3	3.6	3.7

Source: Labour Force Survey 2005-06 and CPD estimate.

Job opportunities in export-oriented industries have suffered in recent times due to slow down of export growth. A large number of export-oriented entrepreneurs had to take resort to various cost cutting measures in view of the adverse impact of the crisis. Although large scale retrenchment of workers was not seen in Bangladesh, measures such as reducing shift hours, reduction of fringe benefits of workers, lower capacity utilisation and in some extreme cases closure of production units were evident from field level surveys. Entrepreneurs with multiple units shut down some of those when order volumes were not forthcoming. Over the past several years in view of high growth rates, many apparels entrepreneurs went for considerable capacity building and capacity expansion. This excess capacity remained idle with consequent adverse affect on current employment and potential recruitment. In the industries that pay workers according to

*piece-rate*³², lower export demand may not have necessarily resulted in a job cuts but led to lower piece-rates reducing take home pay of workers. Fresh recruitment of workers has slowed down significantly since mid-2008. Field level information indicate that demand for skilled labour was still there, but willingness of entrepreneurs to recruit new workers and provide them with on the job training has suffered. One may expect with global recovery and enhanced demand job opportunities in the industry sector will increase in the coming days. However, without reviving the investment scenario it will be hard to find a durable solution to this challenge. Higher pace of ADP utilisation, realisation of opportunities provided by PPP and stimulation of overall investment scenario will play a key role in ensuring that a larger share of incremental labour force gets employed in various sectors of the economy. Various employment generation schemes of the government will also need to contribute in this process.

Combating Climate Change

Although Bangladesh contributes only insignificantly to the global *green house gas emission* (one-fifth of one per cent of world's total), she is one of the front line victims of the adverse consequences of climate change through increasing temperature and rainfall, sea level rise, salt water intrusion and increasing natural disasters such as cyclones and floods. Fourth Assessment carried out by the *Intergovernmental Panel on Climate Change (IPCC) (2007)* reported evidence to the effect that adverse impacts are already visible in case of Bangladesh. The adverse impacts of climate change are of cross-cutting nature and are likely to affect a wide array of sectors including agriculture and food security, water resource, coastal resource, livelihood security, health and infrastructure. Bangladesh has already taken a number of initiatives including *Bangladesh Climate Change Strategy and Action Plan (2008 and 2009)*, a *National Climate Change Fund* and a *Comprehensive Action Plan* for 2009-2018. The proposed activities included some immediate actions such as strengthening disaster management, research and knowledge management, capacity building and public awareness programmes, and urgent investments such as cyclone shelters and selected drainage programmes. Bangladesh must press the international community to ensure an equitable system in allocation of funds for adaptation needs. Bangladesh went to Copenhagen, leading the voices of the most vulnerable countries, demanding compensation from the developed countries for the damage they have done. UNFCCC estimated that a fund of USD 200 billion was necessary for the adaptation of 100 million climate victims of the world. Though no final document emerged was signed in Copenhagen, in the *Copenhagen Accord*, developed countries has made commitment to create a USD 30 billion fund for the years 2010 – 2012 and mobilise USD 100 billion a year by 2020. Having been recognized as one of the most vulnerable countries, Bangladesh has demanded a sizeable (15 per cent) share in this proposed fund (in proportion to her population). However, no tangible commitment has been received yet. In the run up to the next conference in Mexico in 2010, Bangladesh now faces the challenge of preparing a comprehensive strategy to mobilise and make use of this fund. Since the country's absorption capacity could become an issue, it was important that Bangladesh takes appropriate measures to enhance her ability to spend the envisaged funds.

Enlivening Development Administration

As regards injecting momentum in development administration, the focus should be on continuation and consolidation of the reforms undertaken in the recent past to raise the efficacy of governance in Bangladesh. In this connection, strengthening of local governments and

³² More prevalent in sweater factories.

bringing these under the ambit of budgetary process, by ensuring their broader participation in designing, implementing, and monitoring of the developmental works will be critically important. While the first year of the PPP initiative has hardly yielded any results so far, it needs to be ensured that appropriate frameworks for PPP collaboration are in place by the end of FY2009-10. Private sector's interest in PPP will need to be ensured through appropriate institutional support and incentives. A PPP act is yet to materialize and need to be enacted at the earliest which should include provisions for profit-sharing, risk management and dispute settlement. Relationship with NGOs, to ensure broader partnership and effective delivery of services in such areas as health and education, should be strengthened by taking an enlightened view with regard to such partnership and collaboration.

Continuing the Reforms

Need for reforms has been at the centre of development discourse in Bangladesh over the last few decades. Regulatory Reform Commission (RRC) and Bangladesh Better Business Forum (BBBF) were constituted to improve the regulatory environment, to set up special economic zones, to address key investment constraints, and to strengthen capacity building efforts in Bangladesh. A number of the recommendations put forward to the government by these two forums have already been implemented while some others await decisions. Some key recommendations by these two bodies include streamlining of administrative procedures, reducing approval times, digitisation of land record. These have important implications to ensure good governance. The budget for FY2009-10 has also recognised the need for reforms. The budget has proposed a number of reform measures that include strengthening of development administration and decentralization and also mentions about other policy priorities. Continuation and coherence of reform initiatives for Bangladesh's development should be seen as an ongoing endeavour.

Maintaining Vigilance Against Potential Inflationary Pressure

Outlook for global recovery in the next half of the fiscal year signals that prices could go up in the international market. Bangladesh have suffered in the past from transfer of the price pressure from the global market to her domestic market in the absence of an effective safeguard and market intervention mechanism in place. While inflation rate in the recent past has been at a tolerable level, the month of October once again indicates upward movement of prices. Monetary aggregates also suggest that inflation pressure may emerge as a major concern in the near future. Credit flows have gained momentum in the recent months; high growth in both agricultural and industrial credit disbursement has taken place. This could adversely affect inflation. Along with surplus liquidity in the banking system, reserves of foreign currencies have also gone up to record high levels. Higher reserves will mean additional money circulating within the economy against it, contributing to inflationary pressure. This situation will get further aggravated with slowdown in imports. Remittance flow has remained robust. However, this is inflationary in nature. At the same time, projections of shortfall in rice production in a number of countries including India and Philippines given rise to concerns about higher global demand of rice import which could lead to higher prices in the global market in the near future, restricting the scope for rice imports as an intervention mechanism. In safeguarding the economy from the possible inflationary pressure, priority of policymakers should be to ensure adequate agricultural inputs during the upcoming *Boro* season. It needs to be borne in mind that inflation in Bangladesh has traditionally driven by food prices. Complementarity between fiscal and monetary policy in

managing inflation will be crucial. Deficit financing needs to put emphasis on non-bank sources while accommodative monetary policy will be desirable to support the interests of both industrial and agriculture sectors. Of crucial importance will be government's ability to allow markets to play their respective roles efficiently and within a competitive environment. The role of state in managing the market has recently emerged as a critical issue at the centre of contemporary economic discourse. Bangladesh may need to strengthen her own institutional capacities if she is to raise her efficacy in this regard. Maintaining low inflation must be seen as a key objective in terms of maintaining macroeconomic stability in 2010. Low inflation will also be crucial to translating this stability into higher GDP growth.

9. CONCLUDING REMARKS

As is known, the GDP growth rate for FY2009-10 has been fixed at 5.5 per cent, a low figure in the historical context of recent times, perhaps evincing a cautious approach in view of the volatilities and uncertainties on account of the global economic crisis. Though policymakers have since expressed optimism about attaining an overall growth of 6.0 per cent, performance record of the first few months give every indication that this will be a highly challenging task.³³ Even though no forecast has been attempted in this report with regard to possible GDP growth rate, it would appear from the above assessment of major macroeconomic performance indicators that it is possible to attain a growth rate of between 5.5 to 6.0 per cent in FY2009-10 if the government is able to successfully address some of the challenges mentioned above.

³³ ADB, in its quarterly report published in December 2009, projects the GDP growth for FY2009-10 to be 5.2 per cent.

**ANNEX 1: STATUS OF AVAILABILITY OF INDUSTRY-RELATED INFORMATION
(AS OF 5 JANUARY, 2010)**

Institutions	Indicators	Latest data available	Website
Bangladesh Bureau of Statistics (BBS)	1.QIP; 2.No.of workers (sector wise); 3.Productivity; 4.Actual domestic investment; 5.Investments through capital market; 6. Key Production of major industry group	Latest available data: June, 2009 Some are not available	www.bbs.gov.bd
Bangladesh Bank	1.Direct & portfolio investment; 2.Term & classified loans; 3. Working capital; 4.SME loan (outstanding); 5.Equity & Enterprises Fund (EEF); 7. L/C openings	Latest available data: November, 2009 Most are available	www.bangladesh-bank.org
Privatization Commission	1. Names of the enterprises privatized, No of enterprises privatized by tender and govt. sales. 2.List of enterprises under process of privatisation	Latest available data: December, 2009	www.pc.gov.bd
Export Promotion Bureau (EPB)	1.Export Performance of all exportable items (Primary & manufactured products) 2.Coutrywise export of commodities	Latest available data: October, 2009	www.epb.gov.bd
Board of Investment (BOI)	Registration of Domestic and Foreign Investments, units, and proposed employment	November, 2009	www.boi.gov.bd
BEPZA	1.EPZwise investments, export & employment 2.EPZ wise investment by countries in major sectors	November, 2009	www.epzbanglaesh.org.bd
FBCCI		List of products	www.fbcci-bd.org
MCCI	1.Growth rate of agriculture, industry & service and their sub sectors till FY 2008-09; 2.major economic indicators till FY 2009-10 (estimated); 3. Major trading partners, export value & volume by major sectors; 4. Investments by BOI, BSCIC, EPZ	Data is available till FY2008-09.	www.mccibd.org
DCCI		No data available in website	www.dhakachamber.com
SEC		Quarterly review till 2008, Annual report till FY 2007-08	www.secdbd.org
DSE	1. Share of Market Capital of different sectors, 2.Price Earning ratio; 3.IPO (Name of companies, sponsor share, public share & total paid up capital)	1. November, 2009 2. October, 2009 3. December, 2009	www.dsebd.org
CSE	Share of Market Capital of different sectors, Price Earning ratio; .IPO (Name of companies, sponsor share, public share & total paid up capital), market share and earnings ratio	Latest data available: December, 2009 Some are not available	www.cse.com.bd
BJMC	1.Profit & Loss, Production and employment of factories 2.Raw jute position, mill wise export value,	1. April, 2009 2. June, 2008	www.bjmc.gov.bd

Institutions	Indicators	Latest data available	Website
BCIC	Profit & Loss, Production and employment of factories	April, 2009	www.bcic.gov.bd
Bangladesh Textile Mills Association (BTMA)	1. Production, Profit & Loss 2. Number of sub-sectors, Installed Machine capacity, Production capacity	1.No data available 2. 2008	www.btmadhaka.com
BGMEA	1.Import value & monthly growth rate, share in national export; 2.No of Garments factories, Employment, Import value of major apparel Items; 3. Employment, total asset, yearly production & types of factory units	1.June,2009 2. June, 2008 3. No data available	www.bgmea.com.bd
BKMEA	1.Import value & monthly growth rate, share in national export; 2.Number of workers; 3. Employment, total asset, yearly production & types of factory units	1.October, 2009 2. June, 2008 3.No data available	www.bkmea.com
Other Associations	BAMA, Association of Construction Industry, BASIS, Automobiles Assemblers' & Manufacturers Association, Auto Biscuits & Bread Manufacturers Association, Cement Manufacturers Association, Electronics Manufacturers Association, Flower Growers and Exporters Association, Finished Leather& Leather Goods & Footwear Exporters Association, Frozen foods & Exporters association	Most of the associations do not have official websites	Some of the associations have official websites: www.baci-bd.org/exemembers ; www.basis.org.bd ; www.bffea.net/member

Source: Collected from websites.

ANNEX 2: SALIENT FEATURES OF THE THIRD STIMULUS PACKAGE

The government has recently announced the third stimulus package focusing mostly on the apparel sector. The following provisions are maintained in the package:

1. Renewal fee for *Captive Generators* to be used in the apparel sector will be paid out from the third stimulus package.
2. Rescheduling of overdue loans in the apparel sector without down payment will be extended from October 31, 2009 till June 30, 2010. The rate of interest will be reduced from 13 per cent to 10 per cent.
3. Payments time for loans that are defaulted during the extension period will be increased on the basis of *Bank-Customer Relationship* at the prevailing market interest rate.
4. Cash incentives (based on actual export value) at the rate of 5 per cent for exporters to new markets (markets other than the US, Canada and the EU) will be provided in the first year, 4 per cent in the second year and at the rate of 2 per cent in the third year. The Bangladesh Textile Mills Association (BTMA) will receive this particular benefit for any markets for export of yarn.
5. Providing *forward exchange booking* facilities to *Home Textile* for foreign exchange transactions in foreign currencies other than the US dollar.
6. SMEs in the apparel sector that have exported up to USD 3.5 million in FY2009-10 may be considered for “Special Incentives”. Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA) and Bangladesh Garment Manufacturers & Exporters Association (BGMEA) are to provide details (Name, Owner, and Actual Exports) of such industries to the committee. Although BKMEA has submitted their information, BGMEA is yet to do so. The following recommendations were accepted by the committee:
 - a. If actual export in FY2009-10 is higher than that of FY2008-09, 5 per cent cash incentive will be provided on the additional value of exports³⁴.
 - b. SMEs who do not own *captive generators* or *diesel run generators* will receive a subsidy of 10 per cent on their electricity usage until 30 June 2010.
 - c. Only those industries that have not rescheduled their loans will be eligible for the abovementioned incentives.
 - d. It must be ensured that no SMEs are under the ownership of any larger industries.
 - e. The government will decide on cash incentives after it receives the accurate information.
7. L/C advising charge, L/C amendment and transfer fees will be reduced to Tk. 750 (USD 10.7) from Tk. 1,000 (USD 14.3). The commission on L/C opening will be reduced from 0.60 per cent to 0.50 per cent (three months). L/C confirmation fee will be decreased to 0.20 per cent from previous 0.25 per cent. A ceiling of 0.15 per cent is to be imposed on the commission on import negotiation and collection (BRPD Circular No. 16: 17 November 2009).
8. Raising the limit of *Export Development Fund* (EDF) from USD 1.5 million to USD 10 million by combining the resources of three commercial banks; the interest rate to be charged would be LIBOR + 2.5 per cent.
9. BTMA members will be eligible for EDF loans from their respective banks at LIBOR + 2.5 per cent on the import value of raw materials for yarn production (cotton and other fibers). This facility will be provided on the value of yarn imported in the previous years (maximum 1 year) or USD 10 million (whichever is less).
10. The GoB will provide Tk. 300 crore (USD 42.9 million) as seed money to create a *Contributory Fund* with the objective to tackle the adverse effect of the global financial crisis on the exports of textile and apparels. Textile and apparel industry owners will contribute 0.1 per cent of their export value (FOB) from January 2010 to June 2010 and 0.2 per cent of export value from July 2010 to the *Contributory Fund*.
11. The contract for the National Institute of Textile Training, Research and Design (NITRAD) has been modified; a) The government will bear all the expenses for the first year, b) the government will contribute 60 per cent of the expenses incurred in the second year, c) for the next three years 50 per cent of the expenses will be borne by the government, and d) BTMA will take over the responsibilities of NITRAD from sixth year onwards.

The third stimulus package also includes some benefits for the shipbuilding and crust leather industries. Supports put forward to these industries are as follows:

- a. 5 per cent cash incentive will be provided to promote exports of the shipbuilding industry.
- b. 5 per cent cash incentive will also be provided to the crust leather industry.

³⁴ However the related business associations (BGMEA and BKMEA) demanded for a revision of this provision and requested the government to relax the conditionalities. Indeed, the original suggestion from the working group was to provide cash incentive of 5 per cent on up to 10 per cent additional exports (over FY2008-09) by small and medium RMG units.