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BANGLADESH DEVELOPMENT UPDATE

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Table of Contents

List of Tables

List of Figures

List of Boxes

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Job friendly growth appeared to be gaining momentum in Bangladesh in 2014 until the resurgence of political turmoil since early January 2015. Supply chain across the country were severely disrupted dampening growth prospects and fuelling inflationary expectations. Buoyant imports and weak exports pushed the external current account into deficit but foreign exchange reserves are still rising. Undershooting of development expenditures and reduced subsidies due to lower oil prices have kept the fiscal deficit in check despite a significant revenue shortfall. The banking system remains vulnerable. Inflation is contained due to soft international commodity prices and monetary policy restraints. Continued polarization between the government and the opposition alliance is the main source of uncertainty for Bangladesh's otherwise favorable economic outlook, underpinned by macroeconomic stability, prospects of recovery in the US and the Euro Zone, and strong domestic demand. Increasing female participation in the labor force and boosting private investment is the need of the hour. This requires faster progress on easing barriers to women's participation in economic activities; establishing special economic zones (SEZs); adequate attention to the private sector regulatory environment; better functioning of land markets to ensure the availability of land for manufacturing enterprises outside SEZs; and addressing the transport problem.

Summary

- Economic growth in Bangladesh was gaining momentum in the first half of FY15. Capacity utilization improved and investments were showing some signs of recovery. This growth was also job-friendly. Bangladesh continued to do well in containing inflation, due to favorable international commodity price movements and sound macroeconomic management. The 12-monthly-moving average inflation decelerated from 7.6 percent in February 2014 to 6.8 percent in February 2015.

- The resilience of the Bangladesh economy continues to be tested by faltering political stability, weak global markets, and structural constraints. These are inhibiting the economy's income growth as well as progress on shared prosperity. Political turmoil in particular is taking a heavy toll on the economy. Economic losses this time are likely to be more severe than earlier periods of turmoil because of the timing, duration, and the depth of uncertainty surrounding how the crisis may be resolved.

- Direct production losses inflicted by the turmoil could be around 1 percent of GDP. BBS's preliminary estimate of GDP growth in FY15 is unlikely to capture the impact of the political turmoil. The proxies and methods used to estimate production and expenditures work well in a normal year, but fail to capture the impact of disruptions in an abnormal year.

- Despite the emergence of a $1.3 billion deficit in the current account in the first seven months of FY15, the surplus in the overall balance of payments has been sustained, leading to continued accumulation of official foreign exchange reserves to prevent nominal exchange rate appreciation. Reserves are at a comfortable level at over 6 months of imports of goods and services. However, the competitiveness of exports is eroding due to growing strength of the US dollar vis-à-vis euro in particular. The taka has appreciated by 17.6 percent against the euro so far in FY15. Bangladesh Bank (BB) has maintained monetary policy continuity, but success in reducing the vulnerability of the banking system has remained elusive.

- Fiscal policy has remained consistent with macroeconomic stability. The fiscal deficit in FY15 is projected to remain stable at 3.5 percent of GDP. Tax revenue growth has been weaker than targeted while expenditure have also been short due as usual to an implementation shortfall. An added factor this year has been lower subsidies on fuel. A windfall resulting from the declining international oil price is

accruing to the state-owned Bangladesh Petroleum Corporation (BPC), as administered domestic oil prices have remained unchanged. Government borrowing from the banking system has not been needed so far because additionally of a steep rise in non-bank borrowing.

- The current temporary tailwind from low international oil prices provides a favorable environment to advance energy pricing reforms. Prices for fuel can be deregulated taking advantage of the decline in oil prices. Prices more aligned with actual costs would reduce inefficiencies in refining and imports and create stronger incentives for investments in distribution. The window to introduce subsidy reform is limited. It can be done without major political controversy only as long as the price of oil is declining.

- Structural reforms have moved forward in the cases of economic zones and the public-private partnership (PPP) law, but regressed in loan restructuring and the new value-added tax (VAT) law. The Extended Credit Facility (ECF) of the International Monetary Fund (IMF) is scheduled to end in June 2015.

- The projected recovery in global growth, particularly in the United States and the Euro Zone, and continued softness in international commodity prices, bode well for Bangladesh. The country will need to restore political stability and implement faster structural reforms to capitalize on these opportunities. Growth in FY15 is projected to slow to 5.6 percent, compared with 6.1 percent last year, because of the impact of political turmoil. Assuming stability and coupled with sound fiscal and monetary management, growth may recover to 6.3 percent in FY16 and 6.7 percent in FY17.

- The potential GDP growth rate is on a declining path due to declining labor force growth and stagnant productivity growth, as well as the rate of capital accumulation. Raising the low Female Labor Force Participation (FLFP) rate offers on opportunity to boost the economy's potential growth rate. Raising female participation to the same level as male participation rate (currently 82 percent) in ten years implies adding 2.5 million female laborers every year. This would boost the potential GDP growth rate by about 1.8 percentage points. However, absorbing such a large number year after year is a major challenge. Investment needs to rise significantly to support job creation for both women and men.

- Moving forward, the biggest challenge remains ensuring durable political stability. This is a precondition for accelerated, inclusive, and sustainable growth. Other challenges include, but are not limited to: (i) preserving fiscal space, ensuring exchange rate flexibility, and improving financial sector accountability; (ii) boosting private investments through faster progress on establishing special economic zones; (iii) paying adequate attention to the private sector regulatory environment; (iv) improving the functioning of land markets in order to ensure the availability of land for manufacturing enterprises outside special economic zones (SEZs); (v) addressing the transport problem to improve connectivity, and (vi) Easing barriers to female particitation in organized sector activities.

- It is important to take into account gender differences in assessing the sources of economic growth and in designing interventions to increase female access to labor, credit, and product market changes. The policy response to women's employment has been largely through anti-poverty programs such as safety-nets, social protection initiatives, small livelihoods programs, micro-credit, and so on. Much more attention is needed to macro policy linkages. The leverage needed to stimulate women's participation and employment is mostly on the public expenditure side--primary, tertiary education, technical training, provisioning of early childhood education and day care programs, improving feeder roads, storage and distribution facilities and gender sensitizing extension services and marketing information. Restrictions on women's rights to inheritance and property and legal/social impediments to freely pursuing a profession are strongly associated with large gender gaps in labor force participation.

I. Recent Developments

The Bangladesh economy's resilience continues to be tested by faltering political stability, weak global markets, and structural constraints. These are inhibiting the economy's income growth and progress on shared prosperity. Political turmoil in particular is taking a heavy toll on the economy. Evidence shows growth in the recent past has been job-friendly. Bangladesh also continues to do well in containing inflation due to favorable international commodity price movements and sound macroeconomic management.

1. **FY15 growth is expected to remain resilient.** Economic growth in the first half of FY15 benefitted from sustained political stability throughout 2014. Capacity utilization improved. This is evident from sharp recoveries in imports of industrial raw materials and intermediate inputs. Activities in the domestic market-based industries expanded faster than in 2013. Agricultural growth followed its normal path aided by benign weather, reasonably smooth functioning of agricultural input markets, and improved farm gate prices. Remittances picked up reflecting partly the bottoming out of worker outflows to the Gulf countries. However, exports lost momentum because of a limping global economy and the transition in the garment industry involving a significant number of factory closures. The economy continued to face several key challenges: political uncertainty; growing infrastructure deficit; and a de-facto onerous regulatory regime. As a result, private investments did not show any convincing sign of recovery this year. Private consumption, imports and public investment grew faster in the first half of FY15 than a year earlier.

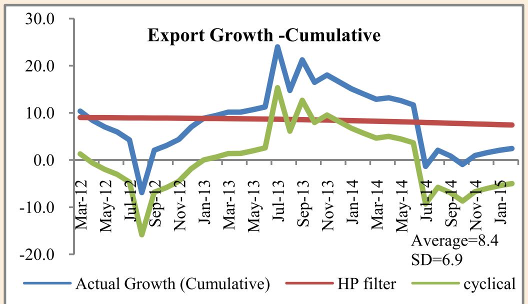
2. **Growth was gaining momentum before the political unrest began**. Key indicators related to output growth in July-December 2015 suggest economic growth picked up relative to FY14 levels. A number of proxy indicators on the service sector, which accounted for 54 percent of gross domestic product (GDP) in FY14, reflect reasonable service sector growth during the first half of FY15.[1] Term loans including working capital (excluding trade finance) recorded 15.9 percent growth in the first quarter of FY15. Net disbursement of industrial term loans in the first half of FY15 amounted to Tk 78.2 billion, compared with a net recovery of 2.5 billion in the first half of FY14. Import of capital machinery grew 43 percent. Petroleum, Oil, and Lubricants (POL) grew 69 percent and fertilizer grew 61 percent.

3. **Economists in Bangladesh base their judgment of recent economic trends on a limited set of indicators for which high frequency data are available:** exports, imports, remittances, reserves, National Board of Revenue (NBR) revenues, Annual Development Program (ADP) utilization, and domestic credit flows. Unfortunately, many of these data series are full of noise, making it difficult to extract the signals on the direction in which the economy is moving.[2] Applying Hedrick-Prescott (HP) filters to de-trend the high frequency time series shows imports (raw materials, intermediate inputs, and capital machinery), remittances, and exports are very noisy. But growth in revenue and the stock of private credit exhibit less noise (see Box 1). Both of these indicators indicate a recovery around mildly downward trend, suggesting the year probably would have ended on the upside of the trend. Thus the economy appeared to be on its way to a recovery in growth in FY15.

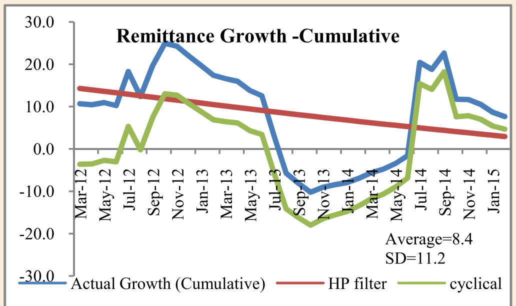
1 Data on bank advances show the growth of outstanding credit to the trade and commerce sector increased to 15.2 percent at the end of the first quarter (July-September) of FY15 from 13.7 percent at the end of the first quarter of FY14. Bank advances to the transport sector registered a remarkable 9.1 percent growth in the first quarter of FY15 compared with a negative growth of 4 percent in the first quarter of FY14. Bank advances to agriculture including fishing and forestry grew by 18.5 percent in the first quarter of FY2015 relative to the same period in FY14. These data are from Bangladesh Bank, Monetary Policy Statement, January-June 2015.

2 It is useful to consider economic time series fluctuations as a composite of systematic and irregular movements. The systematic movements in the economy—the signals reveal seasonal patterns, cyclical movements, and long-term trends. The irregular fluctuations—the noise are a composite of erratic real world occurrences and measurement errors. Separation of the systematic components provides a better basis for studying causal factors and forecasting changes in economic activity.

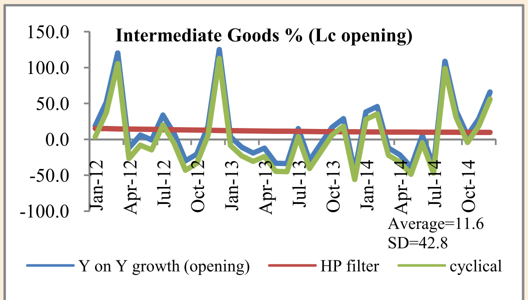
Box 1: The Perils of Short-Term Projections in Bangladesh



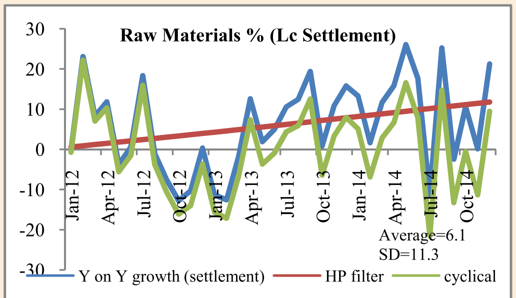
Source: Export Promotion Bureau



Source:Bangladesh Bank



Source: Bangladesh Bank



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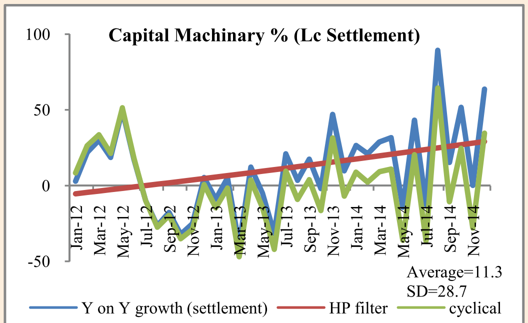

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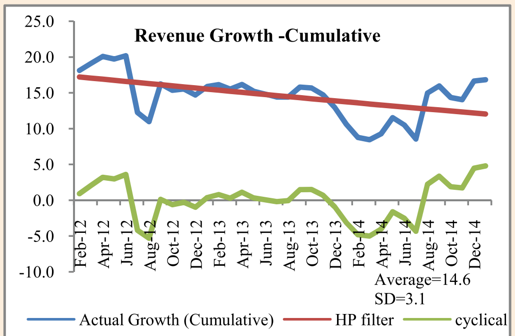

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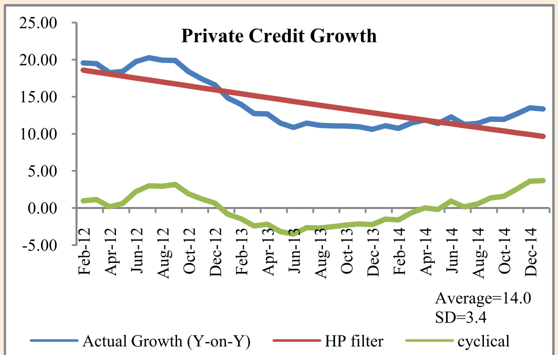


Source: Bangladesh Bank

4. **The recurring unrest is hurting the economy**. Political turmoil in the last half of 2013, and its recurrence since January 5, 2015 test the resilience of Bangladesh's growth. In addition to causing over 120 deaths and hundreds of injuries, this recent resurgence of political unrest is taking a heavy toll on economic activity, in particular the services sector, agriculture, exports, and non-formal sector businesses. Disruptions of inter-district transportation are disrupting domestic supply chains. Private investment has stagnated since FY12, due to the growing political uncertainty and inadequate progress in addressing the structural constraints, particularly in providing land, transport, and energy. The apparel sector, where post-Rana Plaza reforms were moving forward at a decent pace, are now recording losses due to work order cancellations, discounts for shipment delays, expensive air shipment and transport fares, and vandalism. Owners have been running their factories below capacity due to a dearth of raw materials. Retailers are cutting trips to factories and slashing orders, placing the rest of their orders in Vietnam, Indonesia, India, Myanmar, China and Pakistan.[3] Retail sales have also been hard hit as are the 2.5 million hawkers and street vendors.[4]

5. **Economic losses this time are likely to be more severe**. Current losses will probably exceed the losses incurred in the previous episode of political turmoil, during the last half of 2013. A number of estimates on the economic cost of the political unrest certainly overstate the losses due to multiple counting problems, among others. However, there is hardly any reason to doubt that the true magnitude is larger than what was experienced in the last half of 2013 because of the timing, duration, and the depth of uncertainty surrounding how the turmoil will be resolved. The unrest this time came soon after the dry winter season began, when the largest and highly input-intensive rice crop (boro) was being planted, tourism was supposed to peak, inter-district transport was usually in full swing, and construction activities reached their height. In short, the unrest occurred during the part of the year when the country's within-year business cycle peaks.

6. **The impact on direct production losses could be about 1 percentage point of GDP**. This preliminary assessment is based on four key assumptions: (i) the benchmark growth rate as the counterfactual; (ii) the number of days effectively lost due to strikes, blockades and violence; (iii) the duration of the turmoil; and (iv) the proportion of loss that could be recouped (the so called resilience factor) after the turmoil ends or fades. Based on these assumptions about these parameters, the economy appears to have incurred a value added loss of about $2.2 billion.

7. **The official growth estimate is unlikely to capture the production losses**. Preliminary estimates of GDP growth in FY15 from the Bangladesh Bureau of Statistics (BBS) are unlikely to capture the impact of the political turmoil. BBS has recently published the details of how the national accounts estimates are prepared.[5] It describes in some detail how BBS computes value added in various sectors and different components on the expenditure side. As in most developing countries, for several parts of the accounts, only partial data are available, or complete data are available only for an earlier period. The national accountants then have to base their estimates on assumptions about relationships between some currently available statistic and their target statistic. The proxies and methods used to estimate production and expenditures work well in a normal year, but fail to capture the impact of disruptions in an abnormal year (see Annex-1 for a detailed account of why the methodologies used to compute value added and final demand fail to capture the impact of abnormal times.).

3 The apparel sector was not doing so well even before the political turmoil began. Exports to Germany declined by 0.5 percent, Canada declined by 14.6 percent, and USA declined by 5.2 percent in the first half of FY15.

4 Bangladesh Shop Owners' Association which represents 2.5 million retailers in the country reported their average sales dropping to around Tk 9 billion from Tk 30 billion a day (The Daily Star, February 9, 2015).

5 See Bangladesh Bureau of Statistics, Bangladesh National Accounts Statistics: Sources and Methods, August 2014.

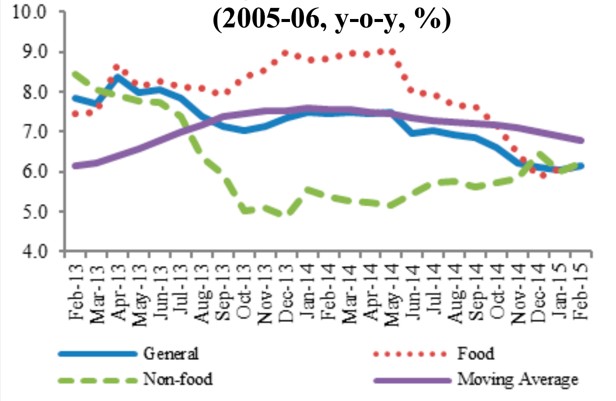
8. **The pace of poverty reduction may also have been thrown off from its historic track**. There is no survey-based evidence on what has happened to poverty since 2010. However, it is reasonable to assume that the sustained GDP growth rate in excess of 6 percent, a decent 3.3 percent agricultural growth, and remittance growth of 6.7 percent on average since 2010 contributed to maintaining the 1.74 percentage point annual decline observed during 2000-2010. The Planning Commission projects a decline to 24.47 percent by 2014 of the poverty incidence, based on Bangladesh's national poverty line. This remarkable progress in poverty reduction is attributable to a decline in the population growth rate and the changing age structure, increases in labor income, internal and external migration, improved connectivity, and the government's targeted safety net program. The ongoing political turmoil is likely to slow the pace of poverty reduction as farm incomes, daily wage employment, SMEs, informal sector activities, and exports have all been hit very hard.

9. **The income of the bottom 40 percent will likely continue to increase because of increased employment and wages**. According to the Labor Force Survey 2013, total domestic employment increased from 54.1 million in 2010 to 58.1 million in 2013. The domestic economy added about 1.3 million jobs per year, on average. The number of male workers grew from 37.9 million in 2010 to 41.2 million in 2013 (an increase of 8.7 percent). The number of female workers grew from 16.2 million to 16.8 million (an increase of 3.7 percent). Manpower exports abroad during the same period was about 0.5 million per year on average, and the number not in the labor force increased by 3.7 million. As a result, the total number of additional workers who found employment in the domestic market or abroad exceeded the number actively seeking work in the domestic economy. According to BBS, real wages (year-on-year) increased by 15.6 percent in February 2013, 9.23 percent in February 2014 and 9.27 percent in January 2015.[6] However, sustained political unrest has likely pushed progress on shared prosperity off track.

10. **Inflation is contained.** The twelve monthly moving average inflation decelerated to 6.8 percent in February 2015, compared with 7.6 percent in February 2014, driven by deceleration in both food and non-food inflation (Figure-1). Food inflation moderated because of declining international food prices, particularly prices in India. Declines in non-food inflation reflect a stable exchange rate and prudent monetary management. Over the past two decades, inflation and its price volatility have been the lowest in Bangladesh within the South Asia region.[7]

11. **Inflation (year-on-year) declined to 6.1 percent in February 2015, compared with 7.4 percent in February 2014, driven by a decline in food inflation on the back of a good rice harvest and lower global prices.** Nonfood inflation showed greater volatility in recent months within the 5.5 to 6.5 percent range. The slight increase in the overall inflation rate in February came both from increases in food and non-food inflation. Increases in medical care and transport have been the drivers of non-food inflation in January-February 2015. Transport fares

Figure 1: Inflation (2005-06, y-o-y, %)



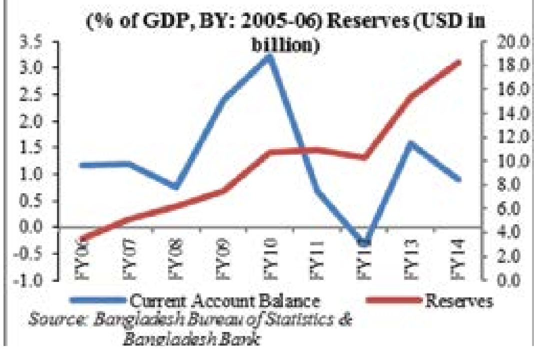
Source: Bangladesh Bureau of Statistics

6 BBS Press Release, February 2015.

7 Bangladesh Bank, Monetary Policy Statement, January-June 2015.

increased due to blockades and strikes.[8] Overall, the twelve- month moving average inflation rate appears on track to reach the FY15 monetary policy target of 6.5 percent by the end of June. The Bangladesh Bank's conduct of monetary policy has helped contain non-food inflation. The decline in global fuel prices has had no impact on inflation because the administered domestic fuel prices have not been adjusted so far.

Figure 2: Current Account Balance

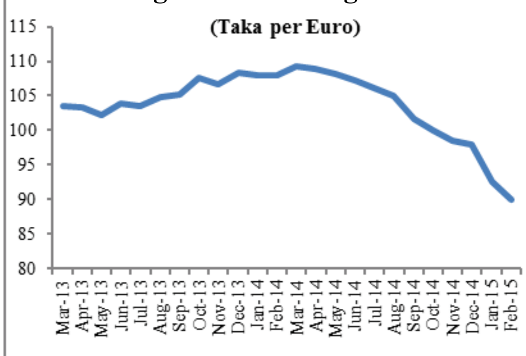


Source: Bangladesh Bureau of Statistics & Bangladesh Bank

12. While the government's monetary policy framework pursued price and external stability, new challenges have cropped up. The adverse supply shock caused by disruptions in the transportation system (resulting from the ongoing political unrest) has resulted in stagflation of an unusual kind. Continuous blockades since January 5 fragmented the economy in which some parts are caught in a "stag" (falling income and employment) mode and some in "flation" (rising prices) mode. This has made the use of standard macro-economic demand management for controlling inflation and supporting growth especially challenging.

Surplus in the overall balance of payments has been sustained, leading to continued accumulation of foreign exchange reserves to prevent nominal exchange rate appreciation. However, the competitiveness of exports is eroding due to growing strength of the US$ vis-à-vis euro in particular. Bangladesh Bank has maintained monetary policy continuity, but success in reducing the vulnerability of the banking system has remained elusive.

Figure 3: Exchange Rate



Source: Standard Chartered Bank

13. External balances remain comfortable, notwithstanding weak export growth and strong imports. Despite the falling oil prices, the deficit emerged in the current account at US$1.3 billion in July-January, FY15 compared to a US$2.5 billion surplus during the same period of FY14. The deficit reflected a tepid 2.1 percent export growth and a strong 16.4 percent import growth. Weak export growth reflected the adjustment of the garment industry to stricter labor and safety standards and a slowdown in external demand. The oil windfall will show up only partially in FY15 because oil imports are contracted forward. Non-oil imports have been very strong. Growth in import payments is likely to slow down because of the sustained low international oil prices and the ongoing political turmoil. Rebounds in remittance growth partially offset the impact of the increased trade and services account deficit on the current account (Figure 2).

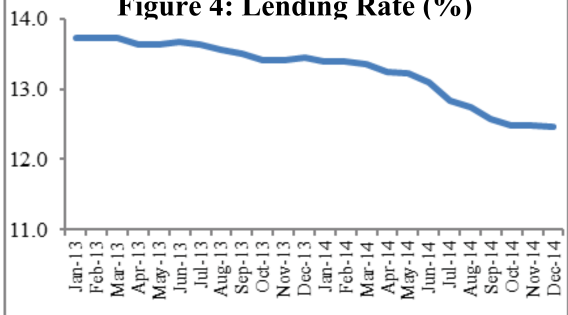
14. Financing the deficit from external sources—private and official—has not been a problem so far. In fact, the financial account recorded a $3.3 billion surplus in July-January, FY15 compared with just $424 million surplus during the same period the previous year. The surplus reflected a turnaround in "other

8 Since transport is a key element in the distribution chain, a rise in transport fares affects both the costs of supplying inputs as well as final goodsand services leading to secondary effects on most prices of goods and services in the supply of which transport plays a significant role. This effect appeared to have outweighed the impact of demand suppression resulting from constraint on access to markets due to strikes and blockades.

investment (net) from $722 million outflows to nearly $2 billion inflows, reflecting 11.7 percent growth in gross aid disbursements and a reversal of $550 million outflows on account of trade credit to $905 million inflows during the period under review. Thus, the overall balance of payments still recorded a $1.7 billion surplus, leading to continued accumulation of foreign exchange reserves. Reserves surpassed the $23 billion level by end-February 2015, equivalent to six months of imports of goods and non-factor services (GNFS, see Figure 2). This is adequate as a buffer against unforeseen pressure on the balance of payments.

15. **Export competiveness has eroded due to a steady appreciation of the real exchange rate**. The taka/US$ rate came under pressure between September and December 2014 with the widening of current account deficit, but it has reversed since then. Active foreign exchange intervention by BB to keep the nominal taka/dollar exchange rate relatively stable has resulted in a 17.6 percent appreciation of the taka against the euro since March 2014 and a sustained appreciation of the real effective exchange rate (REER). The REER has appreciated by about 33 percent since its trough in 2011.

Figure 4: Lending Rate (%)



Source: Bangladesh Bank

16. **Bangladesh Bank has maintained policy continuity**. The monetary program targets set at the beginning of FY15 have rightly been kept unchanged. This program is mildly expansionary with the 16.5 percent broad money growth target exceeding the expected nominal GDP growth rate of about 13 percent. Private sector credit growth through January remained subdued at 13.3 percent. There is therefore adequate room for raising it to 15.5 percent, as targeted in the Monetary Policy Statement (MPS) for the first half of FY15. With net foreign assets growing by 22.6 percent through January 2014, the 24.8 percent growth target for the public sector can be appropriately adjusted downwards to be close to the 16 percent reserve money growth target.

17. **Lending rates are rigid downwards because of structural factors**. There was no need to change the policy rates and the Cash reserve Ratio (CRR). The problem of 'high' nominal interest rate despite some decline in lending rates in recent months is more a manifestation of regulation gone awry than a tight monetary policy (Figure 4). When one out of every ten taka in loans go bad, it is not possible to have single digit interest rate (as popularly demanded) without hurting the solvency of the banking industry. With demand for credit remaining sluggish, further monetary easing will largely expand excess liquidity and increase the risk of fuelling asset price bubbles. Monetary easing will also not address the problem of oligopolistic interest rate setting. The solution lies in better regulation of the banking industry. Another structural factor in interest rate determination is the role of administered National Saving Certificates' rates. These rates de-facto set a floor on the deposit rates with pass through effects on the lending rates. It is time to consider establishing mechanisms to make the NSC rates more responsive to market forces.

18. **The financial sector is vulnerable.** The balance sheets of the State-Owned Commercial Banks (SCBs) are still weak with rising nonperforming loans. This is the consequence of lingering impact of a series of financial scams and resultant loan defaults in the SCBs. The top management of these banks collaborated with some unscrupulous borrowers to swindle large amounts of money under different instruments. SCBs are still undercapitalized despite recapitalization in FY14. Private banks are not immune from corporate governance failures, either. Weak corporate governance in private banks prompted BB to appoint observers in two of them and to issue a circular requiring BB approval before firing or making the Chief Executive Officers (CEOs) of private banks resign on their own volition.

19. Neither the management nor the Boards of these banks have been held accountable in most cases for these large scale frauds. Consequently, these banks which, in a large measure, are outside the control of BB became technically insolvent in terms of financial prudence criteria. The SCBs have struggled to overcome insolvency**.** The asset quality of the overall banking sector deteriorated further, even after BB's relaxation of the loan rescheduling standards. Overall, the financial sector is still shaky because of limited actions to improve corporate governance and accountability. The sector remains vulnerable to the second round impact of the political turmoil as profits shrink or losses mount in bank financed economic activities, potential term shocks and economic slowdown.

20. The capital market rebounded in 2014 from the previous three years' bad performance but the recovery eroded in the latter part of the year. The benchmark index gained 14 percent and turnover increased by 25 percent in September – October 2014. The index rose to 5,400 from the year low of 4,300. Relative stability in the country's political situation in the preceding six months and decrease in government Treasury Bill rate, as well as bank interest rates, contributed to the increase. Foreign investments in the capital market also increased, representing 5.2 percent of the total turnover, compared to 3.5 percent in 2013 and 1.9 percent in 2012. Part of the increase in foreign participation can be attributed to the increase in the country weight of Bangladesh in leading global market indices.[9] This catalyzed the highest amount of net foreign capital inflows in the history of the country's capital market. Foreign shareholding of top twenty stocks in Dhaka Stock Exchange (DSE) increased from 2.3 percent to 5.2 percent within a one year period. The downward slide since November 2014 continues with sporadic and temporary upturns. The market is back to the 4,400 level again with an associated decline in the trade volume as of mid-March 2015. The trade volume has fallen to an eight months low. The fresh round of political instability has turned investors to bearish sentiments. With political uncertainty looming large in the near-to-medium term, market participant do not seem to expect a sustained return to an uptrend over the next six months.

Fiscal policy remained consistent with macroeconomic stability. Tax revenue growth has been weaker than targeted while expenditures have also been short, due, as usual, to implementation shortfalls. An added factor this year has been lower subsidies on fuel. The declining international oil price windfall is accruing to the state-owned Bangladesh Petroleum Corporation (BPC) with the administered domestic oil prices remaining unchanged. Government borrowing from the banking system has not been needed so far because additionally of a steep rise in non-bank borrowing.

21. Revenue collection has been weak. Weak domestic economy and politics related disruptions led to shortfall in tax revenue collection relative to target in FY15 so far. The across the board tax revenue shortfall has been compounded by a large drop in non-tax revenues driven mainly by smaller dividends from BB. Total revenue collection in the first four months of FY15 was 3.2 percent lower than the corresponding period of FY14, due entirely to a 36.5 percent decline in non-tax revenues collection.[10] Non-NBR tax collection performance remained modest with a growth rate of 5.9 percent relative to the annual target of 20.9 percent.

22. NBR revenue collection remained below target in the first seven months.[11] Total NBR revenue grew by 16.8 percent in July-January, FY15. This was driven by 18.3 percent growth in domestic activity based taxes. Absent any remedial measures, overall revenue shortfall in FY15 could

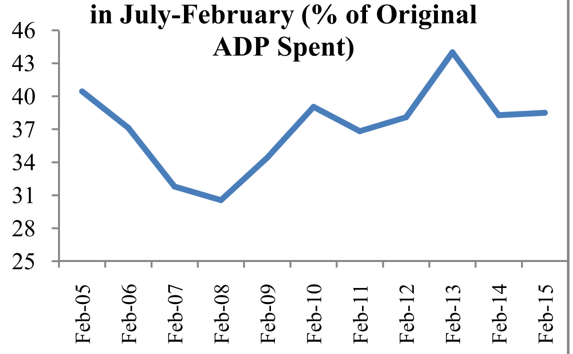
9 The country weight got doubled in the Morgan Stanley Capital International (MSCI)Frontier Market index from 1.6 percent to 3.0 percent after Dubai and Qatar graduated from Frontier Market to Emerging Market index.

10 Ministry of Finance, Monthly Report on Fiscal Position, October 2014.

11 It is important to note that, the discrepancy between NBR and MoF data for revenue collection by the NBR has increased significantly in recent years with NBR continuing to report higher figures.

be as high as Tk. 99 billion relative to the original budget target. There are a number of reasons behind the below-par performance. The targets were ambitious to begin with; a number of tax breaks were added in the FY15 budget, including lower corporate income tax rate for non-publicly traded companies, reduction in income tax at source for Ready Made Garments (RMG) (from 0.8 percent to 0.3 percent) and non-RMG exports (from 0.8 percent to 0.6 percent), and significant reduction in supplementary duties; there were no lumpy non-tax revenue receipts such as revenue collection from mobile spectrum fees; there were no major improvement in administrative capacity and revenue collection effort; international prices declined significantly for a number of dutiable imported commodities, while exchange rates of taka against the currencies of major trading partners remained stable or even appreciated; and last but not the least, the ongoing turmoil has made revenue growth more challenging by eroding the tax base and disrupting the collection effort. Delayed implementation of the value-added tax (VAT) and Supplementary Duty (SD) Act of 2012 is a major blow to rejuvenating revenue growth sooner than later.

Figure 5: ADP Utilization Rate in July-February (% of Original ADP Spent)



Source: IMED, Ministry of Planning

23. **Expenditure growth is well below target, so far**. Total public expenditures[12] increased by 4.5 percent in the first four months of FY15 relative to the same period the previous year, and compared to the 31 percent annual growth target. Net non-development revenue expenditures in the first four months of FY15 increased by 5.4 percent and development expenditures increased by 1.3 percent. ADP implementation rate improved subsequently, reaching 38 percent of the original budget allocation by February 2015 (Figure-5). Institutional capacity as regards ADP on the part of both line ministries and the Implementation Monitoring and Evaluation Division (IMED) continue to be major concerns. Poor ADP implementation is a consequence of resource constraints, unrealistic targeting, and procedural lapses from initiation to completion of a project life cycle. Corruption is also frequently blamed for delayed approval. Sometimes projects get approved and included in the ADP well after the planned inception date. Post-approval procedural delays in land acquisition and procurement hold back project start up. By the time the project takes off, cost overrun begin. This then leads to subsequent revisions which result in further time overruns. Cost and time overruns while implementing ADP projects has become more pervasive in recent years. The implementation challenges are longstanding and addressing them would require significant bridging of institutional capacity deficits through implementation of necessary reforms. In sum, development projects implementation continued to be lackluster. Most disappointing has been the lack of sufficient progress in key projects such as the Dhaka-Chittagong four lane highway, the two Bibiyana gas field based power plants, double tracking of Dhaka-Chittagong railway, LNG terminal, Moghbazar Flyover, Dhaka metro rail, and so on.

24. **The total subsidy allocation is likely to be sufficient to meet the current demand**. Subsidies are a significant part of fiscal policy in Bangladesh. The government enhanced the cash subsidy for exports in the FY15 budget. Declining global prices of petroleum products have reduced the pressure for fuel subsidies. The government has so far declined to consider any reduction in administered fuel prices. BPC is now making profit on all petroleum products (see Annex-2). Previously, a subsidy of about Tk 7 per litre was required for diesel. Market analysts are expecting oil prices to remain at about the US$ 50-US$ 60 per barrel (bbl) level in 2015. If so, the budgetary allocation for BPC's subsidy (about Tk 30 billion) will

12 Excluding net outlay on food operation and loans and advances (net).

in large part not be required. Low oil prices will also help reduce losses incurred by the BPDB on account of supplying liquid fuel for electricity. The FY15 budget provided about Tk 75 billion for BPDB with the assumption of an adjustments in the electricity prices in the middle of the fiscal year.[13] The FY15 budget provided Tk. 90 billion for subsidy to agriculture (irrigation and fertilizer). Given the falling prices in the international market, no additional allocation will be required for this purpose. The current tail winds in international prices has created an opportunity for fixing the structural weaknesses associated with high subsidy demand including aligning administered prices with international market prices, reducing reliance on liquid fuel for electricity generation, bringing more households under the meter based gas connection, and reducing system loss associated with energy and power sector.

25. The fiscal deficit is stable. Total budget deficit in the first seven months of FY15 amounted to Tk 108.96 billion, compared with Tk 118.7 billion in the same period of FY14. Deficit is well behind the budget target of Tk 776 billion for the entire year. The share of domestic financing of deficit increased. With a steep rise in net non-bank financing from Tk 20.85 billion in the first seven months of FY14 to Tk 65 billion in the first seven months of FY15, the government repaid Tk 106.6 billion of its debt to the banking system.

Structural reforms have moved forward in some cases (economic zones, PPP law), but regressed in others (loan restructuring, new VAT law). The IMF's Extended Credit Facility (ECF) is scheduled to end in June 2015.

- The IMF postponed the completion of the fifth ECF review in October to allow the government more time to credibly commit to the implementation of the new VAT law. The Fund combined the fifth and sixth review mission that was completed in March 2015 following indications from the government that they are ready to make such a commitment. As usual, the program's performance criteria relating to international reserves, domestic credit, net credit to the central government, new non-concessional external debt and accumulation of new external payment arrears have been met. However, delivery on structural reforms has been mixed. The ECF is expected to conclude in June 2015 following the combined disbursement of the remaining $280 million under the program.

- The government, on February 18, approved a proposal to establish 17 economic zones, including three in the private sector, to attract both local and foreign investments. The decision was made at the second meeting of the governing board of Bangladesh Economic Zone Authority held at the Prime Minister's Office. Earlier, approval was given for another five economic zones.

- The Parliament approved the Metro Rail Bill of 2014, which provides a legal framework to the proposed metro rail project including its construction, operation and regulation. The bill has provisions of heavy fines or imprisonments for obstructing operation of the rail and illegally operating a train. Metro rail will be operated by Dhaka Mass Transit Company Limited (DMTCL) and supervised by Dhaka Transport Coordination Authority. The law also contains provision for constructing and operating the metro rail under Public Private Partnership (PPP).

- The Cabinet approved the Draft PPP Law of 2014, which explains how the PPP office will operate; how projects will be approved and implemented. With 43 provisions, the draft law proposes the formation of a PPP Advisory Council, headed by the Prime Minister. The draft law also describes the various terms and conditions for PPPs, including the process of determining private partners; cancellation and

13 According to the BPDB, the cost of per unit electricity generation by natural gas is currently about Tk 2.4 per kwh. Cost per unit of electricity generated from HSD and HFO are Tk 27.1 and Tk 17.1 respectively. In FY14, for about 20 percent electricity generation came from liquid fuel. The weighted average cost per kwh of electricity generation was Tk 6.54 while tariff for bulk electricity was Tk 4.67. Hence, per unit loss incurred was Tk 1.87.

extension of agreements; negotiation process; and scope for accepting unsolicited proposals, under a legal structure. The law is now awaiting parliamentary approval.

- The Cabinet approved the draft Foreign Grants (Voluntary Activities) Regulation Act of 2014, empowering the Nongovernmental Organization (NGO) Affairs Bureau to monitor and inspect activities of the NGOs and cancel registration if there is a violation of the law. According to the law, foreign donations to the NGOs will have to be kept in a mother account of a designated bank. NGOs must publish annual reports after audits of the accounts and submit those to the Director General of the NGO Affairs Bureau. NGOs will not be able to undertake any project with foreign donations without the approval of the NGO Affairs Bureau. NGOs will be given registration for ten years. However, the government can cancel the registration any time in case of any violation of the law.

- The Cabinet approved the National Information and Communications Technology (ICT) Policy of 2015, aiming to develop the ICT sector. There are 10 specific objectives, 56 strategic themes, 306 items under an action plan alongside taking short, mid and long-term plans to be implemented by various ministries.

- The Cabinet approved the Draft Financial Reporting Act 2014. Under this law, the government will establish a 10-member regulatory body to set the standards for accountants and auditors and formulate necessary rules and regulations to monitor auditing practices and ensure that standards are met. The law will be applicable for corporations, public companies, government autonomous bodies, NGOs, banks, and financial and insurance institutions. Any auditor or auditing firm that does not enlist with the council will not be allowed to certify accounts of any public interest entity or provide any audit-related services.

- Bangladesh Bank approved a loan restructuring policy under which a large borrower would get a maximum of 12 years to repay loans above Tk 5 billion. For restructuring a loan, a bank has to set aside from its own income an amount equivalent to 2 percent of the loan. A borrower can get the facility only once, but has to apply for it by June 30 this year, according to the policy. To restructure a loan below Tk 10 billion, a borrower must make a down payment of at least 2 percent of the loan while for a loan amount of more than Tk 10 billion; the down payment will be 1 percent of the loan. The borrower has to forfeit the facility if it fails to repay two consecutive installments and measures will be taken against the borrower under the bankruptcy law. BB also introduced a policy to define and provide incentives to good borrowers. A borrower whose loan accounts remained unclassified continuously for three years and complied with all terms and conditions of approval is defined as a good borrower. Good borrowers availing current loans, demand loans and term loans will get a 10 percent rebate on interests at the third year and this waiver will continue every year onwards after that. In addition, depending on the authentic business need of the borrowers, banks can provide additional loan.

- The 8th Pay and Service Commission recommended a 100 percent salary hike, on average, of civil servants. They recommended raising the lowest basic salary to Tk. 8,200 from Tk. 4,100 and highest basic salary to Tk. 80,000 from the current Tk. 40,000. Outside the grades, Tk 88,000 has been recommended as basic pay for senior secretaries and Tk 100,000 has been proposed for the cabinet secretary and the principal secretary. The commission also recommended lowering the number of grades to 16 from the current 20. The government plans to implement these recommendations in phases from the beginning of FY16. The last Pay and Service Commission recommendations for salary increase were implemented at the beginning of FY10 in two phases. In line with the current recommendation of increasing government employees' salary, the Armed Forces Pay Committee also recommended a 100 percent salary hike for the members of the armed forces.

- The Kingdom of Saudi Arabia has lifted the ban on recruiting migrant workers from Bangladesh. The embargo was imposed in 2008. The recruitment process will be carried by the private agencies with strong oversight of the government. The government estimates that the migration cost will be around Tk. 15000-20000 since the employers will bear the cost of visa, travel and medical coverage. Minimum wage of the workers is expected to be around 1200-1500 Saudi Riyals per month. Currently, the government has around 2.2 million workers registered as willing to go abroad.

II. Outlook

Projected recovery in global growth, particularly in the United States and the Euro Area, and continued softness in international commodity prices, bode well for Bangladesh. Coupled with sound fiscal and monetary management, this should enable growth to recover from the setback suffered in FY15 due to political turmoil. Restoration of political stability and faster structural reforms are needed to capitalize on these opportunities.

26. The outlook for the medium term is positive with global growth projected to rise, complemented by strong domestic demand and easing of supply side constraints. Many high-income countries, Bangladesh's main export markets, continue to grapple with legacies of the global financial crisis. Global growth in 2014 continued a pattern of disappointing outturns over the past several years. Growth increased marginally to 2.6 percent in 2014 from 2.5 percent in 2013. Activity in the United States and the United Kingdom has gathered momentum as labor markets heal and monetary policy remains extremely accommodative. The recovery has been sputtering in the Euro Area and Japan as legacies of the financial crisis linger, combined with structural bottlenecks. China is undergoing a carefully managed slowdown. In many commodity exporters, the projected rebound in growth is weaker or delayed compared with the October 2014 projections, as the impact of lower oil and other commodity prices on the terms of trade and real incomes is now projected to take a heavier toll on their medium-term growth.[14]

27. Soft commodity prices, persistently low interest rates, but increasingly divergent monetary policies across major economies, and weak world trade are driving the global outlook. The sharp decline in oil prices since mid-2014 is expected to support global activity and offset some of the headwinds to growth in oil-importing developing economies where oil price decline is passed through. Lower oil prices will contribute to diverging prospects for oil-exporting and importing countries, particularly in 2015. Overall, global growth is expected to rise moderately, to 3 percent in 2015, and average about 3.3 percent through 2017. High-income countries are likely to see growth of 2.2 percent in 2015-17, up from 1.8 percent in 2014, on the back of gradually recovering labor markets, ebbing fiscal consolidation, and still-low financing costs. In developing countries, as the domestic headwinds that held back growth in 2014 ease and the recovery in high-income countries slowly strengthens, growth is projected to gradually accelerate, rising from 4.4 percent in 2014 to 4.8 percent in 2015 and 5.4 percent by 2017.[15]

28. Growth in FY15 is projected to slow because of political turmoil followed by recovery in the medium term if stability prevails in Bangladesh (Table 1). Taking into account the resilience factor, GDP growth in FY15 is likely to decrease from 6.6 percent in the absence of turmoil to 5.6 percent due to the impact of political turmoil. If stability prevails, Bangladesh's strong domestic demand base, gradually

14 IMF lowered growth projection for Saudi Arabia in 2015 and 2016 by 1.6 and 1.7 percentage points respectively. See World Economic Outlook Update, January 2105.

15 This is based on the assessment in the World Bank, Global Economic Prospects, January 2015.

improving investment climate, and moderate single digit inflation are expected to raise GDP growth to 6.3 percent in FY16 and further to 6.7 percent in FY17. On the supply side, this will be driven by sustained expansion in industry and services, enabled by large investments in infrastructure and energy. On the demand side, significant recovery in export growth and private investment is expected to boost aggregate demand while also contributing to capacity creation. Recovery in the United States and the Euro Area should boost garment exports while the recent reopening of Saudi Arabian market for Bangladeshi labor should boost remittances. However, with rising imports boosted by the private investment and export growth recovery, the current account deficit is projected to rise from 0.5 percent of GDP in FY15 to 0.7 percent in FY17 after dropping to 0.3 percent in FY16 because of decline in oil import bill.

Table 1: Medium Term Macroeconomic Outlook

	2013	2014	2015 (P)	2016 (P)	2017 (P)
Real gross domestic product growth (%)	6.0	6.1	5.6	6.3	6.7
	Contribution of expenditure components (%)				
Private consumption	3.5	1.8	4.8	4.4	5.3
Government consumption	0.3	0.6	0.8	1.1	1.3
Gross fixed capital investment	1.6	1.9	2.2	3.7	3.9
Exports, goods & services	0.5	1.2	1.4	1.6	2.1
Imports, goods & services	-0.3	0.2	-2.4	-4.6	-5.9
Statistical discrepancy	0.4	0.3	-1.1	0.0	0.0
	Contribution of production sectors (%)				
Agriculture	0.4	0.5	0.9	0.9	1.0
Industry	2.6	2.3	1.0	1.9	1.8
Services	2.9	3.0	3.0	3.5	3.7
CPI Inflation, end of period average	6.8	7.3	6.3	6.5	6.5
Merchandise export growth (US$)	10.7	12.0	8.6	7.8	11.7
Merchandise import growth (US$)	0.8	8.9	13.2	8.9	9.5
Current account balance, % of GDP	1.6	0.9	-0.5	-0.3	-0.7
Total Revenue, % of GDP	10.7	10.4	10.5	11.3	13.1
Total Expenditure, % of GDP	14.6	14.1	14.0	14.7	16.0
Fiscal balance (Excluding grants), % of GDP	-3.9	-3.7	-3.5	-3.4	-2.8

Source: Bangladesh Bureau of Statistics and WB staff projection
National Account 2005/06 base; P = Projection

29. **Fiscal prudence is expected to continue**. Fiscal gains from the oil price decline will be offset by a prospective wage hike and likely increased policy support to compensate businesses in FY16. In line with historical practice, the wage increase is expected to be implemented in two years, starting in FY16. The policy response to compensate for losses due to political turmoil needs to be based on a proper assessment of the size and sectoral composition of the losses incurred. Special effort will be needed to boost revenue in order to create fiscal space for the wage increase and policy support, raising public investment, and strengthening social safety nets as the government starts implementing the recently adopted National Social Security Strategy. The fiscal deficit is projected to remain stable at 3.4 percent of GDP in FY16 before falling to 2.8 percent in FY17, when the revenue impact of the implementation of the new VAT law kicks in. Based on this, the central government's debt-to-GDP ratio is projected to remain on a slow downward path with Bangladesh remaining on a low risk of debt distress.

30. **Bangladesh Bank is committed to maintaining a restrained monetary policy stance in the near term**. At the same time it will provide space in its monetary program for lending to activities which support investment and inclusive growth objectives. Monetary restraint is justified on grounds of the recent rise in non-food inflation and increased upside risks to prices due to supply chain disruptions caused by the political turmoil. A tighter monetary policy may be warranted if non-food inflation persists due to demand pressures and supply disruption which risk triggering second round effects. Exchange rate management is challenged by real effective exchange rate (REER) appreciation caused earlier by higher domestic inflation and more recently by nominal effective appreciation from the strength of the U.S. dollar. Further nominal appreciation of the taka may create balance of payment pressures by hurting exports and remittances and boosting imports. If this translates into pressure on foreign exchange reserves, which currently are at adequate levels, the taka should be allowed to depreciate when market forces push it in that direction.

III. Challenges

The biggest challenge is ensuring durable political stability. This is a precondition for accelerated, inclusive, and sustainable growth. Other challenges include, but are not limited to: (i) preserving fiscal space, ensuring exchange rate flexibility, and improving financial sector accountability; (ii) boosting private investments through faster progress on establishing special economic zones; (iii) paying adequate attention to the private sector regulatory environment; (iv) improving the functioning of land market in order to ensure the availability of land for manufacturing enterprises outside SEZs; (v) addressing the transport problem to improve connectivity; and (vi) easing barriers to women's participation in organized sector economic activities.

31. **Domestic factors dominate the downside risk to the near term outlook**. The central risk is the prolongation and intensification of the ongoing political turmoil. No clear end to the instability is currently in sight. While street violence may abate in the near future, the contours of a political settlement acceptable to all significant stakeholders continues to elude political observers. Without such a settlement, Bangladesh is likely to pass through phases of instability, punctuated by street violence of the kind experienced in the second half of 2013 as well as the first half of 2015, and stability of the kind experienced in 2014 until 2019 when the next election is due to be held.

32. **The on again off again political instability and violence have significant economic effects both in the short and medium term.** Based on an assessment of the production losses so far and modelling it as a temporary 1.3 percentage point negative shock to total factor productivity (TFP) growth in the Bank's macro-fiscal consistency model on Bangladesh, the impact on GDP growth is a decline of 0.8 percentage point in FY15 and a further 0.5 percentage point decline in FY16. The temporary adverse TFP shock reduces private and public consumption growth through multiplier effects and investments through the accelerator effect. Exports are adversely affected because of inflation induced real exchange rate appreciation.[16] Import growth falls because of decline in income growth. The impact on imports dominate and consequently the current account balance improves by 0.5 to 0.6 percentage points of

16 Private consumption growth declines by 1.1 percentage point of GDP in FY15 followed by 0.6 and 0.3 percentage points decline in FY16 and FY17 respectively. Government consumption declines by 1.4 percentage point in FY15 followed by 0.1 percentage point declines in both FY16 and FY17. Gross fixed investment decline by 0.9 percentage points in both FY15 and FY16 followed by 0.8 percentage points decline in FY17. The impact on exports appear in FY16 and FY17 to the tune of 0.2 and 0.1 percentage points respectively. Imports decline by 2.4 percentage points in FY15 followed by 0.2 percentage points decline in FY16 and a 0.3 percentage point recovery in FY17.

GDP during FY15-17. The decline in investments percolates to decline in potential GDP by lowering the rate of capital accumulation. Potential GDP declines by 1.4 percentage in FY15 followed by 0.1 percentage point decline in both FY16 and FY17. With a large decline in potential GDP growth, the output gap[17] swells by 0.8 percentage points in FY15 followed by another 0.3 percentage points in FY16. Consequently, inflation as measured by the implicit GDP deflator at factor cost rises by 0.2 percentage points in both FY16 and FY17.

33. **Political instability is not the only challenge facing Bangladesh in the near and medium-term**. A protracted slowdown in the European Union would undermine export competitiveness in Bangladesh's main European export markets. The slowdown would compound the weaknesses due to real exchange rate appreciation, as the U.S. dollar strengthens against the euro. Nearly three-fourth of total exports go to the United States and the European Union; exports to emerging markets are also growing although the markets are still small. Garment exports are particularly vulnerable. This will be amplified if preferential access to the European Union is withdrawn or truncated for lack of progress in upgrading labor and factory safety standards in the garment industry. However, the income-elasticity of demand for garments is relatively low and Bangladesh is still competitive on labor costs. The Bangladesh Accord on Fire and Building Safety is working with factory owners and workers' representatives to develop and implement Corrective Action Plans to improve fire, electrical, and structural safety.[18] These could act as mitigating factors. There are also serious concerns about financial weaknesses at state-owned banks and some private banks. These have potential fiscal and financial stability implications. On the flip side, even though international financial linkage is growing, Bangladesh's vulnerability to global financial volatility is still small.

34. **Preserving fiscal space, exchange rate flexibility, and improving financial sector accountability will be critical to face the challenges.** Prudent use of the oil windfall and swift implementation of the new VAT law together with measures to automate tax registration, reporting, administration, and collection will help preserve fiscal space. Structural policies to diversify to new garment markets should be encouraged in conjunction with an acceleration of steps to establish minimum labor rights and worker safety standards while seeking to maintain preferential access in Europe and reinstatement of the Generalized System of Preferences (GSP) in the United States. Greater downward flexibility in the US$/taka exchange rate will also help. In the financial sector, BB needs to hold strictly accountable the undercapitalized banks to the memoranda of understanding aimed at improving their financial performance. Recapitalization should be linked to reforms to improve long term viability through stricter control over lending activities and more aggressive recovery of bad loans.

35. **The current temporary tailwind from low international oil prices provides a favorable environment to advance energy pricing reforms**. Prices for fuel can be deregulated taking advantage of the decline in oil prices. Lower subsidy bills would take off pressure from public expenditures. Prices more aligned with actual costs would reduce inefficiencies in refining and imports and create stronger incentives for investments in distribution. But the window to introduce subsidy reform is limited. It can be done without major political controversy only as long as the price of oil is declining (see Annex-2).

36. **Growth remains below what is needed for Bangladesh to be in a comfort zone of middle-income by 2021.** The average annual GDP growth rate needs to rise to 7.5-8 percent to accelerate the pace of poverty reduction and shared prosperity through the creation of more and better jobs in the domestic

17 Defined as actual minus potential GDP as percent of potential GDP.

18 See Accord's Quarterly Aggregate Report, February 15, 2015.

economy. Faster growth will require: (i) increasing investment by at least 5 percentage points of GDP from the current 28.7 percent; (ii) raising the female labor force participation rate by easing labor market entry barriers for women; (iii) increasing returns to education by enhancing the quality and relevance of education; (iv) increasing efficiency (TFP) growth by accelerating the shift from agriculture to higher productivity manufacturing and services and through learning from the experience of countries and firms with higher productivity; and (v) increasing the outward orientation by deepening and diversifying labor-intensive exports.

37. Increasing female labor participation and investment will ignite growth acceleration in the near and medium term. Bangladesh is facing declining potential GDP growth from 6 plus percent in the recent past to around 5.7 percent by FY17 due to declining labor force growth and non-increasing productivity growth as well as the rate of capital accumulation. The labor force growth rate has begun to decline in Bangladesh because of aging, wider access to education, and external migration. There is a potential to re-accelerate labor force growth by increasing female labor participation through appropriate social policy response. Women make up a little over half the country's population, but their contribution to measured economic activity, growth, and well-being is far below its potential. Despite significant progress in recent decades, labor markets remain divided along gender lines, and progress toward gender equality seems to have stalled. Female labor force participation (33.7 percent) has remained lower than male participation (81.7 percent), women account for most unpaid work, and when women are employed in paid work, they are overrepresented in the informal sector and among the poor.[19] While growth and stability are necessary to give women the opportunities they need, women's participation in the labor market is also a part of the growth and stability equation.

38. Higher female labor force participation can boost growth by mitigating the impact of a shrinking workforce growth rate. Table 3 shows the impact on potential GDP growth rates under three different assumptions about the female labor participation rates (FLPR). If FLPR rises by 2.5 million a year, the participation rate will equal the current rate of male participation (82 percent) in Bangladesh in ten years. This will add 1.8 percentage points to potential GDP growth each year, taking it to 7.5 percent—the minimum rate needed be in a comfortable middle income zone by 2021. Less ambitiously, if it rises to 48 percent in ten years reaching the level of Japan in 1990, the potential growth rate rises to 6.5 percent as 0.75 million female labor are added to the labor force each year. Somewhere between these two, if it rises to 75 percent in ten years reaching the level of Thailand in 1990, the potential growth rate rises to 7.3 percent as 2.1 million additional female labor are added to the labor force each year.

19 They also face significant wage differentials vis-à-vis their male colleagues. Distortions and discrimination in the labor market restrict women's options for paid work. A body of research from around the world shows that women's labor force participation can have many positive impacts, including improvements in the health and wellbeing of family members as well as on broader development goals, such as economic growth and poverty reduction. In addition, paid work, particularly outside the home, promotes women's empowerment on a range of indicators. Despite more than a decade of strong growth rates, Bangladesh continues to have low rates of female labor force participation, with the majority of working women concentrated in unpaid family labor and home-based self-employment.

Box 2: Impact of Global Oil Price Decline in Bangladesh

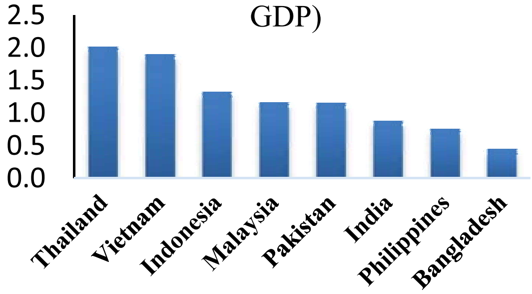
The government has the monopoly over the supply of petroleum in Bangladesh, with control over procurement from external sources, public ownership of refinery and administered retail prices. Bangladesh Petroleum Corporation (BPC) controls the import, distribution, and marketing of petroleum while price is administered. Over 50 percent of imported petroleum product is diesel. Petroleum import bill in FY14 was 12.1 percent of total merchandize import and 2.7 percent of GDP.

The intensity of oil use (i.e. oil consumption per unit of GDP) in Bangladesh is the lowest compared to some of its South Asian and East Asian counterparts. Hence, the decline in global oil prices which started in the first half of FY15 will have a limited impact on the Bangladesh economy compared to other countries even if the decline is passed through. Petroleum products, such as diesel, furnace oil, and kerosene were heavily subsidized before the oil price decline as the administered price was typically below the import cost. The resulting operating loss by BPC was covered by the government through budgetary transfers and net lending. Since retail fuel prices have not been adjusted, fuel subsidies will effectively turn negative as BPC is expected to make profits. Since the government is not showing any intention to adjust retail prices downward in the near term in order to recover some portion of BPC's cumulative losses, there would be no visible impact on inflation and growth and the entire benefit will accrue to the government through reduction in subsidy.

The slump in global oil prices will ease the current account deficit to an annualized 1 percent of GDP. The oil import bill is projected to be reduced by US$ 2 billion. Because BPC is expected to make a profit of around US$ 1 billion in FY15 (assuming US$ 75/ BBL refined oil price on average), rather than a loss of US$ 609 million if the oil price of FY14 level had prevailed, the petroleum subsidy earmarked for FY15 (Tk 30 billion) will not be needed. The reduced subsidy in oil is projected to keep the fiscal deficit at 3.5 percent of GDP which could have been 3.7 percent if high oil price prevailed.

Figure 6: Oil Intensity in 2013

(Barrels per 1000 constant 2005 US$ GDP)



Source: Calculated from US Energy Information Administration and World Bank

Table 2:Impact of Global Oil Price Decline

	Annualized Impact
Decreased Current Account Deficit(% of GDP)	1.0
Decreased Fiscal Deficit (% of GDP)	0.2
Increased BPC profit (US$ Billion)	1.6

Source: WB Staff Projections

39. **Increasing investment will tackle the challenge of providing employment to an additional 2.1 to 2.5 million additional women every year.** Investments in infrastructure and transportation services reduce the costs related to work outside the home. In rural Bangladesh, the upgrading and expansion of the road network increased labor supply and incomes. Access to electricity and water sources closer to home frees up women's work time and allows them to integrate into the formal economy. In rural South Africa, electrification was found to have increased women's labor market participation by 9 percent. Better access to information and communication technologies can facilitate access to markets and market work.[20] More generally, investment needs to rise significantly to support creation of employment opportunities for both women and men.

Table 3: Impact of Increasing Female Participation on Potential GDP Growth

	Female Labor Participation Rate		
	48%	75%	82%
Annual Impact on Potential GDP (% points)	0.7	1.6	1.8

Source: WB staff estimates

40. **Boosting private investments will require faster progress in establishing special economic zones (SEZs)**. The objective of Special Economic Zones Policy is to provide an engine for economic growth, supported by quality infrastructure and an attractive fiscal package with a single window clearance. The SEZ concept provides for developing self-sustaining industrial townships so that the increased economic activity does not create pressure on the existing infrastructure. The government is planning to set up a total of 100 special economic zones in different parts of the country by the year 2030 in order to fetch more foreign investment and generate large-scale employment for the country's vast pool of workers. The economic zones will be set up on 75,000 acres of land under the supervision of the Bangladesh Economic Zones Authority (BEZA). Of the proposed 100 economic zones, projects for 22 economic zones have already been approved with three in the private sector. The special economic zones will help diversify the manufacturing sector, boost foreign direct investment, and create jobs. BEZA is planning to establish around 50 economic zones under government funding while few economic zones will be established by the private sector and the rest of the economic zones will be set up under public- private partnership schemes. In addition, two economic zones will be dedicated for Japanese and Chinese investments. Implementation works of five economic zones approved earlier are in progress while work on the rest of the 17 economic zones are yet to begin.

41. **The private sector regulatory environment needs adequate attention.** The highest priority is to address the three binding constraints: contract enforcement; access to electricity; and property registration.[21] Weak procedures and inadequate implementation capacity in the public agencies hinder contract enforcement and resolution of insolvency. Satisfactory easing of these two constraints is imperative in order to modernize the regulatory framework for private investment. The high transaction costs to access electricity reflect mainly the inadequate supply of electricity relative to demand. Despite considerable new investments in power generation, getting electrical connections for new investments is cumbersome, as reflected in the responses to business surveys. The regulatory procedures need to be further simplified by reducing the number of procedures and response time to applications. The ability to respond to new requests for electricity connection in the required volume and with lower financial costs will depend critically upon enhancing supply capabilities.

20 IMF, Women, Work, and the Economy: Macroeconomic Gains From Gender Equity, September 2013.

21 The World Bank, Ease of Doing Business Indicators 2015.

42. **The functioning of the land market needs to improve in order to ensure the availability of land for manufacturing enterprises outside the SEZs**. The long delays and high costs in property registration reflect this constraint. The land market is very inefficient because of weak land ownership data, lack of computerization of land records, poor zoning laws, and high transaction costs. Population pressures and rapid urbanization have contributed to a growing scarcity of urban land. Land prices have sky rocketed as have land disputes and various forms of corruption, including land grabbing. The challenge for policy is daunting and a resolution will take time. A range of policy actions are needed including regulatory reforms to simplify land transactions and registration; institutional reforms to improve land administration and record keeping; and enforcement mechanisms to enforce land use zoning laws.

43. **Transport is another binding constraint on private investment requiring urgent resolution**. Road congestions on the major highways are rampant. Much of the problem lies in internal transport between factory gate and the port. The Chittagong port's handling capacity has improved and port handling charges are less of a concern. But there remain serious inadequacies of the railway connection from Chittagong Port to factory destinations across the country. The government has taken a number of initiatives to ease the problems, but progress with implementation of railway reforms and completion of road projects remain lack luster.

44. **It is important to take into account gender differences in assessing the sources of economic growth and in designing interventions to increase female access to labor, credit, and product market changes**. There is a simultaneous relationship between gender inequalities and economic growth. Gender inequalities reduce economic growth while at the same time economic growth leads to lower gender disparities. Supporting the reconciliation of work and family life increases female labor participation. Analytical assessments[22] on what works for women in Bangladesh show: (i) a 10 percent rise in *average years of schooling* of female adults increases female labor force participation by 8.5 percent; (ii) a 10 percent fall in *average household size* increases FLFP by 10.04 percent; (iii) a 10 percent rise in the *coverage of social protection* (share of income from SP in total income of the recipient) increases FLFP by 0.82 percent; and (iv) women's agency rises through participation in micro-credit programs and employment in the garment industry.

45. **The policy response to women's employment has been largely through anti-poverty programs** such as safety-nets, social protection initiatives, small livelihoods programs, micro-credit, and so on. Much more attention is needed to macro policy linkages. The leverage needed to stimulate women's participation and employment is mostly on the public expenditure side--primary, tertiary education, technical training, provisioning of early childhood education and day care programs, improving feeder roads, storage and distribution facilities and gender sensitizing extension services and marketing information. Restrictions on women's rights to inheritance and property and legal/social impediments to freely pursuing a profession are strongly associated with large gender gaps in labor force participation.

22 Selim Raihan and Israt Jahan, Social Protection and Female LFP in Bangladesh: Insights from Econometric Exercises, Thinking Aloud, SANEM, Volume I, Issue 3, August 1, 2014; Rachel Heath and A. Mushfiq Mobarak, Manufacturing Growth and the Lives of Bangladeshi Women, Working Paper 20383, National Bureau of economic Research, August 2014.

IV. World Bank Support and Activities

46. As of February 2015, the Bangladesh portfolio at the World Bank consisted of 59 projects, including 32 International Development Agency (IDA) credits, 14 stand-alone Trust Fund (TF) projects and 13 co-financing TFs, with a net commitment of about US$ 8.0 billion. In addition, there are two regional projects: an IDA credit for the Strengthening Regional Cooperation for Wildlife Protection Project, the national portion of which is a commitment of US$ 36 million; and a Trust Fund for Citizen Engagement in South Asia project, the national portion of which is US$ 640,000. The total disbursement at the end of February 2015 was US$531.82 million, of which US$ 451million was from IDA. The disbursement ratio for IDA/TF projects larger than US$5 million was 10.6 percent, and for the consolidated portfolio (including all recipient executed TFs) was 11.9 percent.

47. In FY15 (as of February 2015) three approved projects worth US$ 1.1 billion will benefit almost 36 million people by improving the quality of primary education, building coastal communities' resilience to natural disaster, and increasing the nutrition and cognitive development of children from the poorest households. In addition, two projects worth US$373 million were successfully negotiated. The approved projects include:

- The US$400m additional financing for the Third Primary Education Development Project which aims to deepen the reforms initiated under Primary Education Development Project-3 (the first Disbursement Linked Indicator-based project in the Bank, supported by nine development partners), particularly related to quality and equity, to consolidate policy dialogue and evidence based decision-making, and to foster strategic partnerships with the NGO and the private sector. The additional financing will continue to improve the primary education sector by increasing net enrollment to 98 percent and the primary completion rate to 80 percent. The project would also continue efforts to ensure merit-based teacher recruitment and fill in vacant school positions. The project will ensure textbook delivery to 90 percent of the schools within the first month of the school year.

- The US$ 300 million Income Support Program for the Poorest (ISPP) project which will benefit 10 percent of the extremely poor population, or 2.7 million people in 42 of the poorest Upazilas in the country. The project will provide income support to about 600,000 poorest mothers in exchange for participating in activities aimed to improve their children's nutrition and cognitive development.

- The US$375 million Multipurpose Disaster Shelter Project (MDSP) which aims to make the coastal population less vulnerable to natural disasters. The project will construct 552 new multipurpose disaster shelters, improve 450 existing shelters, and build connecting roads and communication networks for easy accessibility in nine coastal districts benefitting 14 million people among the coastal population living in the front line of climate change.

48. A series of consultations with a wide range of stakeholders were held during November in Dhaka, Sylhet, Chittagong and Jessore, as part of the country team's preparation of the Systematic Country Diagnostic and Country Partnership Framework (FY16 - FY20) for Bangladesh. The stakeholders in different consultations focused on some common priority issues, such as infrastructure, governance, delta management, urban development and decentralization, among others.

Annex-1
Bangladesh Economy's Resilience to Political Turmoil: Real or Statistical?

1. Bangladesh takes legitimate pride in its outstanding capacity to withstand and bounce back from all sorts of shocks. GDP growth rates in Bangladesh have been resilient to global shocks, natural disasters and political turmoil over the years. While that may be the case in reality, GDP growth statistics exhibit excessive resilience in that no disaster seem to matter as far as the direction of growth relative to the normal years is concerned.

2. During 2013-2015 so far, Bangladesh has experienced two major episodes of political instability and violence. A follow-up question is how do these impact economic activity, particularly the GDP growth rate? Economic activity in general is sensitive to many influences, including other sources of shock. This in practice makes it relatively difficult to isolate the impact of economic losses caused by natural or man-made disasters from other internal and external factors. This limitation poses considerable methodological difficulties when trying to quantify the real magnitude and consequences of these phenomena over national economies.[23]

Recent GDP growth estimates for politically tumultuous years

3. This annex attempts to answer a very specific question: What is likely to be the impact of the ongoing political turmoil on the GDP growth estimate for FY15? A number of projections ranging from 6.2 to 6.8 percent are available from various agencies. Most of these projections assume continuation of stability as experienced in the first half of FY15. This assumption has proven false. The issue of how much damage it is likely to cause to the economy's production and income has resurfaced since the resurgence of political turmoil in early January. Various business chambers have come up with loss estimates running into billions and billions of dollars. These estimates have their own internal inconsistencies and motivations, but the fact is the ongoing political crisis is affecting economic activities adversely.

4. Bangladesh experienced a similar political turmoil in the last half of 2013. Yet the preliminary estimate of GDP growth for FY14 was higher than the final estimate of growth for FY13. This raised a lot of eyebrows. The consensus forecast earlier was that GDP growth in FY14 would dip below 6 percent. These forecasts were based on a storyline that hinged on weak growth in private consumption and stagnant or even declining private investments. These two components account for nearly 93 percent of GDP. BBS data reaffirmed the composition of growth scenario sketched on the basis of proxy indicators and anecdotal evidence. Yet the bottom-line was very different. Growth was higher despite declining private consumption and investment rates.

5. In recent politically turbulent years, GDP growth estimates have eluded analysts and observers of the Bangladesh economy. Note from Table A1.1, GDP growth increased in both FY07 and FY14, two of the most turbulent years in Bangladesh's political history. On the production side, the only exception appears to be the manufacturing sector which shows lower growth relative to the previous politically normal year in both the episodes. On the demand side, only public investment shows consistent decrease in growth rate relative to the politically normal years. Growth rates of the other expenditure components do not exhibit a consistent pattern across the two episodes covered in Table-A1.1.

23 Available data on economic consequences caused by disasters is usually restricted to direct physical impacts or losses of fixed capital and inventory as well as losses caused by disruptions in the flow of economic activities. The indirect and secondary effects on the economic activity (such as changes in fiscal policies, the long-term consequences of the reallocation of investment resources, or the losses in human capital) as well as other long-term consequences remain unrecorded or underestimated. Thus, available data can only offer a picture of the consequences in terms of direct damages currently caused mainly on properties, infrastructure, equipment, inventories, and production.

Table A 1.1: GDP growth in recent politically turbulent years

	FY06	FY07	FY13	FY14
GDP Growth	6.68	7.06	6.01	6.12
	Growth of Production Components			
Manufacturing	10.81	10.54	10.31	8.68
Service	6.60	6.49	5.51	5.83
Agriculture	5.55	6.69	2.46	3.35
	Growth of Expenditure Components			
Private Consumption	7.05	7.43	5.13	2.73
Public Consumption	8.15	3.06	5.79	11.90
Private Investment	9.95	9.70	1.74	3.74
Public Investment	9.68	-2.31	20.22	15.46
Exports	25.48	12.98	2.45	6.34
Imports	18.19	15.99	1.22	-0.86

Source: Bangladesh Bureau of Statistics (BBS), Growths are in constant term, National Account 2005-2006

A statistical explanation of growth resilience

6. BBS has recently published the details of how the national accounts estimates are prepared.[24] It describes in some detail how BBS computes value added in various sectors and different components on the expenditure side. As in most developing countries, for several parts of the accounts, only partial data are available, or complete data are available only for an earlier period. The national accountants then have to base their estimates on assumptions about relationships between some currently available statistic and their target statistic.

7. The proxies and methods used to estimate production and expenditures work well in a normal year, but fail to capture the impact of disruptions in an abnormal year. No more than 34 percent of total GDP on the production side is based on information that directly measures the target variable. This implies that a substantial portion of the accounts are still based on outdated statistics and assumptions pertaining mostly to inputs. These estimates are based on information some of which date back even 20 years. This may have mattered less when GDP was growing slowly, but with the rapid growth recorded since the 1990s the assumptions of stable relationships between input use and value added that underlie the estimates are highly questionable particularly during times when the economy's business as usual is thrown off track by exogenous political shocks.

8. This is very important to understand because there seems to be a general sense of excessive complacence with regard to the so called resilience of the Bangladesh economy. The evidence supporting such complacence is the absence of any visible impact on GDP growth rate during politically turbulent or natural disastrous years. In what follows, we argue that this apparent resilience of the growth rates to political turmoil has to do a lot with the methods used to calculate value-added and expenditures. These methods are not necessarily inherently flawed, but they fail to account for the losses in value added and expenditures due to disruptions caused by blockades and strikes during a political turmoil. Here are some concrete examples:

24 See Bangladesh Bureau of Statistics, Bangladesh National Accounts Statistics: Sources and Methods, August 2014.

9. **Construction**: This sector accounted for 7.6 percent of GDP in FY14. Residential and non-residential building and katcha houses are the major components. Output of residential and non-residential building construction and gross value-added are estimated indirectly through the commodity flow method. The commodities include cement, iron and steel, bricks, timber and round wood, and fixtures and fittings. It is assumed that 31.88 percent of the gross value of construction is value added. It may be reasonable to expect a stable relationship between the flow of these commodities and the gross value of construction in a normal year. In a disruptive year, mere availability of these commodities is no guarantee that these are used in actual construction. The impact of blockades and strikes is completely missed. In addition, the method of computing value added in katcha house construction does not capture the impact of disruptions, because the growth rate used to extrapolate the current quantity from the 1981 benchmark is taken from surveys done several years ago. It is however likely that political disruptions do not extend deep into rural Bangladesh to affect katcha house construction. But, the point is even if they did the impact will not be captured.

10. **Wholesale and retail trade**: This accounted for 13.4 percent of GDP in FY14. The commodity flow method is used to estimate gross value added. Two fixed coefficients enter this calculation. One is the proportion of the commodities marketed which varies from 20 (capital goods) to 100 percent (consumer goods). The other is trade margin which varies from 18.5 percent (capital goods) to 60 percent (vegetables). Disruptions in inter-district transportation caused by blockades and strikes reduce the marketed part and perhaps also the trade margins because of manifold increase in transport cost. But the coefficients are fixed. So the impact cannot enter the accounting.

11. **Transport, Storage, and Communication**: This accounted for 10.6 percent of GDP in FY14. Value-added in private organized transport is derived on the basis of net annual earnings per vehicle and the number of vehicles in operation. Net annual earnings per vehicle are assumed constant as reported in benchmark surveys. The number of vehicles in operation presumably is calculated by adding new annual registrations to the 2005/06 benchmark stock of vehicles. A similar method is followed to calculate value added in unorganized non-mechanized transport. Political turmoil reduces net annual earnings per vehicle by reducing the number of days the vehicles are able to operate during a year. They also destroy a portion of the stock of vehicles. None of these are captured because net earnings are assumed unchanged at base year prices and only new registrations are considered in computing the stock of vehicles currently in operation.

12. **Public administration, education, health, community and social services**: These together accounted for 20.29 percent of GDP in FY14. Gross value added estimates are based almost entirely on compensation to employees or a fixed income per person assumptions. None of these capture the severe disruptions in service delivery during political turmoil.

13. Thus over 52 percent of GDP accounts on the production side fail to capture the impact of political disruptions because of the way they are constructed; that is, based on measures of inputs due to data constraints. The possible exceptions are agriculture and industry, which together account for 34.5 percent of GDP.

14. In principle, the methods used should capture the impact in manufacturing and agriculture because survey data are used for the estimation of gross value-added (GVA) in large, medium, and small scale manufacturing for the base year 2005/06 and the Quantum Index of Industrial Production, computed on a monthly basis, is used for extrapolation. However, there is a six-month lag in QIIP data. So for instance when BBS prepares the GVA for large and medium scale manufacturing, it will extrapolate based on data reflecting industrial performance in turmoil free months. Also, the assumption of constant output-value-added ratios is highly questionable during disruptive periods when the costs of supply of raw materials and intermediate inputs rise sharply due to supply chain breakdowns.

15. In agriculture, the turmoil is less likely to affect the production of goods that do not use intensive intermediate inputs, such as fertilizer and diesel. However, depending on the timing of the turmoil, the waste rates and input coefficients, both of which are assumed constant, are likely to be impacted by the turmoil. For instance, the current turmoil started at the peak of winter when the aman (the second largest rice crop) had just been harvested and vegetables were ripening on farm. With a disrupted inter-district transportation system, a lack of appropriate storage capacity and their need for cash, farmers were unable to supply aman rice and vegetables to urban markets and were forced to sell in local markets at depressed prices. Waste rates increased and farm incomes decreased. Disruption in the supply of fertilizer and diesel is likely to have increased the inputs' coefficients of boro paddy which was being planted when the turmoil started. Input coefficients in boro are generally nearly twice as large as in aman or aus.

16. Thus, in practice, the adverse impact of political turmoil is not properly factored in the calculation of value added in agriculture and industry.

17. **Expenditure estimates**: On the demand side, private consumption expenditures, accounting for 71.4 percent of total expenditure in FY14, are estimated indirectly by applying growth rates of various groups of items derived from past Household Income and Expenditures (HIES) surveys to arrive at the private consumption estimates for non-HIES years. Last HIES was done in 2010. Therefore, by construction, the impact of political turmoil on private consumption expenditures is not captured. Public consumption, accounting for 5.2 percent of GDP in FY14, is based on budget data on compensation of employees and net purchase of goods and services. Public expenditures on these inputs tend to be invariant to political turmoil.

18. Total investment expenditures accounted for 28.7 percent of GDP in FY14, of which construction is nearly two-third. Estimates of investment in construction are based on the commodity flow method which fails to capture the disruptions in construction investments caused by strikes and blockades. Expenditures on machinery and transport equipment are estimated from the value of domestic production and imports of capital goods adjusted for distributors' margins, dealers' profit, transport and other charges. The impact is captured to the extent the estimates of domestic production and imports capture the impact of strikes and blockades. However, if the produced and imported machinery are stuck in factories and ports due to the inability to transport them to their investment destinations, the impact is not captured.

19. In principle, the export and import data should capture the impact, but lags in data availability at the time of making the preliminary estimates can cause omissions. Export growth declined in the FY07 episode but rose in FY14. Import growth declined in both cases.

20. In sum, the failure to capture the impact appears most pronounced in private consumption and private investment expenditures.

Conclusion

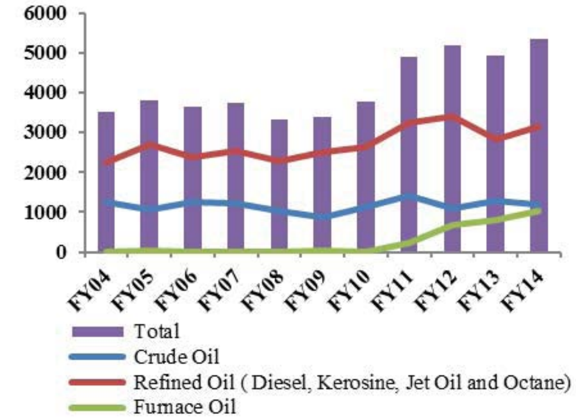
21. A proper assessment of the damage to growth done by strikes, blockades, and associated tensions and uncertainties has both political and economic value. It is politically valuable to build a public consensus against disruptive politics. It has economic value as an input in designing a policy response to the damages for which the victims' choices are not to blame. The damage is the consequence of failure of collective action. Hence, there is expectation and demand for policy support. The damage assessment provides a basis for deciding the size and form of policy response.

22. Most important, we need to know the truth about growth!

Annex-2
International Oil Price Decline: An Opportunity for Deregulating Oil Trade in Bangladesh

1. Bangladesh is a net importer of crude oil and other petroleum products. The supply of petroleum is a monopoly of the Bangladesh Petroleum Corporation (BPC), a state-owned enterprise (SOE). BPC controls the import, distribution, and marketing of petroleum. In FY14, the country produced 0.5 million MT of petroleum products compared to a total import of 45.6 million MT. Oil imports comprise of refined oil (i.e. diesel, kerosene, octane, furnace oil, and jet oil), crude oil and lube based oil. Refined oil and crude oil constituted 71.8 percent and 28.0 percent of the total oil import in FY14, respectively.

Figure 2. 1: Bangladesh Oil Imports



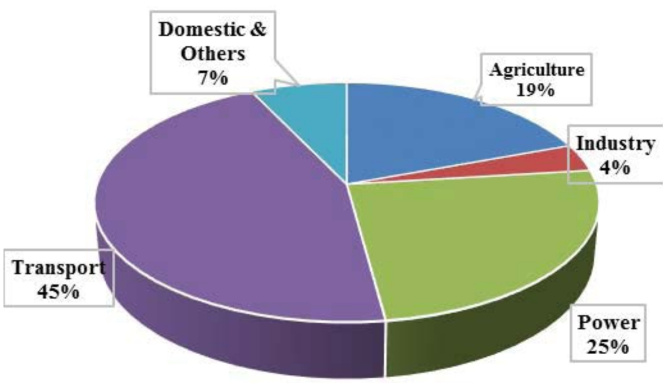
Source : BPC

The Composition of Oil Use

2. Oil imports have increased rapidly since FY11, mainly due to the increased use of diesel and furnace oil in the oil based rental power plants.[25] In terms of volume, currently diesel, crude oil and furnace oil are the major imported oil items, comprising around 51.8 percent, 22 percent and 19 percent of total oil import respectively. In terms of value, diesel, crude oil and furnace oil account for 55.8 percent, 21.7 percent and 14.1 percent of total petroleum import value respectively. The import bill of petroleum products stood at US$ 4.6 billion in FY14, equivalent to 2.7 percent of GDP.

3. Consumption of petroleum products is highest in the transport sector, followed by power and agriculture. In FY13, 45 percent of total petroleum products were used in the transport sector. The composition of sectors consuming petroleum started to shift from FY11 with the rapid expansion of liquid fuel (furnace oil and diesel) based power plants. The consumption share of fuel by the power sector increased from 8 percent in FY09 to 19 percent in FY13. By contrast, usage of oil by the agriculture sector, which is mainly used for running water pumps for irrigation during the dry season, decreased from 24 percent of total fuel consumption to 19.4 percent in FY13.

Figure 2. 2: Sectorwise Usage of Petroleum in FY13

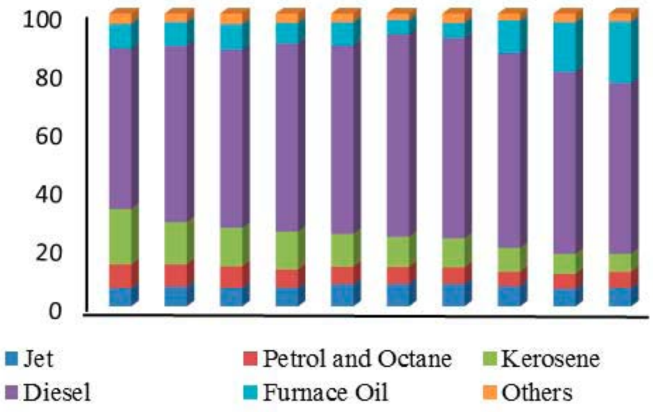


Source: BPC

25 Use of liquid fuel for power generation increased from 4.6 percent of total fuel used in power generation in FY10 to 18.5 percent in FY14.

4. Historically, consumption of diesel has been the highest among the petroleum products in Bangladesh. Currently, 58.3 percent of the total petroleum product consumed is diesel. Diesel consists around 70.7 percent, 16.4 percent, and 99.7 percent of the total fuel consumed by the transport, power and agricultural sector respectively. Due to the increased usage in power plants, consumption share of furnace oil has moved to the second position after diesel since FY11 and at present it is about one fifth (21.1 percent) of total petroleum consumption.[26] Usage of furnace oil as a fuel for electricity generation increased from 2.8 percent of total fuel usage for electricity generation in FY10 to 17.6 percent of total fuel usage for electricity generation in FY13. Consumption share of kerosene, which is mostly used for lighting households especially in the rural areas, declined steadily from 19 percent in FY04 to 6.2 percent in FY13 while absolute consumption of kerosene more than halved from 693.6 MT to 314.9 MT. Improved access to electricity is the main reason for this decline.

Figure 2. 3: Consumption Share of Different Petroleum Products (Percent)



Source: Calculated from BPC

5. Over the course of the last ten years, consumption share of motor oils (petrol and octane) declined slightly while it remained broadly the same for jet and other oils. There is no indication that the demand for furnace oil will decline in the near term as there has been very little progress made in building new base load power plants. Although the government envisages increase in electricity generation, liquid fuel based power plants are estimated to generate 18.7 percent and 16.7 percent of the total electricity generation in FY15 and FY16 respectively.

6. The average import price of oil is higher than the world market price. During FY04-FY14, average crude and refined oil import price was 3.5 and 1.1 percent higher on average than the average world market price respectively. The procurement price of oil includes the free-on-board (FOB) price and a premium for all other charges including shipment and unloading at the port. Both the FOB price and premium inclusive price tends to be somewhat unusually higher than the market price. Lack of streamlined policy guideline for oil procurement and purchasing oil from distributers rather than oil producing companies are assumed to be the reasons for this situation.[27]

26 Consumption of furnace oil increased by 88.2 percent on average from FY11 to FY13.

27 Import bill may go down by US$2 billion, The Daily Star, 17th February, 2015.

Figure 2. 4: Bangladesh refined oil import price and world market price (US$/BBL)

Source: Bangladesh Petreleum Corportation and U.S. Energy Information Administration

Figure 2. 5: Bangladesh crude oil import price and world market price (US$/BBL)

Source: Bangladesh Petroleum Corporation and World Bank

Petroleum Subsidies

7. **Bangladesh has used subsidies for decades as a policy instrument to promote a wide range of social and economic objectives**. The government provides subsidies in a number of areas including agriculture, petroleum products, electricity, health, education, food, and exports. One rationale for providing energy subsidies is to support access to energy for the poor. While there is some element of truth to this argument, energy subsidies often disproportionately benefit wealthier segments of society, given that they use more energy. This is true in Bangladesh, where the poor are mostly dependent on traditional bio-mass and have little access to electricity and other public utilities. Energy subsidies also divert public funds from social programs and welfare schemes that may be of greater benefit to the poor.

8. **Subsidies to energy and petroleum have remained sizable in recent years** due to high international oil prices and inadequate adjustments in domestic administered prices of oil (see Table A 2.1). Bulk of the energy subsidies has been on account of petroleum products, diesel in particular. The increased reliance on liquid-fuel generation from Rental Power Producers (RPPs) led to a surge in total energy-related subsidy costs. These increased from 0.1 percent of GDP in FY10 to 1.5 percent in FY13.

Table A 2. 1: Subsidies to energy and petroleum in Bangladesh

	FY11	FY12	FY13	FY14
Total energy (Tk in billion)	82.5	147.7	179.8	81.04
Cash loan and subsidy received by BPC (Tk in billion)	40	85.5	135.8	73.5
BPC loss (Tk in billion)	97.9	105.5	53.7	24.8
Crude oil price (US$/bbl)	93.13	112.95	109.2	109.6
Diesel domestic price (Tk/litre)	44.3	55.6	64.5	68

Source: BPC and Macroeconomic Policy Statement

9. **The increases occurred through fuel subsidies and electricity related subsidies**. The BPC subsidizes fuel by selling it domestically at lower than international prices. The Bangladesh Power Development Board (BPDB) provides several types of power subsidy. First, BPDB power tariffs charged to consumers are lower than the costs to BPDB of purchases from power generators. With growing reliance on high-cost oil-based power generation, subsidy costs increased significantly. Second, under contracts between BPDB and RPP, the BPDB guarantees access to fuel by RPPs at prices well below rates charged by BPC to other consumers. Thus, for instance, diesel is sold to RPPs at Tk 26 per liter compared to a regular BPC price of Tk 68 per liter. This price difference is financed by BPDB. Last, the contracts between BPDB and RPPs guarantee a minimum fixed payment per month (a "rental") from BPDB, regardless of whether electricity is generated. BPDB losses increased from Tk 6.4 billion in FY10 to Tk 70.9 billion in FY14. These losses are covered by the government through budgetary transfers in the form of cash loan and subsidies. Such transfers to BPDB increased from Tk 9.9 billion in FY10 to Tk 61 billion in FY14. Reflecting these various factors, RPPs account for about 90 percent of the electricity subsidy bill, compared to their 30 percent contribution to electricity generation.

10. **Energy subsidies are neither pro-poor nor efficient**. Energy subsidies benefit households both through lower prices for energy used for cooking, heating, lighting and personal transport, but also through lower prices for other goods and services that use energy as an input. Global experience on average shows the richest 20 percent of households in low- and middle-income countries capture six times more in total fuel product subsidies (43 percent) than the poorest 20 percent of households (7 percent). [28] In Bangladesh, to date, most analyses show energy subsidies are largely inequitable and represent a significant reallocation of public funds to higher-income urban population having better access to, and higher per capita consumption of, commercial energy.[29] The impact of energy subsidies on the Bangladesh economy has several other dimensions. The most direct impact is the financing cost of the subsidies which has significant opportunity costs. Moreover, subsidies encourage overconsumption and inefficient use of subsidized energy resulting from artificially low prices. Investment decisions are altered by changes in relative prices discouraging energy diversification and create disincentives for building energy infrastructure. Non-transparent, untargeted and unpredictable subsidies lead to under-investment in the sector and large fiscal burdens. Since the pressure to increase energy supply is intense and financial resource available to the government is rather limited, the government is constantly under pressure to find ways of financing energy subsidies.

11. **Retail fuel prices are administered in Bangladesh on a discretionary basis.** Typically these prices have been kept below import costs. The resulting subsidy cost is absorbed in the first instance by the state-owned Bangladesh Petroleum Corporation (BPC), which has a monopoly over oil imports, but is ultimately borne by the central government via transfers to cover BPC's operating losses.

12. **BPC is back making profit after 15 years**. Domestic petroleum prices have not been revised in line with changes in the international market, resulting in state-owned BPC building up huge liabilities to the tune of Tk 504.3 billion at the end of June 2014 (Table A 2.2). Since global fuel prices started falling in mid-2014, domestic fuel prices have not been adjusted. Fuel subsidies have effectively turned negative, and the authorities have not indicated any plans to adjust them in the near term. Thus, the oil windfall has been accruing entirely to the BPC, which has started to make profit for the first time since FY99. BPC was making profit on petrol and octane even before the recent oil price decline, but it was losing Tk 7 per litre on diesel when crude oil was about US$ 110 per bbl.

28 IMF, Energy Subsidy Reform: Lessons and Implications, January 28, 2013.

29 BIDS, A Citizens' Guide to Energy Subsidies in Bangladesh, 2012; The World Bank, The Transition from Underpricing Residential Electricity in Bangladesh, 2013.

Table A 2. 2: Annual and accumulated losses of Bangladesh Petroleum Corporation

	FY11	FY12	FY13	FY14
Annual Loss	97.99	105.51	53.69	24.77
(percent of GDP)	(1.07)	(1.0)	(0.4)	(0.2)
Cumulative Loss	320.35	425.87	479.56	504.33
(percent of GDP)	(3.5)	(4.01)	(4.0)	(3.7)

Source: http://www.bpc.gov.bd

Fuel Price Regulation

14. **There are three methods of regulating fuel prices:**

- *Ad hoc regulation*: Unsystematic price changes over long intervals or constant prices over several years.
- *Active regulation*: Prices are regulated and reviewed based on predetermined criteria and/or formulae and often at regular intervals.
- *Passive or no regulation*: Regulation is limited to the level of taxes and framework conditions (e.g. fuel quality).

15. **Bangladesh has recently followed a mixture of ad hoc and active regulation**. International experience shows that removing political influence is key to establishing a pricing mechanism that will fully pass through world price changes to final consumers. For example, China was not able to fully pass on price increases at all times during 2010-2011. India, after repeatedly failing to raise gasoline prices in late 2011 and early 2012 faced strong opposition when it raised the price of gasoline by over 10 percent in May 2012. Prices of gasoline in India and China were actively regulated. This is a familiar refrain: freezing prices for a period leads to the need for larger (and politically more difficult) increases at a later date.

16. **Reform experiences in other countries provide insights into key design ingredients that can enhance the likelihood of successful and durable subsidy reform**. These include:

- *Communications campaign.* Reform should be preceded by a public information campaign highlighting the motivation for reform. This campaign should stress that fuel subsidies are fiscally costly, that the benefits are regressive and accrue mostly to higher income groups, and that subsidies crowd-out higher priority public spending (e.g. on education, health, social protection, and public infrastructure).
- *Comprehensive reform plan.* A clear reform plan should be developed and communicated to the public. This should identify a vision for creating a more efficient petroleum product sector, a clear timeline for eliminating subsidies, and key public expenditures that will be financed by the resulting fiscal space. The total cost of fuel subsidies should be transparently recorded on-budget. The reform plan should also specify measures to mitigate the adverse impact of price regulation on consumers, in particular lower-income households.
    - *Gradual and sequenced reform.* Where subsidy reform involves large changes in fuel prices, these should be implemented gradually to allow users time to adjust to the new regime of price setting. Gradual reform also helps to better manage the impact on inflation. Gradual reform can be achieved through the adoption of an automatic pricing mechanism that changes retail prices according to pre-determined rules and smooth adjustment by limiting the magnitude of price adjustments.

- *Improving the efficiency of state-owned enterprises (SOEs)*. Energy providers often receive substantial current and capital transfers to compensate for inefficiencies in production and revenue collection. Country experiences suggest the importance of strengthening SOE governance, improving demand management and revenue collection, and better exploitation of scale economies to improve enterprise efficiency. Governance of SOEs can be strengthened by improving the reporting of information on operations and costs. This can help identify system inefficiencies (e.g., overstaffing) and vulnerabilities (e.g., major loss points and bottlenecks in energy flows). A second step is to set performance targets and incentives on the basis of this information. Introducing competition, including from the private sector, can strengthen performance. This option is more viable for countries with larger markets, where there is scope to unbundle activities in the sector.

17. Several price adjustments during FY11-13 led to elimination of subsidies to petrol and octane in Bangladesh. However, significant subsidies for diesel and kerosene continued until the recent slide in oil prices. The slide has made it easier to take the politically difficult decision to de-regulate fuel prices because consumers will see prices go down. That is exactly what the Modi government did in India last year by aligning diesel prices with international crude oil costs. And when international prices rise, as they will at some point, the government will save on subsidy bills which will help the government's financial health if it does not start regulating again. Diesel and petrol prices in India are completely market determined with no interventions from the government (Box 2.1).[30]

Box 2. 1: Deregulation of Diesel Prices in India

The Union Cabinet Committee of Economic Affairs, chaired by the Prime Minister Narendra Modi, made the price of diesel market determined at the retail and refinery gate levels for all consumers from October 18, 2014. Based on an earlier decision of the Cabinet Committee on Political Affairs (CCPA) dated 17th January 2013, instructions were issued to the Public Sector Oil Marketing Companies (OMCs) allowing them to increase the retail selling price of diesel in the range of 40 paisa to 50 paisa per litre per month (excluding VAT as applicable in different States/Union Territories) until further orders. The limits on upward movement were also removed.

Diesel prices are now completely market determined. It is expected to facilitate greater competition in the auto fuels retail segment and enhance efficiency in service delivery of the oil companies. This in turn is expected to benefit consumers due to greater competition among oil companies and more choices. The competition is also expected to foster greater efficiency in oil companies benefitting the consumers.

Petroleum Pricing Reforms

18. The government adopted a petroleum products pricing framework in May 2003, under which domestic petroleum prices were linked with international import parity price (IPP), and any increase or decrease were to be passed on to users periodically. The following formula based pricing framework was adopted:

30 Natural gas prices, though still administered, were changed in line with a revised formula.

Consumer Price (Tk/litre) = Import Parity Price + Infrastructure and Storage Charge + Freight Cost + OMC Margin + Dealer Commission + GoB Tax

19. Margins in percentage terms and taxes in specific rates are essentially fixed; only IPP changes up or down would cause upwards or downwards variation in consumer prices. The decision was that prices can be reviewed every month or quarter. Should such reviews indicate a variation in excess of certain predetermined percent (say 5 percent or 10 percent), the prices would be adjusted at that time. Although this decision was never reversed, the formula has largely been ignored in subsequent price adjustments.

20. The existing pricing framework needs augmentation to provide for normal profits for the operators. There is no subsidy on petroleum products currently. BPC is making significant profit per litre on all five categories of refined petroleum products (Table A 2.3). Since the formula above does not provide for a rate of return on investment, its application now will imply significant price reduction at end consumer level and thereby stem the recovery of losses incurred in the recent past due to pricing below cost.

21. The automatic price adjustment mechanism should only be a prelude to deregulating petroleum prices. Other structural reforms will need to follow the institution of an automatic price adjustment mechanism. The government can commence implementing a sequence of structural changes over the next two years. These should include de-regulation of crude and product imports and removing entry barriers to allow private oil marketing companies to operate in the petroleum market. Needed reforms require adoption and adherence to the pricing formula, and an action plan for opening up oil marketing to the private sector, with clear monitorable steps, designated responsibilities, and setting target dates for implementation.

Table A 2. 3: Cost and Profit on Imported POL Products

Details of Cost and Revenue	HOBC	SKO	Jet A-1	HSD	HSFO
Cost per barrel (in USD)	70.88	74.33	74.33	71.81	395.628*
C.I.F. Cost per Litre (in taka)	38.601	39.416	39.416	37.727	28.703
Total Duties per Litre (CD, VAT)	15.18	8.321	8.321	8.321	8.321
Other Cost per Litre in taka	2.062	2.107	2.107	2.025	1.208
Total Landed Cost per Litre in taka	55.84	49.84	49.84	48.07	38.23
Selling and Distribution Cost per Litre in taka	1.00	1.00	0.99	1.06	0.60
Total Cost of BPC per Litre in taka	56.85	50.84	50.84	49.13	38.83
Other End Customer level cost per Litre in taka	6.56	3.39	3.41	4.19	1.60
Total End Customer level cost per Litre in taka	63.51	54.23	54.25	53.32	40.43
End Customer level selling price per Litre in taka	99.00	68.00	73.00	68.00	60.00
End Customer level profit (loss) per Litre in taka	35.49	13.77	18.75	14.68	19.57

***Source**: Bangladesh Petroleum Corporation as ofFebruary 19, 2015; *per MT*

22. Deregulation of the POL sector will eliminate the opportunity for direct and indirect subsidies completely. Reduction in subsidy is the need of the hour in order to free fiscal space for accommodating high priority public expenditures. If the government keeps subsidizing the public sector owned oil marketing companies, then the potential private companies who want to enter this business would not be able to compete in price. The present subsidy regime indirectly restricts the private players from entering the oil marketing sector. Hence, if the priorities of the government are the reduction of subsidies and ensuring a level playing field for private players, it should opt for a policy of deregulation. A market-determined pricing system for petrol and diesel can be sustained in the long-run by promoting competition among all players, public and private.

23. Oil sector reform will inevitably face several barriers as evident from various country experiences. There is no single recipe for success. Addressing these barriers can increase the likelihood of reforms achieving their objectives and help avoid policy reversals. There is lack of information regarding the magnitude and shortcomings of subsidies. The full fiscal cost of energy subsidies—including both producer and consumer subsidies—are still not reflected in the budget. When the subsidies were positive and large, the public were unaware of how domestic energy prices compared with international market prices, the consequences of low energy prices for both the budget and economic efficiency, and the benefit distribution of energy subsidies. As a result, the public is unable to make a connection between subsidies, constraints on expanding high-priority public spending, and the adverse effects of subsidies on economic growth and poverty reduction. Even when the public is aware, it often has little confidence that the government will use savings from subsidy reform wisely. This is especially true in countries like Bangladesh with a history of widespread corruption, lack of transparency in the conduct of public policy, and perceived inefficiencies in public spending. The middle class resist the removal of these subsidies because they are viewed as one of the few concrete benefits they receive from the state.

24. There are also concerns regarding the adverse impact on the poor. Although most of the benefits from energy subsidies are captured by higher-income groups, energy price increases when needed can still have a substantial adverse impact on the real incomes of the poor, both through higher energy costs of cooking, heating, lighting, and public transport, as well as higher prices for other goods and services, including food. This is an important consideration for countries that do not have a well-functioning social safety net capable of effectively protecting the poor from the adverse impact of higher energy prices. Bangladesh is close to finalizing the National Social Security Strategy which should position it well to protect the poor from upside risks of deregulated energy prices.

25. Opposition from specific interest groups benefiting from the status quo make the authorities wait and see. Politically vocal groups that benefit from subsidies can be powerful and well organized and can block reforms. In Bangladesh, the urban middle class, transport owners, large farmers and industrial sector, who benefit from subsidies, can be an obstacle to reform. On the other hand, those benefitting from reform are often dispersed and less organized. Reform strategies therefore need to address the concerns of the losers. SOEs in the energy sector also resist efforts to strengthen governance and performance.

Time to act is now

26. Current macroeconomic conditions in Bangladesh and the low international oil prices provide a historic opportunity to deregulate domestic oil prices. Public resistance to subsidy reform is lower when economic growth is relatively high and inflation is low, as is the case now in Bangladesh. Successful and durable reforms require a depoliticized mechanism for setting energy prices. Many countries have successfully implemented reforms only to see subsidies reappear when international oil prices increase.

27. Establishing an automatic pricing formula can help distance the government from pricing of energy and make it clearer that domestic price changes reflect changes in international prices which are outside the control of the government. Reliance on a formula can reassure the public that price increases would not lead to windfall profits for suppliers. However, adoption of such a mechanism is not a panacea for achieving a sustained reform of energy subsidies. Bangladesh abandoned such mechanisms shortly after adopting it in 2003, partly due to an unwillingness to pass through sharp international price increases to consumers. Responsibility for implementing the automatic mechanism can be given to an independent body such as the Bangladesh Energy and Regulatory Commission.

28. Subsidy reforms for petroleum products over the longer term should aim to fully liberalize pricing. More liberalized regimes—where prices are determined by private sector suppliers and move freely with international prices—tend to be more robust to the reintroduction of subsidies than automatic pricing mechanisms. Under a liberalized regime, the role of the government is to ensure that fuel markets are competitive and there is free entry and exit from the sector. Bangladesh has a reasonably well-functioning social safety net program which makes it somewhat easier to ensure that low-income groups can be protected from future price increases and thus avoid public pressure to reintroduce subsidies. Successful implementation of an automatic pricing mechanism can facilitate the transition to a liberalized pricing regime by getting the public used to frequent changes in domestic energy prices. It can also build up the confidence of private suppliers that the government will not return to subsidized pricing. Using price smoothing rules can help avoid large price increases in future. A smoothing rule can be incorporated into the automatic pricing mechanism to avoid sharp increases in domestic prices. With a smoothing mechanism, periods of sharp increases in international prices would only gradually be transmitted to domestic prices. To protect the budget over the medium term, smoothing must be applied both to price increases and to price decreases. The extent of smoothing the government chooses to implement will depend on its preference between lower price and higher fiscal volatility.

Table B 1: Bangladesh Macroeconomic Indicators:

Description	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Growth Rates (%)									
GDP Growth	6.7	7.1	6.0	5.0	5.6	6.5	6.5	6.0	6.1
GDP Growth Per Capita	5.5	6.0	5.0	4.0	4.5	5.4	5.3	4.8	4.9
Per Capita GDP Growth Atlas Method (US$)	560	591	649	710	783	872	950	1014	1083
Per Capita GDP (current US$)	496	544	619	685	763	841	862	957	1096
Per Capita GNI (current US$)	524	578	667	740	824	908	935	1034	1169
Inflation (%)									
Rate of Inflation (CPI, %) (year on year)		9.4	12.3	7.6	6.8	10.9	8.7	6.8	7.3
Inflation (GDP deflator)	**5.9**	6.5	7.9	6.8	7.1	7.9	8.2	7.2	6.2
Saving & Investment (% of GDP)									
Gross Domestic Saving	21.4	20.7	19.2	20.3	20.8	20.6	21.2	22.0	23.4
Gross National Saving	27.8	27.9	27.8	28.6	29.4	28.9	29.9	30.5	30.5
Private Investment	20.6	21.1	21.7	21.9	21.6	22.2	22.5	21.7	21.4
Public Investment	5.6	5.1	4.5	4.3	4.7	5.3	5.8	6.6	7.3
Central Govt. Budget (% of GDP)									
Total Revenue	9.2	8.9	9.9	9.1	9.5	10.1	10.8	10.7	10.4
Total Expenditure	12.1	11.6	13.0	12.5	12.7	13.9	14.2	14.6	14.1
Overall Budget Deficit	2.9	2.6	3.2	3.4	3.2	3.8	3.4	3.9	3.7
Total Public Debt	40.4	40.2	40.7	39.6	37.3	38.3	37.4	34.7	33.9
Balance of Payments (% of GDP)									
Trade	33.2	34.8	36.7	35.0	32.6	41.4	43.2	40.4	38.4
Exports	14.7	15.3	15.4	15.2	14.1	17.8	18.2	18.0	17.4
Imports	18.5	19.5	21.3	19.8	18.6	23.6	25.0	22.4	21.0
Services & Income (net)	-2.4	-2.7	-2.7	-3.0	-2.4	-3.0	-3.4	-3.7	-3.8
Current Transfers	7.6	8.2	9.3	10.0	10.1	9.7	10.06	9.95	8.58
Current Account Balance (including transfers)	1.1	1.2	0.7	2.4	3.2	0.7	-0.3	1.6	0.9
External Indicators									
Total Debt as % of GDP	40.4	40.2	40.7	39.6	37.3	38.3	37.4	34.7	33.9
External Debt (US$ b.)	17.9	19.6	21.0	23.0	22.4	25.4	25.5	25.4	27.5
Ext. Debt as % of GDP	24.9	24.7	22.9	22.4	19.4	19.7	19.1	16.9	15.8
BB Gross Reserves (US$ b.) (end of period)	3.5	5.1	6.2	7.5	10.75	10.9	10.3	15.3	18.2
BB Gross Reserves (in months of imports)	2.8	3.4	3.4	3.7	5.4	3.9	3.3	4.6	5.4
Money and Credit									
M2 Growth (%, year-on-year)	19.5	17.1	17.6	19.2	22.4	21.3	17.4	16.7	16.1
Net Domestic Asset Growth (%, y-on-y)	19.7	12.6	18.1	17.8	19.1	25.0	18.5	11.8	10.3
Ratio of Private Sector Credit to GDP (%)	27.4	27.7	30.2	30.9	33.9	37.2	38.7	37.7	37.6
Exchange Rate									
Nominal Period Average (TK/US$)	67.2	69.1	68.6	68.8	69.2	71.2	79.1	79.9	77.7
Nominal End of Period (TK/US$)	69.7	68.8	68.5	69.0	69.5	74.2	81.8	77.8	77.6
Real Effective Exchange Rate Index (IMF)	98.6	96.5	95.8	105.5	108.3	108.9	105.2	111.6	106.7
Memorandum Items									
GDP at Current. Prices (Taka bill.)	4823.4	5498.0	6286.8	7050.7	7975.4	9158.3	10552.0	11989.2	13509.2
GNI at Current. Prices (Taka bill)	5095.4	5850.8	6770.7	7609.7	8621.4	9883.4	11445.1	12953.5	14409.4
GNI at Current Prices Atlas Method (US$ bill)	81.2	86.6	96.0	106.1	118.3	133.3	147.0	159.0	171.8
GDP at Current. Prices (US$ bill)	71.8	79.6	91.6	102.5	115.3	128.6	133.4	150.05	173.9
GNI at Current Prices (US$ bill)	75.8	84.7	98.7	110.6	124.6	138.8	144.7	162.12	185.4
Population (mill.)*	144.9	146.5	148.0	149.5	151.1	152.9	154.7	156.7	158.6
Human Development Index (value)	*0.535*	*0.543*	*0.515*	*0.463*	*0.494*	*0.549*	*0.554*	0.558	

Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Ministry of Finance, The World Bank, IMF, and Human Development Report

** Population data is from DECPG.*

Table B 2: Bangladesh Current Macro Economic Indicators

Description	FY12	FY13	FY14	FY15[1] (Projection)	FY15 (July-Feb)	FY14 (July- Feb)
GDP Growth (%)	6.5	6.0	6.1	5.6	..	..
Inflation	8.7	6.8	7.3	6.3	6.1	7.4
Export Growth (%)	5.9	11.2	11.7	7.0	2.4	14.0
Import Growth (%)	9.9	0.8	8.9	11.2	16.5 *	4.0 *
Remittance Growth (%)	10.2	12.6	-1.6	6.7	7.6	-6.9
Reserves (Months of Import)	3.3	4.6	5.4	5.0	5.8	5.7
Exchange Rate (Taka per Dollar)	78.9	79.9	77.7	..	77.8	77.8
Total Revenue (% of GDP)	10.8	10.7	10.4	10.5	..	..
o/w Tax (% of GDP)	9.02	9.00	8.6	9.0	..	..
Total Expenditure (% of GDP)	14.2	14.6	14.1	14.0	..	..
o/w Current Exp. (% of GDP)	8.4	8.3	8.2	8.2	..	..
o/w Subsidies (% of GDP)	2.5	2.7	1.7	1.5		
ADP (% of GDP)	3.4	4.2	4.1	4.5	2.0	1.9
Fiscal Deficit (% of GDP)	3.4	3.9	3.7	3.5	..	..
NBR Revenue Growth (%)	19.6	14.8	10.5	19.3	16.5	9.2
ADP Spending Growth (%)	15.3	31.6	13.4	25.0	38.5	38.3
M2 Growth (%)	17.4	16.7	16.1	15.7	12.8	15.9
Growth of Credit to Public Sector (%)	19.1	8.3	8.9	7.6	-0.5	12.9
Growth of Credit to Private Sector (%)	19.7	10.8	12.3	15.5	13.6	10.7

[1]Projections are based on IMF, World Bank and government estimates

Base Year 2005/06

* Till January of relevant fiscal years

All growth rates are year-on-year

Source: Bangladesh Bank, Bangladesh Bureau of Statistics, Export Promotion Bureau, IMF and WB staff estimate