State of the Bangladesh Economy in the run-up to the National Election 2008

(IRBD 2008-09: Second Reading)

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CPD IRBD 2008-09 Team

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Content

1 INTRODUCTION

Bangladesh is heading towards elections to the 9th National Parliament at a time of mounting challenges on several fronts. The elections are taking place following an unprecedented two-year departure from democratic governance, under the Caretaker Government (CTG). This period was characterised by combination of expectations and uncertainties, reform initiatives and disruptions, high levels of inflation and rising poverty levels, natural calamities and efforts to address their consequences, global financial crisis, and political tensions. The newly elected government will inherit the results of CTG's governance, both the positives and negatives, and will need to forge ahead to meet the expectations of the citizens who aspire to and deserve socio-economic upliftment through good governance under a democratic government.

The objective of this report is to provide CPD's assessment of the Bangladesh macroeconomic situation as the country moves towards the elections. As is known, CPD carries out analysis and assessment of the movement of major macroeconomic indicators on an ongoing basis, carried out under its flagship programme titled *Independent Review of Bangladesh's Development* (IRBD). In keeping with this tradition an interim report is prepared around the middle of the fiscal year to assess the performance of the economy during the first half of the year, and highlighting the major challenges which need to be addressed during the subsequent months to achieve major targets set out in the budget. This year the timing of this assessment was chosen a view to examine the state of the economy in the backdrop of the national elections. Indeed a close look at the election manifestos of various parties indicates an appreciation of the economic challenges that lie before the country, a concern for the need to address these and an attempt to put forward various suggestions towards this. In this regard, the present report will also take a critical look at the manifestos which articulate their respective stances as they face the electorate with their respective programmes. Based on the analysis of the economy and examination of the manifesto, the report identifies a number of challenges which the newly elected government will need to undertake on a priority basis. It is hoped that such an analysis will be of use to the newly elected government as it takes on the responsibility of managing the economy in these times of great expectations and major challenges. As is known, the budget of FY 2008-09 has set a growth target of 6.5 per cent. The possibility of achieving this target has been questioned by various quarters in view of the ongoing global financial crisis and their possible consequences for the Bangladesh economy. The newly elected government will only come into the scene when the current fiscal year has crossed half way of the journey. This report also makes an assessment of whether growth targets set for FY 2008-09 can be met and identifies areas which will need to get priority if these are to be met.

2 PUBLIC FINANCE

2.1 Revenue Receipts

In the backdrop of the modest average growth rate of 12.9 per cent that was maintained during the FY01-FY07 period, revenue collection recorded a quite impressive 24.3 per cent growth in FY08. The 19.2 per cent growth on this high level, set for FY09, was always going to be challenging. However, as of now the prospect of achieving this appears to be promising.

Total revenue collection during the first two months (July-August) of the current fiscal year experienced a significant rise of 34.2 per cent over the corresponding period of the last fiscal year, mostly owing to the impressive performance of non-tax revenue collection which posted a growth rate of 67.6 per cent (the targeted growth was set at 24.5 per cent). NBR and Non-NBR tax revenue collection, against their respective annual growth targets of 19.1 per cent and (-) 1.0 per cent, registered 17.7 per cent and 24.8 per cent growth. Apparently on track, the NBR also registered a 17.0 per cent growth during the July-October period of FY09, as a result of the 22.32 per cent growth in the import related revenue.

TABLE 2.1 REVENUE GROWTH ACHIEVED DURING JUL-OCT OF FY09 AND THE SUBSEQUENT REQUIRED GROWTH FOR THE REST OF THE FISCAL YEAR

	Actual Growth FY08	Growth Target FY09	% achieved (Jul-Oct FY08)	% achieved (Jul-Oct FY09)	Growth (Jul-Oct FY09)	Required Growth (Nov-Jun FY09)
Customs Duty	17.7	13.1	27.8	27.5	11.9	13.6
Value Added Tax (VAT), (Import Stage)	34.5	12.6	26.6	31.0	31.4	5.8
Supplementary Duty (SD) (Import Stage)	46.6	20.4	31.8	35.8	35.5	13.4
Sub-Total (Import Stage)	**26.7**	**13.5**	**27.6**	**29.8**	**22.3**	**10.2**
Value Added Tax (VAT) (Local Stage)	22.9	16.4	27.6	29.3	23.6	13.6
Supplementary Duty (Local Stage)	23.8	23.6	30.6	25.3	2.4	32.9
Income Tax	34.7	11.1	22.3	22.6	12.5	10.8
Excise and Others	27.8	22.7	26.6	16.7	-22.7	39.2
Sub-Total (Local Stage)	**28.0**	**15.9**	**26.0**	**25.3**	**13.0**	**16.9**
Grand Total	**27.4**	**14.9**	**26.7**	**27.2**	**17.0**	**14.1**

Source: CPD-IRBD Database, 2008.

However, some cautionary note should be added here. Adverse consequences of financial crisis and volatility in commodity prices could challenge the attainment of the annual target by the end of this fiscal year. Falling international commodity prices and slowing down of imports could have a dampening effect on import related revenue. This is already evident from the October data. The month-to-month comparison reveals a negative (-) 1.7 per cent fall in customs duty collection in the month of October. This may reverse the momentum that was built-up during Jul-Aug FY09, keeping in mind that duties collected at the import stage constitute over 40 per cent of the total NBR revenue. Higher petroleum imports (Crude petroleum 157.50 per cent and POL 91.77 per cent) by the government during the first quarter may have boosted revenue collection at import stage (average duty on fuel ranges between 28-37 per cent). In view of this, a greater emphasis will need to be put on domestic resource mobilisation through higher VAT collection, and more particularly, higher income tax collection.

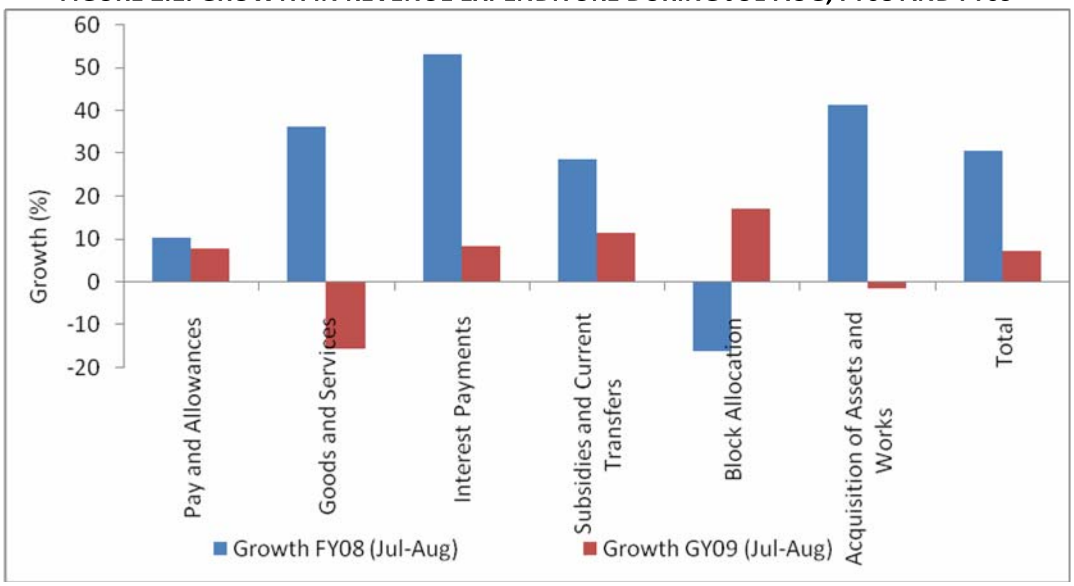
As is known, individual tax return submission for the current fiscal year increased only to 0.67 million from 0.64 million in FY08 (0.53 million in FY07). At the same time, only Tk. 1.08 billion was received as tax from bringing the undisclosed money within the tax net, compared to Tk. 8.02 billion in FY08. These factors are yet to be reflected in the revenue collection figures available for July-October period. These reemphasise the need for strengthen revenue mobilisation by the newly elected government if the revenue targets for the second half of the FY09 are to be achieved. Particular emphasis needs to be placed on three sources - income tax, supplementary duty and excise duty collection.

2.2 Revenue Expenditure

The robust revenue collection of last fiscal year helped balance the soaring revenue expenditure, which recorded 22 per cent growth in FY08, owing to the post-Sidr rehabilitation, expensive public imports due to rising international prices — particularly for food, fuel and fertilizer - and, higher subsidy demand. The revenue expenditure target (Tk 59,081.4 crore) for FY09 was set to rise by 15 per cent over the actual expenditure of FY08.

Actual expenditure data available for the first couple of months of FY09 indicates a deceleration in expenditure growth recording a modest 7.3 per cent growth over the corresponding period of FY08. All three major heads of revenue expenditure—"pay and allowances", "interest payments" and "subsidies and transfers"—exhibited a moderate growth during July-August FY09, registering 8.0 per cent, 8.5 per cent and 11.5 per cent growth rates respectively. However, the final expenditure figure for the first half of FY09 could be much higher owing to the pay and allowances component, on account of two festival bonuses and revenue expenditure in connection with the forthcoming National Election.

FIGURE 2.1. GROWTH IN REVENUE EXPENDITURE DURING JUL-AUG, FY08 AND FY09



Source: CPD-IRBD Database, 2008.

Budget for FY09 allocated Tk 13,641 crore for subsidies, nearly half (Tk 6,106 crore) of which was allocated for Bangladesh Petroleum Corporation (BPC). However, as is known, crude oil price fell sharply in the international market from the record level at $147/barrel in July 2008 to around $43/barrel on December 22, 2008. This trend of low international prices may remain for some time to come, since the global slowdown is expected to result in lower demand for oil.[1] Simultaneously, prices of food and fertilizer in the international market have also been declining during last few months[2]. Hence, lower import payments on food and fertilizer, coupled with the phasing out of subsidy for BPC, may help ease the revenue expenditure pressure in the short to medium term, taking some pressure off the annual development plan (ADP) expenditure.

2.3 Annual Development Programme

Implementation of about 80 per cent of the ADP has been perceived to be a tolerable achievement in recent years. Following the trend, 82 per cent of the ADP allocation could be utilized in FY08. Rising revenue expenditure, in combination with rising cost of inputs that led contractors to demand a review of cost estimations, hindered ADP implementation in FY08. While such adverse factors had

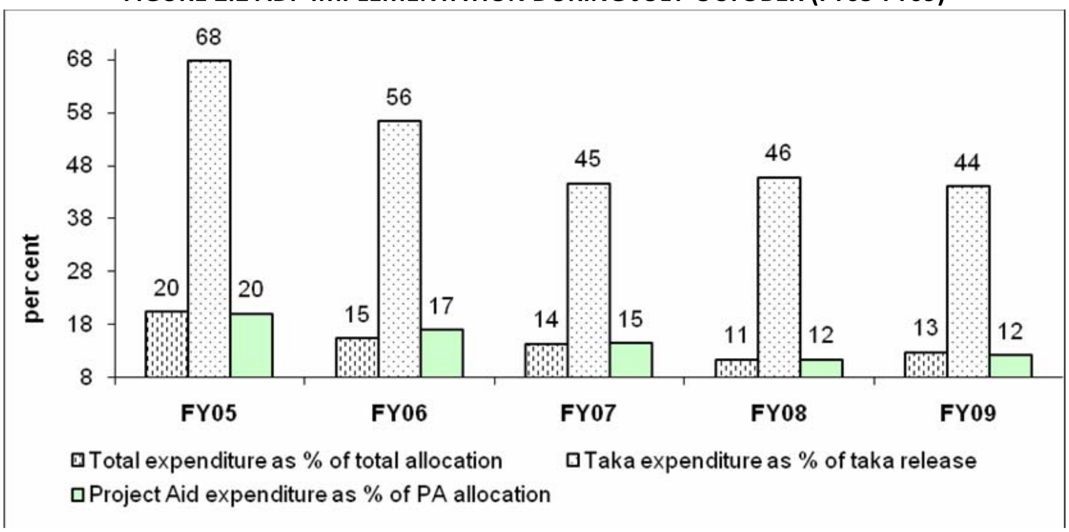
[1] Although, the OPEC has taken a decision to reduce oil production by 2.2 million barrel/day (as of January 2009, taking total reduction to about 4.0 million barrel/day in the recent past) this is still to put a brake on the falling fuel prices in the international market.

[2] During July-November period of 2008, rice price fell by 24.5 per cent and Urea fertilizer fell by 67.6 per cent.

not been seen in current fiscal year, political transition in the middle of the fiscal year could impede the full delivery of Tk 25,600 crore ADP in FY09.

The usual slow rate in ADP implementation remained more or less unchanged in FY09. Only 13 per cent of the total allocated amount was spent during the July-October of FY09, which is similar to implementation record during the corresponding periods of previous fiscal years (see Figure 2.2). Although 30 per cent (Tk 4,103 crore) of the domestically financed component has been released during the first four months, only 44 per cent (Tk 1,810 crore) of the disbursed amount has actually been spent at the field level. At the same time, only 12 per cent of the project aid could be utilized during this period.

FIGURE 2.2 ADP IMPLEMENTATION DURING JULY-OCTOBER (FY05-FY09)



Source: CPD-IRBD Database, 2008.

The mid-fiscal year transition—due to preparation for National Elections and the time required for the new government to settle down could affect the overall ADP implementation performance in FY09. The newly elected government was also likely to prioritise some of the sectoral targets. Hence, reaching a reasonable ADP implementation level—of about 80 to 85 per cent—by the end of FY09, both in quantitative and qualitative terms, will be a dual challenge for the new government. Considering the implications of ADP implementation on employment creation, poverty reduction and meeting the rising public investment demand in order to sustain growth, the newly elected government will need to put high emphasis on ADP implementation. If the new government would like to review the PRSP and align ADP in line with this, this should be done speedily. Otherwise, the government should take on the task of fundamentally review the PRSP and set new targets for a possible new three year period (2009/10-2012/13) .

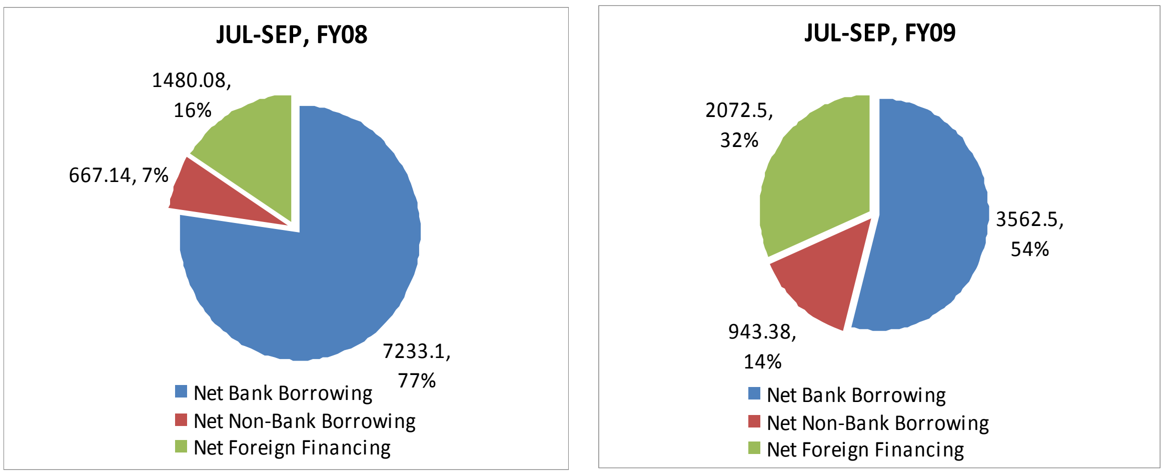
2.4 Deficit Financing

While budget deficit as a percentage of GDP remained less than 4 per cent during FY06 and FY07, the actual budget deficit in FY08 was higher at 4.9 per cent, the highest recorded since FY01. For FY09, a deficit of 5 per cent of GDP (Tk 30,580 crore) has been projected, with about USD2.6 bln gross foreign financing requirement (about USD 2.0 bln in net terms).

According to the latest available statistics, overall deficit financing declined by 30.0 per cent during the first quarter of FY09. Compositional change in deficit financing has also taken place, as the share of bank borrowing came down to 54.2 per cent during this period from 77.1 during the corresponding period of FY08. Non-bank borrowing, on the other hand, is showing higher growth of

41.4 per cent, albeit over the low benchmark of FY08. Higher non-bank borrowing is also associated with some of the fiscal incentives provided in the budget. This was likely to have some dampening effect on crowding-out of private investment as far as bank borrowing was concerned.[3] Such structural shift in government borrowing could also have implications in terms of inflationary developments.

FIGURE 2.3 DEFICIT FINANCING IN FY08 AND FY09 (JUL-SEP)



Source: CPD-IRBD Database, 2008.

During the first quarter of FY09, the CTG had some success in mobilising foreign resources with a net foreign financing growth of 40.0 per cent. Consequently, the share of foreign resources in total deficit financing for the first quarter of the fiscal year increased from 15.8 per cent in FY08 to 31.5 per cent in FY09. This is expected to increase with the recently announced World Bank support of USD 149 mln to Dhaka WASA for improvement of services. The World Bank has made the highest ever aid commitment of USD 1.34 billion for FY09.

3 MONETARY SECTOR

In view of the global price hike and the consequent high levels of inflation in Bangladesh, monetary sector was under constant vigilance of the Bangladesh Bank during FY08. As evidence suggests the global economic slowdown in FY08 is at present giving all indications of degenerating into economic recession in FY09. The forthcoming government would thus need to prepare itself at its earliest to face possible adverse consequence of the global economic crisis. Recently the Bangladesh Bank has spelt out its monetary policy in view of the risk of slowing down of economic activities. Although thus far Bangladesh economy has not felt the pinch of the downturn of the global economy in any appreciable manner, thanks to higher export earnings and robust remittance flow, the depth and dimension of the global financial crisis do call for adequate preparedness. This is particularly pertinent since the ongoing recession is likely to dampen the growth prospect of all major developed and transitional economies around the world which are also Bangladesh's partners in the area of trade, aid and investment. The Bangladesh Bank has to craft a monetary policy that take cognisance of the inflationary pressure and at the same time ensure the required liquidity and incentive to stimulate production and growth to keep economic activities vibrant.

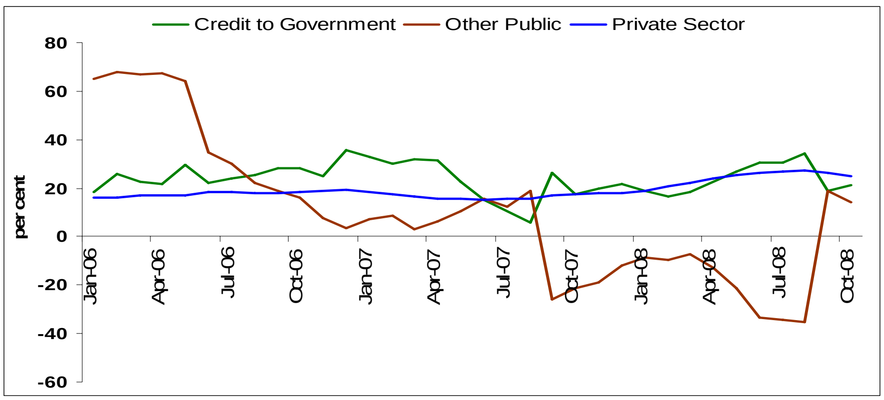
[3] Probably owing to the anti-corruption drive that initiated a fall in the sale of NSD certificates and resulted in a shift of public savings towards the equity market.

3.1 Money Supply and Domestic Credit

Broad money supply (in terms of M2) posted a higher growth of 20.63 per cent at the end of October 2008 in the backdrop of around 17 per cent growth in previous two fiscal years. Reserve money also increased by 21.88 per cent at the end of October 2008. Scheduled banks had excess liquidity of Tk. 19,354.83 crore as of end October 2008, against Tk. 12,988.58 crore as of end June 2008.

FY08 posted an impressive 20.95 per cent annual growth in domestic credit. FY09 is continuing with the similar high rate of domestic credit growth which registered a 23.41 per cent growth at the end of October on a point-to-point basis over the corresponding high benchmark figure in FY08. This increase has originated from expansion of domestic credit to the private sector by 24.72 per cent and growth of net credit to the government sector by 21.19 per cent. Credit to other public sector remained under control at the end of FY08 registering a 14.06 per cent growth at the end of October 2008. Figure 3.1 depicts the growth trend of domestic credit. The spectacular growth of domestic credit compared to previous years has to be closely monitored as the flow of this credit towards unproductive sectors such as consumer expenditure may contribute to increased inflation.

FIGURE 3.1: TREND OF DOMESTIC CREDIT



Source: CPD-IRBD Database, 2008.

FY08 ended with a high government borrowing originated from the banking source while non-banking source was losing its share on a continuing basis. In the backdrop of easing fiscal deficit, government borrowing registered 13.87 per cent growth at the end of October 2008. Sale of NSD certificates during first four months of FY09 registered a low 3.25 per cent growth over a low benchmark figure of last year. As repayment of the principal amount declined by 8.09 per cent, this led to a doubling of government's net borrowing through NSD certificates.

3.2 Agricultural Credit

In FY08, Bangladesh Bank directed all nationalised and private commercial banks to increase disbursement of agricultural credit in order to boost agricultural production in view of the global food crisis, and the loss of domestic production due to flood and cyclone in FY08. The result was evident, as total disbursement stood at Tk 8580.66 crore at the end of FY08 which is 62.13 per cent higher than its low benchmark of FY07 that registered a negative 3.71 per cent growth. During the same period the recovery of agricultural credit made appreciable growth of 28.39 per cent resulting 33.7 per cent growth of net disbursement. Agricultural credit disbursement increased 27.2 per cent during July-November of FY09, while recovery declined by 3.68 per cent compared to the corresponding figures of FY08. The targeted growth of agricultural credit disbursement for the full fiscal year is set at 9.31 per cent.

3.3 Term Loan and Industrial Credit

The FY08 was marked with remarkable 62.6 per cent growth in term loan disbursement in the backdrop of a moderate growth of 28.5 per cent during FY07. On the other hand, recovery of industrial term loans during FY08 was 50.3 per cent higher than that of FY07, resulting in a 96.2 per cent growth in net disbursement. The momentum somewhat eased during the first quarter of FY09, which observed a still high 30.8 per cent growth. On the other hand, recovery rate continued to remain high, registering 47.7 per cent growth which resulted in 7.5 per cent decline in net disbursement. Bearing in mind that the target for industrial sector growth is set at an average rate of 11.70 per cent annually during FY09-11, further decline in term loan disbursement could dampen growth prospect in the medium term.

3.4 Classified Loan

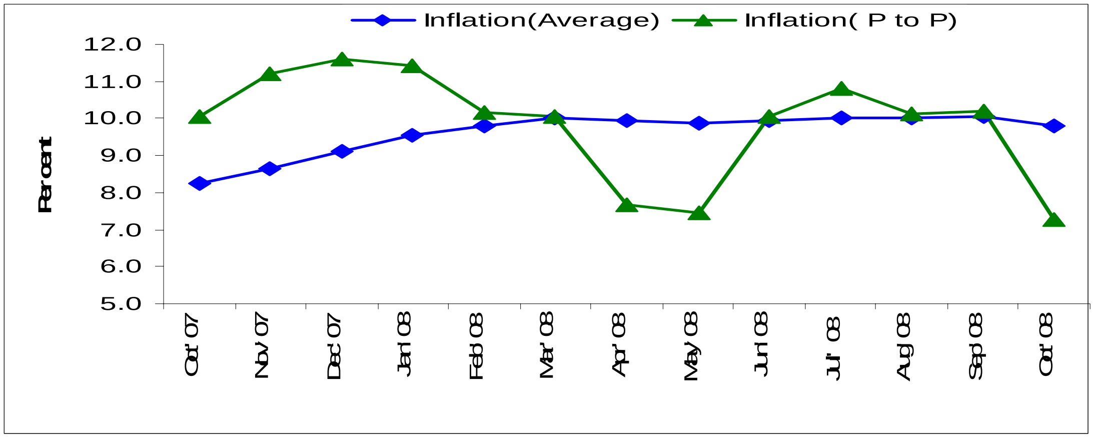
The share of non-performing loans (NPL) has been on gradual decline over the last couple of years; this was particularly during the first quarter of FY09. At the end September 2008, percentage share of classified loan to total outstanding loan declined to 12.34 per cent compared to 14.04 per cent of the corresponding period. Percentage share of net classified loan to total loan also reduced to 3.65 per cent at the end September 2008 from 5.59 per cent at the end September 2007. There is room for improving efficiency in the banking system, particularly in the state own commercial banks (SCBs). Though the government has corporatised three large state owned banks with an objective to improve the quality, efficiency and performance of the institutions, the loan default scenario of these banks is yet to show any positive improvement.

3.5 Inflation

There has been a slight respite in terms of a declining trend of inflationary pressure during July-October 2008. Though annual average rate of inflation (12-month annual average CPI, 1995-96 = 100) increased to 9.8 per cent in October 2008 from 8.25 per cent in October 2007, this is a decline, marginal though, from 9.94 per cent in June 2008. The 12-month point to point inflation has declined to 7.26 per cent in October 2008 compared to 10.06 per cent in October 2007 (Figure 3.2). This rate of decline during the four months of FY09 is not been fast enough to bring down the inflation rate to the government's projected rate of 9 per cent during FY09. However, this target now seems to be achievable given the fast reduction of commodity prices including fuel prices in the international market.

Both food and non-food inflation have begun to recede, and are expected to go further down in the coming months. At the end of October, national food and non-food inflation rates on 12-month annual average basis were 12.29 per cent and 5.89 per cent respectively. On the other hand, 12-month point to point food and non-food inflation declined to 8.08 per cent and 5.95 per cent respectively in October 2008. The government should take advantage of the easing of global prices of commodities price and price of petroleum products. The new government should take appropriate steps to facilitate transmission of low global prices to domestic retail levels. Also, another (particularly diesel) review of fuel prices will be required in view of falling fuel prices. These will ease inflationary pressure in the economy. Neighbouring countries like India and Sri Lanka are also experiencing reduced inflationary pressure in recent times.

FIGURE 3.2: INFLATION TRENDS



Source: CPD-IRBD Database, 2008.

3.6 Interest Rate

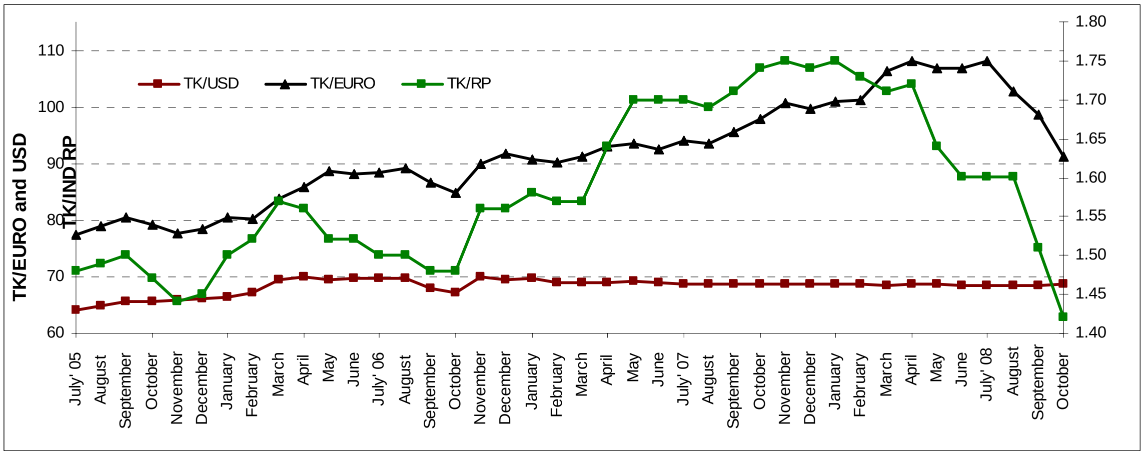
The issue of higher spread between the lending and deposit rate, a bone of contention among the business community, is also related to the overall efficiency and competitiveness of the banking system in Bangladesh. This conflict of interest has persisted for quite some time now. The Bangladesh Bank has directed the commercial banks to reduce the interest rate spread (IRS); however, the change here is not tangible. In October FY09 the IRS was only marginally lower at 5.28 compared to 5.39 in October FY08.

The bank rate has remained at 5 per cent since 2003. There is no plan to increase bank rate at the moment as the Bangladesh Bank has been pursuing a monetary policy in line with domestic and global realities.

3.7 Exchange Rate

At the global level, all major currencies have become weaker against the USD mainly due to withdrawal of USD from major markets in the face of global financial crisis. However, Bangladesh Taka (BDT) remained stable against USD and as a result against other currencies, such as EURO and British Pound (GBP) (since EURO/BDT and GBP/BDT rates are calculated from the traded rates of USD/BDT) (Figure 3.3). In view of the apprehension that export demand from Bangladesh may fall and there may be a downward pressure in export price, some exporters have urged the Bangladesh Bank to depreciate BDT against USD. Their argument was reinforced by the fact of devaluation in neighbouring countries such as India, Pakistan and Vietnam which could lead to loss of competitive strength of Bangladeshi exporters. This also had implications for remittance flow.

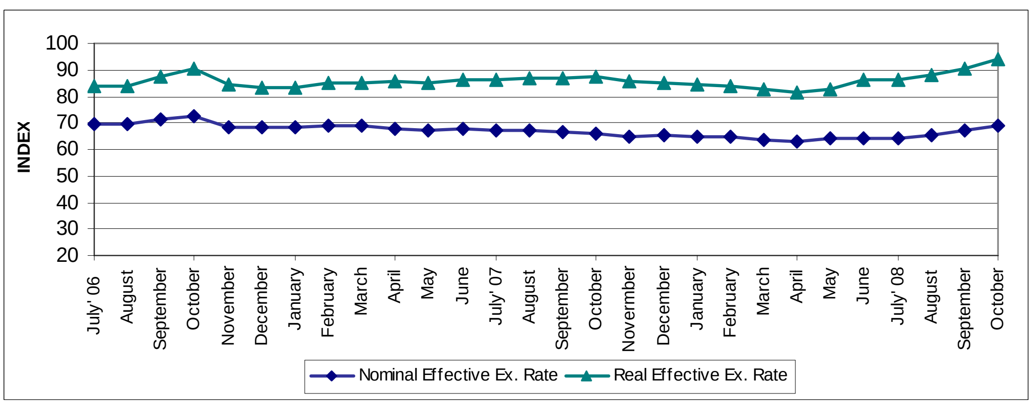
FIGURE 3.3: MOVEMENTS OF TAKA AGAINST USD, EURO AND INDIAN RUPEE



Source: CPD-IRBD Database, 2008.

Though Bangladesh follows floating exchange rate, the Bangladesh Bank does intervene the foreign exchange market from time to time in order to keep the USD/BDT rate stable. The exchange rate has in recent times remained stable against the USD; the depreciation of both Indian Rupee and Euro against USD resulted in appreciation of Taka by 18.39 per cent and 6.62 per cent respectively during October 2008 over October 2009. Over the last one month, the exchange rate of USD has gone up by about 35 paisa, although no perceptible shift in Bangladesh policy is discernible. But the Bangladesh Bank has helped this by not intervening aggressively in the market. This is most probably the effort of the Bangladesh Bank to make export and remittance competitive in the face of global meltdown and subsequent depreciation of exchange rate in the competing countries. During the last two years the Bangladesh Bank intervened to make BDT mostly by buying USD to stop further appreciation of BDT.

FIGURE 3.4: NOMINAL AND REAL EFFECTIVE EXCHANGE RATE



Source: CPD-IRBD Database, 2008.

However, the Bangladesh Bank is not in favour of depreciating BDT against USD at the moment for a number of reasons. First, Bangladesh is also a net importing country; many inputs and raw materials for its exports are imported. Therefore, depreciation of BDT could increase cost of import of raw materials leading to increase in cost of production and thus reduction in export competitiveness. Second, increased cost of imports as a result of BDT depreciation was also likely to have negative impact on the expected decline in inflationary pressure resulting from decline in global commodity prices. Third, BDT is, in fact, an undervalued currency against USD, and has been depreciating in terms of real effective exchange rate (REER) (Figure 3.4). On such grounds the Bangladesh Bank is in favour of developing an exchange rate policy keeping in view the multi-dimensional interests of the economy. This will also need to be seen along wtih other measures and incentives for producers and exporters in the area of productivity enhancement and business environment.

4 REAL SECTOR

4.1 Agriculture

Production of Foodgrains

The Global Food Crisis of 2008 has led to a double-edged sword of high price inflation and food shortage, threatening to pull the incomes of more than 100 million people below the poverty line globally. In Bangladesh, as a consequence of high prices of foodgrains and high level of general inflation, an additional 12.1 million people (8.5 per cent of total population) became poor, between January 2005 to March 2008 (CPD, 2008). Higher food prices increased the number of food-insecure population in Bangladesh by 7.5 million and, consequently, total number of food insecure population reached to 65.3 million in 2008 (FAO/WFP, 2008). In a situation when food riots were breaking out in many countries, and some of the major rice exporting countries such as India, Vietnam and Cambodia imposed restrictions on rice exports, a much needed 6.13 per cent annual increase in production of total food-grains in FY08 helped Bangladesh to compensate the loss in production of foodgrains caused by two consecutive floods and Sidr and survive the first shock of this 'silent tsunami'[4]. Thanks to a bumper boro production (17.76 million mt) which accounted about 60 per cent of total foodgrain production (29.78 million mt) in FY08. In FY08, wheat production (0.84 million mt) registered a 14.5 per cent growth, a shift from its decade-long declining trend.

The Department of Agricultural Extension (DAE) has set the operational target (revised) for foodgrains production in FY09 at 34.33 million mt; if achieved, this will register a 15.30 per cent annual growth over FY08(Figure 4.1). Preliminary estimates of Aus production reveal a 25.7 per cent annual growth in FY09, though the 1.90 million metric tons of production fell short of the production target by 18.0 per cent (BBS, 2008). Farmers are currently harvesting Aman rice; the BBS and the DAE are yet to come up with any estimation of Aman production. Despite the fact that some areas were affected by flood in 2008, and there were reports of insect attacks in some pockets of production in Bangladesh, field level information is indicative of an overall satisfactory Aman production in FY09.

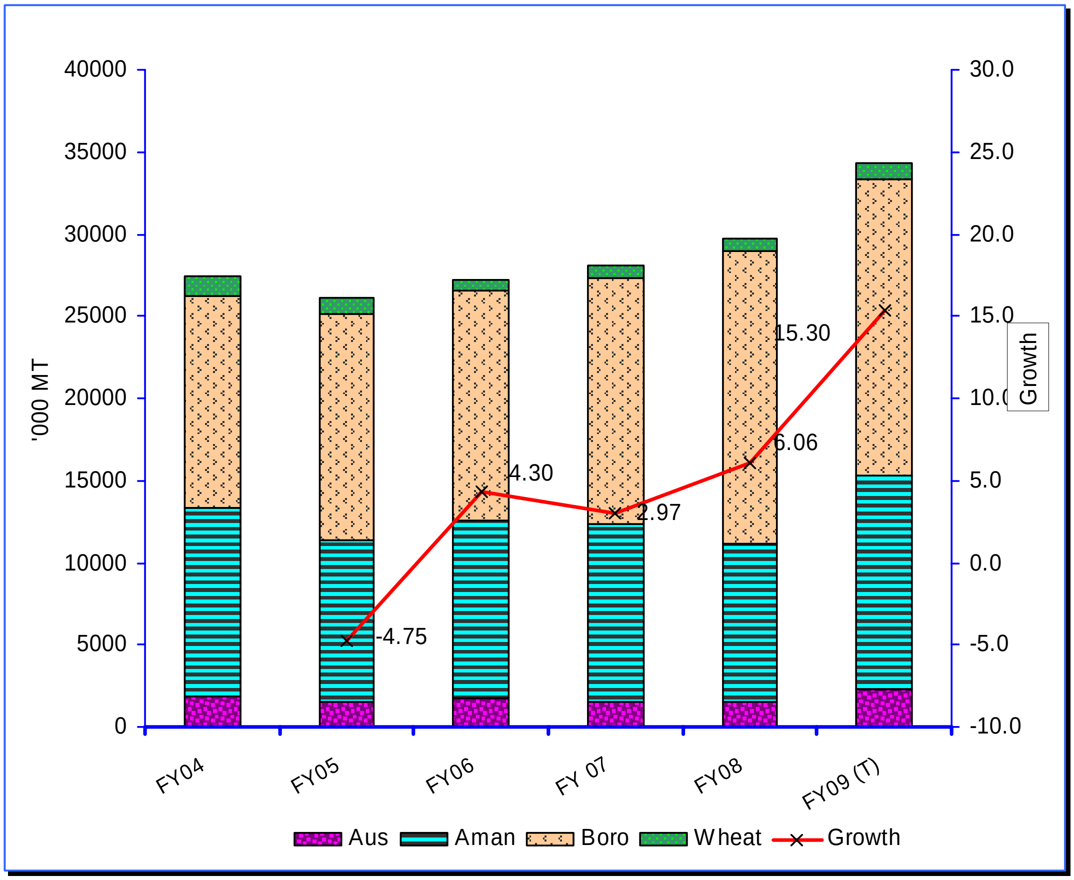
The conventional wisdom which stipulates that higher food prices encourage agricultural production is at present being faced with a dilemma - higher input cost made the Aman production costly whilst the international market is witnessing a sharp fall in rice price. In order to sustain farmers' enthusiasm (observed during the last Boro and Aman rice cultivation) till the upcoming Boro season, the government needs to ensure that the current political transition does not hamper its ongoing public procurement scheme.

As declared, the government was planning to procure only a total of 75 thousand mt of Aman paddy and 150 thousand mt of Aman rice until the end of February 2009. The government's procurement price (Tk 26/kg for rice and Tk 16/kg for paddy) is an incentive to the farmers who are now selling the Aman paddy at a lower price (Tk 13.5-14.0/kg) at the farm level. The new government may consider an upward revision of targeted procurement level for Aman rice and emphasise on procuring paddy directly from farmers rather than buying clean rice from millers. Since paddy can be

[4] The United Nations World Food Programme (WFP) termed this food crisis as the "silent tsunami" of rising food prices which threatens to push more than 100 million people worldwide into hunger (UN, 2008).

preserved for a longer period of time, this will also help to build a buffer stock to carry out activities in view of any natural calamity.

FIGURE 4.1: FOODGRAIN PRODUCTION TARGET IN FY09



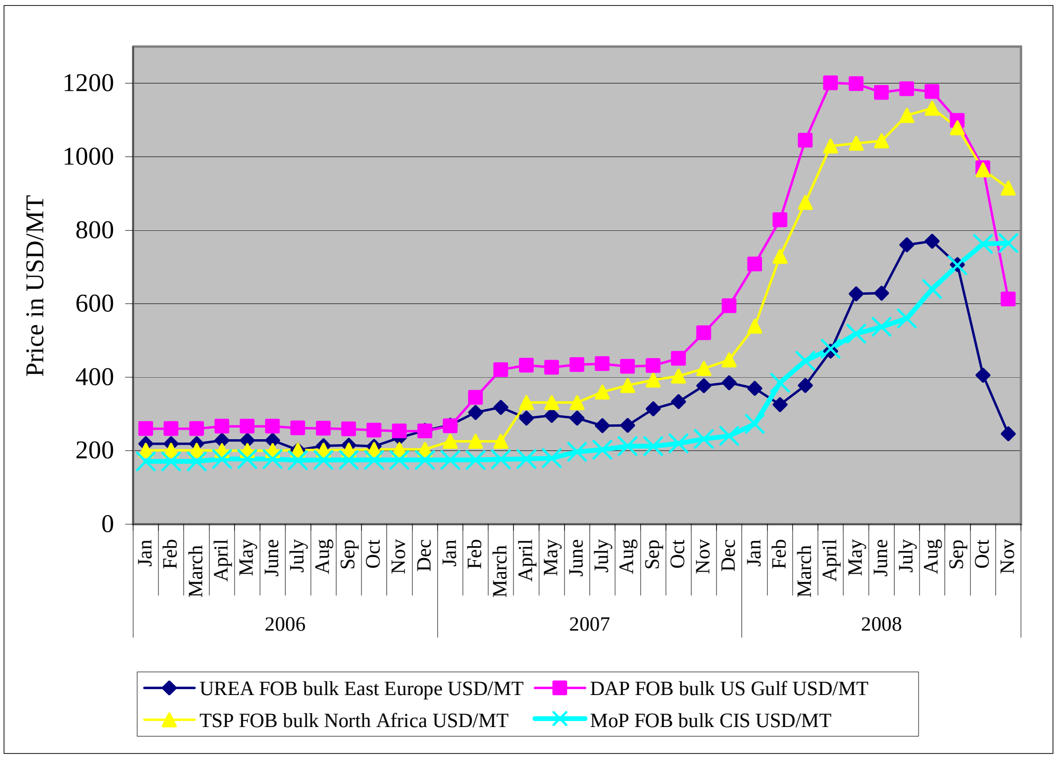
Source: CPD-IRBD Database, 2008.

In the context of declining rice price in the international market and keeping in mind the need to curb inflation, the main challenge for a newly elected government will be to ensure higher Boro production where farmers will get reasonable price for their production. This is only possible if the production cost can be kept at a minimum level. Since the price of fertiliser and diesel is also on the decline in the international market, the new government may have to take swift measures in order to ensure that seeds, fertiliser, diesel and electricity are readily available for the farmers at an affordable price.

Input supply and subsidy for the crop sector

Fertiliser: Following the global price trend, farm level prices of all types of fertiliser in Bangladesh have increased significantly over the years but without any decrease in domestic price when there is a decline in international price of fertilisers. A comparison of farm level prices of fertilisers during the last seven months (May-December 2008) revealed that price of urea and TSP fertiliser has more than doubled. In December 2008, compared to May 2008, price of urea fertiliser at the farm level increased from Tk 6/kg to Tk 14.00/kg ; price of triple super phosphate (TSP) from Tk 34 to Tk 75-80/kg, and price of murate of potash (MoP) from Tk 30/kg to Tk 45-48 per kg. On the other hand, international price of all types of fertilisers except MoP has decreased substantially between August and November 2008 (Figure 4.2). Between August to November 2008, international price of Urea decreased from USD 770 to USD 246 per metric ton (i.e. 68 per cent decrease) while that of DAP decreased from USD 1177 to USD 612 per metric ton (48 per cent decrease). During this period, price of TSP decreased from USD 1132 to USD 915 per metric ton (around 19 per cent decrease), but price of MoP increased from USD 640 to USD 765 per metric ton (about 19 per cent increase). However, the recent fall of fertiliser prices in the international markets (except for MoP) is yet to get reflected in our local markets. High price of fertilisers particularly TSP and MoP has already created imbalanced use of fertiliser and this problem might be aggravated in the Boro season. A revision of fertiliser price, and allocation and distribution of subsidy among different types of fertilisers by the newly elected government will help Bangladeshi farmers enjoy the benefits of this global decline in fertiliser prices before the upcoming Boro season. To ensure production of Boro rice and other Rabi crops farmers will require about 15.0 lakh tons of urea, 3.5 lakh tons of TSP, 3.5 lakh tons of MoP and 2.5 lakh tons of DAP.

FIGURE 4.2. INTERNATIONAL PRICE OF FERTILISER (UREA, DAP, TSP & MOP): JANUARY 2006 TO NOVEMBER 2008



Source: CPD-IRBD Database, 2008.

Diesel and Electricity for Irrigation: Given that three quarter of the total irrigation in Bangladesh depends on diesel operated engines, adjustment of petroleum price has always been a contentious issue, particularly during the Boro season. While the international price of petroleum products (including diesel) is declining, the new government may have to revisit the price of petroleum (especially diesel) again before the Boro season. The degree of such revision will of course depend on trends in revenue income and overall budgetary situation. It is pertinent to mention here that irrigation cost in Bangladesh is 2 to 3 times higher than in India, Thailand and Vietnam, because Bangladeshi farmers have to use diesel for irrigation while farmers of other countries have the scope to irrigate through subsidised electricity and large scale irrigation project.

Generally, farmers experienced a shortfall in electricity supply in the Boro season. In FY08, the government paid special attention to the supply of electricity to irrigation pumps during the Boro season. As a result, the consumption of electricity by irrigation pumps during November-March FY08 (72.99 mkhwh) was 24.6 per cent higher than the comparable months in FY07. The government subsidy on account of electricity for irrigation was about Tk 75 crore in FY08. A similar support hand-in-hand with uninterrupted supply of electricity will be needed for another bumper Boro production.

The issue of attaining food security had been highlighted in all the political parties' manifestos and once the new government is in place, policies will need to be translated towards this through an action plan and effective implementation of the plan.

Food Aid and Commercial Import

In conjunction with the satisfactory domestic production, the total food availability in FY08 was complemented by a 43.4 per cent annual growth in total food aid and import (32 per cent growth in commercial import). Though food aid and public commercial import also registered significant growth rates of 187.8 per cent and 144.6 per cent respectively, the external source of food supply has been mainly featured by the private sector, which imports more than 80 per cent of the total available supply. Total import of foodgrains in FY08 was 3.47 million mt (rice: 2.06 million mt and wheat: 1.41 million mt), compared to 2.42 million mt (rice: 0.72 milion mt and wheat: 1.70 million mt) in FY07 (Table 4.1).

TABLE 4.1: IMPORT OF FOOD GRAINS BY BANGLADESH IN FY08

(In Thousand MT)

Category of imports	FY2006-07			FY2007-08		
	Rice	Wheat	Total Foodgrains	Rice	Wheat	Total Foodgrains
Food Aid	25	65	90	82	177	259
Public Commercial Import	-	121	121	296	-	296
Private Import	695	1514	2209	1681	1235	2916
Total	720	1700	2420	2059	1412	3471

Source: CPD-IRBD Database, 2008.

Following the prospect of a better domestic production and volatility in the rice price in the international market, both food aid and commercial food import slowed down during the first five months of FY09. However, commercial import by the public sector (mainly from India) increased extensively (Table 4.2) which are part of the 0.5 million metric tons of rice contracts for purchase from India, signed in FY08.

TABLE 4.2 FOOD IMPORT TO BANGLADESH IN FY09 (JULY-NOVEMBER)

(In Thousand MT)

Category of imports	FY2007-08 (July-November)			FY2008-09 (July-November)		
	Rice	Wheat	Total Foodgrains	Rice	Wheat	Total Foodgrains
Food Aid	13.0	96.6	109.6	21.0	26.7	47.7
Public Commercial Import	101.0	0.0	101.0	374.3	201.4	575.7
Private Import	518.8	825.0	1343.8	24.9	475.2	500.1
Total	632.8	921.6	1554.4	420.2	703.4	1123.5

Source: CPD-IRBD Database, 2008.

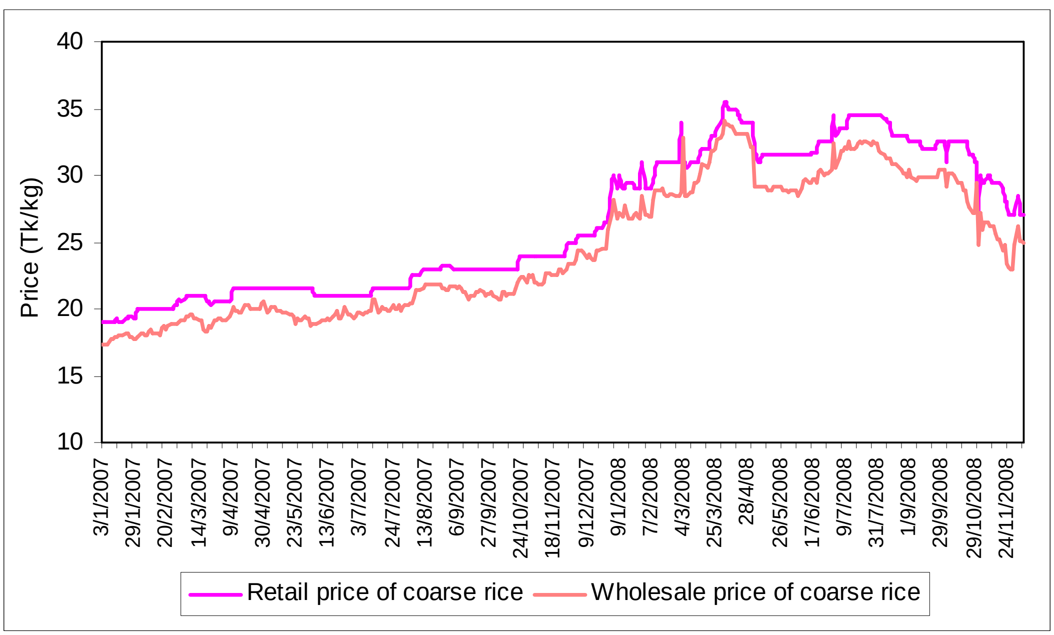
Opening of L/Cs for rice during Jul – Oct (FY09) corresponds to the decreasing rice import trend. During this period (Jul – Oct) L/Cs opened for rice was only to the tune of USD 3.51 million, a (-) 99.03 per cent decrease over the corresponding period of FY08. In volume terms, L/Cs opened for rice in these four months of FY09 was only one thousand mt, as compared to 1172 thousand mt in FY08.

In response to the global food crisis, exporting countries have been implementing export restrictions by imposing export quotas, export duties, minimum export prices, and even imposing export bans on certain commodities. Currently, India has a ban on export of rice and wheat. Total rice and wheat production (174.80 million tons comprising 96.40 million tons of rice and 78.40 million tons of wheat) in India in 2007/08 was 3.33 percent higher than that of 2006/07. India is projecting an additional production of 20 million tons of rice this year, which is likely to lead to a withdrawal of the ban on rice export. As rice price is also declining around the globe, private sector import of rice might increase in the coming days, raising a concern for the domestic growers.

Rice Price

Following the soaring price of rice across Asia, retail price of coarse rice in Bangladesh also observed a sharp increase from around Tk 20.00/kg in February 2007 to Tk 34.57/kg by April 2008. With the Boro harvest, rice price observed a brief decline from the third week of April 2008 though it started to rise again a couple of months later. However, both wholesale and retail prices of rice started to decline from July 2008. During the first week of December 2008, the retail and wholesale prices of coarse rice stood at Tk. 27.00/kg and Tk 24.92/kg, respectively.

FIGURE 4.3: RETAIL AND WHOLESALE PRICE OF THE COARSE RICE (BR 8, BR 11, SWARNA): JANUARY 2007 - DECEMBER (1ST WEEK) 2008



Source: CPD-IRBD Database, 2008.

Though there is an apparent correlation between retail and wholesale price, the response of the former is usually quicker to an increasing wholesale price, and conversely, slower to a decline in price. As a result, the consumers have to pay higher price immediately when there is a price rise in the wholesale market, but they do not get the benefit to the same extent when price declines. The new government will need to resolve this tension. The incentive for growers will need to be maintained whilst the consumers will need to be given the benefit of lower prices at a time of declining purchasing power due to high inflation. A revisit of input prices and the attendant subsidies will thus be essential.

Livestock and Poultry

Animal farming contributes 2.8 per cent to the GDP and about 1.5 lakh farms (about 60 lakh people) are engaged in poultry production, processing and marketing. Bangladesh experienced Highly Pathogenic Avian Influenza (HPAI) outbreak since early 2007. Up to 20 December 2008, the disease was detected in 292 incident points covering 129 Upazilas and 14 Metropolitan Thanas of 47 Districts in Bangladesh. Last affected farm was detected in "Singra Upazila of Natore" district on 19 December 2008 (MoFL). Up to December 20, 2008, 1.65 million chicken were culled. An analysis, conducted by Bangladesh Livestock Research Institute (BLRI), showed that the poultry industry of Bangladesh had an estimated financial loss to the tune of Tk. 3858 crore in 2007 and 2008. During the time of bird flu outbreak, prices of broiler and eggs declined by 28.0 and 26.5 percent, respectively. To combat such type of disease outbreak, some remedial measures need immediate attention. Sanctuaries for migratory birds, strengthening surveillance and monitoring activities, early detection of virus, timely sharing of information and insurance for the affected farmers need to be ensured.

Election manifestos of all political parties have mentioned about development of the poultry and livestock sector. Therefore, it is expected that effective implementation of existing programmes and initiation of new programmes would be undertaken for Bird Flu and other contiguous diseases and for overall development of the livestock and poultry sector.

Fisheries

Fisheries sub-sector of Bangladesh during the last 15 years has registered 5.7 percent annual compound rate of growth. In FY09, there was flood and cyclone Rashmi which were expected to affect the production of fisheries. Fortunately, floods visited in the areas where commercial fish farms were very limited. On the other hand, during the time of the hit by cyclone Rashmi (October 26, 2008), it was the off-season for shrimp culture and only 100 acres of shrimp farms of Patuakhali and Khulna districts were affected. However, fisheries sub-sector is yet to recover the loss caused by two consecutive floods and Sidr in FY08. According to the Department of Fisheries (DoF), total loss of fish production due to floods in FY08 was estimated as 33.56 thosand metric tons which was worth of Tk. 196.49 crore. On the other hand, Sidr had damaged about 799 metric tons of shrimp, 5.7 thousand metric tons of fish, and 205 lakhs fingerlings in southern districts. Aquaculture has developed in some areas substantially where fish farming is no longer a business of the rich people only. To sustain the growth in fisheries sub-sector a massive rehabilitation programme was required in FY09. However, actions taken so far are not adequate to compensate the losses and revitalization is still badly needed. Small farmers need both technical (reclamation of damaged fish pond, fish fry) and financial support in the form of loan.

Recently, a delegation from EU has warned of imposing export restriction on shrimp imports from Bangladesh on the ground of 'antibiotic residues' in shrimp. In 2006/07 Bangladesh exported 49 per cent of its total shrimp export to the EU market. So, it is important to pay an immediate attention to the health and environmental aspects of shrimp cultivation (SPS compliance measures) otherwise; such an important sector will face a huge threat. Ministry of Fisheries and Livestock has prepared draft "National Shrimp Policy 2008", which is now waiting for the final approval of the cabinet.

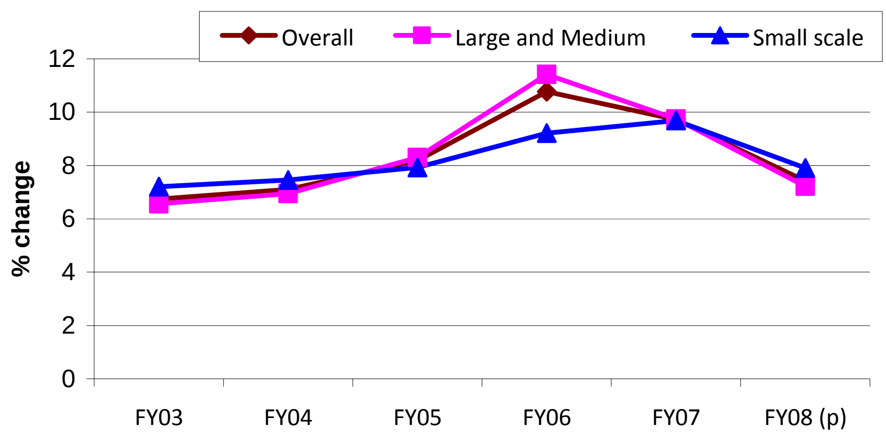
Election manifestos of all the political parties have mentioned that they will work towards development of the fisheries sector. To this end, adoption of National Shrimp Policy 2008 after thorough review and necessary changes by the new government will be required. Special project for development and management of broodstock of fishes may be undertaken for such types of fish as Rohu, Catla, Tilapia for facilitating quality supply of fingerlings. The current focus is rather limited in this regard. In addition, appointment of more fisheries officers in intensive fish cultivation zones such as Bagerhat, Satkhira, Patuakhali, Faridpur, Patuakhali, Jhalokati, Barguna, Sunamgonj, Gazipur, Narsingdi, Bhaluka, and Daudkandi (Comila) and other intensive fish cultivation areas are needed.

4.2 Industry and Energy

4.2.1 Industrial Production

Growth of industrial sector has decelerated in recent years (Figure 4.4). Production of large and medium manufacturing industries lost its momentum in FY08 registering only a 6.9 per cent growth. To compare performance during the previous years had been 11.4 per cent and 9.7 per cent in FY06 and FY07 over the corresponding past years. However, signs of recovery were evident at the end of FY08, with high term loan disbursement and LC opening for import of capital machineries.

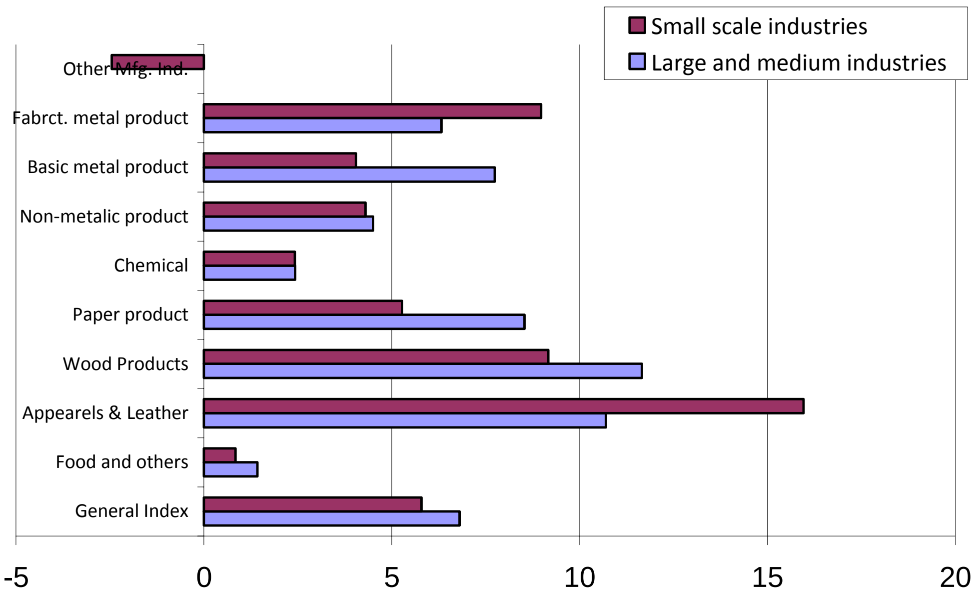
FIGURE 4.4: GROWTH OF LARGE, MEDIUM AND SMALL SCALE INDUSTRIES



Source: CPD-IRBD Database, 2008.

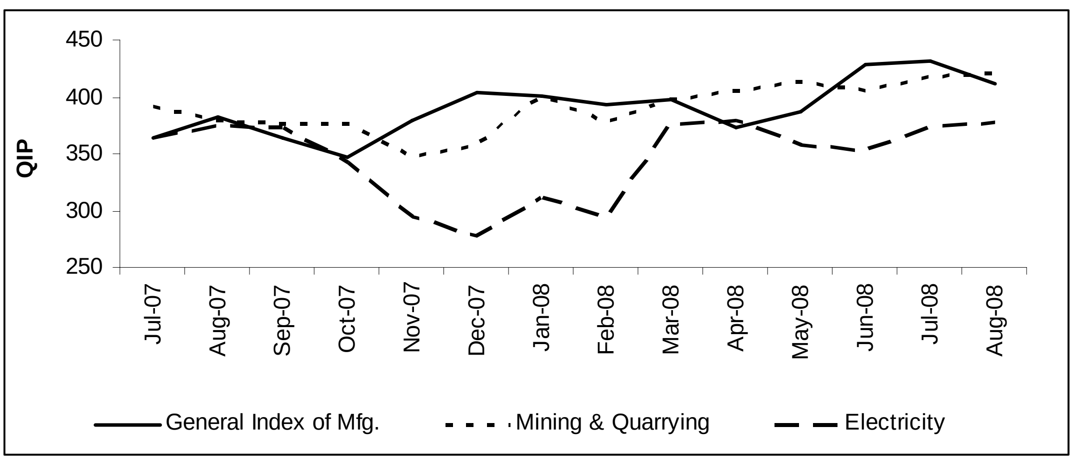
During the first two months of FY09, production estimates based on quantum index of production (QIP) of large and medium scale manufacturing industries recorded an impressive growth of 13.2 per cent. Within the general index, Group 32 that includes jute, cotton, apparel and leather (with 38.16 per cent weight), registered a very high 23.9 per cent growth. The production performance of this particular group is reflected through the high export growth achieved during the initial months of FY09. Small scale industries, on the other hand, have registered even lower level of growth during that period, though apparels and textiles and fabricated metal products performed relatively better (Figure 4.5). In most of the categories of industries (other than apparels and textiles, particularly), production has slowed down in the last quarter of FY2008 and first two months of FY2009, which is important to monitor in the following months in order to appreciate possible impact of global financial crisis. Though the QIP of electricity production increased by only 1.48 per cent during the first two months of FY09, it appears to have revived from the mid-FY08 drop (see figure 4.6).

FIGURE 4.5: CHANGES IN PRODUCTION IN LARGE, MEDIUM AND SMALL SCALE INDUSTRIES



Source: CPD-IRBD Database, 2008.

FIGURE 4.6 QIP OF INDUSTRIAL SECTORS

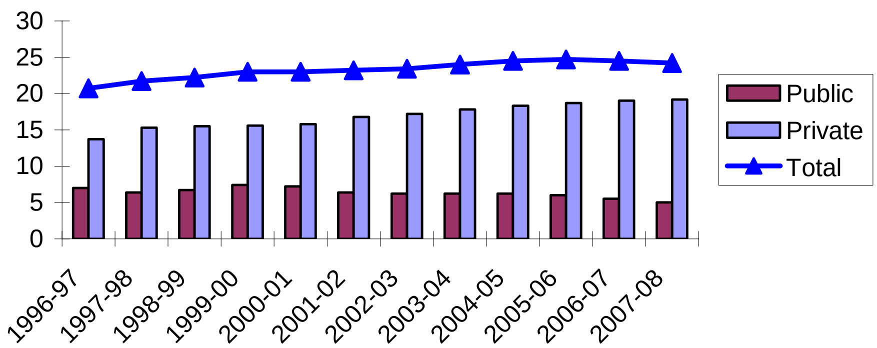


Source: CPD-IRBD Database, 2008.

With respect to the PRSP-II target of 11.7 per cent annual growth in the industrial sector for FY09, short term prospects appear to be mixed with both positive and negative developments at home and abroad. High growth in terms of loan disbursement, accompanied by high LC opening of industrial raw materials in the first quarter of FY09 are indicative of some upturn in industrial sector in the near future.

A slow growth in industrial sector in last several years is related with low level of investment both by public and private sectors (Figure 4.7). Although private investment covers substantial part of total investment, it has registered a slow pace of growth in recent years (17.8 per cent of GDP in FY2004 to 19.2 per cent of GDP in FY2008), which can partly be explained by poor business environment in the country mainly because of lack of adequate infrastructural facilities, particularly supply of electricity and gas.

FIGURE 4.7: INVESTMENT BY PUBLIC AND PRIVATE SECTOR



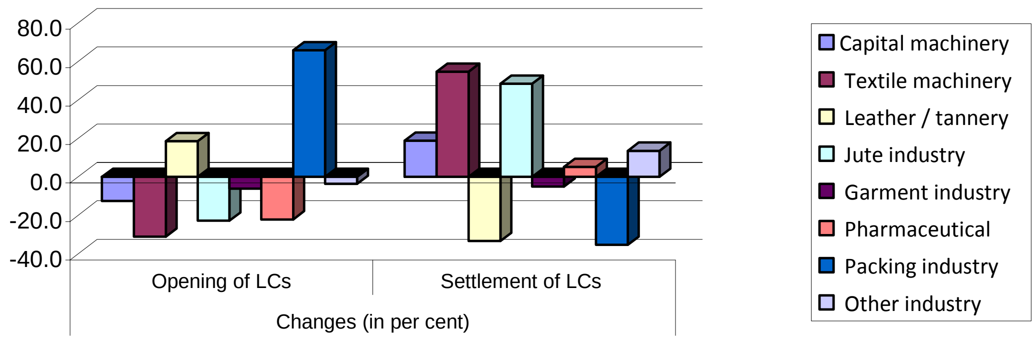
Source: CPD-IRBD Database, 2008.

The positive impact of an outstanding credit growth of 40.06 per cent to the SME sector in FY08 may become visible in FY09. Commercial banks' recent focus on SMEs is mainly because of availability of low cost fund from Bangladesh Bank for lending purposes and also the requirement of lower levels of provisioning against SME loan (5 per cent) as against loans to large scale firms (20 per cent). However, fund allocated to SME foundation for 'credit wholeselling' is yet to be distributed because of institutional difficulties faced by the organisation. Government has decided to separate the EEF from Bangladesh Bank and has requested ICB (Investment Corporation Bank) to take the responsibility managing the fund. If ICB offload shares against shares of these companies, investors would be interested to invest in those projects. If reliance on domestic demand is to be enhanced at a time of uncertainties in the global market, a renewed effort will be required to encourage and promote SME investment.

Board of Investment (BOI) has received some 1,217 local investment proposals with total investment registration amounting to Tk 17,684 crore during January-October of 2008, against only 286 investment proposals with investment registration of Tk 1,966 crore during the 12 months of 2007. The majority of these investment (953) proposals were made in the apparel/textile sector, of which 643 were in textile industries.

The recent fall in LC opening of capital machinery is emerging as a major concern particularly in the context of a global economic recession and its possible impact on investor confidence (Figure 4.8). As a result, the short to medium term prospects for industrial growth will largely depend on materializing entrepreneurs' interest in investment (as reflected from investment proposals) through effective and energetic steps towards meeting the ongoing power shortage and maintaining an overall conducive environment for investment and growth.

FIGURE 4.8: CHANGES IN OPENING AND SETTLEMENT OF LCS FOR IMPORTING CAPITAL MACHINERIES (JULY-OCTOBER, 2008 - JULY-OCTOBER, 2007)



Source: CPD-IRBD Database, 2008.

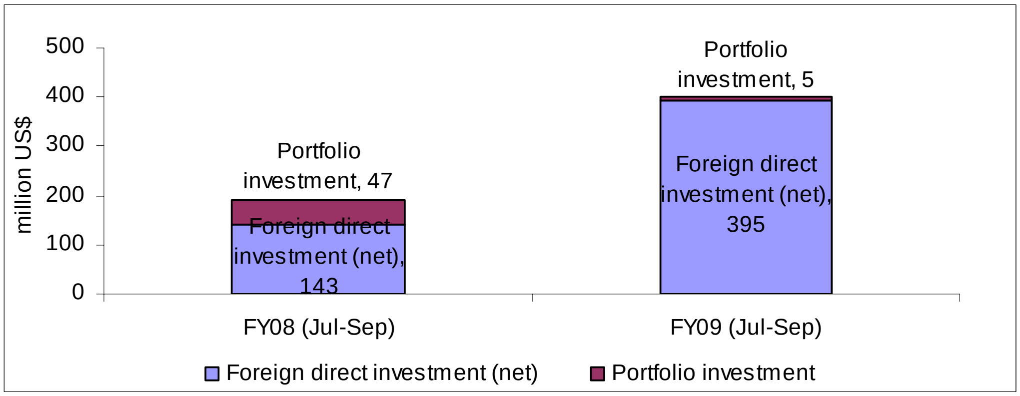
Low level of investment is going to be a major concern for achieving the required level of growth (7 per cent in FY2009). In the backdrop of relatively high capital-output ratio (ICOR in 2008 was 3.66) even achieving the 7 per cent growth in investment will not be adequate to reach the targeted GDP growth of 7.2 per cent by the end of FY2011 (as set in the PRSP). Thus, investment in public sector particularly for the development of power and energy as well as investment by the private sector especially in 'thrust sectors' as mentioned in the Industrial Policy 2005, are essentially needed. Growth of SMEs is critically needed to ensure more production, employment and income that could have positive impact on poverty reduction. The new government will be required to initiate appropriate programmes towards this end.

4.2.2 Foreign Investment

Uncertainties emerging from some of the steps taken by the CTG, shortage of power and prevailing uncertainties about political transition perhaps contributed to the weakening of investors' confidence, which resulted in a fall of FDI by (-) 22.4 per cent in FY08. Domestic investment also portrayed a similar trend during the same time.

However, during July-September of FY09, Bangladesh received a net amount of USD400 million in foreign investment, indicating a 110.5 per cent growth over the inflow during the same period of in FY08 (USD 190 million). Of the total investment in the first quarter of FY09, USD 395 million arrived as FDI, registering an impressive 176.2 per cent growth (Figure 4.9). However, as expected, only USD 5 million came as portfolio investment, against the USD 47 million invested during the corresponding period of FY08. Such a decline may have its roots in the reluctance of foreign portfolio investors due to the current global financial situation.

Figure 4.9: FDI and Portfolio Investment During FY09 (July-September)

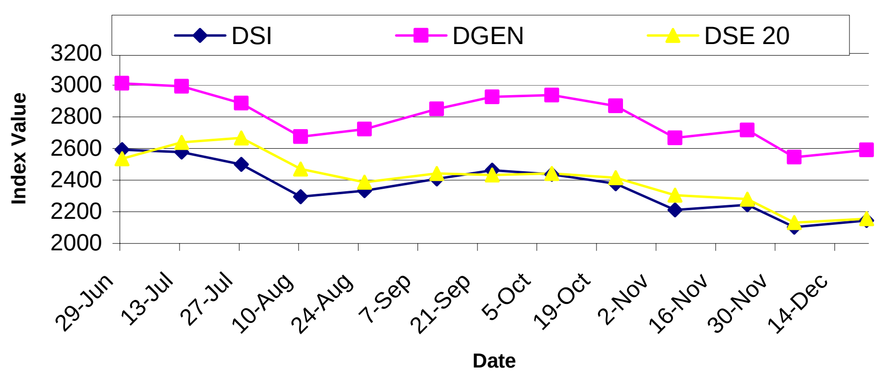


Source: CPD-IRBD Database, 2008.

4.2.3 Capital Market

From July 2008 to December 15, 2008, the Dhaka Stock Exchange (DSE) experienced a decrease in all major share price indices. During this period, the DSE All Share Price Index (DSI) lost 529.1 points (-20.3 per cent), the DSE General Index (DGEN) lost 521.5 points (-17.2 per cent) and DSE20 index lost 501.4 (-19.4 per cent) points from their respective index values in July 2008 (Figure 4.10). The loss of share price of financial institutions, which account for a major proportion of total market capitalisation in the capital market, is the main reason for this. This is evident from DSE performance. Slackened import of some key items including food grains and capital machineries, compounded with general gloomy perception about the ongoing global recession and uncertainties emanating from political transition, have contributed to the falling share price of financial institutions in the capital market. Thus the notion that the relative isolation of our capital markets from the global financial architecture is not tenable. The decline in portfolio investment during the global financial crisis may have exacerbated the market situation.

Figure 4.10: Movement of Major Indices at DSE



Source: CPD-IRBD Database, 2008.

However, Bangladesh's stock markets have not suffered the fate of others, including those in neighbouring countries such India, on account of their low level of integration (only 2.48 per cent of the total market capitalisation) with the global financial market. Thus, it is realistic to assume that uncertainties emanating from political transition have contributed to market performance. Historical trends in Bangladesh stock markets suggest that a pre-election depression in the capital market is a normal pattern. During the pre-election months of 1996, 2001 and 2008 (to be held on 28

December, 2008), the All Share Price Index (DSI) fell by 12.65 per cent, 9.65 per cent and 13.58 per cent respectively, making such decline somewhat to be expected. It can perhaps be expected that the capital market will gradually regain buoyance once the new government settles in.

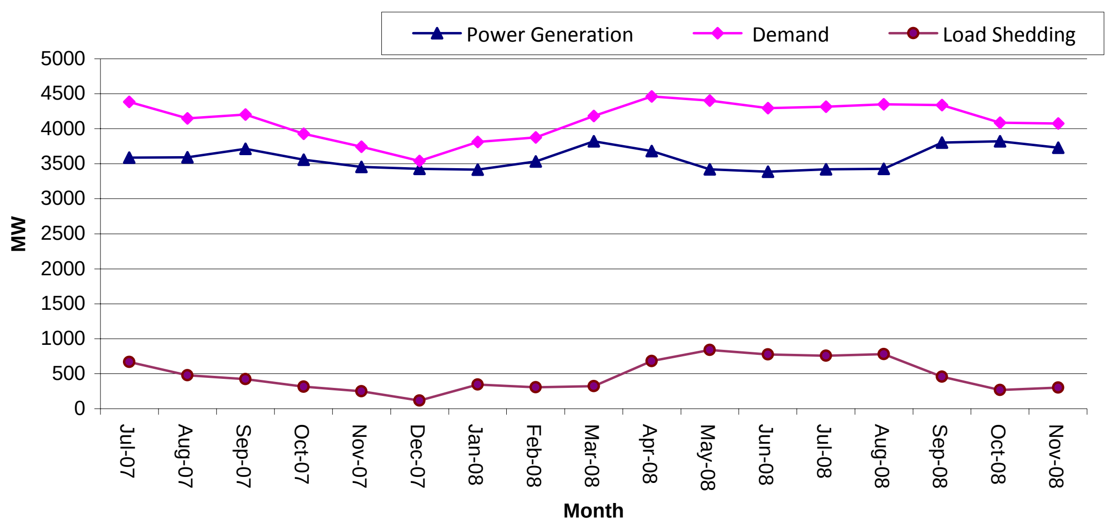
4.2.4 Power and Energy

Energy consumption in Bangladesh is one of the lowest in the world (43 per cent of total population has access to electricity with the per capita electricity consumption being 140 kwh). Although there is a national goal of providing access to affordable and reliable electricity to all by 2020, because of lack of effective initiatives achievement of those targets appear to be rather remote under the current scenario. According to the Power Sector Master Plan (PSMP), power demand is expected to reach 9,288 MW in 2012 and 13408 MW by 2015, assuming the economy grows at a rate of 8 per cent per annum. In other words, an additional 1300 MW electricity would be needed every year to reach the required level set for 2012. Under the existing scenario, achieving that target appears to be a daunting task.

Power generation marginally improved in FY08 (12.1 per cent) owing to the strengthening of management and operations of major public offices affiliated with the power sector. The positive trend continued through to FY09 with 10.7 per cent growth registered during July-November FY09 over the comparable period of FY08 (Figure 4.11). While institutional reforms generate some positive results, only 80 MW power was added in the national power grid during the last two years.

While load shedding has reduced somewhat from 371.2 MW in October 2007 to 278.1 MW in October 2008, the problem will be exacerbated during the upcoming summer season (May to August 2009) when demand will pick up, unless immediate steps to address the situation are taken up.

Figure 4.11: Power Generation and Load Shedding



Source: CPD-IRBD Database, 2008.

From long term energy security, various short, medium and long term projects for power generation, transmission and distribution need to be taken on an urgent basis. The Power Division of the Ministry of Power and Energy has already adopted a '3 year Road Map for Power Sector Reform 2008-2011' which articulated activities to be accomplished, in every six months during this period. Even after acknowledging various reforms at institutional level as initiated under the plan (for example, conversion of BPDB into a holding company, corporatization of DESA, preparation of generation support framework, REB's institutional development, implementation of financial restructuring plan etc.), generation of additional capacities should be considered as one of the top most priorities of the new government. Caretaker government has approved 30 small and large power plants during the last two years which are scheduled to be completed by 2012; a total of 17 power plants are now under construction and another 7 plants are in the pipeline. If all these power plants are set up in time (which appears to be rather difficult), a maximum of 5855 MW additional power supply could be added to the national power grid. However, only one power plant has been established thus far. Others are still under construction al beit at a slow pace mainly because of lack of assurance about supply of gas to the power plants.

To take pressure off gas resources (almost 87 per cent of the total electricity production now depends on gas), alternative inputs for electricity generation such as coal will need to be made use of. About 3300 million tons of country's coal reserves could generate more than 80 tcf equivalent of energy. A priority for the new government, therefore, will be to come up with a National Coal Policy which addresses both investment and environmental concerns.

As is known, Bangladesh's gas reserves are estimated to be lower than what was earlier projected. According to some estimates, proven reserves of natural gas are about 8.3 tcf and probable reserves are another 5.5 tcf. Gas generation has increased at a rate of 6 to 8 per cent per year in the recent past. In FY08 as well, 6.9 per cent growth was achieved with a total production of 17015 mmcf (Table 4.3). However, during July-September of FY09, gas production increased by 9.4 per cent, mainly because of a substantial rise in production by international oil companies (24 per cent higher over the same period of the previous year). On the other hand, production by public sector plants declined by 2 per cent.

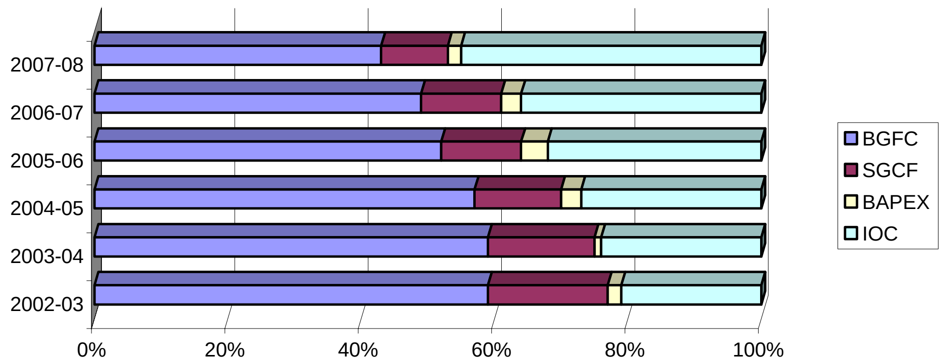
TABLE 4.3: TOTAL GAS PRODUCTION IN DIFFERENT YEARS (MMCF)

	Petrobangla	IOC	Total	Growth
FY04	9715.1	3106.0	12821.1	7.5
FY05	10086.5	3696.9	13783.4	7.5
FY06	10116.6	4804.3	14920.9	8.3
FY07	10148.5	5771.7	15920.1	6.7
FY08	9282.0	7732.5	17014.5	6.9
FY08 (Jul-Sep)	2380.2	1847.4	4227.6	
FY09 (Jul-Sep)	2332.5	2290.6	4623.1	9.4
Growth FY09 (Jul-Sep)	-2.0	24.0	9.4	

Source: CPD-IRBD Database, 2008.

The share of private companies in overall gas distribution has been increasing over time. In 5 years, their share has doubled from 21 per cent in FY03 to 45 per cent in FY08 (Figure 4.12). To consolidate domestic presence in the energy sector and ensure command over the potential benefits, strengthening BAPEX is critically important from the country's long term strategic perspective.

Figure 4.12: Gas Production BY Public and Private Companies



Source: CPD-IRBD Database, 2008.

The government in the national budget has made an allocation of Tk 3,200 crore to strengthen BAPEX over the next seven years. Along with utilisation of this resource to develop new onshore and offshore gas blocs, developing the technical and human resource capacity of Petrobangla will be necessary to strengthen its capacity to be a major player in the country's energy scenario.

Energy security has emerged as one of the most formidable challenges facing Bangladesh's economy. With regard to electricity generation, it is perhaps time to explore other options such as nuclear power. At the same time, the exploration of new gas reserves will be a crucial factor in the medium to long run. Petrobangla's initiative in the exploration of gas in off-shore blocks has not been able to attract the expected level of interest. A coordinated and strengthened effort is needed in this regard, along with resolving territorial issues with Myanmar and India over offshore gas blocks. Overall, improving the power and energy situation will be one of the major challenges to be addressed head on and on an immediate basis by the newly elected government.

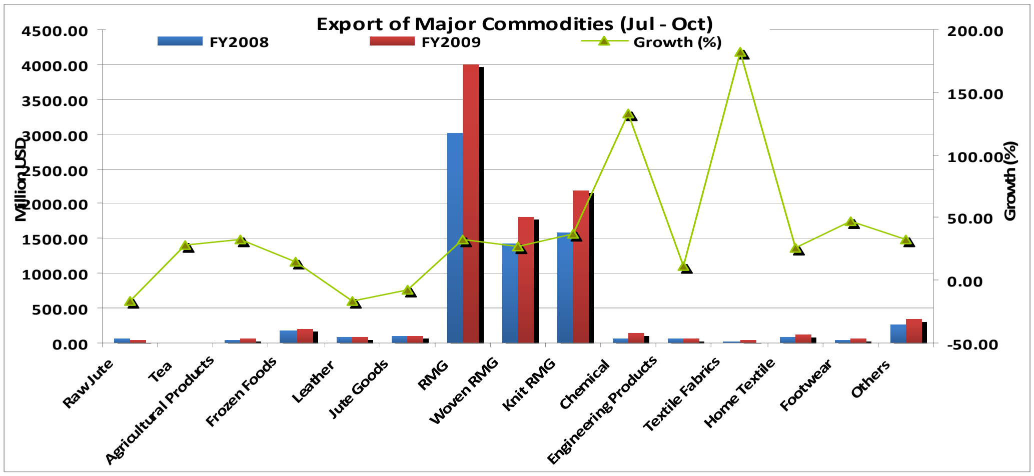
5 EXTERNAL SECTOR

5.1 Export Sector

Bangladesh's total export earnings during FY08 stood at USD 14.09 billion, registering a double-digit growth of 15.9 per cent over FY07. The performance was all the more remarkable as it came in the backdrop of high benchmark of 24.7 per cent and 15.6 per cent growth rates attained over the previous two fiscal years.

Export earnings during the first four months of FY09 stood at USD 5.25 billion registering a phenomenal 30.7 per cent growth over the corresponding period of previous fiscal year (Figure 5.1). However, the negative growth rate in October (-7.4 per cent) should transmit a cautionary signal. The October export performance mirrors the somewhat uncertainties that set in July/August 2008 when the financial crisis started to have an impact on major apparel buyers. With the export target set at USD 16.3 billion in FY09, 15.5 per cent over FY08, Bangladesh's exports will need to grow at 9.5 per cent over the next eight months if the targets are to be achieved. For the apparels sector the required growth rate would be 7.6 per cent.

FIGURE 5.1: BANGLADESH'S EXPORT OF MAJOR COMMODITIES (FY08 AND FY09, JUL - SEP)



Source: CPD-IRBD Database, 2008.

Evidence suggests that retail and wholesale prices in the US has dropped by 1.8 per cent and 2.2 per cent respectively in November, 2008. Major retailers such as Macy's Abercrombie & Fitch and GAP have reported declining sales of more than 10 per cent in November. Department store giant Macy's reported that sales dropped 13.3 per cent in November compared to the same month in 2007. Despite these drops in retail sales by the major stores, Wal-Mart continued to beat expectations with a 3.4 per cent sales rise in November, 2008[5]. Without Wal-Mart's contribution, November sales would have fallen 7.7 per cent. Even for Wal-Mart, the increase in sales is to same extent explained by the high discounts offered to its consumers. If the Christmas sales do not perform well this could lead to accumulation of inventory which in turn could lead to deferment and reduction of placement of orders.

To add to this, since US restrictions on China's RMG is to be phased-out from January 01, 2009, Bangladesh might face more intense competition from her Chinese counter parts in low-value end apparels market during the second half of FY09. President-elect Barack Obama's "single largest new investment" plans to create 2.5 million jobs could add steam to US domestic demand; however, much will depend on how deep the recession gets in 2009, or whether there is an early recovery. The prospect of the latter scenario, according to all major forecasts, is rather bleak. The World Bank November 2008 update showed that the global financial meltdown will hit export giants like China and contract their GDP growth to 8.5 per cent in 2009 from 11.9 per cent in 2007. Such contraction might adversely affect China's export oriented industries, including apparels. This has already been reflected in their November 2008 figure – for the first time in 7 years, exports dropped by 2.2 per cent compared to November 2007. Although China continues to perform well in EU market, export growth has significantly slowed down in the US market. Bangladesh still remains highly competitive in the lower-end of the market. Our aim should be to have higher share in the shrinking picture. The new EU RoO criterion with 30 per cent value addition including dyeing for knitwear items (especially sweater), will also pose challenges for Bangladesh's RMG sector in the EU market. This will require more investment in dyeing and finishing. However, unlike the US market where global import of apparels has posted negative growth in early months of FY09, in the EU import growth in the first quarter has been robust, at 10.5 per cent (Table 5.1).

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[5] US retail sales figures confirm bleak outlook for consumers. 4 December 2008. http://www.guardian.co.uk/business/2008/dec/04/useconomy-walmart

TABLE 5.1: US AND EU(27) IMPORT OF APPARELS FROM SELECTED COUNTRIES (GROWTH %)

		US Market			EU(27) Market		
		Jul - Oct			Jul - Sep		
		HS61	HS62	Total	HS61	HS62	Total
Bangladesh	FY09 vs. FY2008 (in %)	25.83	12.39	16.40	13.94	4.39	10.85
Cambodia		-2.80	-2.47	-2.70	3.95	-6.63	2.77
China		6.74	0.92	3.79	43.88	15.67	26.95
Vietnam		28.50	10.90	19.70	23.13	16.87	18.63
Global		***-0.36***	***-2.38***	***-1.30***	***12.35***	***8.75***	***10.46***

Source: CPD-IRBD Database, 2008.

Export performance of some of the other sectors have suffered owing to slump in global demand. Leather is a case in point. While FY08s export data indicates a positive export growth of 6.9 per cent for Bangladesh's leather sector, export slumped dramatically during the first four months of FY09 by (-)16.3 per cent. Future prospect of the leather industry appears to be bleak, dealing a blow to the hides and skins traders during the Eid festival. This year 20 sq ft of cattle hide sold at Tk 600-650 against Tk 1300-1400 in 2007 and hides of goats were priced at Tk 100-150 against last year's Tk 250-300[6]. Export performance, thus, will need to be put under close monitoring. A stimulus package should be designed to help the sectors to tide over these difficult times. Bangladesh's jute industry has also been experiencing a downward trend since the beginning of FY09. Export of jute goods declined by around 7.5 per cent during the analysed period.

Lack of product and market diversification along with weaknesses in backward and forward linkage areas continue to remain major obstacles facing Bangladesh's export sector. Export growth, for the first two months of FY09, have continued to be driven in large measure by volume growth rather than rise in prices of export items. Decomposition of growth dynamics reveals that most of the growth (about 85 per cent) was accounted for by rise in volume of exports. One disquieting concern is further fall in prices in view of the apprehended low demand. Most of the incremental earnings will have to come from rise in volumes. This also needs to be considered in relation to the significant deterioration of Bangladesh's terms of trade (ToT) experienced by Bangladesh in recent years. CPD estimate shows, if export prices of FY2000 are taken as the base year, ToT declined significantly to 85.6 by FY07. A CPD analysis of export prices and import prices of selected major essential items vividly illustrates the deteriorating ToT. While in 2006, to import a barrel of crude petroleum Bangladesh had to export 2.34 dozens of RMG, in 2008 (July) it increased to 4.70 dozen. By the end of November, however, thanks to falling commodity prices, this has come down to 2.13 dozens. On the contrary, to import one ton of rice, in 2006 Bangladesh had to export 0.52 tons of jute goods; at present in 2008 (November), to import the same amount Bangladesh has to export 1.14 tons of jute goods (Table 5.2).

[6] Global crisis hits local leather industry. December 16. http://bdnews24.com/details.php?id=70812&cid=2

TABLE 5.2: FALLING PURCHASING POWER OF EXPORTS

	Dozens of RMG			Rise (in times) b/a	Rise (in times) c/a	Tons of Jute Goods			Rise (in times) e/d	Rise (in times) f/d
	2006 (Avg) (a)	**2008 (Jul) (b)**	**2008 (Nov) (c)**			**2006 (Avg) (d)**	**2008 (Jul) (e)**	**2008 (Nov) (f)**		
1 barrel of Oil (Fuel)	2.34	4.70	2.13	2.0	0.9	0.11	0.23	0.10	2.1	0.9
1 ton of rice	10.97	34.51	23.73	3.1	2.2	0.52	1.70	1.14	3.3	2.2
1 ton of wheat	7.07	11.83	8.78	1.7	1.2	0.33	0.58	0.42	1.7	1.3
1 Metric Ton Soybean Oil	21.19	51.97	34.00	2.5	1.6	1.00	2.56	1.63	2.6	1.6

Source: CPD-IRBD Database, 2008.

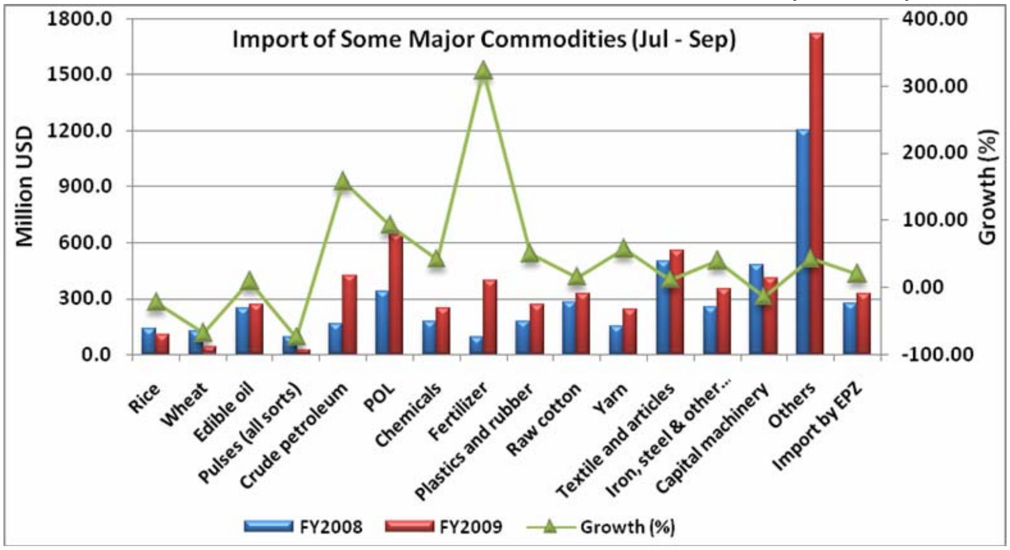
The ongoing negotiations in the WTO also pose formidable challenges for Bangladesh. In recent months, Bangladesh has been lobbying the US for an LDC-friendly design of the 97% DF-QF (Duty-Free, Quota-Free) list. Besides, the NPDA 2007 (New Partnership for Development Act of 2007), which had been tabled in the US Congress, is another potential avenue of preferential access to US market. Both these routes will need to be vigorously pursued in FY09. In view of ongoing WTO negotiations on SPS, TBT and environmental issues, Bangladesh (and also other LDCs) is likely to be confronted with new tests in terms of complying with various standards. Agricultural exports (SPS-TBT), knitwear (affluent treatment) and other sectors will need to considerably strengthen their compliance level in view of the likely demands stemming from the current round of trade negotiations. Bangladesh's export policies and incentive structure will need to be geared towards addressing these requirements.

5.2 Imports Sector

Import growth has been quite impressive over the recent years. Total merchandise imports to Bangladesh during FY08 amounted to USD 21.63 billion, registering a growth of 26.1 per cent compared to the corresponding period of FY07.

This positive trend continued in the first quarter of FY09. Import grew by 34.9 per cent as compared to the same period of FY08. Import share of POL was the highest, recording 10.1 per cent of total import. The second highest import share (in value terms) was of textile and articles thereof, accounting for about 8.8 per cent of total import (Figure 5.2).

FIGURE 5.2: IMPORT OF SOME SELECTED COMMODITIES (JUL – SEP)



Source: CPD-IRBD Database, 2008.

Import growth ranged from high to moderate for all major non-food items excluding capital machineries, which posted negative growth rate of (-) 13.9 per cent. Import growth of crude petroleum (Jul – Sep FY09) was high at 157.5 per cent, fuelled by the rise in global oil prices. By the end of June, crude oil price/barrel had already hit USD 133.88. During the Jul – Sep period, on average, crude oil price was USD 118.05/barrel. However by December 2008, oil price came down to USD 51/barrel – although its impact on our crude petroleum import is yet to be felt on the ground. Import of POL also posted a remarkably high growth of 91.77 per cent. The bill for this was to the tune of USD 640.50 million. Raw cotton (14.6 per cent) and particularly yarn (56.5 per cent), and also iron, steel and other base metals (39.1 per cent), also posted significant rise (Figure 5.2).

As mentioned earlier, import of capital machineries fell by (-) 13.9 per cent during the first quarter of FY09 compared to FY08. Though settlement of L/Cs for capital machineries revealed a positive growth (18.8 per cent), opening of L/Cs for capital machineries during the first four months of FY09 matches its negative import trend, with a negative growth of (-) 12.6 per cent. Such decline in import of capital machineries is likely to have negative implications for investment and could emerge as a major concern for the new government.

5.3 L/C Opening and Settlement

Opening and settlement of L/C registered 40.02 per cent and 27.56 per cent annual growth respectively in FY08. Indeed for FY08, L/Cs opened for almost all commodities registered high positive growth rates ranging from 8 to 40 per cent, excluding some critical items such as capital machinery, for which L/C settlement declined by (-) 8.4 per cent. Opening of back-to-back L/C had also registered a positive growth of 19.5 per cent over the corresponding period.

The high growth trend of opening and settlement of L/C continued in FY09 as well. L/Cs opened during Jul-Oct FY09 was worth USD 8.0 billion, recording a 13.9 per cent increase over the corresponding period of FY08. Similarly, L/C settled during this period was 31.6 per cent higher as compared to the corresponding period of FY08 (Table 5.3).

TABLE 5.3: OPENING AND SETTLEMENT OF L/C (FY08 VS. FY09, JULY – OCTOBER)

(Million USD)

	FY08		FY09		Growth (%)	
	LC Opening	**LC Settlement**	**LC Opening**	**LC Settlement**	**LC Opening**	**LC Settlement**
Consumer Goods	**1134.48**	**790.27**	**598.93**	**599.48**	**-47.21**	**-24.14**
Rice	363.23	192.49	3.51	151.97	-99.03	-21.05
Wheat	341.48	194.85	288.05	88.24	-15.65	-54.71
Intermediate Goods	**542.07**	**475.63**	**789.98**	**646.50**	**45.73**	**35.92**
Industrial Raw Materials	**2639.11**	**2323.48**	**3312.03**	**3350.45**	**25.50**	**44.20**
Textile Fabrics Accessories	940.81	882.73	1093.81	1083.52	16.26	22.75
Textile Fabrics Accessories BBLCs	869.02	820.67	1019.68	1013.67	17.34	23.52
Fabrics	672.13	628.78	771.87	777.49	14.84	23.65
POL	**525.71**	**578.31**	**922.56**	**922.57**	**75.49**	**59.53**
Capital Machinery	**528.13**	**469.84**	**461.86**	**557.96**	**-12.55**	**18.76**
Machinery for Misc Industries	**496.50**	**436.64**	**613.11**	**536.64**	**23.49**	**22.90**
Commercial Sector	675.04	553.13	800.73	720.53	18.62	30.26
Industrial Sector	483.76	372.23	502.88	558.93	3.95	50.16
Other L/Cs	**1158.80**	**925.36**	**1303.60**	**1279.45**	**12.50**	**38.27**
Total	***7024.80***	***5999.53***	***8002.07***	***7893.05***	***13.91***	***31.56***

Source: CPD-IRBD Database, 2008.

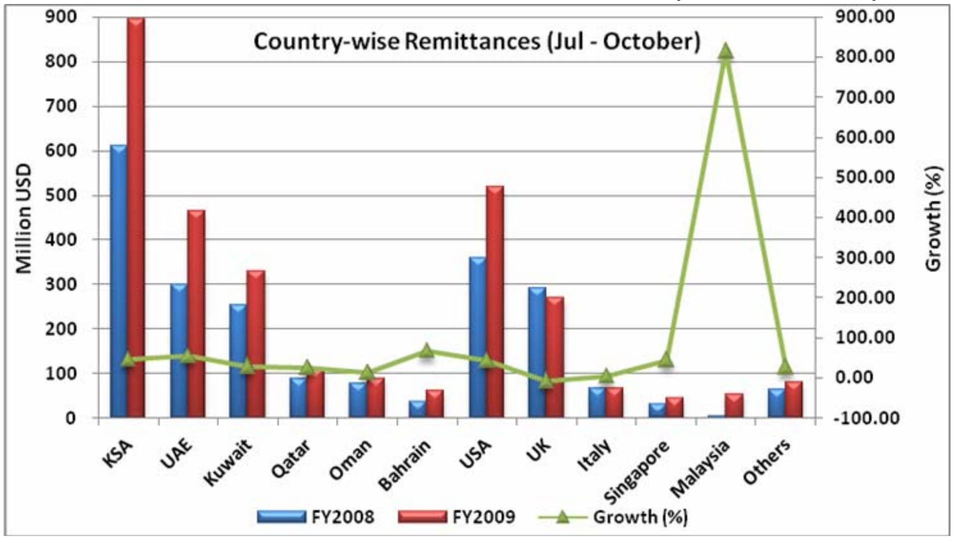
L/Cs opened for POL were exceptionally high at 75.5 per cent during the first four months of FY09, in contrast with the corresponding period of FY08. Despite the decreasing global price of petroleum, opening of L/Cs for POL remains high. Latest available data shows that in November, 2008 alone (till November 27), L/Cs opened for POL was worth USD 139.67 million. This was perhaps because of purchase contracts negotiated earlier, and it will still require some time to get the lower prices reflected in the import figures.

5.4 Remittance Flow

The ascend of remittance flow to Bangladesh has been quite phenomenal over the recent past. Remittances increased from under two billion dollars (USD 1.95 billion) in 2000 to USD 7.91 billion in FY08. Indeed, the CPD estimates for FY08 indicate that remittance earnings was equivalent to more than half of Bangladesh's gross export (56.2 per cent), and approximated that of net export.

During the first five months of FY09, earnings from remittance was USD 3.75 billion which was USD 947.50 million more or 33.8 per cent higher than the corresponding period of FY08.

FIGURE 5.3: COUNTRYWISE FLOW OF REMITTANCES (JULY – OCTOBER)



Source: CPD-IRBD Database, 2008.

From Figure 5.3 one can deduce that Saudi Arabia continued to rank as the major source of remittance for Bangladesh, accounting for 29.9 per cent of all remittance earnings (FY09, Jul - Oct), recording a growth of 46.3 per cent compared to FY08. Of the other major sources, growth rates of remittance (in FY09) from UAE (54.5 per cent), Kuwait (30.0 per cent) and the US (43.6 per cent) have been quite high. Significant growth of remittance earnings has been observed from countries such as Malaysia. In FY08, remittance earnings from Malaysia was only USD 5.89 million, which has increased to USD 53.83 million in FY09, posting an impressive growth of more than 9 times indicating broadbasing of remittance source.

In terms of remittance earnings, the US is Bangladesh's second largest income source, contributing around 17.4 per cent of Bangladesh's total remittance earnings in FY09. However, given the expected slow down of the US economy, remittance could see some decline. As is known, the US economy has shed 1.9 million jobs so far this year with payrolls having now dropped for 11 straight months. Some countries such as Mexico has seen significant declines in remittance flow as a consequence.

The World Bank data indicates that the financial meltdown is not likely to hit the Middle Eastern economies as severely as their Western counterparts. The Middle East economy may experience some decline in their growth during 2009, which is expected to be around 5.3 per cent (compared to 6 per cent in 2007). Under this scenario, remittance from Middle East is unlikely to be significantly affected.

The Bangladesh Bank, in an urgent meeting on 15 December 2008, instructed all banks to take measures with a view to reduce the time and cost of transferring remittances in order to encourage flow of remittances through formal channels (by some estimates about two-fifth of all remittances continue to be transferred through informal channels). One initiative which could prove to be effective is to put in place appropriate investment opportunities for the migrant workers that are easily accessible and secured.

5.5 Balance of Payments

The distressed performance of the external sector in FY08 left its mark on the trade balance which recorded a larger deficit of USD (-) 5541 million in FY08 compared to the deficit of USD (-) 3458 million in FY07. In continuation of with the same direction, negative trade balance during the first quarter of FY09 increased to USD (-) 1356 million from the corresponding figure of USD (-) 1182 million in FY08.

Despite deficit in the trade balance, current account balance recorded a larger surplus of USD 366 million during Jul-Sep FY09 compared to the surplus of USD 99 million in the same period of FY08, due mainly to larger current transfers of USD 2517 million. This current account balance surplus mainly originated from private transfers in the form of workers' remittances which was USD 2337 million in FY09 (Jul-Sep), posting a robust growth of 43.5 per cent against USD 1629 million in FY08. The growth of workers' remittances demonstrated strong achievements against the backdrop of prevailing global financial crisis. The financial account also registered a deficit of USD (-) 55 million during Jul-Sep FY09 compared to the surplus of USD 34 million during the same period of FY08. Overall, the current account surplus balance had been continued in the first three month of FY09 (USD 64 million), against the surplus of USD 203 million during the corresponding period of FY08 (Table 5.4). Both these balances could improve if exports sustain the present performance and in view of the expected fall in import demand for cereals.

TABLE 5.4: BALANCE OF PAYMENT

(In million USD)

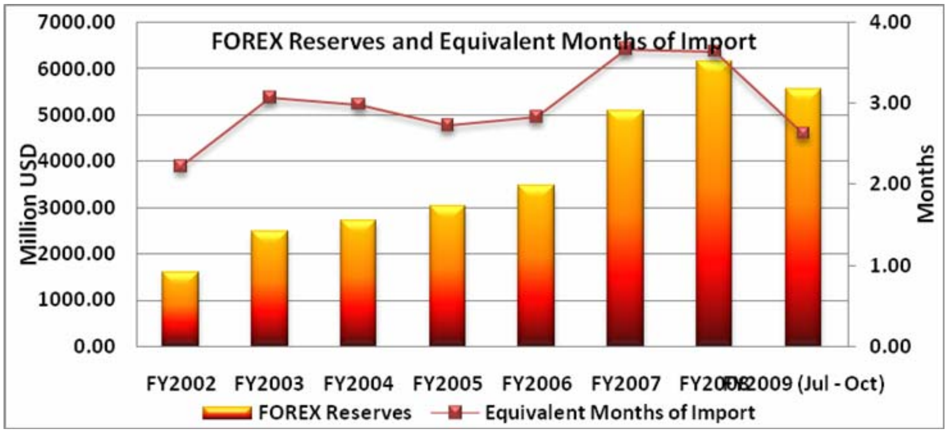
	FY07	FY08	Jul-Sep FY08	Jul-Sep FY09
Trade balance	-3458	-5541	-1182	-1356
Services	-1255	-1525	-408	-648
Income	-905	-1005	-109	-147
Current transfers	6554	8743	1798	2517
Official transfers	97	127	29	5
Private transfers	6457	8616	1769	2512
of which : Workers' remittances	5979	7915	1629	2337
Current account balance	936	672	99	366
Capital account	490	576	90	64
Financial account	762	-431	34	-55
Errors and omissions	-695	-213	-20	-311
Overall balance	1493	604	203	64
Reserve assets	-1493	-604	-203	-64

Source: CPD-IRBD Database, 2008.

5.6 Foreign Exchange Reserves

In the backdrop of high export and remittance earnings, the foreign exchange (forex) reserves posted a 21.1 per cent annual growth at the end of FY08 and stood at USD 6148.82 million. At the end of the first quarter of FY09 (September 2008) forex reserve was to the tune of USD 5862.72 million. Due to ACU payment of USD 582.01 million (as on 2 October 2008), forex reserve at the end of October 2008 stood at USD 5550.70 million which is 2.6 per cent higher compared to the same period of 2007. The current forex reserve is equivalent to about 2.63 months of import payment (Figure 5.4).

FIGURE 5.4: FOREX RESERVES AND EQUIVALENT MONTHS OF IMPORT



Source: CPD-IRBD Database, 2008.

In order to accommodate the apprehensions originating from the ongoing financial crisis, the Bangladesh Bank has strengthened its intervention in forex market through providing support to the commercial banks for settlement of fuel oil import bills. The central bank took the move aiming to keep the country's inter-bank foreign exchange market stable.

In view of the changing dynamics in the foreign currency market, Bangladesh Bank, on a regular basis, needs to carefully monitor and change the composition of its forex reserve currency basket and take appropriate measures so that the purchasing power of reserves does not suffer.

5.7 Foreign Aid

Total aid disbursements during FY08 were higher at USD 1956.70 million, compared to USD 1624.62 million during FY07. Net receipts of foreign aid during FY08 also stood markedly higher at USD 1376.54 million, against USD 1099.52 million during FY07. Aid disbursements during the first quarter of FY09 totaled USD 435.59 million, compared to USD 316.09 million during the same period of the previous fiscal. Net receipts of foreign aid during the same period also stood significantly high at USD 302.49 million, compared to USD 215.62 million that was received during the same month of FY07. Some experts apprehend that the financial crisis may have an adverse impact on the commitment and disbursement of future foreign aid. It is worth mentioning here that following each of the recent financial crises (Japan after its real estate and stock bubble burst in 1990; Finland, Norway and Sweden after their economic crisis in 1991), donors tended to curb their aid in terms of both their commitment and disbursement. However, the World Bank has recently made commitments of aid worth USD 1.34 billion to Bangladesh, of which, USD 953 million will be made available to finance seven major projects and the remaining USD 38.1 million will be released gradually during the December-June period of FY09. On-time disbursement and the subsequent effective implementation of that huge aid would be a major challenge for the newly elected government. During October, the Asian Development Bank (ADB) also committed to provide a loan of USD 165 million, of which, USD 82 million is to help finance large infrastructure projects; USD 50 million to assist small and medium-sized energy projects; and, USD 33 million to promote renewable energy. The three most critical challenges currently facing the country in this regard are (a) disbursement of the committed aid; (b) mobilisation of counterpart domestic funds; and (c) quality implementation of aid-related activities (both in terms of finance and projects).

6 SOCIAL SECTORS

With a view to ensuring sustainable economic growth through human resource development, the FY09 budget has put emphasis on health and education. Social safety net programmes were further strengthened and new programmes were initiated in support of the resource poor segments of the society.

TABLE 6.1: SOCIAL SECTOR: ADP ALLOCATION AND EXPENDITURE TILL OCTOBER 2008

(in crore Tk.)

Sub-Sectors	ADP Allocation	Implementation till October 2008	
		Total	*% of Allocation*
Health			
M/O Health and Family Welfare	2416.43	304.43	13%
Education and Technology			
M/O Primary and Mass Education	2369.35	345.40	15%
M/O Education	826.05	163.06	20%
M/O Science, information & communication technology	126.39	7.32	6%
Women Advancement and Children Affairs			
M/O Women and Children Affairs	118.16	22.76	19%
Social Safety Net			
M/O Social Welfare	47.70	9.45	20%
M/O Food and Disaster Management	210.66	10.96	5%
M/O Labour and Employment	89.62	14.03	16%

Source: CPD-IRBD Database, 2008.

6.1 Health

The MoHFW registered a somewhat satisfactory result by utilising 84 per cent of its ADP allocation during FY08. However, given the trend of ADP utilisation over the last four months, one may assume that the rest of FY09 will be a challenge for the incoming government.

Available data show that total ADP allocation for *Essential Service Delivery* in the FY09 budget was Tk. 346.83 crore of which only 8 per cent has been utilised until October, 2008. Similarly disappointing is the utilisation of a mere 3 per cent of the total allocation for *Maternal, Child and Reproductive Health Services Delivery* during the first quarter of FY09. Such performances will call for appropriate measures to ensure proper implementation of the project within specified timeframe.

Proactive measures are also needed to be put in place to effectively run the *National Nutrition Program*. Thus far only 1 per cent of the allocated Tk. 133 crore has been utilised to this end. The project titled *Family Planning Field Services Delivery* is also progressing at a frustratingly slow pace with only 10 per cent of the allocated Tk. 236.94 crore disbursed and only 3 per cent spent during the July-October 2008 period.

The incoming government will need to design pragmatic strategies with regard to release and utilisation of the allocated funds in the health sector.

6.2 Education and Technology

Given the extent of ADP utilisation by MoPME (95.5 percent) and MoE (91 per cent) during FY08, the current rate of 15 per cent and 20 per cent by the respective Ministries during the first quarter of FY09 gives rise to concern over successful completion of the projects within the timeframe.

While total outlay for PEDP II in FY 09 is Tk1800 crore, about 21 per cent of this (Tk.379 crore) has already been spent during July to November period. In addition to this, the *Secondary Education Quality and Access Enhancement Project* (SEQAEP) is awaiting implementation. Total anticipated cost for the project is Tk.96 crore (GoB 12.5 per cent and WB 87.5 per cent). Half of the total allocation has already been disbursed for July to February period of FY09. Currently, the programme is in the phase of identifying real poor students through *Proxy Means Testing*.

Allocation for education and technology in FY09 is 4.94 per cent higher than the revised budget for FY08. However, slow pace of ADP implementation till October 2008 gives rise to formidable challenge for the incoming government with regard to upgrading and modernisation of our education system.

6.3 Women Advancement and Children Affairs

Successive governments in Bangladesh have been striving towards ensuring women's and children's meaningful participation in the development process. To this end, sectoral Ministries have been bestowed with the responsibility of implementing multifaceted programmes such as strengthening human security by combating violence against women and children, increasing shelters for victims of violence, improving workplace conditions for women, facilitating women's representation at various policy and decision making levels, and education and empowerment of girl child. The MoWCA has so far been able to utilise about 19% of its ADP allocation for FY09. This calls for vigorous measures to be adopted by the incoming government.

6.4 Social Safety Net

Line Ministries responsible for implementing development projects under social safety net need to gear up their efforts to ensure adequate utilisation of allocated funds. This is particularly important in view of the fact that ADP implementation by the relevant Ministries at the end of FY08 stood at between 59 to 80 percent. In this regard, the newly elected government will need to make sure that funds are released timely for the targeted projects.

As part of the 100 day employment generation scheme, government spent 123.70 crore taka in the 7 *monga* affected districts of the Northern part. This spending accounted for 15.6 per cent of the expenditure for the rest 57 districts and 13.5 per cent of the total spent amount.

On an average, the government equally distributed the amount between *monga* affected districts and others regions. However, given the vulnerability of the Northern districts a larger share of the allocation should have been targeted to these poverty prone areas. In this context, it needs to be seen as to how the second phase of the project (i.e. 40 days) is implemented.

The recent initiative of 5 years guaranteed employment for the destitute women of *monga* prone *Panchgar* and *Rangpur* districts is certainly praiseworthy. It is hoped that the incoming government will put in place adequate policy and institutional measures to ensure successful implementation of the programme.

Total food grains distribution in FY09 (01 July-20 November) through PFDS was 697.89 thousand metric tons, which was 78.72 per cent higher than that distributed during 01 July – 22 November 2007 (390.48 thousand metric tons).

TABLE 6.2: CHANNEL WISE DISTRIBUTION OF FOOD GRAINS UNDER PFDS IN BANGLADESH: 2008/09 (1 JULY- 20 NOVEMBER) AND 2007/08 (1 JULY- 22 NOVEMBER)

(in '000 mt)

Channel	Allocation FY08	Distribution (July 1 - Nov 22, FY08)		Allocation FY09	Distribution (July 1 - Nov 20, FY09)	
		Total	***%***		***Total***	***%***
Priced						
Essential Priorities (EP)	255.37	84.27	33.00	256	83.69	32.69
Other Priorities (OP)	27	7.15	26.48	27	7.64	28.30
Large Employers (LE)	18	5.38	29.89	12	3.58	29.83
Open Market Sale (OMS)	723	62.88	8.70	1350	185.56	13.75
Flour Mill (FM)	-	-	-	-	-	-
Fair Price Campaign (PC)	-	-	-	-	-	-
Hill Tracts/Others	50	3.02	6.04	-	-	-
Sub Total	1073.37	162.7	15.16	*1645*	280.47	17.05
Non-Priced						
Food for Work (FFW)*	236	1.03	0.44	500	7.38	1.48
Test Relief (TR)	150	0.75	0.50	200	17.02	8.51
Vulnerable Group Development (VGD)	200	99.3	49.65	265	103.38	39.01
Vulnerable Group Feeding (VGF)	400	79.25	19.81	225	235.63	104.72
Gratuity Relief (GR)	64	22.07	34.48	64	6.18	9.66
VGF (Relief)	-	-	-	-	31.29	-
Hill Tracts/Others	75	25.37	33.83	75	16.53	22.04
Sub Total	1125	227.77	20.25	*1329*	417.41	31.41
Total	**2198.37**	**390.48**	**17.76**	**2974**	**697.88**	**23.47**

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

Note: * includes direct distribution of wheat by World Vision International
- No available data

It is notable that allocation of food grains for OMS and FFW in FY09 was respectively 86.72 per cent and 111.86 per cent higher than those allocated in FY08. On the other hand, food grains allocation for VGF in FY09 was reduced by 44 per cent as against FY08 allocation. However, VGF distribution during 01 July-20 November of FY09 was 235.63 thousand metric tons while the allocation for the full fiscal was 225 thousand metric tons. The comparable figures for FY08 were 79.25 thousand metric tons and 400 thousand metric tons respectively.

In view of surpassing of the allocated quantity before the halfway mark of FY09, it will be interesting to see what strategies are adopted by the incoming government to continue the VGF programme for the rest of the fiscal year in support of the resource-poor people.

As the above discussion portrays, the signal that the degree of ADP implementation during the first quarter of FY09 is creating for the rest of the fiscal is more of a challenge than simple designing of policy measures. While some measures under the social safety net deserve appreciation, crucial sub-sectors like health and education needs serious attention from the incoming government.

7 Growth Outlook and the Global Financial Crisis

GDP growth is undoubtedly the major yard stick of economic progress in Bangladesh and arguably one of the critically important avenues for poverty reduction. Since 1990's, Bangladesh's average growth performance increased from 4.4 per cent in the early 1990s to 5.4 per cent during FY2001-2005. Notwithstanding the external (high commodity price in global market) and internal (Sidr and two floods) shocks, FY08 recorded a 6.2 per cent growth demonstrating resilience and some growth momentum. The targeted growth rate in FY09 is set at 6.5 per cent. In view of global economic slow down and domestic political transition, the debate on growth attainment is already on the table. The World Bank's recent projection indicates that growth rate could be 5.4 per cent under one scenario and could decline to as low as 4.8 per cent under worst-case scenario. Bangladesh Bank on the other hand made forecasts of about 6.5 per cent growth. IMF has recently downgraded Bangladesh's growth projection to 5.6 per cent in 2009 from their earlier figure of 6.5 per cent.

How far the ongoing recession in the global economy will impact on Bangladesh's growth prospects during FY09 is not easy to predict from the current perspective. Macroeconomic performance will depend on how the financial crisis and recession will impact on export, remittance, domestic resource mobilization, capital market, foreign aid, foreign direct investment can be listed as the critical frontiers to face this external shock.

Firstly, export, particularly RMG export, has demonstrated certain dynamism, although the October figures should send a cautionary note. Some sectors like leather, Jute etc. have suffered negative growth. Indications are that prices could be further squeezed. Much will depend on how Christmas sales go, whether the retailers are left with large inventories or not.

Secondly, in recent years remittance has emerged not only as a cushion for the balance of payment for the country but also as a critical player in maintaining growth and accelerating the pace of poverty reduction. Uncertainties about sustaining the current buoyant remittance flow from US and European countries that accounted one-third of country's remittance may unsettle the current momentum. However, moderate growth projection for Middle Eastern economies, in spite of the global recession, could help to achieve the targeted remittance flow for the rest of the year. The depth of the depression could undermine this prospect. Already some of the mega construction projects have been put on hold.

Thirdly, substantial inflow of foreign aid has provided some breathing space to deficit financing. Foreign financing in FY09 is also in a comfortable situation with a large amount of aid already waiting in the pipeline from the multilateral sources. In view of low requirement for the budgetary expenditure, deficit financing will perhaps be not a major cause for concern. Fall in price of foodgrains, fertilizer and fuel was likely to provide some comfort to the balance of payment situation in the event of lower than expected flow of aid and remittance.

Fourthly, early signals portray some pick up in foreign direct investment. Although, investors are reluctant to venture out during economic depression, conducive investment environment and investment opportunities could also induce some of them to look for alternative opportunities. Bangladesh should be ready if and when such opportunities emerge.

Implementation of ADP has emerged as a major concern in the recent past. Lower implementation, whilst providing the government some relief in terms of resource requirement, has cost dearly in terms of overall growth performance through investments in infrastructure, development, development of agriculture and industries and human resource development. If this also persists over the second half of FY09, the possible negative consequences will be further exacerbated. A renewed effort will be required to redirect growth towards a domestic market-driven one. Quality implementation of ADP will be important in this context.

Recent decline in import of capital machinery does not augur well for attaining the growth targets for FY09 and beyond. Similar negative growth for L/C opening during first four months is also a disquieting development. Whilst credit to the private sector has been upbeat, which is a good sign, it is important to ensure that such credits go for productive sectors of the economy.

Some developments should help attainment of growth. Fiscal balance is at its ease providing room for a private sector credit growth. With revenue mobilization on track and likely reduced requirements for subsidy in food, fertilizer and fuel, fiscal stance would perhaps be less of a challenge. However, lower import duty mobilization will likely be a concern. Private sector should find more room in the credit market and can expect to receive the higher requirement for term loan and agricultural credit.

Whether the targeted 6.5 per cent growth projections will be attainable will depend on several factors, some of which will hinge on global developments, including the depth of the recession in partner countries. However, a number of issues will have impact on this, some of which has been highlighted above. Whilst Aus output has been good and Aman outlook is promising, much will depend on Boro production, the mainstay of agriculture. Last year, despite the natural shocks, the overall rice production was not off the target. It is expected that the newly elected government would consider reviewing the present administered price of fertilizer and diesel to reduce the cost of forthcoming Boro production (the government has reviewed the price of petrol, octane, diesel and kerosene downward on December 22, 2008). Assuming the absence of any unusual disruption to other sub-sectors (livestock, fisheries and forestry) and major natural calamity, PRSP growth target of the agriculture sector (3.70 per cent) should be attainable. This will hinge critically on ensuring supply of agricultural inputs to the farmers in appropriate quantity and in appropriate time. Adequate flow of agricultural credit will need to be ensured towards this.

TABLE 7.1: GROWTH OUTLOOK FOR AGRICULTURE SECTOR

Growth in FY2008	PRSP Target (Average for 2009-11)	Development till now	Crucial determinants	Needed interventions by the newly elected government
3.61%	3.70%	Good Aus output Promising Aman outlook	Boro production Unusual disruption in other sub-sectors - livestock, fisheries and forestry Major natural calamity	Ensuring supply of agricultural inputs to the farmers in appropriate quantity and in appropriate time Adequate flow of agricultural credit

It is to be noted that the targeted industrial growth of 11.70 per cent in FY09 is significantly higher than the actual growth of 6.87 per cent in FY08. In this backdrop, industry sector posed a mixed outlook. Whilst credit expansion and import of industrial inputs transmit favourable signals, weak low investment, lack of infrastructure, decline in import of capital machinery and lack of energy could put under question the expected growth rate in Industrial Sector GDP. Much will also hinge on export-oriented manufacturing sector (RMG in particular) and how these fare in view of globalisation. In view of low implementation of ADP, construction sector (similar to last year), an important component of industrial sector could also prove to be a drag on the sector’s performance.

TABLE 7.2: GROWTH OUTLOOK FOR INDUSTRY SECTOR

Growth in FY2008	PRSP Target (Average for 2009-11)	Development till now	Crucial determinants	Needed interventions by the newly elected government
6.87%	11.70%	High credit expansion High import of industrial inputs Low investment Weak of infrastructure Decline in import of capital machinery Low energy supply against rising demand	Export-oriented manufacturing sector (RMG in particular as well as others) and how these fare in view of the ongoing global financial crisis	Ensure continuing credit flow Put ADP back on track Investment in energy Good governance

The outlook analysis of Bangladesh's GDP growth becomes severely constrained since very few interim signals are generally available for service sector which accounts nearly 60 per cent of GDP. Historically service sector has performed moderately but consistently at every phase. In order for the services sector to attain 6.50 per cent growth, real estate sector and business activities including banking and insurance will need to register high growth rates. Sectors such as Education and Health and Social Works would need to register good performance that matches historical rates. It is anticipated that Public Administration and Defence would experience accelerated growth in FY09 in view of the national election. Conducive business environment and good governance will be critical to ensuring performance of the services sector.

TABLE 7.3: GROWTH OUTLOOK FOR SERVICE SECTOR

Growth in FY2008	PRSP Target	Development till now	Crucial determinants	Needed interventions by the newly elected government
6.69%	6.50%	Low ADP utlisation Low implementation in Health and Education	Registering high growth rates in the real estate sector and business activities including banking and insurance Registering good performance in Education and Health and Social Works	Conducive business environment and good governance Implementation of HNPSP

From medium term perspective the government must pay urgent attention to monitoring global economic trends and prepare for any adverse effect if the crisis lingers and depends. The rise in global commodity prices including foodgrain and oil in FY08 followed by prevailing global economic crisis provides lessons about the importance of long term strategy for economic development. As Bangladesh becomes increasingly integrated with the global economy, and finds it increasingly difficult to take measures to restrain the impact of international prices on domestic prices - domestic prices of essential commodities are bound to respond quickly to international prices and their volatility. The risks of liberal, market-oriented policies are increasingly becoming evident, requiring countries like Bangladesh to pursue strategies, that minimize risks, without limiting the opportunities that trade and investment flows offer. A rethinking of the role of public sector, safety nets and risk-reducing factors in macroeconomic management and adjustments will be called for.

8 Development Challenges and the Election Manifestos

In view of the upcoming national elections, major political parties (in their respective manifestos) have set out the key targets that they would like to achieve during their tenure and beyond. The AL has prioritised five of its 23-point targets, it has also set out a vision for 2021. The BNP, in its 36-point manifesto, has articulated its goals in view of the elections, a majority of which concerns carrying out macroeconomic and sectoral tasks. Recognition of the need for good governance, accountability and transparency is also visible in the manifestos, with emphasis on addressing corruption and ensuring better quality in terms of macroeconomic management. Whilst parties on the left, such as the CPB, have declared their intention to bring about fundamental and structural changes in economic governance, mainstream political parities appear to support a private-sector led and market-driven system where the state and the public sector would have important roles to play.

The AL manifesto has set out a number of concrete targets for their tenure, if elected, and also for 2021. The BNP, whilst putting less emphasis on quantifiable targets, has also set out targets it would aspire to attain and initiatives it would undertake, if elected, during its tenure. However, one common absence in the manifestos of the political parties relate to the costing of the initiatives and the subsequent targets, and the modalities for mobilising the required resources to implement the measures. In view of this missing link, it is difficult to judge the feasibility aspects of some of the targets, which although needed, appears to be quite ambitious. AL manifesto mentions about setting up a number of Task Forces and BNP manifesto has mentioned about constituting Expert Committees to deal with sector-specific issues, and to come up with appropriate recommendations for the government. One hopes that whichever party is elected, they will immediately get on with the task of identifying a set of actionable agendas in relevant areas, and subsequently prioritising and implementing those actions.

A number of immediate priorities identified in the manifestos of the two major political parities relate to some key concerns of the citizens. We look at some of these and analyse the statements made in their respective manifestos.

8.1 Poverty Alleviation and Employment Generation

Poverty alleviation and employment generation, both linked closely, are two of the many major concerns of common citizens. About two million new people enter the labour market each year, both educated and uneducated. Finding jobs for them will be a major challenge. However, this continues to remain a popular demand. Development of appropriate national employment policy and exploration of foreign markets to create employment opportunities for unemployed youths, have been highlighted in the manifestos of all major political parties.

Both AL and BNP have committed to create employment opportunities for at least one member in each family. AL has proposed a specific duration (100 days) for such employment scheme; JP has vowed to extend this employment scheme to 120-day in the agriculture sector. While AL has pledged to remove discrepancy in wages by establishing a permanent wage board, CPB has promised to re-fix the minimum wages. BNP has also mentioned about establishing mechanisms to review wages.

To generate employment in Khulna and Barisal regions, BNP has pledged to set up special economic zones and establishment of “Asian Culinary College”. "National employment project" was mentioned in their manifesto. AL has promised to bring down poverty rate from 45 per cent to 15 per cent by 2021, which will require them to achieve a 2.3 per cent annual poverty reduction rate. While this long term target seems attainable, AL’s mid-term target to reduce poverty rate to 25 per cent by 2013 appears an ambitious one. Whilst Bangladesh’s historic poverty reduction rates have been 1 per cent during the 1990s and 2 per cent during 2000-2005, acquiring a 4 per cent annual poverty reduction rate during 2009-2013 will require fundamental macroeconomic adjustments and resource redistribution.

Massive resources will be required if these targets are to be achieved. Investment plans and where and in which sectors those jobs are going to be created, needs to be articulated.

The expected changing structure of GDP will have important implications for poverty alleviation. Evidently, in future the share of agriculture in the GDP is expected to come down further from the present 20.8 per cent of GDP. This will have important implications for poverty alleviation. More employment opportunities will need to be created in non-agriculture sectors such as industries and services sectors. In view of this, the pace of growth of these sectors will need to be further accelerated. Our estimates indicate that if industrial sector is to account for 40 per cent of GDP by 2021, the sector would need to register significantly higher growth rates (10.7 per cent between now and 2021) than the current rates (6.87 per cent).

TABLE 8.1: GROWTH REQUIRED IN DIFFERENT SECTORS TO ACHIEVE GDP GROWTH TARGET OF 10 PER CENT BY FY21

	GDP (Billion Tk)		Share in GDP		Growth Rate in FY08	Intertemporal Growth Rate
	FY08	FY21	FY08	FY21		
Agriculture	671.57	1438.40	20.87	15	3.61	5.86
Industry	954.42	3835.74	29.66	40	6.87	10.70
Service	1591.55	4315.21	49.46	45	6.69	7.67
Total	3217.86	9589.36	100	100	6.21	8.40

Note: GDP figures for FY08 are at constant price

Source: CPD-IRBD Database, 2008..

High rates of poverty alleviation will require much higher pace of GDP growth. For example, the AL manifesto talks about taking GDP growth to 8 per cent by 2013, to 10 per cent by 2017 and sustaining this till 2021. Our estimates indicate that this will require substantially higher investment than is the prevailing case (24.16 per cent of GDP in 2008). Indeed, this will require investment-GDP ratio to be increased to about 38.9 per cent by 2021; if the ICOR can be reduced to 3.5 (from the present 3.66 in 2008) the required investment-GDP ratio would need to be increased to 35.0 per cent.

TABLE 8.2: REQUIRED LEVEL OF INVESTMENT TO ACHIEVE GDP GROWTH OF 10 PER CENT TARGET IN FY2021

	Investment-GDP Ratio (ICOR in FY2008=3.66)	Investment-GDP Ratio (if ICOR= 3.6)	Investment-GDP Ratio (if ICOR= 3.5)
FY08	24.16	-	-
FY21	38.90	36.0	35.0
Growth of Investment-GDP Ratio between FY03-FY08)	0.01		
Intertemporal Growth rate	3.66		

Source: CPD-IRBD Database, 2008.

8.2 Food Security

From the consumers' perspectives, food security entails food supply, entitlement and ability to purchase. The last two years (2007-2008) had been a period when high prices of food were a major concern for the country. The shortfall in domestic production compounded with the global food crisis, had adverse implication with regard to poverty reduction trends (from poverty leading to reversal). Consequently, food security and food prices have become major political issues for the 2008 elections. Through increased subsidy and adoption of new technology, political parties have pledged to increase agriculture production in order to bring down prices.

The AL has vowed to make Bangladesh self-sufficient in terms of food production by 2013. The BNP has also committed to ensure food security for all citizens. Crop insurance, higher subsidy for inputs and their timely delivery have been mentioned among other measures. Boosting of R&D related activities in agriculture, by introducing new technologies, has been given priority. The JP has made a commitment to establish rural banks (providing credit at 5 per cent interest rate) in order to make `seasonal loans' available in response to the different harvesting seasons. The CPB has also committed to draft a "Food Security Law" as an immediate priority.

Targets set for accomplishing food security are in line with national aspirations for a `hunger-free' Bangladesh. However, achieving the targets in the manifestos will be a challenging task. Programmes such as ‘food for free’ for destitutes in the BNP manifesto or reduction of percentage of poor from 45 per cent (below the poverty line) to 25 per cent by 2013 will require huge resources and massive investments in agriculture sector. The parties’ emphasis on the need for agricultural development is welcome; however, more concrete estimates of resource requirement will be needed for the desired development of this sector. CPB's proposal for implementing Food Security Law appears to be a novel idea; however, what this will entail is not clear. AL's proposal for instituting dedicated loans for share-croppers and BNP's plans to set up warehouses and cold storages across the country appear to be practical and attainable targets.

The newly elected government will have to ensure a good boro harvest, if food security is to be ensured in the immediate term. However, major parties have not dealt with the critical issue of price adjustment for diesel and fertiliser in their manifestos, although they have mentioned about establishing institutional mechanisms to monitor food prices.

8.3 Containing Price Inflation

Given the world-wide price hike of essential commodities in 2007 and 2008, most political parties have vowed to place curbing inflation as the number one priority in their manifestos. While the parties did not propose any direct market intervention, establishment of wholesale markets, restructuring of the concerned institutions and improvement of food production through various measures and initiatives have been highlighted in the respective manifestos of AL and BNP.

While AL's suggestion to increase domestic production and making imports easier may help stabilise the commodity price, its pledge to set up an institution for price control and consumer protection needs to be viewed cautiously as similar institutional and regulatory initiatives by the CTG have not succeeded in gripping the market price by its horns. In this regard, both Jamaat and CPB have underscored the need for restructuring existing government bodies such as TCB, BADC, etc. BNP has emphasised the need for higher agricultural subsidy to bring down the production cost of essential commodities. One way of reducing the price of essentials would be to continue with fiscal incentives introduced by the CTG for imports of foodgrains from international market and to ensure that falling global commodity prices get transmitted into lower retail prices. Support to importers, broader wholesale networks and simultaneously reducing the role of market intermediaries, and on the other hand raising their efficiency will be required on an immediate basis. What was not recognised in explicit manner was that it was unlikely that pre-2007 food price levels could be brought back, and that inflationary pressure will need to be countered through higher purchasing power and more extensive PFDS.

8.4 Energy Security

Lack of availability of power has been a major problem limiting growth potentials of the country. Expectedly, all political parties have mentioned about addressing the issue on a priority basis and have put forward immediate and long-term programmes in order to tackle the power crisis.

While AL has prioritised exploration and utilisation of new oil, gas and coals fields, BNP has also pledged to accelerate gas and coal exploration activities. The latter party has also committed to recall tender for two power plants (450 MW each) and also to set up a committee, within 100 days of being elected, with the objective of developing a National Power Policy. AL has also pledged to adopt a comprehensive long term policy on electricity and energy, alongside a `Coal Policy.' It has also set a target for the year 2011, when the country's electricity production will be increased to 5,000 MW, and by 2013 to 7,000 MW. CPB, in their respective manifesto, has committed to establish `Coal-Bangla', while BNP and Bangladesh Jamaat-e-Islami have assured to encourage bank financing with regard to private power plants, with a view to explore possibilities for hydro, wind and solar power generation. AL made a specific commitment for nuclear energy and pledged to establish the "Rooppur Nuclear Plant", while BNP has also promised to utilise nuclear energy as a source of electricity production.

It appears that whichever party is elected, a debate on the National Coal Policy will need to be initiated. However, while the parties have pledged to increase power generation through exploration of gas and coal resources, they did not specify what would be the relative role of IOCs and BAPEX. AL's sequential targets to increase Bangladesh's power generation capacity to 5,000 MW by 2011, and to 7,000 MW by 2013 may appear conservative when compared with the PSMP which aims at 7,000 MW power generation by 2011 and around 8,500 MW in 2013. While both the major parties favoured small power plants for initiating a swift process of power generation, no party has explicitly mentioned how the recent initiatives taken by the CTG will be carried forward.

As the table indicates, achieving the targets for energy generation according to the PSMP will require $8.2 billion by 2012 and about $15.2 billion by 2021. These resources would need to be mobilised.

TABLE 8.3: RESOURCE REQUIREMENT FOR POWER GENERATION

Items	Upto 2012	Upto 2020
Additional capacity to be Installed (MW)	5866	13965
Total Investment required (Considering US$1.39 million in 2007-2012 & US$0.87 million in 2012-2020 for generating 1 MW)	US$ 8153.7 million	US$ 15200 million

Source: CPD-IRBD Database, 2008.
Note: At today's dollar value

8.5 Institutional and regulatory reforms

The need for appropriate regulatory reforms to improve the business environment of the country has been a longstanding demand of the private sector. Following the establishment of the Regulatory Reforms Commission (RRC) in November, 2007, the RRC had made a total number of 48 recommendations, of which, 14 were implemented till October, 2008. Decision on other recommendations put forward by the RRC is still pending and the newly elected government will need to take decisions on those. Besides, the Better Business Forum (BBF), established also under the CTG initiative to stimulate trade and investment, has also initiated many measures. Political parties have put forward specific measures to improve the business and regulatory environment, and the quality of governance in the country.

The AL has pledged to computerise all land records and establish a land reform commission to ensure increased production and social justice in the distribution of land and water bodies. It has also made a commitment to create 'a charter of citizens' rights, right to information, computerised database of official documents and decentralisation of power'. The BNP has specifically highlighted making Bangladesh Energy Regulatory Commission (BERC) more effective. Making parliament more effective has been reflected in the BNP manifesto through proposal - selection of Chairmen for important committees of the parliament from the opposition bench. The BNP's manifesto also endorsed the idea of independent speakers' roles (speaker and deputy speaker will have to resign from their party posts following their nomination and that the deputy speaker will be nominated from the opposition) and enhance participatory role of all MPs.

Manifestos talk about instituting good governance, eradicating and removing the roots of corruption, establishing transparency in public procurement, helping the Anti-corruption Commission to function independently, and raising public awareness on the issues. Some of the institutions for good governance had indeed been established during the tenure of the past democratic governments; however, these were ineffective. Citizens hope that some of the initiatives of the CTG pertaining to Rights to Information Act, Consumer Rights Act will be implemented in right earnest and in good faith by the newly elected government.

8.6 Global integration through trade

The catchphrase today is 'trade, not aid'. Manifestos have put emphasis on enhancing market opportunities for Bangladesh in view of the globalisation process and increasing global integration of Bangladesh economy.

The AL and the BNP have made sector-specific proposals to improve the country's overall trade performance. The AL has prioritised development of IT industry, strengthening of RMG and textile sectors and expansion of food processing, pharmaceuticals, leather, chemical products, toys, jewellery and furniture industries. In terms of services, the AL has committed to create opportunities for the Bangladeshi expatriates to take part in national reconstruction and to develop a consultant network in order to fully make use of their talents. The AL has also ensured to increase labour export and investment of remittance received from expatriate Bangladeshis in productive sectors. The BNP has prioritised establishment of an export park and special economic zones in different parts of the country. The party has pledged to create jobs in suburban and rural areas by setting up agro-based industrial units and establishing packaging industry to facilitate farmers' exports. In the area of services export, the BNP manifesto mentioned about creating employment opportunities in foreign markets through improved diplomatic relations. The JP has pledged to withdraw all taxes, levies from all imported raw materials for pharmaceutical products.

The manifestos do not elaborate on specific incentives which the exporters have been calling for such as extension of bonded warehouse facilities, depreciation of the exchange rate or support for the promising ship building industry of the country.

8.7 Global financial crisis

Against the backdrop of the ongoing worldwide financial crisis, both the major political parties have put forward specific proposals to accommodate the country's concerns. The AL manifesto has pledged to form a task force to provide prompt advice and recommend steps for investment promotion, energy security, retaining and enhancing domestic demand, safeguarding value of money, assisting exports and continuing with export of manpower. On the same note, the BNP manifesto committed to form a high power advisory committee in order to address the possible adverse impacts of the global financial crisis and it also mentioned setting up of various export committees.

By all counts the crisis could deepen in 2009 and this is by the virtue of the fact that growth projections for all major developed countries have been drastically reduced. The expert committees/task forces will need to be set up on a priority basis once the new government has settled down. Immediate tasks should include exchange rate policy, incentives for exporters, possible stimulus package for investors, exploring different opportunities, etc.

8.8 Regional Disparity

All major political parties have made commitments to reduce regional disparity through various measures. While the Jamaat's manifesto pledged to make local government responsible for implementation of the development projects, the BNP committed to decentralise the administration system as a whole. The AL has also pledged power decentralisation, while the JP committed to establish 8 provinces in the country - Bogra and Mymensingh have been promised status of separate Divisions.

8.9 Infrastructure

Improvement of the country's physical networking system (roads, rails, waterways and ports) has been a longstanding demand of not only common people, but also investors. The AL manifesto has pledged to implement policies (in the immediate to long term) that would help attract entrepreneurs and expand the domestic market. The manifesto also committed to develop the software industry and IT services of the country by providing 'all possible assistance' to concerned agents and have also set a vision to make Bangladesh digital by 2021. Commitment to build the Deep Sea Port has also been made along with construction of bridges. In the manifestos pledges have been made to construct a four lane Dhaka-Chittagong highway, Padma Bridge, alongside underground rail and monorail projects, and the establishment of Deep Sea Port. The party has committed to expand train line and modernise train services. BNP manifesto also mentioned about modernising air cargo services sector in order to enhance export and import activities of the country. The manifesto also committed towards establishment of Special Economic Zones in Khulna and Barisal. The BNP has pledged to strengthen BSTI and grant duty free import of necessary medical equipments in order to make local hospital and medical centres competitive.

In view of the fact that regional disparity is emerging as a major concern, the newly elected government will need to allocate special funds, in line with the CTG, dedicated for regional development initiatives. Addressing the increasing income inequality will also need to be given high priority. Initiatives to help people in backward regions to participate in the global job market will need to be taken on an urgent basis.

All the aforesaid initiatives address real needs. However, these would require huge resources and will need to be accordingly prioritised. How the public-private partnerships will be Fostered to implement many of these is yet to be seen. Initiatives such as 'Aid for Trade' will need to be brought into the picture in this context.

8.10 Commonalities in the Political Manifestos

A careful review of the election manifestos reveals some commonalities weaknesses. While on one hand the manifestos have captured the aspirations of the people by setting the right tone, there is no mention about resource requirement and modalities for resource mobilisation. Some of the commonalities in the manifestos are:

- Absence of Costing
- No elaboration on resource mobilisation and resource package

- Broken linkages between crosscutting issues
- Relative role of public-private sector
- Less emphasis on rising inequality
- No reference to commitments in earlier manifestos

It is hoped that, having assumed the reins of governance, the ruling party (parties) will come up with concrete measures with respect to the above concerns. Civil society organisations should hold the newly elected government responsible for the commitments they have made in the manifesto by putting government decisions and actions under continuous and close monitoring.

9 CONCLUSION: Challenges for the New Government

9.1 Facilitating Boro Production

Ensuring a good Boro output will be one of the major initial challenges for the newly elected government. Whilst one would expect that the new government will be engaged with setting up the administration and other activities associated with transition to democratic governance, after the two-year gap, policymakers will also need to get on with the task of organizing the government machinery to help farmers to come up with a good Boro harvest. December-February is the time for Boro planting. The new government will have to work on the supply of production inputs, especially fertilizer and diesel, from day one. Since there will be no time to revisit the dealership of fertilizer distribution, quick procurement and distribution of fertilizer through existing mechanisms will be the practical option.

The government has reviewed the fuel price downward on December 22, 2008. However there is a need for further review particularly in case of diesel and kerosene. The downward revision of fertilizer price and continuation of last year's subsidization of electricity for irrigation may be two most feasible actions for the new government. It may also reconsider adjusting the diesel price if the revenue collection scenario remains strong.

Public procurement of Aman is set to continue till the end of February 2009. If required, the new government may consider an upward revision of its Aman procurement target. Fiscal incentives for imports of rice may have to be revisited if falling global prices result in a disincentive for farmers. The farmers should be given the right signals so that they are encouraged to increase Boro acreage.

9.2 Addressing the Energy Crisis

A major task that needs to be taken up by the new government is concrete actions in the area of energy security. Manifestos of all major political parties have mentioned about steps they would like to take and highlighted some of the short, medium and long term targets. The new government will have to take a number of decisions covering (a) decisions taken by the CTG with regard to ongoing initiatives; (b) retendering; (c) coal policy; (d) diversification of energy sources; (e) maritime boundaries resource mobilisation and (f) strengthening BAPEX and setting up new organisations (Coal Bangla?), all of which will need to be given high priority.

9.3 Taming the Consumer Price Inflation

Whilst inflationary pressure is expected to come down in response to the general trend of falling prices in the global market, and significant devaluation in major import sources (e.g. India), consumers will gain only if and when transmission mechanisms from import to the retail and consumer levels work efficiently and effectively. Of critical importance here will be prudent exchange rate management and implementation of a pragmatic interest rate policy. Monetary policy should be geared towards the creation of effective demand, raising the level of production and productivity and encouraging investment so that purchasing power is created in the domestic economy, particularly in view of the fact that the possibility of prices returning to pre-price hike level is slim.

9.4 Keeping Monetary Sector under Constant Vigilance

The Bangladesh Bank is pursuing an accommodative monetary policy stance. Inspite of calls for some contractionary measures earlier, particularly by the IMF, the Bangladesh Bank has decided not to pursue such a policy aggressively. In view of the possible adverse consequences of the global financial crisis, steps to stimulate domestic demand will be vital. However, the dramatic growth in credit disbursement during the first quarter of FY09 will need to be closely monitored to see whether these are allocated and used for stimulating production. With falling commodity prices, credit growth could also slow down on its own.

Though reduced commodity prices will help importers to procure importables from international markets at a lower price, some of the importers perhaps incurred losses because of imports at higher prices during earlier periods. This could undermine repayment performance of bank loans. Repayment performance will also be influenced by the possible impact of the financial crisis. Both reduced commodity prices and slower export performance could hurt the liquidity situation of banks, particularly those that are relatively more exposed to trading businesses. The new government will have to monitor this very closely.

Another challenge for the next government will be to contain the growth of the money supply and to improve the composition of M2 by increasing the share of NFA and containing the growth of NDA, particularly of the public sector. Though increased domestic credit flow signals robust demand and stimulated economic activities, careful monitoring of the situation will be required by the new government and Bangladesh Bank to see its implications in terms of creating inflationary pressure in the economy. However, as of now there appears to be no reason to raise the bank rate.

9.5 Managing the Impact of Global Financial Crisis

Manifestos of all major parties have stated about the challenges for the Bangladesh economy in view of the ongoing financial crisis. Promises have been made about setting up task forces and committees of experts. During the CTG’s tenure, two committees have already been set up. However, these include mainly central bank and government officials. The new government could think about constituting a parliamentary oversight committee and a committee of experts/task force that could include representatives from chambers, academics, labour and grassroots groups.

9.6 Monitoring the NBR Revenue Earnings

Till now NBR revenue collection has been good. However, revenue collection by NBR could slow down in the coming months due to the fall in international commodity prices and slowing down of imports. This may have a dampening impact on import related revenue, which is already evident from the October data. The month-to-month comparison reveals a negative (-) 1.7 per cent fall in customs duty collection in the month of October, 2009.

The price of petroleum products has not been adjusted till now even though international prices have been dropping sharply. This has provided some budgetary cushion to the government. However, these prices may need to be revisited with consequent impact on budgetary equation. In view of this, the government may have to expand its revenue basket to non-trade related areas by widening the VAT base and direct tax and making further improvements in revenue mobilisation efforts.

9.7 Implementation of ADP

The ADP implementation scenario in the first few months has not been encouraging. Only half of the ADP implementation period will fall under the purview of the new government. The mid-fiscal year transition—due to preparation for National Elections and settling down of the newly elected government—could have adverse affect on the overall ADP implementation performance in FY09. Hence, reaching a reasonable ADP implementation level—usually 80 to 85 per cent—by the end of FY09, both in its quantitative and qualitative terms, will be a dual challenge for the new government. Notwithstanding the obvious concerns, delivering a reasonable level of ADP will be crucial, particularly considering its implications for employment creation, poverty alleviation, generating domestic demand and meeting public investment demand to sustain growth. The government may also like to revisit and review some of the ADP priorities and undertake a mid-course restructuring, also in view of the performance during the first half of FY09.

Speedy preparation for the new ADP of FY2010 will also become a major challenge.

9.8 Revisiting the Budget for FY2009

When the newly elected government will take office, it will have about six months to implement the budget, both revenue and development. Based on the performance during the first six months of FY09 and the priorities ahead, a review of the budget may be undertaken to ensure that major targets are achieved.

9.9 Clearing the Political Stance on PRSP

The PRSPs virtually serve as the plan documents at present. However, PRSP preparation and implementation deserve more serious consideration than is given now. Often they have lacked political commitments. A country cannot pursue development targets without a politically vetted medium term development policy. Consequently, the new government will have to take a quick decision about the fate of PRSP-II both in terms of its revision and implementation.

Political parties have already indicated their willingness to revise the PRSP. Once the new government is in office, a thorough discussion should be undertaken in the Parliament about strategies, targets, resource mobilisation and implementation of the PRSP. A new three year medium-term PRSP may be drawn up in view of this discussion. Hence, a quick decision and actions to vet and legitimise the PRSP in the parliament will be a policy priority for the new government.

9.10 Rolling the Institutional and Regulatory Reforms

The CTG has initiated a number of reforms, which have had tangible positive impacts on the overall quality of governance. The political manifestos have also mentioned about taking initiatives in support of reforms and measures to improve governance. A number of decisions of RRC and BBF have been implemented. Others are pending. The new government will need to take decision on those. There are two draft acts on table - Consumer Protection Act 2008 and Competition Act 2008. These will need to be discussed in Parliament before decision. Citizens will be interested to see whether aspirations expressed in the political manifestos in this regard are reflected in the discussions in the parliament and decisions of the elected government.