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EMERGING RESEARCH DIVISION, EMERGING CREDIT RATING LIMITED

EMERGING QUARTERLY REVIEW

An Innovation of Research

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Section-A
Economic and Financial Developments

A1. Real Sector Development:

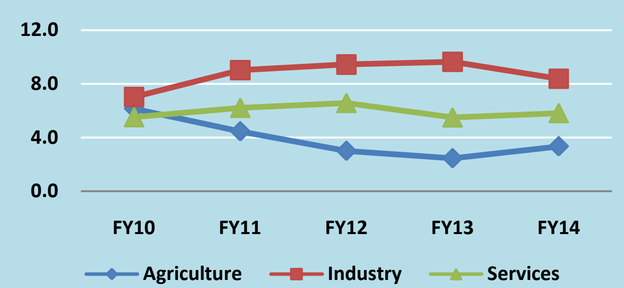
Bangladesh's growth momentum is likely to remain somewhat buoyed in current fiscal year with stable inflation, but challenges in accelerating medium- term growth seems to increase due to remaining stagnant investments and inadequacy in sufficient infrastructure bottlenecks. Gross domestic product (GDP) growth in FY15 is provisionally estimated by Bangladesh Bureau of Statistics at 6.23 percent, slightly high from 6.12 percent in FY2014 (Figure-1). Despite national wide strike, relatively lower private credit growth, this estimated real GDP growth seems to buoyant compared to previous fiscal year, but achievable. Though private investment is sluggish, higher growth in exports during first half contributed to higher GDP growth in current fiscal year. Moreover, public investment also rose, offsetting declining trend in private investment, but a decline in remittances, low private sector credit growth, and weaker consumer confidence ahead of the January 2014 elections in association with persistent strikes contributed to lower growth in private consumption. Conversely, relatively larger inflows of FDI in first half of current fiscal year, strong growth of import payments during first seventh month of current fiscal year - which accounted to 23.2 percent, may provide further support to achieve 6.23 percent growth. Thus, upward trend of LC opening - especially higher growth of capital machineries and yarn and textiles up to first half of FY15 may boost up manufacturing activities to contribute growth target. [QIP index]

Table 01: Real Sector Indicators (FY13-FY2015)

Real Sector Components:	FY13	FY14	FY15 (Est.)
	(As % of GDP)		
Gross National Savings	30.5	30.5	29.1
Gross Domestic Savings	17.5	23.9	21.2
Gross Investment	28.4	28.7	28.3
Public Investment	6.6	7.3	7.4
Private Investment	21.8	21.4	20.9
Foreign Domestic Investment(FDI)	0.9	0.8	0.8
Domestic Investment	20.9	20.6	20.1
Net exports of goods and services	-6.6	-6.3	-7.5
Exports of goods and services	19.1	19.8	17.2
Of which: Exports of goods	17.2	17.9	15.7
Imports of goods and services	25.7	26.1	24.7
Of which: Imports of goods	21.8	22.0	20.7
Current account balance	1.3	1.6	0.8
Consumption	78.0	76.6	77.5
Gross national income	108.0	106.7	106.6

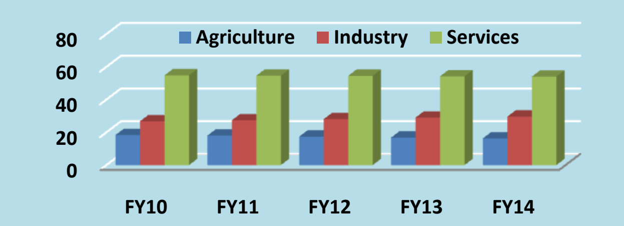
Source: BBS and Seventh Five Year Plan

Figure 1. Growth Performance, (FY10- FY14)



Source: BBS Bangladesh

Figure 2. Sectoral Share (As % of Total GDP)



On the supply side, agriculture and services grew rapidly, although industry posted lower growth**.** Agriculture grew by 2.6 percent in FY2014, in line with strong performances among subsectors - crops and horticulture grew by 1.9 percent, fishery grew by 6.49 percent and animal farming rose to 2.83 percent - was bolstered by previous year lower base, good weather and continued government supports. On other hand, industry growth dropped due to supply disruptions resulting from persistent political unrest and weaker domestic demands. Both Manufacturing large and medium-scale industries grew by 9.6 and 6.6 percent in FY2014, which registered sluggish performance during July-November, recording 14.5 percent growth of average industrial production (medium and large manufacturing) over the same period of preceding year (Figure-3). Moreover, rebound in imports of capital machineries, raw materials for exports during first half of current fiscal year, consistent higher growth of services sector may contribute further support to estimated growth at 6.23 percent in current fiscal year.

Under the government's Vision 2021 and backed by its Seventh Five-Year Plan (2016–2020), growth is targeted to increase to 8 percent by FY20. If realized, the poverty rate is expected to decline from 31.5 percent in FY15 to 22.0 percent in FY2020, driven down by more inclusive growth. Achieving this vision, Bangladesh will require achieving 32 percent investment of GDP by FY20[1]. Considering the implied efficiency of investment, private domestic investment including foreign direct investments will need to rise to 27.7 of GDP in FY20 if 8 percent GDP growth is to be attained. Economic growth will need to be more inclusive, providing people with access to productive opportunities, so that they are able to contribute to, and equally share the benefits of higher economic growth. In addition to increasing investment, both private and public, Bangladesh needs to significantly increase productivity to attain sustained high growth. Although public investment as a percentage of GDP rose in recent years, the quality of investment also needs to rise. During the past two decades was mainly driven by capital stock growth, this implies further acceleration in GDP growth will require expansion of the economy's productive capacity by raising capital stock, improving labor skills, and lifting total factor productivity growth through deepening policy and institutional reforms.

Along with this, financing problems in various mega infrastructure projects still adequate, but for inclusive growth it is vital to accelerate investment in infrastructure through Public Private Partnerships (PPP) and foreign direct investments (FDI). Better infrastructure and higher connectivity can also contribute to diversifying economy and increasing export competitiveness. In addition, higher infrastructure investment is necessary to improve labor productivity, capital efficiency, and total factor productivity growth to sustain long-term higher economic growth. To put greater emphasis on infrastructure development, government has fast-tracked six priority projects[2] and established a high-level technical committee to implement them. Moreover, government has made progress in developing institutional capacity, including drafting the PPP law, preparing PPP guidelines, and setting up PPP office, is expecting to finalize a few PPP transactions soon, which will provide opportunities to line agencies to gain valuable experience in designing and implementing PPP projects.

[1] Macroeconomic Outlook for Seventh Five Year Plan (2016-20), Ministry of Planning, Bangladesh, January 2015. Based on the BBS estimate, the underlying growth poverty elasticity has been found to be -1.12 Percent.

[2] Ruppur Atomic Power Plant, Rampal coal based Power Plant, Padma Bridge Plant, Mongla-Khulna railway link etc.

A2. External Vulnerability and Outlook:

Balance of payment remained favorable in FY15, while current account balance surplus turned into deficits as trade deficits increased due to rebound in import growth in line with almost stagnant export growth. Although readymade garment exports—accounting for about 81 percent of total export earnings- registered to rebound in last quarter of FY14, cumulative export growth slowed to 3.5 percent for the first half in current fiscal year, and further increase to 4.9 percent for July-February FY2015, which supported to sluggish export performance compared to previous year (Figure 4). One of the major contributors of worsening export performance is sluggish readymade garments (RMG) export growth. RMG exports recorded negative growth in month of September and October of FY15, reduced to export growth in that time, registered at 2.5 percent growth in July-February, still lower than July- February FY15(Figure-5). European Union captures larger share of Bangladesh's RMG exports, while recent lower demand of Bangladeshi RMG in European market fell to overall export growth. Moreover, Euro currency started to depreciate more against US dollars, which support further to keep buyers more reluctant to order Bangladesh's RMG, thus, Bangladesh RMG became more costly to European buyers. Among the other major export items, earnings from agriculture products, chemical products, and jute goods maintained notable growth; although export earnings from raw jute goods declined by 7.7 percent, frozen food by 6.3 percent, and leather products 19.3 percent. Moreover, newly discovered exports markets[3] may also offset sluggish export demand at the end of June of FY15.

Figure 4. Exports and Imports Growth

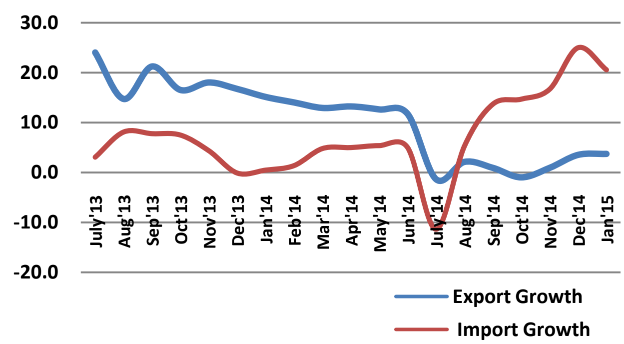


Figure 5. Sources Exports Growth

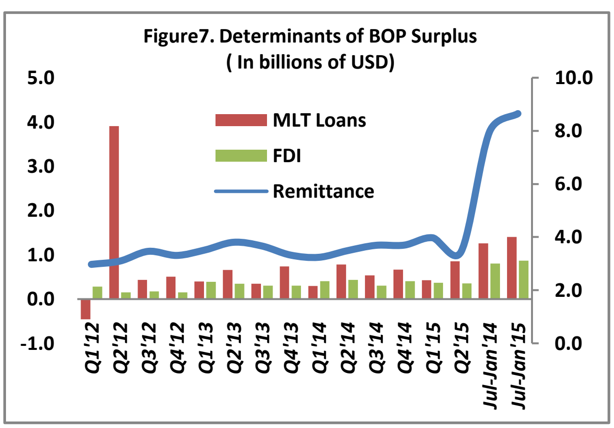
On the other hand, import growth buoyed, recorded at 16.5 percent growth July-January, in FY2015 (Figure 4). The major rise in imports capital machinery, industrial raw materials (e.g., plastic and rubber articles, chemicals, clinker), and chemicals and yarns contributed to the significant rise in import

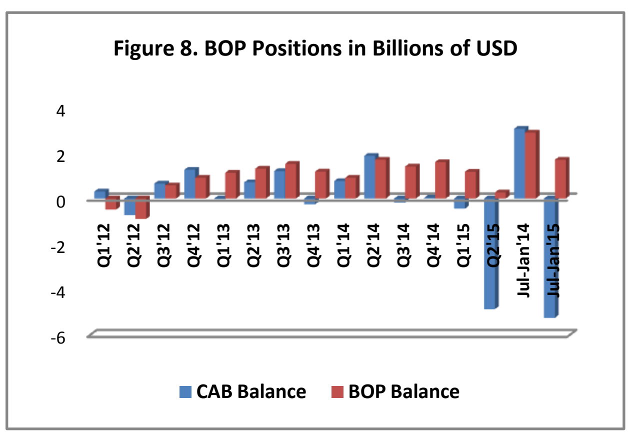
[3] Australia; Brazil; Canada; the People's Republic of China; Hong Kong, China; India; Japan; the Republic of Korea; the Russian Federation; South Africa; Thailand; Turkey; and the United Arab Emirates

payments. While imports of major consumer goods (e.g., pulses and edible oil) declined, imports of rice rose to meet additional consumer demand, higher imports of petroleum products were required to run rental power plants, and imports of capital machinery likely rose in expectation of a revival in business activity during second half of FY15. Moreover, fresh LC opening growth indicates imports will remain strong at the end of June 2015. Fresh opening of import LCs during July- January 2015 increased by 10.5 percent and stood at USD 24787 million compared to the same period of previous year (Figure 6). Rebound LCs opening in industrial raw materials, capital machinery implies industrial activities will start to increase after consistent national-wide strikes. In addition, LCs opening of consumer goods increase at faster rate which also provide further support to flourish domestic demands. Thus, opening of import LCs and probable liabilities of banks against back to back LCs have been projected by scheduled banks at USD10552 million and USD 3375 million respectively during March-May, 2015[4].

Moreover, remittance growth remained to declining trend from starting of second quarter of current fiscal year; still worsen at the end of current month of February because of political turmoil in gulf areas and downward trend in oil price in international market. This scenario may continue to upcoming quarter in current fiscal year, but, rebound in LC opening may support more to increase export in last quarter of FY15. Moreover, risks appears in RMG exports in European Union, while in terms of market diversification of exports Bangladesh's exports market has diversified not more than greater extend, but this will help to boost up Bangladesh exports in China, Japan, India and others Asian countries.

Despite remittance growth remains low, FDI and external loan are expected to grow in the coming months: Although earnings from remittance inflows declined by 6.9 percent in the first seventh month of FY2014, remittance growth increased to 7.8 percent compared to same period of FY15, which seems to less buoyed, creating huge pressure on current account balance(Figure 7). Large drop in out of-country employment, especially in middle-eastern countries, was the main reason for lower remittance inflows. Moreover, a positive outturn of remittance earnings is that remittance inflows from United States and from Malaysia gradually increase.



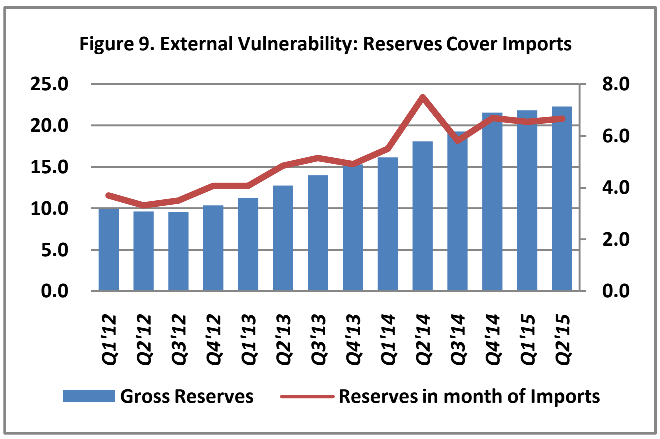


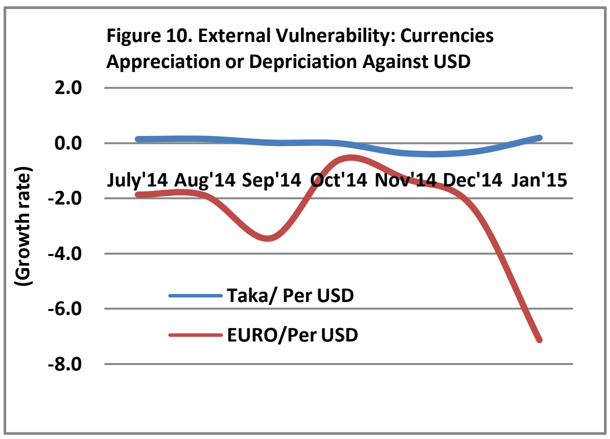
Source: Major Economic Indicators, Bangladesh Bank, March 2015

[4] This projection has been used from Bangladesh Bank Estimates, Major Monthly Economic Indicators, March, 2015

In recent years, Bangladesh earned remarkable current account surpluses due to strong remittance inflows while registering huge trade deficits. Despite lower deficits in the trade account in earlier year, decline in workers' remittances and higher services deficit lowered the current account surplus to $1.5 billion, down from a $2.4 billion surplus in FY14. Conversely, current account surpluses started to decrease since second quarter of current fiscal year, current account deficits increased to 5.3 billion of USD during July-January2015 (Figure 8). Although remittance earnings and exports are expected to rebound in the rest of last quarter of current fiscal year, higher import demands may pressure to keep current account deficits at the end of current fiscal Year. Current account balance faces pressure in current fiscal year, but, inflows of capital and financial accounts may offset current account deficit, which turns to overall balance of payment surplus. Net receipts of foreign aid in February, 2015 stood at USD 1199.5 million compared to net receipts of USD 1038.7 million in February 2014, as aid disbursement of corresponding period of the preceding fiscal was comparatively much higher. Moreover, FDI inflows and inflows of external loans through projects increased. Net FDI stood at USD 0.9 billion in July-January of FY15, from USD 0.8 billion in same period of FY14. Net multilateral loan increased to USD 1.4 billion in July-January, in FY15, which is much higher than earlier year, and these upward trends of capital account's components supports further to make strong financial and capital account surplus (Figure 7).

Gross international reserves is buoyed, Bangladesh Bank should sterilize to restrain taka appreciation: Despite current account deficits, a large capital and financial account surplus leads to overall balance surplus of USD 1.7 billion during July-January in running fiscal year, which accounts to slightly lower compared to same period of earlier year, but significant amount of balance of payment surplus are expected to continue . In addition persistent BOP surplus registered huge amount of net foreign assets stock, which helps to increase in gross international reserves. Thus, central bank's gross foreign exchange reserves rose sharply to USD 21.1 billion (about 5.9 months of imports) at the end of February 2015 from USD 19.1 billion a year earlier (Figure 9).





Moreover, persistent BOP surplus, increasing pattern of foreign exchange reserves in commercial banks, have a great impact on exchange rate. In recent, it is observable that taka has appreciated more against US dollar, while Euro has depreciated against dollar at a faster rate (Figure10). As remittance are expected to increase from last quarter of current fiscal year, taka may appreciated to greater extend if

Bangladesh bank does not manage exchange rate, which erode competitiveness of our exports. Thus, government should sterilize to prevent the taka from appreciating, while it leads to further reserves buildup. During this episode, Bangladesh Bank manages exchange rate well, exchange rate has remained stable. Because of Bangladesh bank sterilization of foreign exchanges, at the end of February 2015, taka has depreciated by 0.22 percent from its level of end June 2014, while taka has still appreciated by 0.12 percent during January 2015, showing stability in foreign exchange market. Because of the nominal depreciation and higher domestic inflation relative to that of trading partners, Bangladesh's real effective exchange rate has depreciated slightly up, indicative of some gains in export competitiveness.

A3. Fiscal Risks and Development:

Despite revenue shortfalls, budget deficit in current fiscal year will remain below budget target, owing to continued problems in implementing the Annual Development Program (ADP): Historically, NBR revenue earned shortfalls, but in recent couple years except FY13, NBR performed remarkably in terms of higher tax efforts, which is still low compared to other LDCs and developing countries. In this current fiscal year, NBR tax revenue seems to be buoyant, fairly higher enough revenue growth compared to same period of last fiscal year, but still not the margin of budget target in terms of lower tax base. During first eight months of current fiscal year, NBR revenue collection grew to 16.4 percent from 8.7 percent at the same period of previous year, falling below the budget's target (Figure11).

Figure11. NBR Revenue, July2009 - Feb 2015 (Month on Month Percent Change)

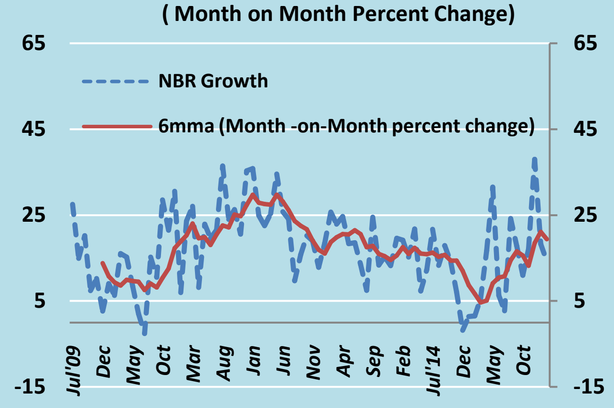
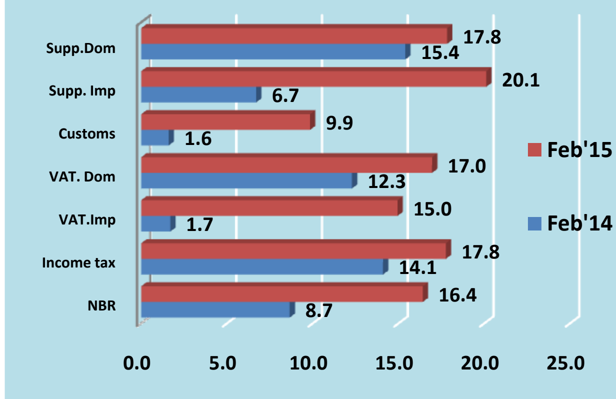


Figure12. NBR Revenue Growth Up to February

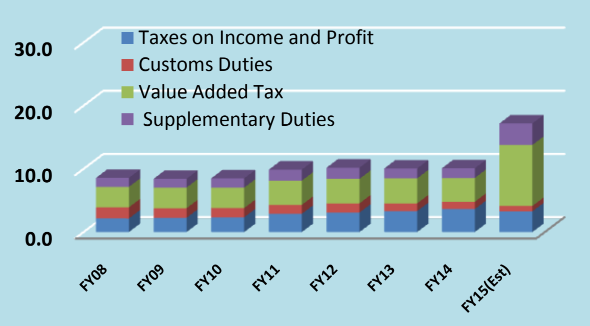


As a consequence, NBR revenue shortfall through February is estimated to be TK 125 billion[5]. Based on the 5-year average collection pattern, actual revenue through February was 4.0 percent below 57.4 percent target required to achieve budget target. Major sources of this shortfall were domestic VAT, domestic supplementary duty and income taxes due persistent strike, which bolster to hamper domestic economic activities. Higher tax efforts in case of domestic VAT and income taxes determine sturdy tax revenue efforts. During first eight months of FY15, domestic based tax revenue recorded higher growth, both domestic VAT and income tax, but, it was less buoyant (Figure-12). Meanwhile, import-based

[5] Revenue shortfall, which is difference between actual and expected revenue, is calculated based on five years weighted average of revenue collection and budget targets. Shortfall appears when actual revenue is lower than expected revenue and surplus appears in opposite direction.

revenue performance records well, resulting higher growth in import based tax revenue. Both import based VAT and custom duty increases to 15 percent from 1.7 percent and 1.6 percent from 9.9 percent in July-February due to higher growth in nominal imports. This trend will expect to remain striking at the end of June in current fiscal year because recent rebound in LC opening to support more creating wider base of import based tax revenue. Thus, NBR revenue shortfalls remains at lower extend, improving than previous year, but still lower tax efforts not to mitigate NBR revenue growth target. On the other hand, transition of tax structure underlying with economic growth may play a vital role to establish equitable and efficient tax system of an economy. If we compare NBR tax revenue compositions in FY10 with FY15, we observe that share of domestic Value added tax increases while proportion of VAT import decreases over years, but proportion of VAT domestic increases relatively at lower pace implying plateau VAT efforts. Conversely, we observe positive development in case of income tax share trend, which registers higher proportional increase during last five budgets, while declining trend reflected in case of custom duty and supplementary duties because of reforms in new VAT law and more involving in international trade which force to keep lower import duties over year of every budget. Thus, tax structure of Bangladesh may not be reflected as ensuring more equitable because share of income tax is not fair enough. Although Bangladesh achieved slightly upper tax efforts in income tax and domestic VAT, this does not necessarily mean that Bangladesh tax system is more efficient due to enormous distortions remain to disappear.

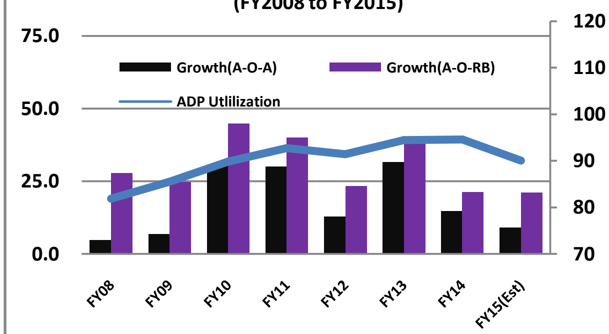
Figure13. Central Government Revenue, FY08-FY15
(Percent of GDP)



Historically, Bangladesh has good track to save huge expenditure from budget allocations, mainly come from ADP[6] utilization challenges: In the current fiscal year of FY15, it has been estimated to 2392 billion taka of total expenditure against target of 2505 in budget. This expenditure savings will generate because government has already revised ADP expenditure at 700 billion of taka for FY15 due to persistent political turmoil in the first half of this fiscal year. Additionally, government can save enough money from revenue expenditure due to declining trend in oil price in global economy.

Moreover, ADP implementation challenges remain adequate in first half of FY15; it may be same at the end of FY15. First half growth rate of ADP expenditure accounts to 16.8 percent,

Figure 14. ADP Utilization and Growth
(FY2008 to FY2015)

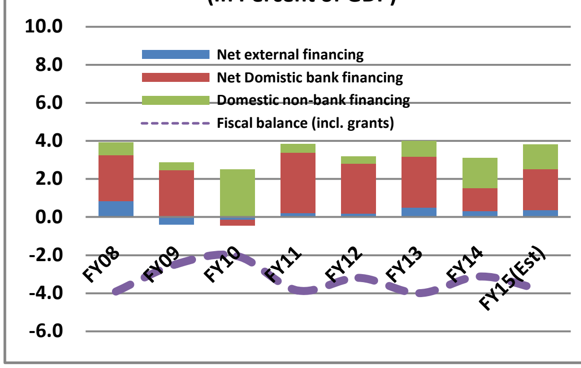


[6] ADP, which is Annual development Program, indicates all capital spending related infrastructure development and others development projects financed by both external and domestic sources.

slightly higher than FY14, but fairly lower enough than FY13. If we look forward to ADP utilization, then utilization rate is still lower enough which provides a signal for higher ADP expenditure savings from current budget target. This problem originates from legacy complexity, inadequate project financing on time, and mismanagement of mega projects. On the other hand, revenue expenditure implemented fully, but revenue expenditure utilization rate up to first half of FY15 remains still lower compared to same period of previous FY14. One of the main reasons of this episode indicates downward pressure of oil price in global market, thus, subsidy falls from power sectors.

Government's fiscal deficit level, ranging 3.5 to 4.8 percent of GDP should not give rise to any debt sustainability issue[7], but debt services increases at alarming rate. However, emerging pattern in the composition of financing with much greater reliance on high cost domestic financing and relatively short maturity structure and associated very high degree of rollover is a matter that should get more attention in the financing strategy of the government. In the last five years, government had to depend more from domestic sources of financing due to financial constraints in global market. In recent borrowing from banking system by government recorded remarkably higher than non-bank borrowing, this may be threat in terms of higher inflation, domestic debt burden and higher level of domestic debt servicing costs (Figure15). Although fiscal deficits remained below 5 percent of GDP, domestic debt to GDP exceeded external debt.

Figure 15. Source of Financing, FY08 -FY15 (In Percent of GDP)



In addition, heavy reliance on National Savings Certificates (NSD) and short-term treasury bills give birth to huge amount of debt service payments while larger proportion of debt services come from domestic debt, indeed amount of domestic debt stock remain still low compared with external debt stock. This huge cost from domestic debt financing should give way to long-term treasury bills and bonds, infrastructure bonds, etc, with proper secondary market and a well-developed yield curve (which does not exist today in Bangladesh). Thus, government would need to diversify its sources of financing with proper mix of domestic and external financing, and on both fronts indentify market based additional sources of financing

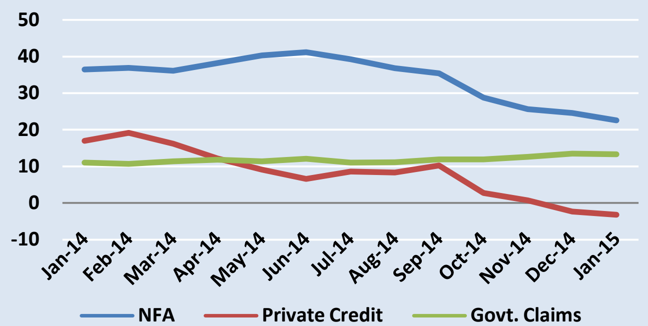
A4. Monetary and Financial Development:

Monetary policy in current fiscal year aimed at ensuring macroeconomic stability, and supporting inclusive growth through enhancing private sector credit. Historically, every year in Bangladesh till FY11 monetary targets were exceeded by large margins, indicating lax monetary policy stance has created liquidity over-hang. This current monetary policy seems to be accommodative, and broad money (M2)

[7] Debt sustainability indicates capability to repay debt including debt services. In Bangladesh, public debt to GDP ratio declines gradually, which is below than threshold indicator, total external debt services to exports falls at slower pace due to relatively higher burden domestic debt services.

growth is on the monetary policy statement target, indicating the greater probability of actual M2 growth would be consistent against with target. During July-January of FY15, broad money (M2) growth slowed to 5.4 percent from 12.9 percent in same period of FY14. This growth is lower than current monetary program growth target of 17.0 percent due to slow growth in private sector credit and in net foreign assets, while net claims on government recorded negative growth. During first seventh month of current fiscal year, private credit growth remained slightly upper at the same period of previous year's level of 6.75 percent, reflecting weak domestic demand, in lying with persistent nature of political uncertainty and growing international borrowing by the corporate sector impacted domestic credit demand, which further support to lower private investment(Figure16). On the other hand, net foreign assets growth declined to 4.75 percent in July-January of FY15, from 20.6 percent at the same period of earlier year due to lower remittance inflows and slightly slower export demands from European Union markets from the second quarter of FY15, reflecting taka has been appreciated more against USD resulting from strong depreciation in Euro against US dollar. In addition upward trend in import growth has bolstered to keep down slower growth in net foreign assets. Eventually, net credit to the government fell from 4.4 percent growth in July-January of 2014 to -5.4 percent in July-January of 2015 because of lower amount of government borrowing from banking system resulting from lower pressures from fiscal deficit financing due to lower subsidies and low level of ADP utilization.

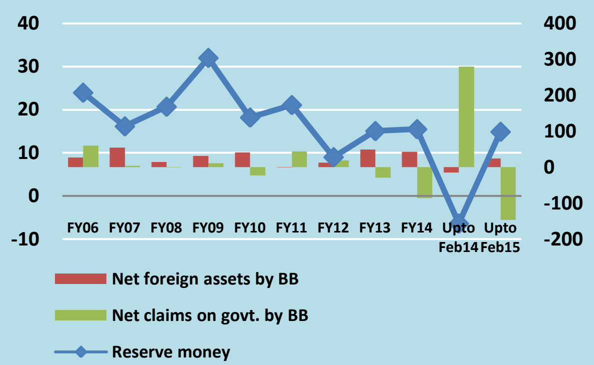
Figure 16 : NFA , Private and Public Credit Development
(In Percent Change)



Source: Bangladesh Bank

Reserve money growth remained below the FY15 target of 16.2 percent. Reserve money growth increased slightly up, reaching 14.9 percent growth in February 2015, upward from 6.4 percent in February 2014 while sharp decline in net claims on government growth of the central bank. This steep decline in lending by the central bank to the government contributed to the slower reserve money growth. Moreover, central bank's net foreign assets increased to 24.7 percent in February 2015 compared with same period of previous year, while lending to commercial banks by Bangladesh bank increased to 27.9 percent in January 2015. These buoyant in both NFA and claims on commercial banks have been subdued by stronger decline in net claims on government by Bangladesh Bank.

Figure17. Contribution to Reserve Money Growth
(FY2006 - Feb'2015)



Furthermore, to ensure continued macroeconomic stability and promote investment, a major monetary policy challenge is to bring down inflation, which remains stable at 6.1 percent in February 2015 compared to 7.3 percent point to point basis[8]. On other hand, it is essential for Bangladesh economy to stimulate investment; innovative ways need to be found to channel the sizable of excess liquidity to the productive sectors without hurting inflation targets. Excess liquidity problems are striking due to lower private investments and Bangladesh Bank's sterilization policy through purchasing US dollar from exchange market to stabilize exchange rate.

During first quarter of 2015, call money rate remained lower in trend due to lower credit demand from private business, while it started to increase at the beginning of second quarter of FY15, bolstering further improvement in domestic demand from private sector. Although monetary policy stance remained cautious and central bank mounted sterilization operations, as the growth in net foreign assets still exceeded the target, 3.6 percent, thus excess liquidity from banking sector caused to almost stagnant Repo rate, slightly higher while call money rate declined provided further support to decrease inter banks loans demand. Yield rates on five years Treasury bond registered to relatively high because government issued more bonds to manage long-term domestic debt management strategy to reduce lack fiscal financing.

Figure18.Bank's Excess Reserves and Interest Spreads (Q1'2008 to Q2'2015)

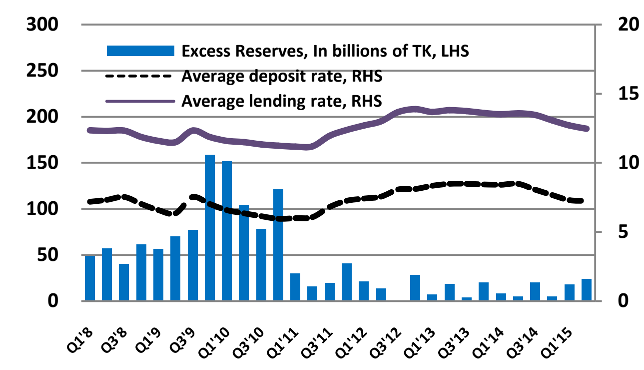
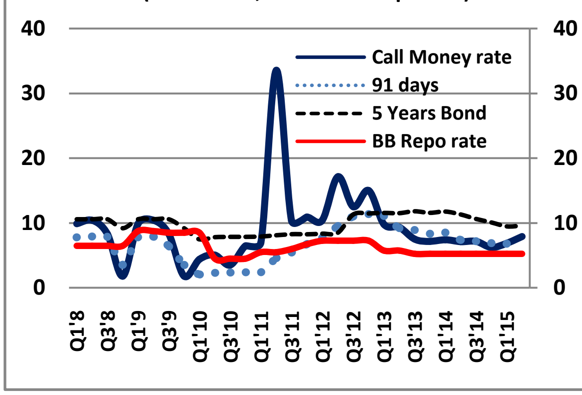


Figure19. Interest Rates, Q1'2008 - Q2'2015 (In Percent, end of each quarter)



Commercial banks' excess reserves rose to 23.9 billion at the end of second quarter of 2015 up from taka of 5.2 billion at the end of second quarter of 2014. As a consequence, lending and deposit rates declined in recent months, which accounted to weighted average lending rate declined to 12.5 percent at the end of December 2015 from 13.6 percent at the end of September 2014 (Figure19). Moreover, deposit rate also declined, to 7.3 percent from 8.4 percent, remaining positive in real terms as inflation was still lower than the deposit rate, and interest rate spread of the banking system is widened slightly to 5.0 percentage points from 5.2 in June 2014. In addition to the lower credit demand, the lower cost of funds, higher competition among banks, and larger private sector international borrowing contributed to the decline in the lending rate. In addition large excess liquidity in the banking system contributed to lower deposit rate.

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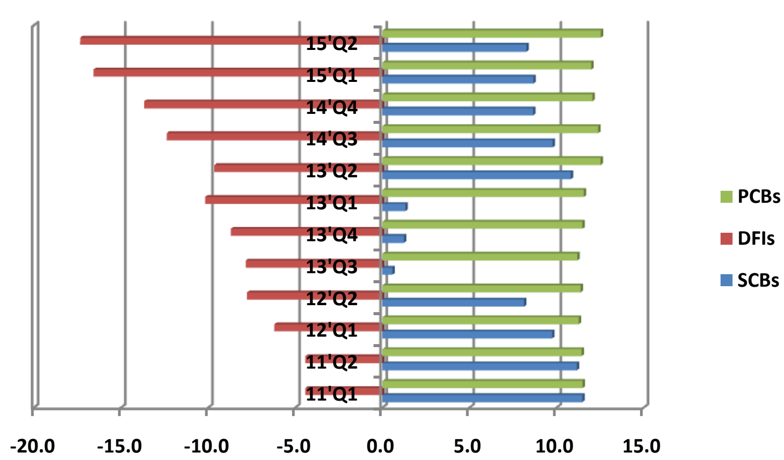
[8] Inflation has been estimated based on Consumer Price Index (CPI) constant 2005-06 prices. Inflation is lower level because of declined non-food inflation due to lower level of inflation in globally; and lower domestic demand.

Financial and Capital Market Developments

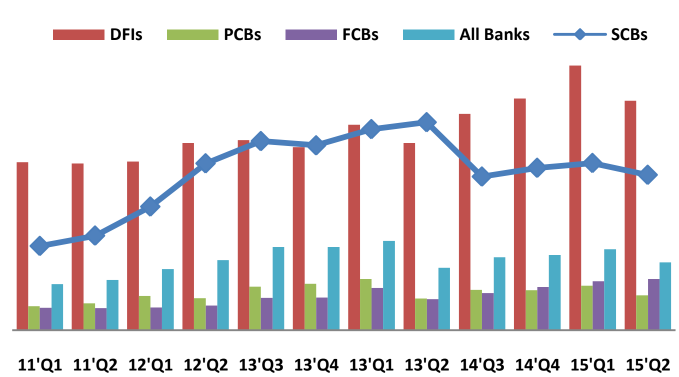
Financial soundness can play crucial role to promote private and public investments through transferring savings to bank deposits. Bangladesh financial market consists of mainly baking industry recent financial soundness indicators (FSIs) point to remarkable improved performance for the banking system, but risk factors remain. Capital adequacy ratios (CARs) have improved across all banks, which increased to 11.4 percent in second quarter in FY15 from 10.6 percent in first quarter in FY15.While private and foreign commercial banks maintains risks weighted capital asset ratios, state owned and specialized banks registered to keep lower level compared to Minimum Capital Requirement (MCR)[9] based on Basel II. Recent trend in RWA indicates both commercial domestic private banks and foreign banks are incapable to cover risks potentially, but state owned commercial banks and specialized banks still have potential risks to cover financial risks.

Figure 20. Risks Weighted Capital Ratios



On the other hand, key asset quality indicators have also strengthened for all commercial banks, although state owned and specialized commercial banks remained to have significant higher amount of bad loans at the end of first half 2015. Total outstanding loan increased by 4.9 percent during Q2FY15 over Q1FY15 while total classified loan decreased by 13.6 percent over the same period resulting NPL ratio for all banks decreased from 11.6 percent at end of Q1FY15 to 9.7 percent at end of Q2FY15 (Figure). This improvement in gross NPL ratio of overall banking sector was due to reduction of non-performing loans of state owned and private domestic commercial banks, which attributed partly to some progress in recovery of long outstanding loans and partly to write-off of loans classified as 'bad' or 'loss.

Figure 21: NPL Ratios in Basnking System



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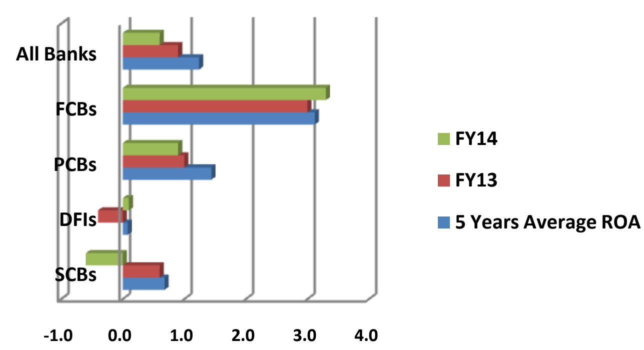
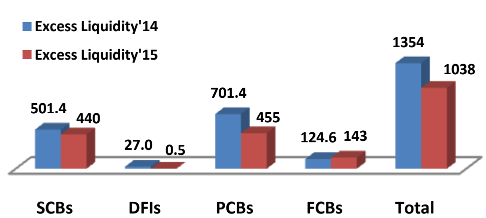
In the banking sector profitability has been measured by Return on Assets (ROA) and Return on Equity (ROE), which may differ greatly within banking industry. Analyses of these two indicators reveal that the ROA of the SCBs was less than the industry average. SCBs' ROE shows a sign of positive indication in 2013 through an increased rate of 10.9 percent whereas it dropped to 11.9 percent negative in 2012 due to an increased amount of provisioning required against an increased amount of NPLs. In case of DFIs, the ROE was positive in 2014, which was negative for the last couple of years. Despite decreasing trend of ROA of private commercial banks for previous couple of years, it started to rebound, but still lower than last five years average of ROA. In case of foreign banks, both ROA and ROE looked quite steady, exceeded to last five years market average due to smaller amount of provisioning required against given level of NPLs.

22. Bank Profitibility: Return on Assets



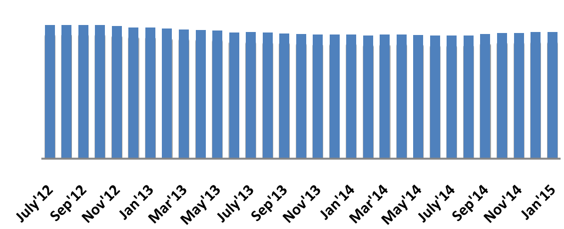
Moreover, excess liquidity in banking system remains fairly enough in current fiscal year, slightly lower compared to previous fiscal year. During July-February in FY15, excess liquidity in the banking system recorded to 1038 billion of taka, while it was 1354 billion of taka in the same period of FY14.Excess liquidity is enormous in banking system implies that lower amount of loan demand in the private sector due to recent strikes and sluggish domestic economic activities. In addition, Bangladesh bank purchases US dollars from foreign exchange market to restrain taka appreciation against US dollar maintaining exports competitiveness in European market as well as others trading partners. This is because Cash Reserve Ratio (CRR) remains almost same compared to previous year, while investment in unencumbered approved securities by commercial banks increased to almost 73 percent of commercial bank's total liquid assets during FY15. This excess liquidity may cause to reduce commercial bank's lending and deposits rate, which further supports to reduce return on assets and interest income of the commercial banking systems. Additionally, it creates more pressure on inflation rate due to greater monetary expansion than real GDP growth in a whole economic system. Thus, to channelize excess

Figure 23: Excess Liquidity in Banking System
(In billions of Taka)



Source: Bangladesh Bank

Figure 24. Loans to Deposit ratios
(As Percent of Total Deposits ecluding interbanks)



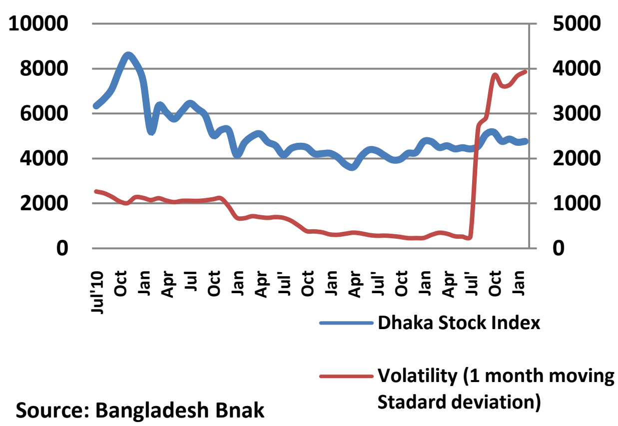
Source: Bangladesh Bank

liquidity in proper way through enhancing investments, and conducting conducive monetary management with given fiscal management, is key concern for financial stability.

Capital Market Developments

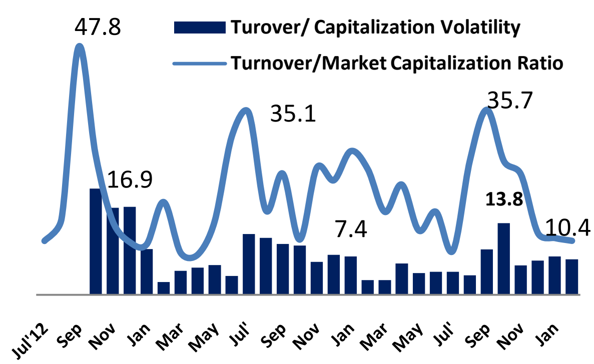
Efficient capital markets are important for financial stability, as vibrant capital markets contribute to a better pricing and efficient allocation of financial resources in the economy. In 2014, the main bourses in Bangladesh, the Dhaka Stock Exchange and the Chittagong Stock Exchange (DSE and CSE) showed improvement in terms of index movement and trade volume, but remained volatile. Both the number of listed companies and issued capital have grown with slightly upper. DSE Board Index (DSEX) at the end of February 2015 stands higher at 4763 compared to the index of 4724 at the end of January.

Figure 25. Stock Market Performance



Source: Bangladesh Bnak

Figure 26. Dhaka Stock Market Volatility
(During July2012 to February2015)



Source: Bangladesh Bnak

Total market capitalization of all shares and debentures of the listed securities at the end of February 2015 also stands higher at taka 3217 billion from 3177 billion at the end of January 2015. On the other hand, turnover to market capitalization ratio remained at lower level since last two fiscal years, while it started to increase during end of second quarter of 2015, but fell to 10.4 percent at the end of February 2015, reflects that stock market is still not keeping up the pace with the aggregate economy. Volatility registered to lower slightly in the second quarter of FY15, but it remains too high over the last two years, showing, on average, that the real growth in the market is negative if adjusted by inflation. This stock market performance indicates that public confidence does not grow up significantfly to invest more in stock market. Finally, Dhaka stock exchange market is not diversified enough to avoid anti-competitive practices in stock market because lsignificant proportion of market shares are occupined by few numbers of investors, while most of stocks of Dhaka stock exchange are heavily concentrated on banking institutions, non-bank financial institutions,telecomonications and power of energy sector, but in recent in FY14, market concentration reveals to less concentrated to these sectors compared to previous few fiscal years.

Emerging Quarterly Economic Review
Volume: I, June 2015

An Unending Debate of Budget 2015-16

Expectations, Realities and Challenges

Biplob Kumar Nandi[10]

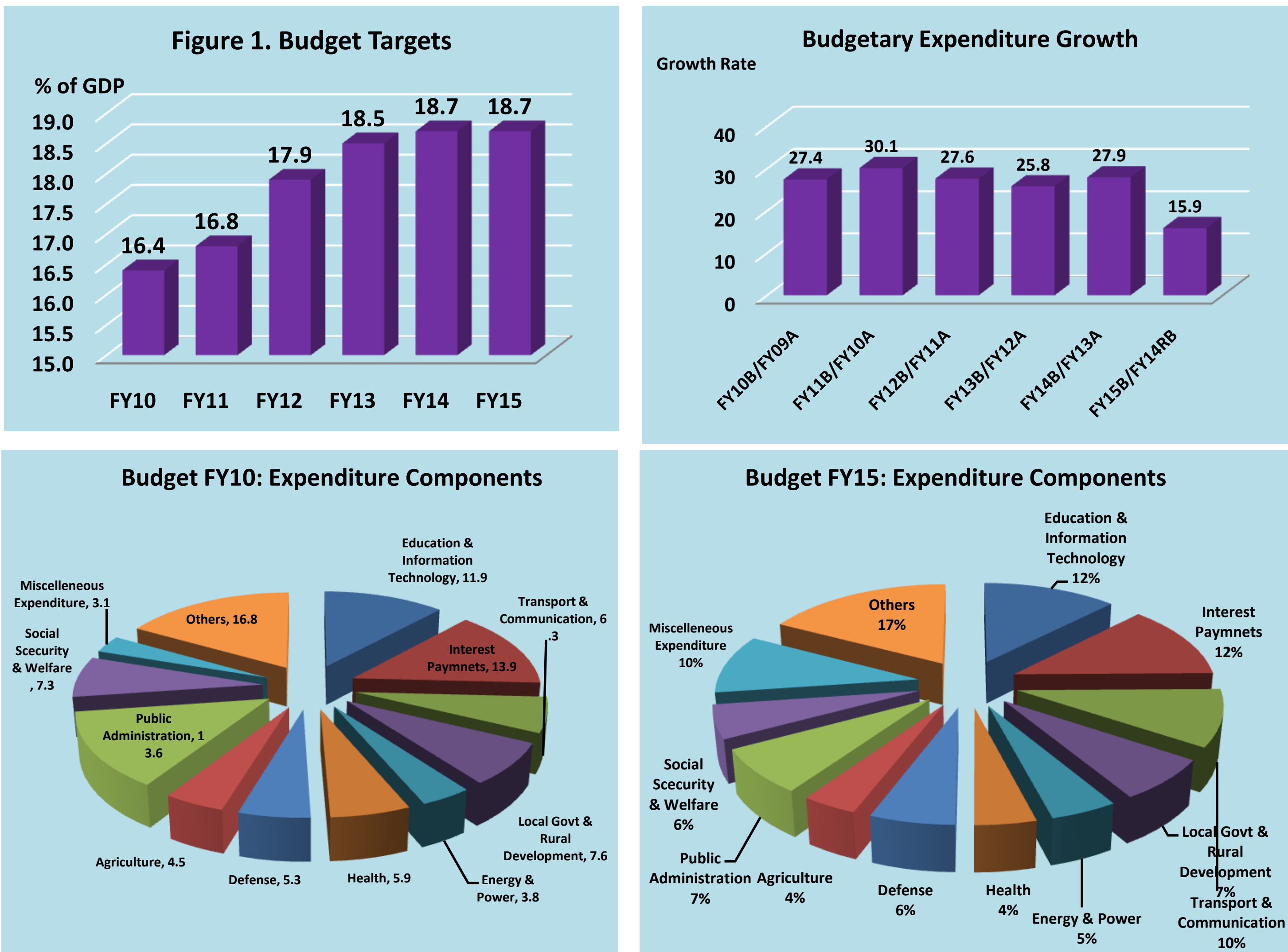
Overview and Summary: National Budget FY15, last budget under Sixth Five Year Plan, was on the whole a bold budget. Like previous budgets, this budget can be considered as an ambitious in nature but achievable, particularly with regard to macroeconomic objectives like real GPD growth and on the spending side. In this current fiscal year, bureau of statistics Bangladesh (BBS) has estimated to 6.23 percent of real GDP growth against budget target at 7.3 percent. Although political environment remained stable in the first half of FY15, rebound in imports demands, significant positive growth in remittance, real GDP growth has estimated lower due to slow down in private investments and sluggish export performance. Moreover, Bangladesh government has achieved a little success to increase in public investment, especially in the area of infrastructure, but which is still not substantial to achieve budget growth target. In budget 2015 Bangladesh government targeted to enhance public investments from additional domestic revenues that require tax collections to go up substantially. Public revenue mobilization target in the budget2015, while higher than last year, was quite feasible in view of Bangladesh's low tax effort. But, it may not be possible to achieve revenue target, while it has been expected 100 - 150 billions NBR revenue shortfall in this current fiscal year. Main sources of NBR revenue shortfall may attribute from domestic VAT, supplementary domestic and income taxes due to slow down in domestic economic activities resulting from political turmoil during last quarter of FY15.On the expenditure side, the development budget, while large in relation to the past, is still low in relation to the development needs of the country. The weak implementation argument, while valid, is not insurmountable with right policies. There is, however, a question about the size of the current spending. There is a benign condition that the projected subsidy spending may actually be lower in FY15 because oil price in international market is in declining trend as well as lower level of world inflation. The pressure from growing subsidies could also release which will remain stable overall budget deficit. On the financing side the main question is whether the government is able to mobilize the projected optimistic increase in foreign financing. If this is not realized, as is likely, this will challenge the consistency of monetary and fiscal policy targets. In case of source of deficit financing, Bangladesh government is still on the right way to limit borrowing from banking system, to increase external financing through FDI and loans. Thus, underlying current fiscal deficit, the ability to keep monetary expansion within prudent limits to prevent inflation and contain favorable overall balance of payments surplus may reduce substantial macroeconomic policy challenge in FY15.

Budget Size and How the Resources Allocated

[10] Senior Lecturer, Dept of Economics, East West University

Although there has been a lot of discussion on the “so called large size of budget,” it may not consider the increased allocation as particularly large in view of a number of considerations. If anyone compares FY15 budget with FY14 and other recent budget, it is observable that at 18.2 percent of GDP it was almost same as FY14 budget and a little bit higher than other recent budgets. Thus, with the increased size of the economy and growth demand of the citizens for broad range of public services such modest increases still remain unavoidable.

Bangladesh: Budget Size, Allocations and Budgetary Growth, FY10 and FY15



Source: Budget Documents, Ministry of Finance Bangladesh

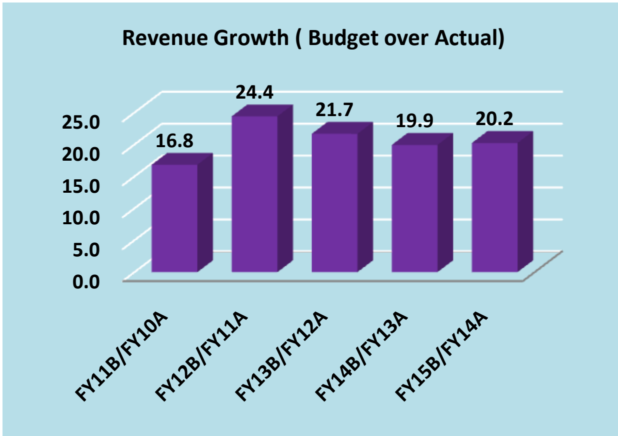
In terms of the increase in government spending relative to the actual expenditure or the revised budgetary expenditure of the previous years we in fact observe a major deceleration in expenditure growth compared with the expenditure growth observed in the preceding years. As a matter of fact, expenditure growth in FY15 is 15.9 % over the revised FY14 budgetary spending, which is the lowest increase recorded in any year of the Awami League government. In terms of overall resource allocation over the years we do not observe major shifts, although allocations for transport and energy/power have increased in line with government priorities for infrastructure and allocations for education, health and social safety net programs have decreased in relative terms. It is also interesting to observe that despite reservations expressed by many quarters, total interest payments as a share of total spending has declined in recent years but at 12 % of total spending in FY15 is very close to spending on education and information technology.

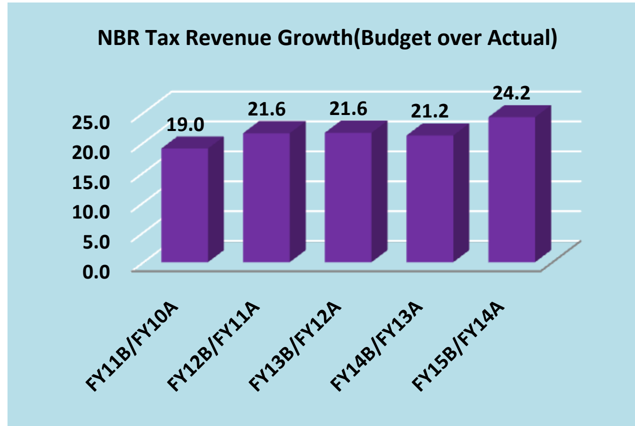
A matter of concern is the very rapid increase in miscellaneous expenditure, the share of which increased by more than three folds to 10 % of total spending. Such a large increase in the unidentified miscellaneous category to almost 10% of the budget is a matter of concern pointing to lesser transparency and potential weakening of expenditure control. In recent years the allocations for key social sector programs witnessed a secular decline in relation to GDP and the total budget. This decline had to stop compared with FY14 budget. We are pleased to observe that FY15 budget has made a significant move to reverse the secular decline, which is a commendable move. Thus, we hope no cuts will be made in these allocations and efforts will be made to improve allocation and targeting efficiency of these important programs

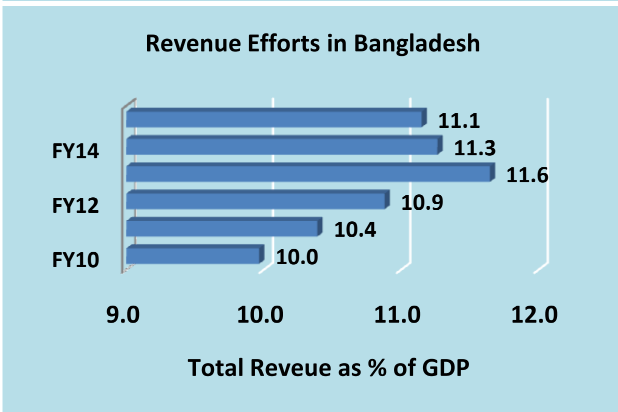
Revenue Mobilization and Targets:

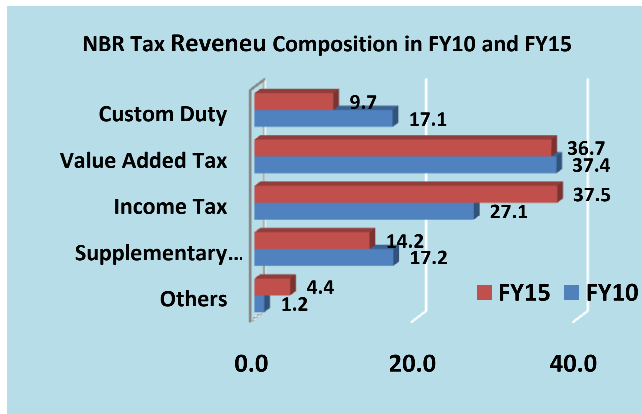
Budget FY15 targets total revenues to fix at 11.1 % of GDP in FY2015 from 11.3 % (Figure 2). This ratio implies that lower revenue efforts remains, no remarkable improvement have been incurred to enhance higher revenue efforts. In FY15 budget total revenue has been projected to increase from budget over actual by 20.2 percent, while NBR tax revenue has been projected to increase from actual over budget by 24.2 percent, which was ambitious in line with scarcity of tax automation in income tax and VAT system association with lower tax base in both of income and Value Added Tax. Moreover, 24.2 percent growth in FY15 budget was not prudent because we have no good record to achieve this higher revenue target. Additionally, most of the revenue efforts come from NBR tax revenue performance- especially from domestic VAT tax revenue and Income tax. Thus, without tax automation, no increase in tax coverage, and without implementing fully new VAT Law 2013, it seems to be dark to achieve budget target. On the other hand, transition of tax structure underlying with economic growth may play a vital role to establish equitable and efficient tax system of an economy. If we compare NBR tax revenue compositions in FY10 with FY15, the, we observe that share of Value added tax remain stagnant - proportion of VAT import decreases over years, but proportion of VAT domestic increases relatively at lower pace implying higher VAT efforts. Conversely, we observe positive development in case of income tax share trend, which registers higher proportional increase during last five budgets, while declining trend reflected in case of custom duty and supplementary duties because of reforms in tax laws and more involving in international trade which force to keep lower import duties over year of every budget.

Figure -2: Revenue Growth Budget over Actual, Revenue Efforts and Composition







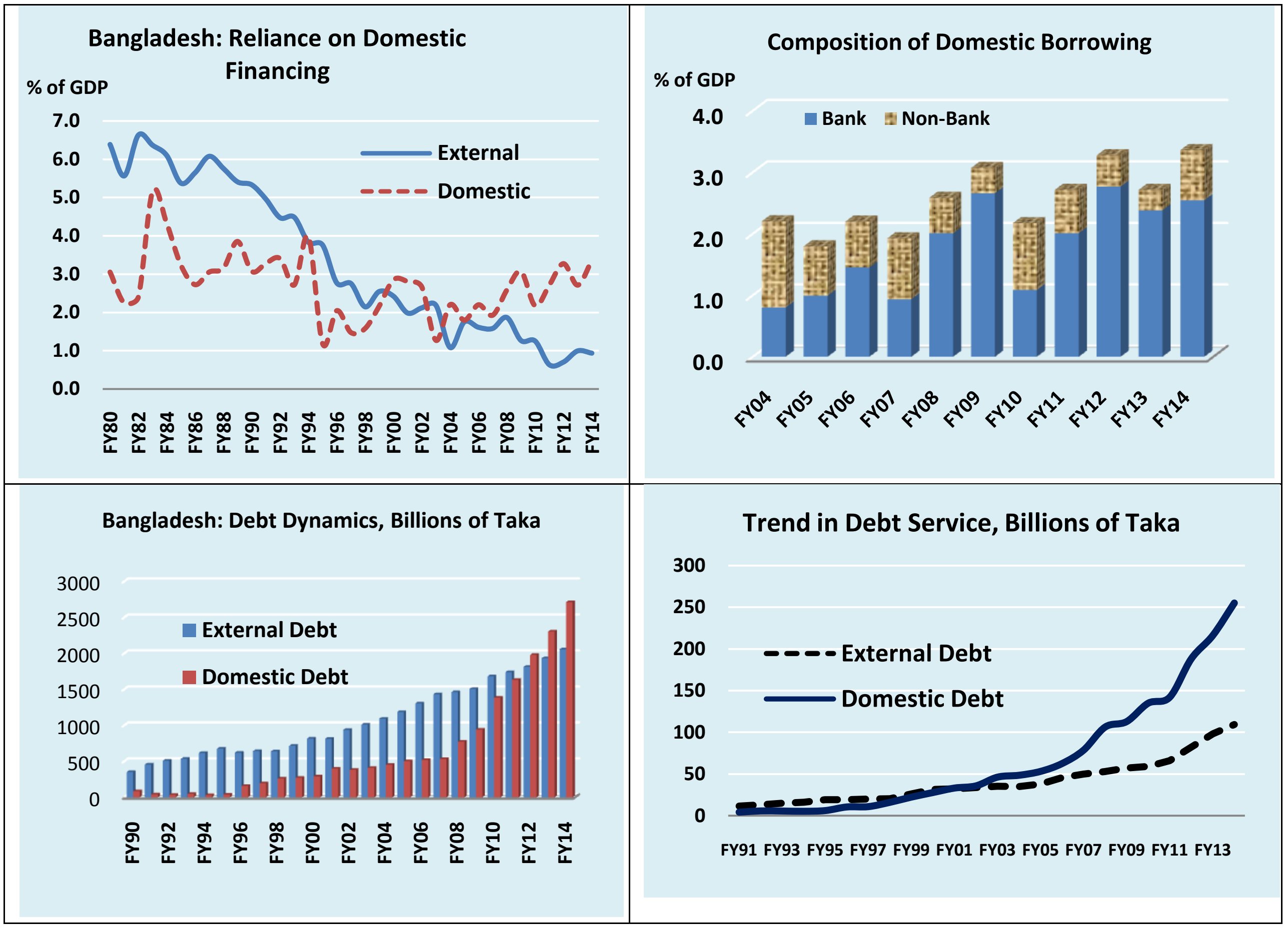


Source: Ministry of Finance, Bangladesh

Sources of Financing, Deficit and Debt Target:

Government's fiscal deficit level of 5 percent of GDP in the context of more than 6 percent real GDP growth is appropriate and should not give rise to any debt sustainability issue. However, emerging pattern in the composition of financing with much greater reliance on high cost domestic financing and relatively short maturity structure and associated very high degree of rollover is a matter that should get more attention in the financing strategy of the government. Moreover, heavy reliance on National Savings Certificates (NSD) and short-term treasury bills give birth to huge amount of debt service payments while larger proportion of debt services come from domestic debt, indeed amount of domestic debt stock remain still low compared with external debt stock. This huge cost from domestic debt financing should give way to long-term treasury bills and bonds, infrastructure bonds, etc, with proper secondary market and a well-developed yield curve (which does not exist today in Bangladesh). Thus, government would need to diversify its sources of financing with proper mix of domestic and external financing, and on both fronts indentify market based additional sources of financing.

Figure 3: Dependence on Domestic Financing and Entails High Rollover Risks



Source: Ministry of Finance, Bangladesh

The widening trend between external and domestic financing since FY06 is a matter of concern. From figure-3, it is explicit that domestic debt stock exceeds external debt after FY11, implying heavy reliance on domestic borrowing from high cost sources – NSD, short-term T-Bills and Bonds, etc, becomes stronger year over year. Moreover, it proves a bad indication of domestic debt management because domestic debt service is almost double with almost same level of both domestic and external debt stocks in terms of taka. If no attention is given to higher utilization of external concessional aid in pipeline and new commitments, debt servicing would become increasingly costly for the budget, limiting government's scope for discretionary spending. At the same time access to both domestic and external debt would need to be significantly broadened. On the domestic front traditional reliance on non bank borrowing through National Saving Directorate (NSD) and short-term T-bills should be supplemented with long-term T-bills and bonds (10-30 year T-bills and bonds). On the external financing front, greater and regular access to international capital market through issuance of long-term bonds will be important.

Budget FY15: Where We Stand?

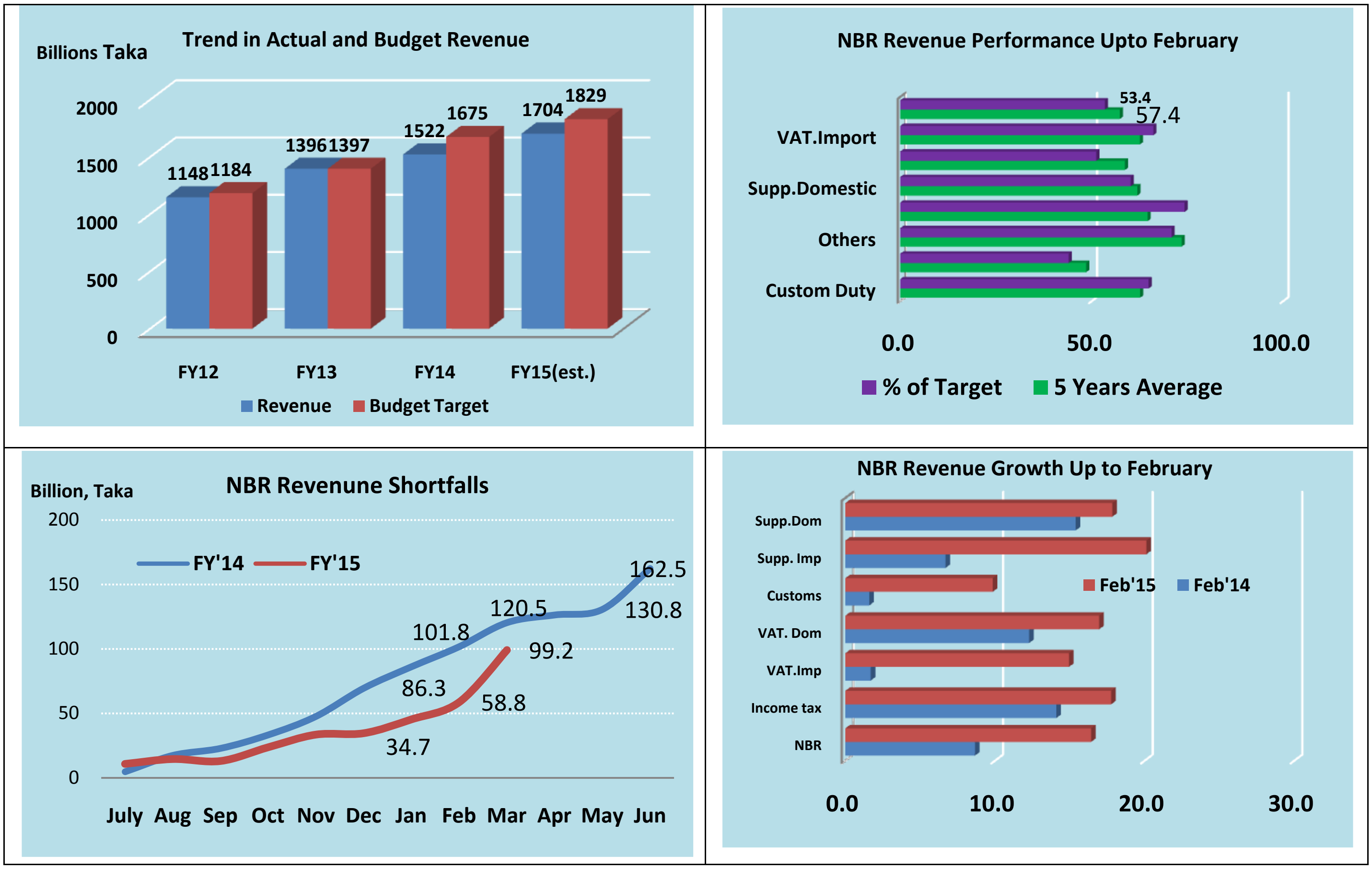
Despite higher budget allocation in infrastructure development expenditure, huge expected NBR revenue shortfall in ongoing fiscal year and in line with lower expected subsidy costs due to decrease in oil price in international market, fiscal policy stance in FY 10 has not been expansionary at all. Thus, overall fiscal deficit including grant is projected to be 4.1 percent of GDP, despite original budget targets of 5 percent of GDP. Actual fiscal deficits expect to be lower because of failure to implement ADP allocation fully. Moreover, sluggish NBR revenue performance in both domestic and import –based taxes and budgetary savings from the terms-of-trade gains due to downward trend in oil price squeezed at a larger extend to limit fiscal deficits. Before discussing rational upcoming budget association with announced government new fiscal stances, we should scrutinize budget performance during first three quarters in current fiscal year in terms of revenue developments, expenditure utilization and government's sources of financing.

Revenue outlook

Although NBR revenue collections seems to be improving, closer to target, while huge shortfall in previous fiscal year, NBR revenue collections remains sluggish in nature during month of February in FY15. Due to continued sluggish NBR outlook compared with previous year, total revenue collections for this current fiscal year are estimated at Tk. 1704 billion registering 125 billion below the target. Main drivers of this shortfall of total revenue is NBR tax revenue collections up to February, which is less buoyant despite lower base and growing import demands. During first eight month of FY15 NBR revenue collection scores 99.2 billion taka below budget target (See Figure -3), which is lower compared to same period of FY14. Thus, NBR revenue collections have been estimated in ending of current fiscal year to closer amount of 120 to 150 billion taka.

NBR revenue collection has been estimated relatively lower in current fiscal year because NBR tax revenue efforts record remarkably adverse due to slow down in domestic economic activities, persistent political turmoil at the beginning of third quarter of FY15. During the first eight months, growth in NBR revenue (16.4%) was much higher in FY15 while FY14 total NBR as well as all of the components recorded significantly slower growth compared to that in the last FY14. Based on the 5-year collection pattern, actual revenue through February was 4.0 % below 57.4 % target required to achieve the budget target. If we observe NBR performance in various components, then major sources of NBR revenue shortfalls come from domestic-based revenue- especially from domestic VAT and income tax, while reverse trend observes in case of import-based tax collection, indicating higher growth earned in custom duties and VAT import duties.

Figure 4: Fiscal and Budget Implementation, 2014-15, Up to March

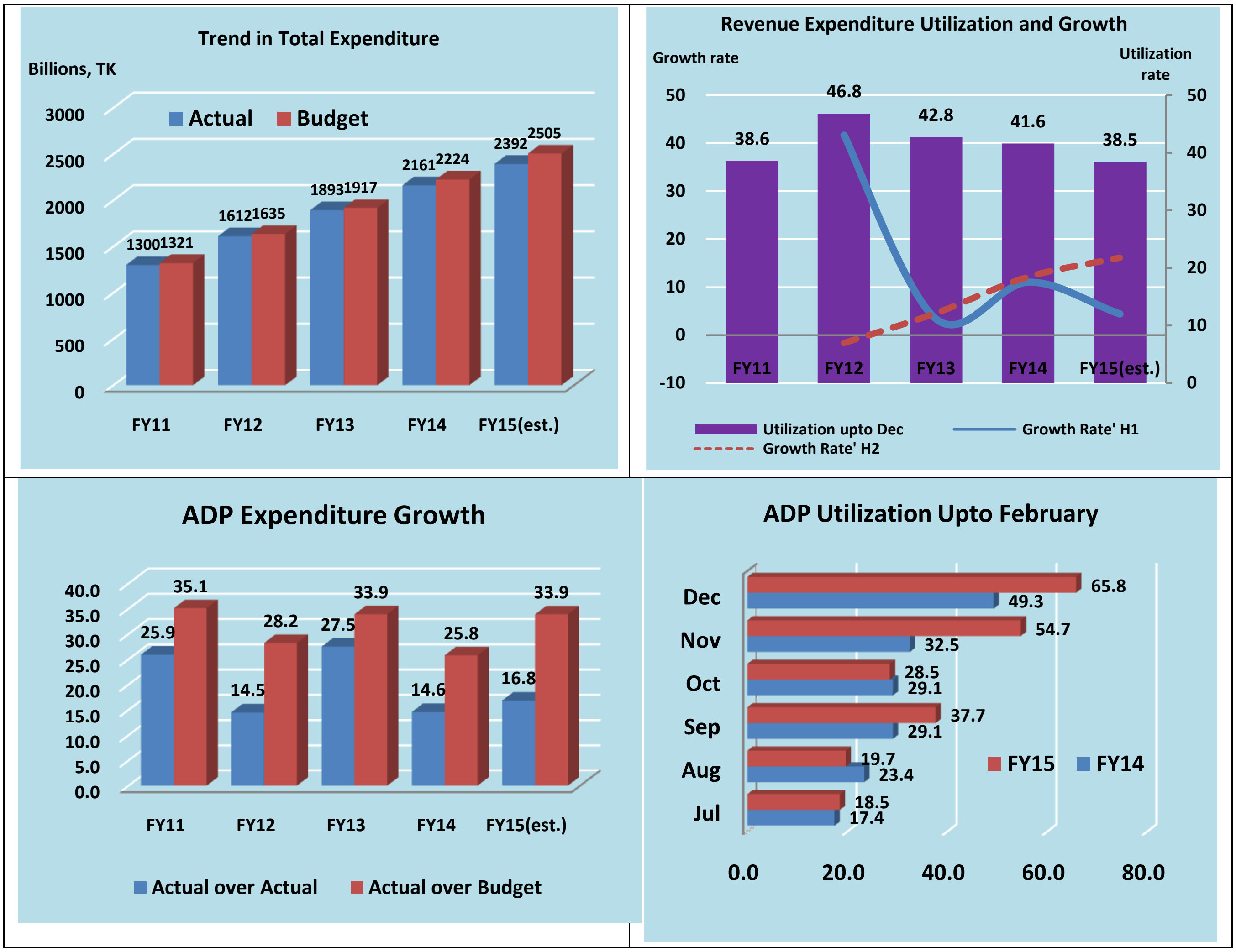


Source: National Board of Revenue, Bangladesh

Expenditure Outlook

Beginning of budget FY15, total expenditure allocations was 2505 billion of taka, which registered 15.9 percent, increase actual over budget. Historically, actual expenditure fell short against targets due to huge expenditure savings from ADP allocations, implying lack of implementation capacities in lying with institutional weakness and scarcity of funding in mega projects. Moreover, recent declining trend in oil price in international market may reduce huge subsidy pressure from energy sectors. Thus, current expenditure may be fall short against budget target. Government has revised ADP target, which was 100 billion down than budget target due to political unrests hampering various projects implementation on time.

Figure 4: Expenditure Outlook and Utilization for July-December, FY15



Source: Ministry of Finance, Bangladesh

Revenue expenditure utilization rate always achieve budget target, which is closer to full utilization of target, but sometimes it may vary due to up and swing in subsidy allocations, highly correlated with oil price fluctuations in international market. This year government may gain benefits from money savings accrued to subsidy allocation in budget due to lower oil price**.** If we observe first half growth of revenue expenditure, then its trend sharply declines from same period of previous year, also lower utilization rate compared with same period as previous year, this lower growth explains government subsidies declines in energy sectors (Figure -4).

On the development expenditure front, it is clear that size of actual ADP expenditure will be lower in current fiscal year. Moreover, there is no success story that actual over actual ADP expenditure growth exceeds previous year Actual over budget allocation (Figure- 4). In the current fiscal year, ADP utilization rate, which registers to 49.3 percent, remains still lower till July -December compared with same period of FY14. Thus, greater expenditure savings from energy subsidies and revised lower ADP size may limit overall fiscal deficits in end of FY15.

Deficit Financing and its composition:

Historically, Bangladesh government managed well fiscal vulnerability to keep lower level of fiscal deficit. But, if we observe the composition of fiscal deficit financing, it looks inefficiency in domestic debt management policy, and, thus we have to pay more money as debt services in every fiscal year, especially growth pattern of domestic debt service is stronger than external debt services, given almost same level of domestic debt stock as well as external debt. This may be an alarming situation in future, which gives birth to rollover risks to pay debt. In current fiscal year, Bangladesh government manages well to limit domestic borrowing- bank borrowing keeps low level at the end of first half of FY15, while government are able to improve inefficiencies to implement external financed projects, this helps to open up new door for external market loans and grants. Thus, net external financing flows increase more during first half of FY2015 compared with same period of FY14, which may reduces loan requirement from bank and non-bank sources at the end of FY15.

Budget Priorities, Challenges and Fiscal Spaces for Vision 2020:

Against the overall assessment made above, and considering upcoming expected huge fiscal expansion- New Pay Scale, Mega Infrastructure Projects, etc, what should be budget priorities in upcoming 2015-16 budget to align with Seventh Five Year Plan’s target real GDP growth and investment acceleration, is a remarkable concern before formulating new budget FY16. In this section, we want to highlight key risks and challenges to provide more revenue expenditures in lying with upward size ADP expenditure subject to relatively minimum fiscal deficit.

Firstly, if government implements new pay scales, it requires allocating more 180 to 200 billion as revenue expenditure, which increases revenue expenditure to GDP by an amount of 1.8 to 2 percentage of revenue expenditure to GDP in FY16. Moreover, ADP demand grows every budget, if we assume that government increase ADP allocation by maintaining 15-20 percent actual over budget growth, which is previous three years average, then, government should allocate handsomely large money in ADP allocation. This is very crucial to enhance public investment to foster investment to GDP ratio to 32 percent in last year of Seventh Five year Plan. Thus, it may increase fiscal deficit to GDP, which may reach exceeding 5 percent of GDP.

Secondly, more than 5 percent deficit to GDP align with 7 to 8 percent growth, may quite sensible if government improve deficit financing, which is to reduce lower dependency from short term T- bills and bonds, NSD, and to increase more commitments for external financing because our interest payments in domestic debt instruments grow an alarming rate which may hinder growth path in future, crowds out more private investments.

Thirdly, there are a lot of examples in world economy that higher revenue expenditure creates more inflation. This may be natural due to higher demand for goods and services, price speculation for business men and traders for new pay scales. Thus, higher inflation in domestic economy causes to currency devaluation, and finally, government would have to bear extra payments for external debt servicing.

Finally, it may not be rational, oil price remain declining trend for upcoming years. When oil price starts to follow increasing trend government will have to provide more energy subsidy to control energy price, while government has taken initiatives to scale up energy prices.

Underlying this reality, what should be nation's priorities for Budget FY16? – Some important expectations are noted below:

- The emphasis on transport, power, and making serviced lands available to potential investors (domestic and foreign) is appropriate. However, these large infrastructure projects need to be translated into real action on the ground through speedy implementation. Past experience with regard to implementation of major transport and power projects have been fraught with cost overruns, long delays, and quality control issues. Most of these projects mentioned in the budget have been under consideration for a long time. This time, if we really want to see a real change in private sector investment sentiment, these large projects must get off the ground and their actual implementation be started in FY16.

- Budget implementation should be done in such a manner those guards against potential revenue shortfall. This would essentially imply prioritization of projects and programs with a view to setting aside projects which may be considered non-priority or controversial. In particular, Ruppur Atomic Power Plant and Rampal coal based Power Plant near Sunderbans may easily be postponed while awaiting comprehensive appraisals and environmental and social impacts assessment of these projects and after completion of open public debate on the appraisal and environmental reports.

- On the financing of FY16 deficit, government should not be more ambitious before ensuring commitments of new financing, if shortfalls on external financing front will occur, creates huge pressure on domestic financing. Already, reliance on domestic debt grows faster rate, push tremendous domestic debt service pressure, may intensify more domestic debt burden if government takes fiscal expansion in FY16 budget. Thus, to reduce pressure on domestic debt, government has to find a better way to utilize more foreign aid disbursement. Greater access to program financing in support of major structural reforms(e.g., in the financial sector, civil service reform, in the operations of the Railways, RMG sector relocation to new RMG Villages or Parks) may help faster disbursement of funds and improve policy environment.

- Moreover, a medium and long –term financing strategy should be developed by the Ministry of Finance to broaden the sources of both domestic and external financing taking into account the maturity or rollover risk and diversification of sources of financing. Government should emphasis to long-term bonds, improvement in domestic bond market including secondary bond markets.

- Government should focus more to allocate higher in case of health, education and technological sector to enhance productivity of factors of production. But, it is still surprising that allocation in both education and health sector were lower compared to previous budget in terms GDP ratios in last two budgets. So, government should be more concern about to ensure higher allocation in both education and health sector in budget FY16.

- Trend in higher allocation for social sectors in previous budget are welcome, but this shift has to be sustained over the medium term. At the same time quality of spending on education and health and better targeting of resources for social protection need to be improved. The commitment to adopt a new National Social Security (NSS) program should start for speedy implementation of the strategy along the lines already approved by secretary's Committee.

- Government should address monetary policy in align to expansionary fiscal policy stances by government in upcoming budget to control inflation, interest rate and exchange rate. A firmer approach to bring down inflation to the average level of Bangladesh's trading partners would certainly help reduce the tension. That would also help bring down the whole interest rate structure including lower lending rates.

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Hike in Commercial Bank's Investment on Government Securities

A Symptom of Lazy Banking?

Biplob Kumar Nandi[11]
Arifur Rahman[12]

Does consistent higher investment of Government securities and treasury bonds indicate a symptom of "lazy banks?" Many economists, scholars or analysts may agree or disagree on bank laziness. Bank laziness means that banks engage to make profits by parking their money in safe deposits of government securities. Every agent in an economic system want to maximize profit based on their constraints. So, why do Commercial private bank not to engage in so-called lazy bank's activities if they have scopes to utilize this opportunities. Empirical evidences are somewhat mixed on these issues. But, recent experiences of banking sector activities supports, private commercial banks may engage in lazy bank practicing to some greater extend.

Moreover, Bangladesh's banking sector performed well in terms of return on assets, liquidity managements and expanding private sector credit to various productive sectors. But, they have to face some problems due to unpredictable borrowing form government to finance fiscal deficit, and to lack of private sector credit demands, they had to channelize their excess liquid money to government bonds and other approved securities. During last two fiscal years, it has been observed that commercial banks tendency to invest more in case of government securities, meaning that they are less responsiveness to lend more in private sectors. Lower private sector's credit demand, political uncertainties may be excellent supports for these episodes in recent, while if anyone compared to this banking performance from few years back, then it is possible to detect a strong causality between lower private sector loan to deposit ratios and significantly higher enough investments by commercial private banks in government securities, although NPL ratios are declining, Bangladesh Bank's stances to enhance private sector credit through easing monetary policies. In addition, lower government borrowing from banking system bolsters this bank laziness.

Before discussing bank laziness is good for band from agent to agent, this striking episode however has happened in an environment when Bangladesh is passing through a challenge to enhance private investments. Analysts are looking at it in different ways: many commentators are looking at it as a rational approach for commercial banks because they have excess liquidity underlying with declining private sector credit growth. Apart from this last two years, when Bangladesh bank declined SLR and CRR ratios, government borrowing was low without political uncertainties, bank's activities seems to be laziness in private sector loans.

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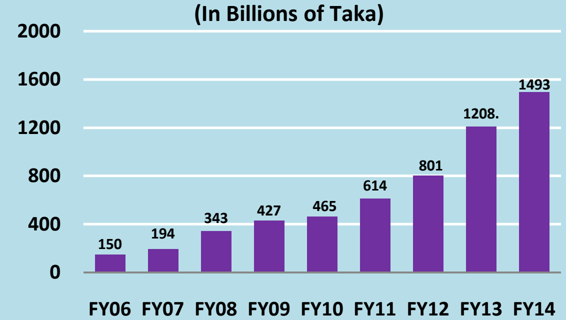
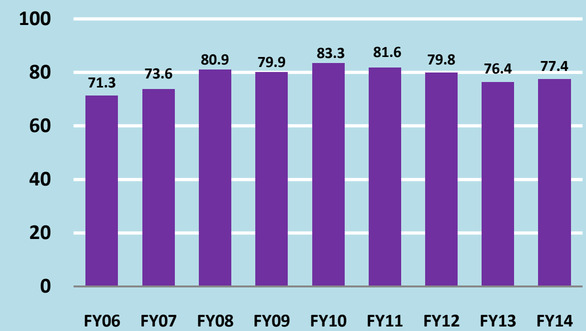
Every event happened with on plausible reasons. Before to prove bank's laziness behaviors- causality between private loan to deposit and investments in government securities-, we try to point out factors about the traces of bank's laziness based on banking sector performance during last five couple years. Based on Bangladesh bank Annual Report 2014, aggregate industry assets in 2014 showed an overall increase of 13.8 percent over 2013. During this period, the SCBs' assets increased by 15.1 percent and those of the PCBs' increased by 13.2 percent. In addition, this report reveals that share of loan to deposit ratio decreased to 58.2 percent in FY2013 percent from 60.6 percent in FY14, deposits with Bangladesh Bank remained to same, while banking sector investments on government securities and bond increased sharply from 13.4 percent to 19.5 percent, indicating banking sector are more responsive to invest in government securities relative to private sector (Figure 1).

Figure 1. Investment on Govt. Securities
(In Billions of Taka)



Source: Economic Trend, Bangladesh Bank

Figure 2.Private Loan to Deposit



Source: Economic Trend , Bangladesh Bank

Banking sector's tendency to invest more in government securities may responsible for remaining higher bad debt in banking systems and tightening monetary policy stance by central bank[13]. From table – suggests that overall non-performing loan (NPL) ratios remained stable while stated ownership banks and DFIs recorded high enough. This could be possible because stated ownership banks are bound to carry over public sector's contingent liabilities, further; SCBs have still adverse selection[14] problems in loan markets. Besides, investments in government securities by commercial banks may increase due to higher deficit financing from banking system. But, in last two years, government borrowing did not contribute less to crowd out loan from private sector because government manage well to prevent them more borrowing from banking systems.

Moreover, causality between private sector loan to deposit and investment in government securities, bonds by commercial banks may reveal a symptom of laziness in banking activities- if commercial bank response highly to invest more money in government securities relative to private sector loan expanding, keeping lower bank borrowing from government, easing monetary policy (i.e. lower cash required ratio (CRR), lower statutory liquidity ratio (SLR), and lower Repo and lower interest spreads) and political stability. Although this testing may not be validate in recent year due to persistent lower

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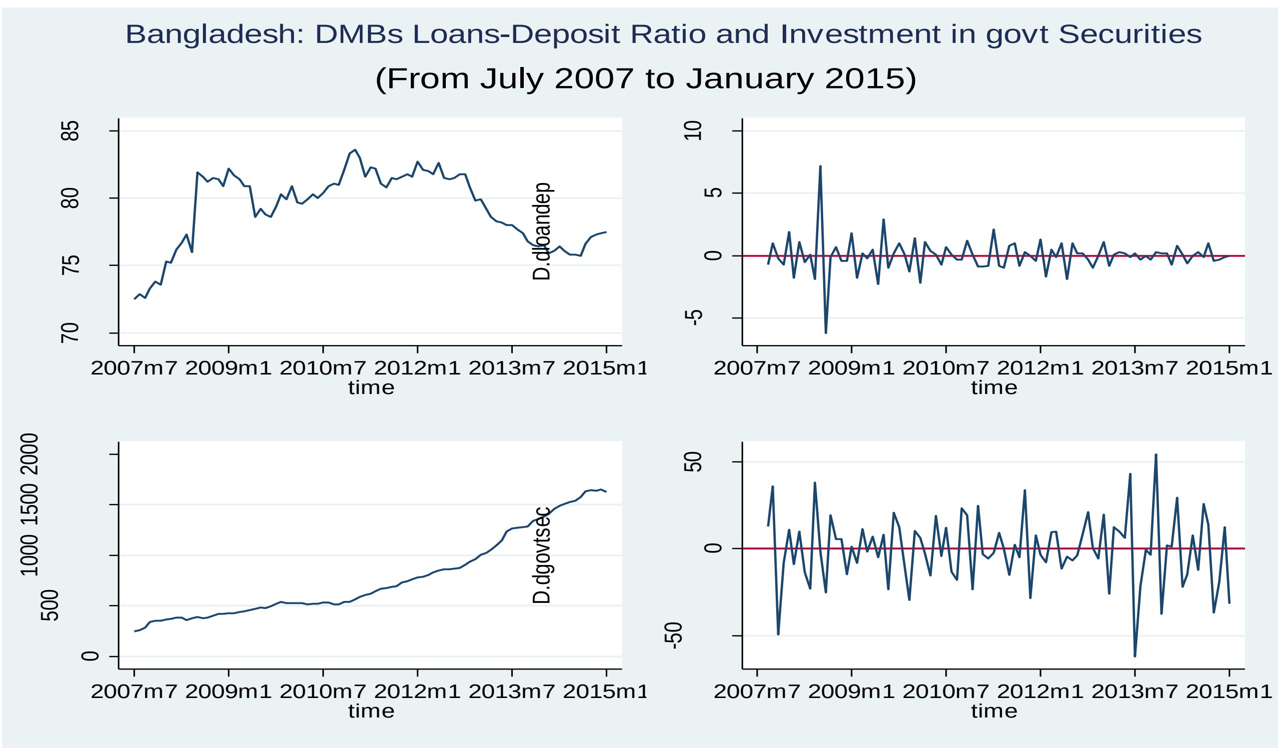
investment, and Bangladesh Bank's purchase of US dollar, it has been attempted in this exercise to capture long format monthly data from July 2007 to January 2015 to capture long-run relationship between private loan to deposit ratio and investment in government securities of commercial banks. It is logical that commercial bank can invest more in government securities if they have more excess liquidities when lower investment demand in an economy is just because of political and monetary policy issues. In this occasion, causality between lower private loan to deposit and commercial bank investment in government securities may not lead to laziness in commercial banking system.

Based on the monthly data from July 2007 to January 2015, it has been attempted to detect the long-run and short-run relationship between lower private loan to deposit and commercial bank investment in government securities by using the co-integration test between these two monthly data series[15].

To test that there is any co-integration between lower private loan to deposit and commercial bank investment in government securities, it has been used to Engle-Granger co-integration test- so called two steps Error Correction Model [16](ECM). Before applying ECM model, it is required to consider time series which should be able to explain all the statistical properties of any series, or at least mean, variance and autocorrelations, i.e. the linear properties of any series on the past data. So, consequently, private loan to deposit and private bank's investment in government securities are plotted in Figure- to capture nature of association between this two series; and to investigate any trending pattern exist.



Source: Author's Own Estimates

[15] Monthly data has been collected from Bangladesh Bank Economic Trend. All types of Islamic and Specialized Banks are excluded from Sample.

[16] ECM model assumed expected changes in any variable to produce long run responses in another variable, as variable ha adjusts back to equilibrium state

From the figure, it is evident that both series shows increasing trend along with no seasonal patterns, which is not deterministic, i.e. each fiscal year commercial bank made investment decision depending on change in policy variables and local credit demands. In addition, to understand about the nature of time series, weather time series follow any systematic pattern or not of the series analysis, stationary or non-stationary[17], augmented Dickey Fuller and Phillip-Peron tests have been used. Null hypothesis has a unit root in case level and first difference form have been rejected in ADF[18], indicating that all series at level are non-stationary, while all of them at first difference follow the integrated order series with degree zero, i.e. I (1).

To get actual cause and relation between lower private loan to deposit and commercial bank investment in government securities- this is prior to check impulse response and forecasting in ahead- it has been applied to Engle-Granger causality test in order to argue that commercial bank investment in government securities Granger-cause private loan to deposit, this is, commercial bank investment in government securities can be used to predict private loan to deposit or in reverse way. Based on Engle-Granger causality test result in table-1, model I suggests that higher investment in government securities granger causes to commercial bank 's lower private loan to deposit, indicating no lazy bank symptoms because private loan to deposit ratio decreases resulting from higher investment in government securities by commercial banking system.

Table1: Lazy Bank: Engle Granger Causality Test
(Dynamics of Government Securities and Loan to Deposit)

Model-I:		
NA: Null Hypothesis	**Decision Rules**	**Null Hypothesis**
Govt. securities does not causes to Loan to deposit	(P>F) = 0.032	Rejected
Model-II:		
NA: Null Hypothesis		
Loan to deposit does not causes to Govt. securities	(P>F) = 0.170	Accepted

***** If Probability value(P>F) is less than 0.05, then reject null hypothesis**
***** Author's estimates**

Based on this identification, it has been applied to ECM model to point out the adjustment process in response to changes in commercial bank investment in government securities on loan-deposits ratio on in both short-run and long-run.

After estimation, Model -1, described result on table- shows that effect of any change in loan to deposit ratio on government securities is invalid, and there is no significant long-run relationship because long-

[17] The Autocorrelation measures the correlation between some value of a series (e.g., Y) and the value of that series at immediate lag. The Partial Autocorrelation measures the additional correlation between some value of a series (e.g., Y) and the value of that series at some lag, which is not accounted for by the next shorter lags.

[18] ADF Test in de-trended revenue follows: $\Delta Y_t = \alpha Y_{t-1} + \beta \sum_{i=1}^{15} \Delta Y_{t-i} + \delta t + \epsilon_t$, where,$Y_t$ is the de-trended tax revenue. In this model, coefficient of δ is statistically insignificant with 5 percent , but, coefficient of Y_{t-1} is statistically significant, indicating reject the null hypothesis, series are non-stationary, see more detail in appendix table no 2.

term correction coefficient's estimated value is 0.012, which is not lies between -1 and 0. On the other hand, Model -2, described result on table- shows that effect of any change in government securities on loan to deposit ratio on is valid, and there is significant long-run relationship because long-term correction coefficient's estimated value is -0.09, which is lies between -1 and 0. Thus, there exists both short-run and long-run impact of any changes in investment in government securities by commercial bank causes to loan to deposit ratio change. This is augmented support also validates granger causality decision. Model-2 indicates that increases in investment in government securities by commercial bank will cause deviations from this equilibrium, causing private loan to deposit to be low. Moreover, it shows that private loan to deposit will then increase to correct this disequilibrium, with 9.9 percent of the remaining deviation corrected in each subsequent time period. In addition, a one unit increase in investment in government securities by commercial banking immediately produces a 4.9 percent unit increase in loan to private loan to deposit.

Table: Lazy Bank: ECM Error Correction Model
(July 2007 to January 2015)

	Model-I	**Model-II**
Variables Name	**Investment in Government Securities**	**Private Loan to Deposit**
Constant	60.21	8.26**
$\Delta loan\ to\ deposit_t$	-0.241	
$govt.securities_{t-1}$	0.012*	-0.00442
$loan\ to\ deposit_{t-1}$	-0.689	-0.099**
$\Delta govt.securities_t$		-0.0059**

*** p<0.05, ** p<0.01, *** p<0.001, indicating at significant level**
Author's own estimates

This outcome from error correction model may seem to be logical because short run adjustment has smaller effect than long-run. The effect of higher investment of government securities registers lower in short-run because larger number of primary dealers of private and public both invest money at a higher portion of their investment in long-term government bonds, but in short-run banks' investment decision are highly responsive to changes in Bangladesh bank's monetary policy issues, government's domestic borrowing from banking system and local credit demand fluctuation in private sectors.

Apart from this, it has been used to impulse response function[19] based on ECM model. Basically in this figure-, it is shown that the effect of higher level of government investment in government securities by commercial banking on loan to deposit in twenty four months ahead from January 2015. This figure shows that impacts in short-run appears buoyant, gradually starts to stable after six months with negative impacts of higher investment in government securities by commercial banks on private loan to

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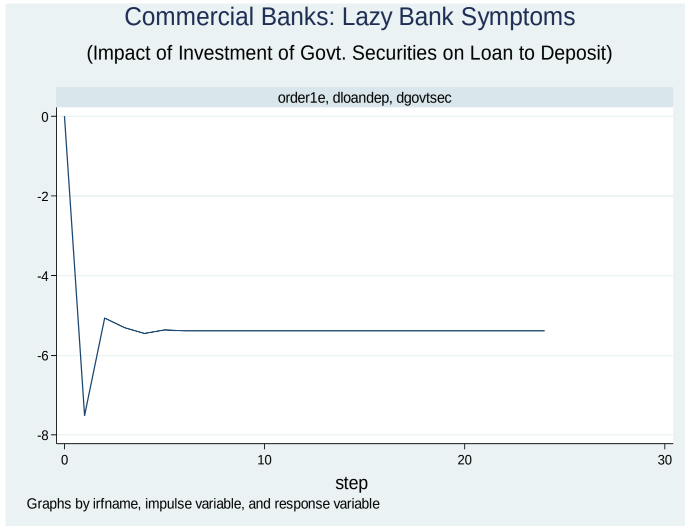
deposit ratios. This obvious that there is no explicit lazy banking symptom in commercial banking system in Bangladesh while investment in safety instruments (government bonds, and other securities) depicted a gradual upward trend, specially significantly upper till FY12 to date.

Finally, it may be justified based on banking and economic fundamentals during this sample period assuming symptoms of banking laziness:



- Recent sluggish private sector credit demand may force commercial banks to invest in government securities despite lower interest return on government securities.
- Recent Bangladesh bank's initiative to purchase US dollars to depreciate taka targeting to enhance exports competitiveness in global market, create more local currency resulting excess liquid in commercial banking systems. Thus, commercial banks use this excess money investing in government securities.
- Although FY14 to date, government managed well domestic financing to put less pressure of borrowing from banks , prior to FY14, government borrowing from banking system was fairly enough, indicating higher investment in government securities.
- Some of these commercial banks' non performing loan (NPL) to total loan has slightly upper trend, leading to risky assets of banking system increase. Thus, to keep profitability, these types of banks seek to less risky investment.

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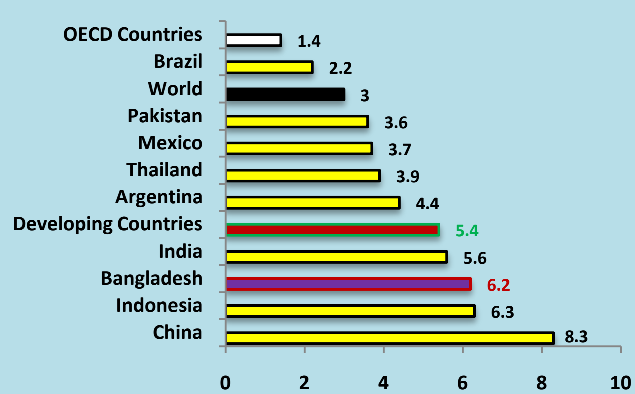
A Tale of Bangladesh Growth Episodes under SFYP: Strategies Needs to Promote Investment

Saiyeeda Saniya Munim[20]

A brief history of economic growth of Bangladesh shows that after the setback due to the Liberation War, the economy took up its pace at the end of 1980. The economy of Bangladesh has experienced around 3.7 percent average growth during the period 1980 to 1990. Even during the year of devastating floods (FY1999), the economy grew by 4.9 percent. Average GDP growth during the period 1991-2000 was 4.8 percent, which was one percentage point higher than that of the previous decade. The second half of the 1990s demonstrated a more impressive growth performance (5.3 percent, FY1996-2000) in comparison to the first half (4.5 percent for FY1991-95)[21]. What happens for eight percent growth target by 2015 under Sixth Five Year Plan (SFYP)? Is it fallacious for Bangladesh? There are many beliefs in hearts at beginning of SFYP to achieve real GDP growth target at 8 percent by 2015. What is our true story about 8 percent growth target? This is very straightforward that Bangladesh achieves growth 6.3 percent on an average, which is far below 7.3 percent on average under SFYP. This achieved growth indicates Bangladesh operates below potential level based on the assumptions of resource utilization, mobilization and enhancing factor productivity.

Real GDP growth rate of Bangladesh has reached Plateau but moderately at a higher rate: In last two decades, from 1990 to 2009, it can be seen that the GDP growth increase smoothly up to 2007 and then start to fall slightly from 2008. From 2008 to 2012 the level become more similar but the end of the period, 2013, the GDP growths again pick up the upper train. Now the question may arise in our mind, is it possible to achieve SFYP growth target in present health condition of our economy? Some economists will say, "it is difficult to achieve but not impossible" but other economists would have different views. However, the satisfactory information, Bangladesh was holding third position, 6.2 percent growth below China (8.3 percent) and Indonesia (6.3 percent), among developing countries in 2010 to 2013 (Figure1). *Bangladesh achieved* growth, was impressive on the basis of others developing nations' growth performance for the last five years. Bangladesh enjoyed growth in

Figure1. International Growth Comparision, 2010-13



Source: Seventh Five Yaer Paln, Background Paper

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[20] Senior Lecturer , Department of Economics, East West University

[21] Effect of Public and Private Investment on Economic Growth in Bangladesh: An econometric Analysis by Sheikh Touhidul Haque

this period due to stable balance of payment positions, lower inflation in both domestic and globally and rebound in domestic demands while it was starting to slow at the beginning of 2013.

Vision 2021 and the associated Perspective Plan 2010-2021 have set solid development targets for Bangladesh by the end of 2021: Vision 2021 targets if achieved will transform the Bangladeshi socio-economic environment from a low income economy to the first stages of a middle income economy. Along with higher per capita income, Vision 2021 lays down a development scenario where citizens will have a higher standard of living, will be better educated, will face better social justice, will have a more equitable socio-economic environment, and the sustainability of development will be ensured through better protection from climate change and natural disasters. Much economic literatures[22] believe that to enhance growth in least developing countries, there is no alternative way to accumulate capital at faster rate through enhancing both private and public investment in lying with infrastructure development and political stability.

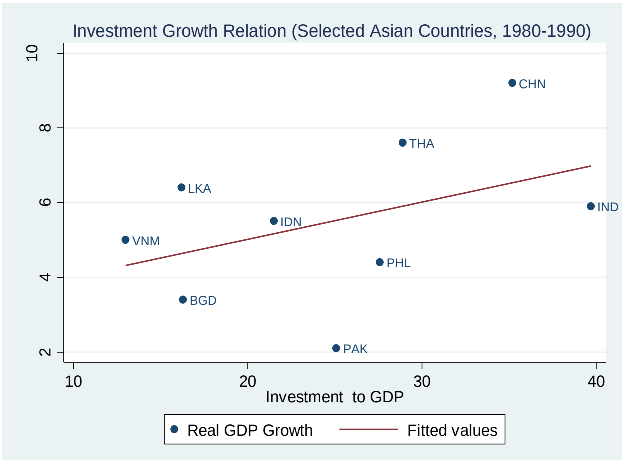
Box-I: Some Key Facts of Sixth Five Year Plan(SFYP)

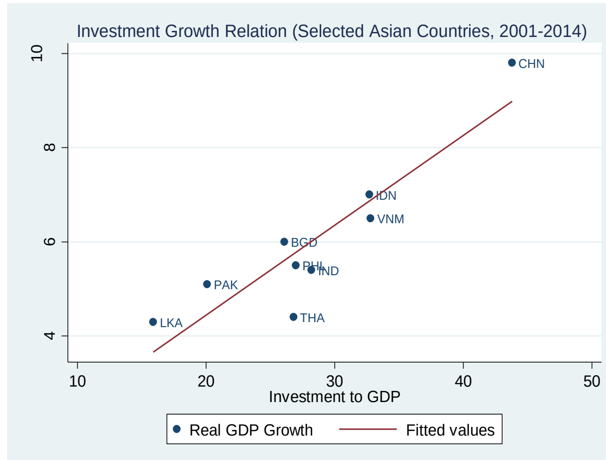
- **Average real GDP growth rate of 7.3 percent per year.**
- **Reduce head-count poverty ratio by 10 percentage points.**
- **Increase share of industrial employment from 17 percent to 25 percent.**
- **Increase the contribution of factor productivity in economic growth to 10 percent.**
- **100 percent net enrollment rate for primary education.**
- **Increase enrollment rate in 12th class to 60 percent.**
- **Increase percentage of cohort reaching grade 5 from 67 percent to 100 percent**
- **Reduce fewer than 5 mortality rates 50 per 1000 live birth.**
- **Reduce infant mortality rate to 31 per 1000 live birth.**
- **Reduce maternal mortality ratio to 147 per 100,000 live births.**
- **Reduce total fertility rate to 2.1**
- **Increase female to male ratio in tertiary education from 56 percent to 100 percent**
- **Increase the ratio of literate female to male for age group 20-24 from 71 percent to 100 percent**
- **Increase productive forest coverage by 2 percentage points.**
- **Attain WHO standards of air quality in Dhaka and other large cities by 2015.**
- **Treat all urban waste water by 2015 to clean river waters**

The below scatter plots focuses on the importance of investment on real GDP growth, indicating at initial level of steady state the impact of higher investment on real GDP growth is more intensive compared to closer to steady state growth position, depending on productivity of capital and technological advancement. The trend line shows on an average real GDP growth increases in response to higher investment. During 1980 to 1990's, this scatter plot reveals that countries are above on trend fitted line performed well compared to others sample countries, while china is completely outlier, and Bangladesh's position demonstrate below than average performance during this period. This story line remains parallel even if during 2001-2014, but positive improvement is that most of these sample countries reaches very closer to fitted line except China, but fitted line shows steeper slope. This fitted line shows that one percentage point of investment to GDP increase causes to real GDP growth increase

[22] Slow growth model assumes capital accumulation promotes to persistent growth, but growth will be very strong when countries first begin to accumulate capital, and will slow down as the process of accumulation continues due to degree of variation in technological advancement

more compared to the period of 1980 to 1990. This indicates that efficiency of capital increases due to technological advancement, labor productivity through investments in human capital.





During last decade, Bangladesh's effort to enhance investment to GDP ratio was impressive, but investment GDP ratio seems to be stagnant since last few years. Thus, ICOR rate remain still higher for Bangladesh, reflecting it is more responsive to gain incremental growth to increase incremental amount of growth. But, Bangladesh suffers more to foster investment in terms of both private and public. Although Bangladesh achieved some credit from public investments[23], it is not enough to reach investment GDP ratio target in Vision 2021. Persistent political hazards, embryonic infrastructure and lower foreign direct investment hampers to increase investment GDP ratio at a faster pace.

Moreover, quality of infrastructure of an economy helps to attract both private and foreign investors to invest in various sectors, and also influences the marginal productivity of both foreign and private capital. Hence, there is no room to subdue infrastructure development to increase investment and higher growth. According to Global Competitiveness report 2014-2015, inadequacy in the supply of infrastructure has been identified as one of the major reason for lesser growth than the target growth in SFYP. Developing countries like Bangladesh, India, China has insufficient infrastructure - inadequate highways, airports, maritime facilities, less developed telecommunication- while Bangladesh's position based on quality of infrastructure is remarkably low (Table-1). Such an inadequacy of infrastructure

Comparison of Infrastructure Quality, 2014–15

Region/Country	Country Ranking	Overall Infrastructures	Electricity	Roads	Railroads	port	Air Transport
Developing East Asia (average)	42	4.0	5.3	3.9	4.1	3.6	4.2
South Asia (average)	98	3.7	3.4	3.8	2.1	3.5	3.7
Bangladesh	109	2.8	2.5	2.9	2.4	3.7	3
China	14	4.4	6.2	4.6	4.8	4.6	4.7
India	71	3.7	3.4	3.8	4.2	4	4.3

Sources: 2015 World Economic Forum, The Global Competitiveness Report 2014–15.

[23] In recent, Bangladesh government allocates more money in ADP, and ADP utilization rate reach 93 percent on an average since last five years.

plays as a constraint on Bangladesh's growth prospects. So it's not surprising that these countries seek ways to find room in their budgets for greater investment both public and private infrastructure.

Over the years, Bangladesh has managed to subscribe a suitable amount of its budget for infrastructural development. But the increment in the budgetary allocation in this sector, in the past years, is quite low. A serious policy change is needed if the targeted high growth in Vision 2021 target is to be achieved. Research shows that 4.3 percent, on an average, increase in investment to GDP ratio contributes to one percent real GDP growth. Despite having limited resource, developing countries cannot alter the budgetary allocation due to various political reasons. So, it is difficult to channel resources from a less productive spending to highly productive investment, both in short term and long term.

Larger fund to finance in both investment and infrastructure projects can be achieved through government's prudent policy response: In what extend to keep fiscal space to increase public investment and infrastructure development through implementing higher allocation in development budget may be big deal to this issue. Bangladesh government already has initiate strategies to enhance public investments through Public Private Partnerships (PPP) and allocating persistent higher money in Annual development program (ADP), but, experience reveals inefficiency due to failure to PPP implementation, lack external projects and domestic resource mobilizations. Although government of Bangladesh allocates more in ADP, we never meet budget target, so significant amount of expenditures savings from ADP accrued to each year at the end of fiscal year. Now, major issue is that what is the optimal fiscal space to enhance investment in both infrastructure and private? But, no economic policy outcome comes without its consequences. Already, government of Bangladesh is going to initiate to increase revenue expenditure in Budget 2015-16, announcing new pay scales, which create more pressure on fiscal deficit leading to more domestic debt burden and interest payments due to declining trend of external loan. Moreover, with narrow tax base, revenue source for the budget is less rosy. In the face of further fiscal expansion, the country's private investment may be crowded out eventually. Thus, what should be government's prudent fiscal stance to promote infrastructure and private investment? It has been tried to closer look about fiscal space and strategies for upcoming years under Seventh Five Year Plan (FY16- FY20):

- Government has to increase tax efforts from domestic based VAT and income tax due to increase domestic financing in development projects. For this purpose, government should implemented new VAT law properly and automated entire tax system with shirking to lower level of corporate income tax.

- Government should attempt to find alternative way of external financing from market borrowing (India, China, Brazil etc) and improve diplomacy to keep smother relationships among donor countries and agencies for inflows of foreign project aid.

- Government should emphasis on PPPs project through ensuring transparency among stakeholders and reducing bias on specific agents and to allow more incentives to invest under PPP projects.

- Bangladesh has already reached its record reserve of foreign currency. Government can issue long term bonds against these idle reserves to finance in development projects. This requires a sound and well formulated bond market which eventually will become essential for other private investment projects.

Monetary expansion might be another way of generating enough investment opportunity, but in the process, inflation might rise. The past history of monetary policy also, does not give any comforting answer. Many economic literature exists in the world proves there is a positive relationship between money supply and economic growth (Milton Friedman[24]). This policy works well if money market is well functioning. Countries have less functioning money and financial market leads to more excess liquidity with higher money supply. In case of Bangladesh, excess liquidity in banking system create problem due to lack private sector investment opportunities, this may be more intensive if Bangladesh take further easing monetary policy stance to promote private investment. Thus, without ensuring infrastructure facilities and political stability, it is very difficult to increase growth through monetary expansion.

Using data of money supply and real GDP growth during 1973 to 2014, it has been tried to point out any causality between money supply and economic growth (Table 2). Based on the Vector Autoregressive Granger causality test, we can find money supply causes to real GDP growth and real GDP growth causes to money supply in both directions, but money supply causes to real GDP growth is more significant. This may indicate private sector credit increases causes to lower interest rate foster more real GDP growth. This provide further signal to financial sector improvement. Although this causality test reveals causality between monetary expansion and economic growth, this may not accurate policy because further improvement in financial and bond market, it is impossible to get real return from monetary expansion. Moreover, monetary policy may not be more effective in case of least developed and developing countries because to get appropriate results from implementing expansionary monetary policy it takes more time - more than one and half year in case of well functioning financial and money markets. Milton Friedman point out eighteen months lags of monetary policy effectiveness on economic growth. This thinking may very ridiculous in the context of developing countries, otherwise expansionary monetary policy create more

Table 2: VAR Granger Causality Test
(Money Supply and Real GDP Growth)

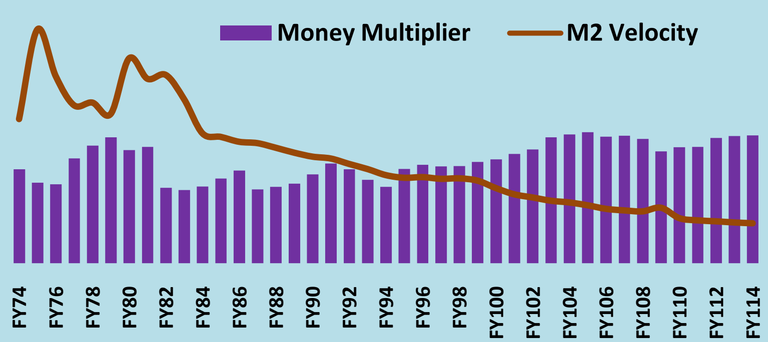
Equation	Excluded	F Statistics	Probability>F
Broad Money(M2)	GDP Growth	3.47	0.018
Broad Money(M2)	All	3.47	0.018
GDP Growth	Broad Money(M2)	3.34	0.021
GDP Growth	All	3.34	0.021

If Probability value lies below 0.05, we can reject null hypothesis- no Granger cause.
Source: Author's Own Estimates

[24] Monetarist's believe giving governments any flexibility in setting money growth would lead to inflation and therefore, the central bank should follow a pro-cyclical monetary policy and expand money supply at a constant rate, equivalent to the rate of growth of real GDP.

excess liquidity and inflationary pressure. Sometimes, higher inflation may endanger to serious problems in case of real effective exchange rate deprecation, higher burden of external debt services and net gains by investors from investing domestic debt and deposits instruments.

Figure 2. Monetray Policy Effectiveness
(Money Multiplier and Velocity)



Source: Author's own estimates. M2 Velocity is ratio of GDP to broad money, while money multiplier is ratio of broad money to reserve money.

From the figure-2, we can observe that velocity of money supply gradually declined, indicating more monetary expansion may create more inflation and excess liquidity through creating lower loans and less private sector investment. Attaining further improvement in financial market, political stability and ensuring sufficient infrastructure, it may not be prudent to adopt much monetary expansion for enhancing economic growth. Thus, monetary policy should be accommodative to fiscal policy for further both private and public investment. Besides, to improve overall investment scenario in Bangladesh, we have to more focus on foreign direct investment. Without increasing in larger FDI share in GDP, it is very difficult to manage 32.5 percent investment as percentage of GDP at the end of 2020 for eight percent growth. Our FDI to GDP ratio lies ranging to 0.5 to 1.1 percent level, which is very low compared to others comparators countries- like Vietnam, Cambodia and even if Nepal. Thus, government should take initiatives through long-term master plans and to build up relevant sufficient infrastructure for attracting foreign investors to invest in various development projects.

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E. Bangladesh: Selected Macroeconomic and Financial Indicators

Table E1. Real Sector Performance, FY10 -16

	FY10	FY11	FY12	FY13	FY14	FY15	FY16
	Actual					Estimate	Projection
	(In % of GDP)						
Gross National Savings	**29.5**	**25.8**	**27.1**	**28.7**	**27.4**	**26.4**	**27.4**
Gross Domestic Savings	**20.7**	**17.3**	**17.9**	**20.3**	**20.1**	**19.4**	**20.7**
Gross Investment	**26.3**	**27.1**	**27.5**	**27.1**	**26.5**	**26.9**	**28.4**
Public Investment	4.7	4.9	5.0	5.3	5.1	5.5	5.8
Private Investment	21.6	22.2	22.5	21.7	21.4	21.4	22.6
Foreign Domestic Investment(FDI)	0.8	0.6	0.9	1.2	0.9	0.8	1.2
Domestic Investment	20.8	21.6	21.6	20.6	20.5	20.6	21.4
Net exports of goods and services	**-5.5**	**-9.8**	**-9.6**	**-6.8**	**-6.4**	**-7.5**	**-7.6**
Exports of goods and services	16.2	19.6	20.7	19.6	19.1	17.4	17.5
Of which: Exports of goods	14.1	17.6	18.6	17.7	17.3	15.9	16.0
Imports of goods and services	21.8	29.3	30.3	26.4	25.4	24.9	25.2
Of which: Imports of goods	18.6	25.3	25.8	22.4	21.2	20.9	21.2
Current account balance	**3.2**	**-1.3**	**-0.3**	**1.6**	**0.9**	**-0.6**	**-1.0**
Consumption	**79.3**	**82.7**	**82.1**	**79.7**	**79.9**	**80.6**	**79.3**
Govt consumption	5.1	5.1	5.0	5.1	5.2	5.3	5.3
Private Consumption	74.2	77.6	77.1	74.6	74.7	75.3	74.0
Total Resources	**105.5**	**109.8**	**109.6**	**106.8**	**106.4**	**107.5**	**107.6**
Net Factor Income	8.1	7.9	8.5	8.0	6.7	7.5	6.9
Gross national income	**108.1**	**107.9**	**108.5**	**108.0**	**106.7**	**107.5**	**106.9**
Memorandum Items:	(Year-on-Year Percent Changes, or In billions of Taka)						
Real GDP growth	5.6	6.5	6.5	6.0	6.1	6.2	6.6
CPI Inflation	7.3	8.8	10.6	7.7	7.4	6.5	6.3
Nominal GDP growth	12.9	14.4	15.6	13.0	13.7	13.1	13.3
ICOR	4.7	4.2	4.2	4.5	4.3	4.3	4.3
Net Factor Income (In billion taka)	646	725	893	964	900	1150	1193
Gross National Income(In billion taka)	8621	9883	11445	12953	14409	16429	18507
Consumption (In billion taka)	6321	7571	8664	9554	10790	12310	13724
Govt consumption	405	467	532	613	702	807	918
Private Consumption	5916	7104	8132	8941	10088	11503	12807
Investment(In billion Taka)	2096	2481	2897	3248	3582	4114	4914
Public	375	451	523	641	693	844	1004
Private	1721	2030	2374	2607	2889	3270	3909
Current Account Balance(In billion Taka)	258	-120	-37	191	121	-87	-170
Net exports of goods and services	-442	-894	-1009	-813	-863	-1144	-1324
Total Resources	8417	10052	11561	12802	14372	16424	18638
Gross National Savings(In billion taka)	2354	2361	2860	3439	3703	4027	4743
Gross Domestic Savings(In billion taka)	1654	1587	1888	2435	2719	2970	3590
Real Consumption	4810	5343	5652	5815	6183	6624	6947
Index of real per capita consumption	100	110	115	117	123	130	135
Per Capita Real Consumption	31830	34954	36535	37131	39089	41452	43040
Population(In billions)	0.15	0.15	0.15	0.16	0.16	0.16	0.16
Nominal GDP (In billion taka)	7975	9158	10552	11989	13509	15279	17314

Source: Bureau of Statistics, Bangladesh.

*****All projected Figures have been estimated by Emerging Research Division**

Table E2. Bangladesh: Central Government Operations, FY10 -16

(In Percent of GDP, Otherwise indicated)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
			Actual			Estimate	Projection
Revenue and Grants	**9.9**	**10.9**	**11.3**	**11.3**	**10.8**	**11.3**	**12.7**
Total Revenue	**9.5**	**10.4**	**10.9**	**10.7**	**10.4**	**10.9**	**12.3**
Tax Revenue	7.8	8.6	9.1	9.0	8.6	9.1	10.3
NBR Tax Revenue	7.5	8.3	8.8	8.6	8.2	8.7	9.9
Non-NBR Tax Revenue	0.3	0.4	0.4	0.3	0.3	0.4	0.4
Non-Tax Revenue	1.7	1.8	1.8	1.7	1.8	1.8	2.0
Grants	**0.4**	**0.5**	**0.4**	**0.6**	**0.5**	**0.4**	**0.4**
Total Expenditure	**12.7**	**14.2**	**15.3**	**15.8**	**13.7**	**15.1**	**17.3**
Non-Development Expenditure including net lending	**8.6**	**9.6**	**10.6**	**10.7**	**8.9**	**10.0**	**11.7**
Development Expenditure	**4.1**	**4.6**	**4.7**	**5.1**	**4.8**	**5.2**	**5.6**
ADP Expenditure	3.6	3.9	3.9	4.4	4.1	4.5	**4.8**
Non-ADP Development Spending	0.6	0.7	0.8	0.7	0.7	0.7	**0.8**
Overall Balance (excl. grants)	**-3.2**	**-3.8**	**-4.4**	**-5.1**	**-3.3**	**-4.2**	**-5.0**
Overall Balance (Incl. grants)	**-2.8**	**-3.3**	**-4.0**	**-4.5**	**-2.8**	**-3.8**	**-4.6**
Primary Balance	**-1.0**	**-1.7**	**-2.1**	**-2.6**	**-0.7**	**-1.8**	**-2.3**
Financing	**2.8**	**3.3**	**4.0**	**4.5**	**2.8**	**3.8**	**4.6**
Net External Financing	**1.3**	**0.6**	**0.7**	**1.0**	**0.5**	**0.9**	**1.0**
Gross borrowing	1.8	1.2	1.3	1.7	1.2	1.6	1.7
Amortization	0.6	0.6	0.6	0.7	0.6	0.7	0.7
Domestic financing	**1.6**	**2.7**	**3.3**	**3.5**	**2.3**	**2.9**	**3.6**
Bank	0.5	2.0	2.8	3.2	0.8	1.6	2.4
Non bank	1.1	0.7	0.5	0.3	1.5	1.3	1.2
Memorandum items:							
Nominal GDP (In billion Taka)	**7975**	**9158**	**10552**	**11989**	**13509**	**15279**	**17314**

Source: Ministry of Finance, Bangladesh

*****All projected Figures have been estimated by Emerging Research Division**

Table E3. Bangladesh: Revenue Performances, FY10-16

Fiscal Year	FY10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
			Actual			Estimate	Projection
Variables / Items				**(In billions of taka)**			
NBR Tax Revenue	**610**	**756**	**923**	**1122**	**1152**	**1330**	**1714**
Taxes on Income and Profit	**166**	**221**	**281**	**353**	**378**	502	**633**
Taxes on Personal Income	64	89	117	159	179	237	309
Taxes on Corporate Profit	102	132	164	194	200	265	323
Taxes on Domestic Production	**205**	**272**	**348**	**428**	**437**	488	**633**
Domestic VAT	130	168	216	264	274	320	449
Supplementary Duty	68	96	121	144	142	146	166
Excise Tax	2.6	2.8	4.5	10.0	12.0	9.4	0
Other Tax	4.7	4.8	6.2	9.6	9.2	12.5	17
Taxes on International Trade	**239**	**264**	**294**	**342**	337	341	**450**
Custom Duty	104	109	126	145	134	129	190
Import VAT	98	115	127	141	153	168	208
Supplementary Duty (Import)	37	40	41	56	49	43	52
				(In Percent of GDP)			
NBR Tax Revenue	**7.5**	**8.3**	**8.8**	**8.6**	**8.2**	**8.7**	**9.9**
Taxes on Income and Profit	**2.1**	**2.4**	**2.7**	**2.9**	**2.8**	3.3	**3.7**
Taxes on Personal Income	0.8	1.0	1.1	1.3	1.3	1.5	1.8
Taxes on Corporate Profit	1.3	1.4	1.6	1.6	1.5	1.7	1.9
Taxes on Domestic Production	**2.6**	**3.0**	**3.3**	**3.6**	**3.2**	3.2	**3.7**
Domestic VAT	1.6	1.8	2.0	2.2	2.0	2.1	2.6
Supplementary Duty	0.9	1.0	1.1	1.2	1.1	1.0	1.0
Excise Tax	0.0	0.0	0.0	0.1	0.1	0.1	0.0
Other Tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on International Trade	**3.0**	**2.9**	**2.8**	**2.9**	**2.5**	2.2	**2.6**
Custom Duty	1.3	1.2	1.2	1.2	1.0	0.8	1.1
Import VAT	1.2	1.3	1.2	1.2	1.1	1.1	1.2
Supplementary Duty (Import)	0.5	0.4	0.4	0.5	0.4	0.3	0.3
Nominal GDP(In Billion Taka)	**7975**	**9158**	**10552**	**11989**	**13509**	15279	**17314**

Source: Ministry of Finance, Bangladesh

*****All projected Figures have been estimated by Emerging Research Division**

Table E4. Bangladesh: Bangladesh Government Expenditures, FY10-16

Fiscal Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Actual					Estimate	Projection
Variables / Items	(In billions of taka)						
Total Expenditure	**1015**	**1300**	**1612**	**1893**	**1847**	**2309**	**2995**
Non-Development Expenditure including net lending	**686**	**878**	**1121**	**1284**	**1201**	**1522**	**2026**
Wages and allowances	170	205	215	225	264	302	548
Goods and services	97	109	117	138	150	220	225
Interest payments	146	146	198	233	282	310	391
Subsidy and net transfers	279	323	377	427	396	501	645
Block allocations	6	6	12	4	2	5	9
Others (Including Net Lending)	**-13**	**89**	**203**	**255**	**107**	**183**	**208**
Development Expenditure	**329**	**422**	**491**	**609**	**646**	**787**	**970**
ADP Expenditure	285	359	411	524	552	687	831
Non-ADP Development Spending	44	63	80	85	94	100	139
	(In Percent of GDP)						
Total Expenditure	**12.7**	**14.2**	**15.3**	**15.8**	**13.7**	**15.1**	**17.3**
Non-Development Expenditure including net lending	**8.6**	**9.6**	**10.6**	**10.7**	**8.9**	**10.0**	**11.7**
Wages and allowances	2.1	2.2	2.0	1.9	2.0	2.0	3.2
Goods and services	1.2	1.2	1.1	1.2	1.1	1.4	1.3
Interest payments	1.8	1.6	1.9	1.9	2.1	2.0	2.3
Subsidy and net transfers	3.5	3.5	3.6	3.6	2.9	3.3	3.7
Block allocations	0.1	0.1	0.1	0.0	0.0	0.03	0.1
Others (Including Net Lending)	**-0.2**	**1.0**	**1.9**	**2.1**	**0.8**	**1.2**	**1.2**
Development Expenditure	**4.1**	**4.6**	**4.7**	**5.1**	**4.8**	**5.2**	**5.6**
ADP Expenditure	**3.6**	**3.9**	**3.9**	**4.4**	**4.1**	**4.5**	**4.8**
Non-ADP Development Spending	0.6	0.7	0.8	0.7	0.7	0.7	0.8
Memorandum Item:							
Nominal GDP	**7975**	**9158**	**10552**	**11989**	**13509**	**15279**	**17314**

Source: Ministry of Finance, Bangladesh and PRI Projections
***All projected Figures have been estimated by Emerging Research Division

Table E5. Bangladesh: Balance of Payments, FY10-16

	FY10	FY11	FY12	FY13	FY14	FY15	FY16
			Actual			Estimate	Projection
Components:			(In millions of US dollars)				
Trade balance	**-5155.0**	**-9935.0**	**-9320.0**	**-7009.0**	**-6806.0**	**-9814.0**	**-10979.2**
Export f.o.b.(including EPZ)	16233.0	22592.0	23989.0	26567.0	29765.0	31235.0	34421.0
Import f.o.b (including EPZ)	-21388.0	-32527.0	-33309.0	-33576.0	-36571.0	-41049.0	-45400.2
Services	**-1233.0**	**-2612.0**	**-3001.0**	**-3162.0**	**-4189.0**	**-4898.0**	**-5436.8**
Income	**-1484.0**	**-1454.0**	**-1549.0**	**-2369.0**	**-2370.0**	**-2810.0**	**-3641.0**
Current transfers	11596.0	12315.0	13423.0	14928.0	14912.0	16400.0	17945.6
Private transfers	11469.0	12212.0	13317.0	14831.0	14833.0	16310.0	17815.6
Of which : Workers' remittances	10987.0	11513.0	12848.6	14338.0	14114.0	15625.0	17265.6
Current Account Balance	**3724.0**	**-1686.0**	**-447.0**	**2388.0**	**1547.0**	**-1122.0**	**-2111.4**
Financial and Capital Account	**-139.0**	**1293.0**	**1918.0**	**3492.0**	**3432.0**	**2050.0**	**5402.1**
Capital account	**512.0**	**642.0**	**482.0**	**629.0**	**644.0**	**450.0**	**750.0**
Capital transfers	512.0	642.0	482.0	629.0	602.0	450.0	750.0
Financial Account	**-651.0**	**651.0**	**1436.0**	**2863.0**	**2788.0**	**1600.0**	**4652.1**
Foreign Direct Investment	913.0	775.0	1191.0	1726.0	1550.0	1600.0	2575.7
Foreign Portfolio Investment	-117.0	109.0	240.0	368.0	825.0	700.0	750.0
Net Aid Loans	902.0	293.0	750.0	1179.0	1259.0	900.0	2146.4
Other Long term Loans (net)	-151.0	-101.0	79.0	-150.0	85.0	100	150.0
Other Short term Loans (net)	62.0	531.0	242.0	-100.0	355.0	-250.0	300.0
Trade Credits (net)	-1043.0	-135.0	-1118.0	-250.0	-1045.0	-1350.0	-1350.0
Commercial Banks (net)	-315.0	-160.0	52.0	90.0	-241.0	-100.0	80.0
Errors and Omissions	-719	-263.0	-977.0	-752.0	504.0	0.0	0.0
Overall Balance	**3585.0**	**-656.0**	**494.0**	**5128.0**	**5483.0**	**928.0**	**3290.8**
			(Growth rate or Otherwise Indicated)				
Export growth	4.2	39.2	6.2	10.7	12.0	4.9	10.2
Import growth	5.4	52.1	2.4	0.8	8.9	12.2	10.6
Remittance growth	13.4	4.8	11.6	11.6	-1.6	10.7	10.5
Gross Reserves	10750	10912	10364	15315.2	20798	21558	24849
Reserves in months of imports	3.9	4.0	3.7	5.5	6.8	6.3	6.6
Nominal GDP(In billion US$)	115	129	129	150	172	196	215
Exchange rate (%)	69.18	71.22	81.88	79.93	78.45	77.78	77.66
Inflation(Trading Partners) %	3.3	3.0	2.8	2.6	2.6	2.5	2.5
Export as (%) of GDP	14.1	17.6	18.6	17.7	17.3	15.9	16.0
Import as (%) of GDP	18.6	25.3	25.8	22.4	21.2	20.9	21.2
Remittance as (%) of GDP	9.5	9.0	10.0	9.6	8.2	8.0	8.0
Current Account Balance as (%) of GDP	**3.2**	**-1.3**	**-0.3**	**1.6**	**0.9**	**-0.6**	**-1.0**
FDI as (%) of GDP	0.8	0.6	0.9	1.2	0.9	0.8	1.2
Net MLT as % of GDP	0.8	0.2	0.6	0.8	0.7	0.5	1.0

Source: Bangladesh Bank

*****All projected Figures have been estimated by Emerging Research Division**

Table E6. Bangladesh: Monetary Survey, FY09-16

	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16
			Actual				Estimate	Projection
Components:			(End of Period of June: In billions of taka)					
Broad Money	**2965**	**3630**	**4405**	**5171**	**6035**	**7007**	**8163**	**9469**
Net Foreign Assets	**479**	**671**	**705**	**787**	**1134**	**1601**	**1658**	**1924**
Net Domestic Assets	**2486**	**2960**	**3700**	**4384**	**4901**	**5406**	**6505**	**7545**
Domestic Credit (a+b+c)	2885	3402	4334	5179	5883	6379	7495	8898
Claims on Public Sector (a+b)	706	694	927	1102	1354	1303	1632	2185
a. Claims on Govt. (net)	582	544	734	919	1103	1175	1499	1915
b. Claims on Other Public	124	150	193	182	250	127	133	270
c. Claims on Private Sector	2179	2708	3407	4078	4529	5076	5863	6713
Net Other Assets	**-399**	**-442**	**-634**	**-795**	**-981**	**-973**	**-991**	**-1353**
			(Flows of Monetary Survey, end of June: In billions of taka)					
Broad Money	**472**	**665**	**775**	**766**	**864**	**972**	**1156**	**1306**
Net Foreign Assets	**103**	**191**	**35**	**82**	**347**	**467**	**58**	**265**
Net Domestic Assets	**370**	**474**	**740**	**684**	**517**	**504**	**1099**	**1041**
Domestic Credit (a+b+c)	410	517	932	845	704	496	1116	1403
Claims on Public Sector (a+b)	117	-12	233	174	342	-51	330	553
a. Claims on Govt. (net)	112	-38	190	186	274	182	324	416
b. Claims on Other Public	6	26	43	-11	68	-123	6	137
c. Claims on Private Sector	292	528	700	671	452	547	787	850
Net Other Assets	**-40**	**-43**	**-192**	**-161**	**-186**	**8**	**-17**	**-362**
			(Year- on- Year Percent Change)					
Broad Money	**18.9**	**22.4**	**21.3**	**17.4**	**16.7**	**16.1**	**16.5**	**16.0**
Net Foreign Assets	**27.2**	**39.9**	**5.2**	**11.6**	**44.0**	**32.9**	**3.6**	**16.0**
Net Domestic Assets	**17.5**	**18.8**	**25.0**	**18.5**	**11.8**	**10.3**	**15.9**	**17.8**
Domestic Credit (a+b+c)	16.6	17.9	27.4	19.5	13.6	11.6	15.0	16.0
Claims on Public Sector (a+b)	20.0	-1.6	33.6	18.8	22.9	22.9	25.3	33.9
a. Claims on Govt. (net)	23.8	-6.5	34.9	25.3	20.0	-33.7	27.6	27.7
b. Claims on Other Public	4.7	21.2	28.7	-5.9	37.4	-49.1	10.0	103.1
c. Claims on Private Sector	16.5	24.2	25.8	19.7	11.1	12.3	14.5	14.5
Net Other Assets	**11.2**	**10.7**	**43.5**	**25.3**	**23.4**	**-0.8**	**1.8**	**36.5**
Memorandum Items:								
Real GDP growth	5.9	5.6	6.5	6.5	6.0	6.1	6.2	6.6
Inflation	6.6	7.3	8.8	10.6	7.7	7.4	6.5	6.3
Nominal GDP Growth	12.5	12.9	14.4	15.6	13.0	13.7	13.1	13.3
Overall Balance(billion $)	2.2	3.6	-0.7	0.5	5.1	5.5	0.9	3.3
Overall Balance(Taka in Billion)	149.3	248.0	-46.7	40.4	409.9	430.1	72.2	265.4

Source:

Table E7. Bangladesh: Debt Sustainability Indicators, FY10-16

	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16
			Actual			Estimate	Projection
Fiscal accounts							
Govt Budget Deficit including grant, in billion taka	**225**	**306**	**419**	**543**	**382**	**582**	**796**
Govt Budget Deficit, as % of GDP	2.8	3.3	4.0	4.5	2.8	3.8	4.6
			(In billions of US dollars)				
Foreign Debt	**24.3**	**24.4**	**22.1**	**24.2**	**25.5**	**27.6**	**28.8**
Gross borrowing	**2.1**	**1.5**	**1.7**	**2.5**	**2.0**	**3.1**	**3.6**
Amortization/Repayment	-0.7	-0.7	-0.8	-1.0	-1.1	-1.3	-1.5
Net borrowing	**2.7**	**2.3**	**2.5**	**3.5**	**3.1**	**4.5**	**5.2**
Interest payment on foreign debt	0.2	0.2	0.2	0.2	0.3	0.4	0.4
Interest payment on foreign debt(In billions taka)	13.7	14.2	15.5	17.4	24.1	27.9	34.8
Interest rate on foreign debt	0.8	0.8	1.2	1.2	1.2	1.3	1.5
Domestic Debt	**1384**	**1633**	**1977**	**2302**	**2681**	**3205**	**3828**
Gross financing	173	248	345	325	379	524	623
Interest Payment on domestic debt	135	142	188	216	252	298	356
Average interest rate on domestic debt	9.7	8.7	9.5	9.4	9.4	9.3	9.3
Total Govt Debt Outstanding	**3064**	**3370**	**3789**	**4232**	**4685**	**5352**	**6149**
Total Debt Services (in billion taka)	**194**	**208**	**270**	**314**	**362**	**428**	**512**
External	59	66	82	98	110	130	156
Domestic	135	142	188	216	252	298	356
			(In Percent of GDP, or Otherwise Indicated)				
Total Debt outstanding	**40.0**	**36.8**	**35.9**	**35.3**	**34.7**	**35.0**	**35.5**
External Debt	20.3	19.0	17.2	16.1	14.8	14.1	13.4
Domestic Debt	19.7	17.8	18.7	19.2	19.8	21.0	22.1
Total Debt Services	**2.4**	**2.3**	**2.6**	**2.6**	**2.7**	**2.8**	**3.0**
External	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Domestic	1.7	1.6	1.8	1.8	1.9	2.0	2.2
External debt as% export& remittance	**89.2**	**71.5**	**60.1**	**59.0**	**58.2**	**58.9**	**55.7**
External debt services as% export& remittance	**3.1**	**2.7**	**2.7**	**3.0**	**3.2**	**3.6**	**3.7**
Total debt to revenue	**404.2**	**354.1**	**329.8**	**330.4**	**333.9**	**321.9**	**288.7**
Total debt service, in percent of total revenue	**25.6**	**21.8**	**23.5**	**24.5**	**25.8**	**25.7**	**24.0**
Memorandum Items:							
Nominal GDP (In billion Taka)	7975	9158	10552	11989	13509	15279	17314
Exports & Remittances(in billion taka)	1883	2429	3016	3270	3442	3645	4169
Inflation Rate (Trading Partners), %	3.3	3.0	2.8	2.6	2.6	2.5	2.5
Exchange rate (Taka per us$)	69.2	71.2	81.9	79.9	78.5	77.8	80.7

Source: Ministry of Finance

*****All projected Figures have been estimated by Emerging Research Division**