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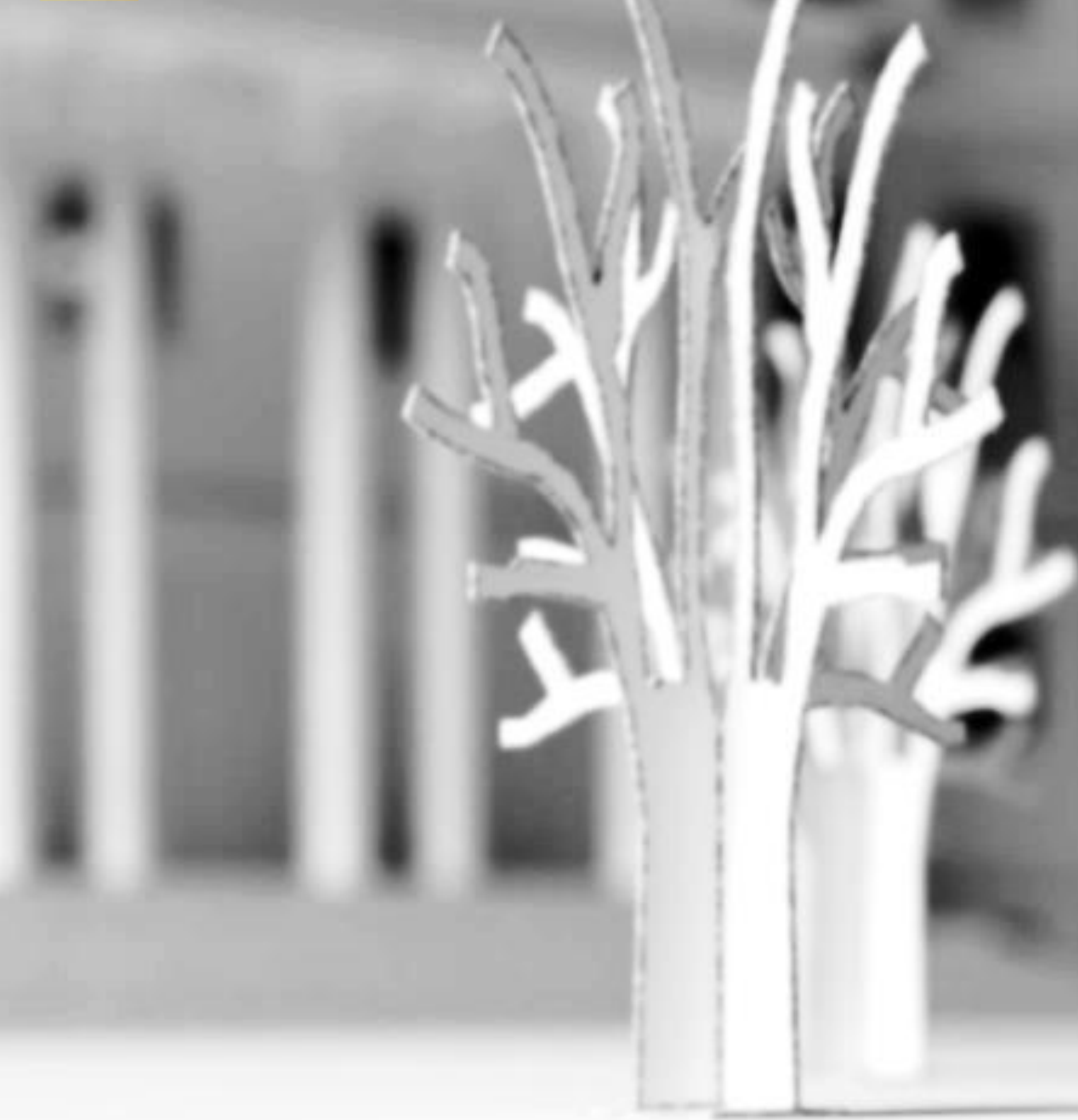

# ECRL Special Economic & Business Review

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## Section A: Economic and Financial Development

### A1. Real Sector Development:

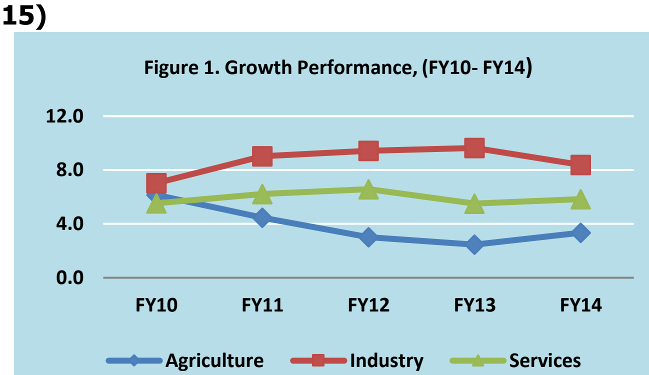
**Bangladesh's growth momentum is likely to remain somewhat buoyed in the current fiscal year with stable inflation, but challenges in accelerating medium-term growth seem to increase due to remaining stagnant investments and inadequacy in sufficient infrastructure bottlenecks**. Gross domestic product (GDP) growth in FY15 is provisionally estimated by the Bangladesh Bureau of Statistics at 6.23 percent, slightly high than 6.12 percent in FY2014 (Figure-1). Despite the national-wide strike and relatively lower private credit growth, this estimated real GDP growth seems buoyant compared to the previous fiscal year but achievable. Though private investment is sluggish, higher growth in exports during the first half contributed to higher GDP growth in the current fiscal year. Moreover, public investment also rose, offsetting the declining trend in private investment. However, a decline in remittances, low private sector credit growth, and weaker consumer confidence ahead of the January 2014 elections associated with persistent strikes contributed to a lower increase in personal consumption.

Conversely, relatively more significant inflows of FDI in the first half of the current fiscal year, and strong growth of import payments during the first seventh month of the current fiscal year - which accounted for 23.2 percent, may provide further support to achieve 6.23 percent growth. Thus, the upward trend of LC opening - significantly higher growth of capital machinery and yarn and textiles up to the first half of FY15 may boost manufacturing activities to contribute growth target. [QIP index]

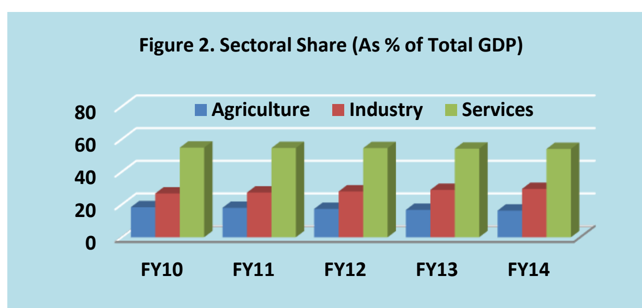
**Table 1. Real Sector Indicators (FY13-FY2015)**

| 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***




**Source: BBS Bangladesh**




On the supply side, agriculture and services proliferated, although the industry posted lower growth. Agriculture grew by 2.6 percent in FY2014, in line with solid 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 the previous year's lower base, good weather, and continued government support. On the other hand, industry growth dropped due to supply disruptions resulting from persistent political unrest and weaker domestic demands. 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 the preceding year (Figure-2). Moreover, a rebound in imports of capital machinery and raw materials for exports during the first half of the current fiscal year and consistent higher growth of the services sector may contribute further support to the estimated growth at 6.23 percent in the current fiscal year.

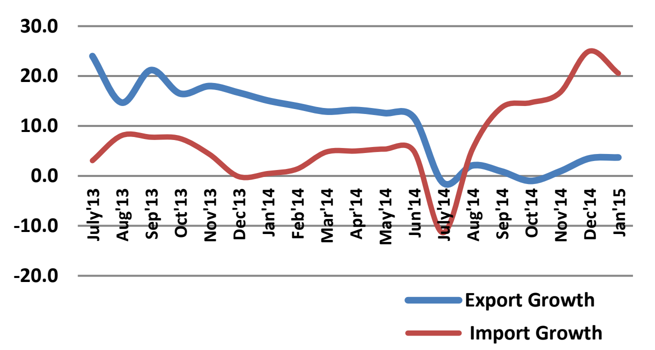
Under the government's Vision 2021 and backed by its Seventh Five-Year Plan (2016–2020), growth is targeted to increase to 8 percent by FY20. If realized, the poverty rate is expected to decline from 31.5 percent in FY15 to 22.0 percent in FY2020, driven by more inclusive growth. To achieve this vision, 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 of GDP growth is to be attained. Economic growth will need to be more inclusive, providing people with access to productive opportunities to contribute equally and share the benefits of higher economic growth. In addition to increasing private and public investment, Bangladesh needs to increase productivity to attain sustained high growth. Although public investment as a percentage of GDP has risen in recent years, investment quality also needs to improve. The past two decades were 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 are 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 connectivity can diversify the economy and increase 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, the government has fast-tracked six priority projects[2] and established a high-level technical committee to implement them. Moreover, the government has made progress in developing institutional capacity, including drafting the PPP law, preparing PPP guidelines, and setting up the PPP office; it 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.

**A2. External Vulnerability and Outlook:**

**Balance of payment remained favorable in FY15, while the current account balance surplus turned into deficits as trade deficits increased due to a 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 the last quarter of FY14, cumulative export growth slowed to 3.5 percent for the first half of the current fiscal year. Further,

Figure 3. Exports and Imports Growth

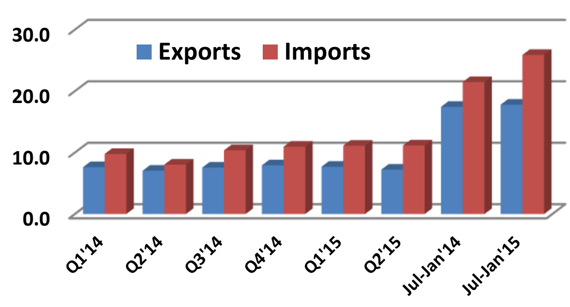



[1] Macroeconomic Outlook for Seventh Five Year Plan (2016-20), Ministry of Planning, Bangladesh, January 2015. Based on the BBS estimate, the underlying growth poverty elasticity has been found to be -1.12 Percent.

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

it increased to 4.9 percent in July-February FY2015, which supported sluggish export performance compared to the previous year (Figure 3). One of the significant contributors to worsening export performance is sluggish readymade garments (RMG) export growth. RMG exports recorded negative growth in 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 4). European Union captures a larger share of Bangladesh's RMG exports, while the current lower demand for Bangladeshi RMG in the European market fell to overall export growth. Moreover, the Euro currency started depreciating against US dollars, which kept buyers more reluctant to order Bangladesh's RMG; thus, Bangladesh's 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 by 19.3 percent. Moreover, newly discovered export markets[3] may offset sluggish export demand at the end of June of FY15.

**Figure 4. 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 of capital machinery, industrial raw materials (e.g., plastic and rubber articles, chemicals, clinker), and chemicals and yarns contributed to the significant rise in import 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 the second half of FY15. Moreover, new LC opening growth indicates that 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 the previous year. Rebound LCs opening in industrial raw materials and capital machinery implies industrial activities will increase after consistent national-wide strikes. In addition, LC's opening of consumer goods increases at a faster rate which also provides further support to flourishing domestic demands. Thus, the 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 in a declining trend from starting of the second quarter of the current fiscal year; it still worsened at the end of the current month of February because of political turmoil in gulf areas and a downward trend in oil prices in the international market. This scenario may continue to the upcoming quarter in the current fiscal year, but a rebound in LC opening may support more increase in export in the last quarter of FY15. Moreover, risks appear in RMG exports in European Union, while in terms of market diversification of exports, Bangladesh's exports market has diversified not more than a greater extent, but this will help to boost Bangladesh exports in China, Japan, India, and other Asian countries.

**Despite remittance growth remaining low, FDI and external loans 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 the same period of FY15, which seems to less buoyed, creating massive pressure on current account balance( Figure 5). A

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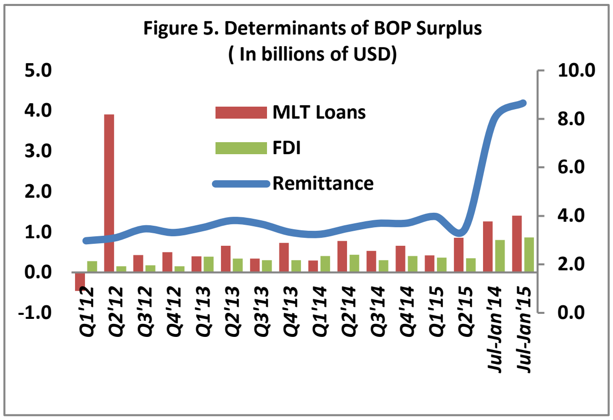
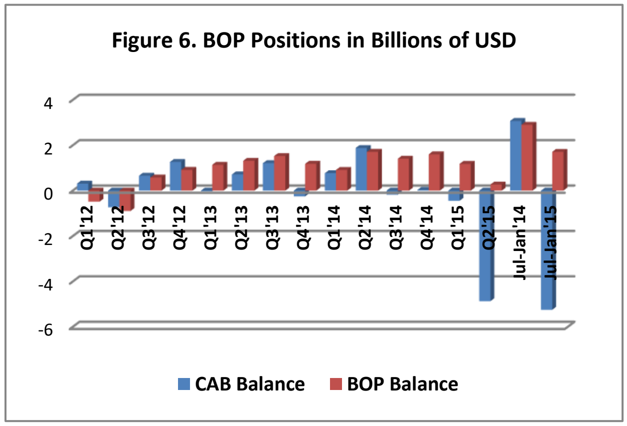
[3] Australia; Brazil; Canada; the People's Republic of China; Hong Kong, China; India; Japan; the Republic of Korea; the Russian Federation; South Africa; Thailand; Turkey; and the United Arab Emirates

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

significant drop in - 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 the United States and Malaysia gradually increase.




**Source: Major Economic Indicators, Bangladesh Bank, 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 trading account in an earlier year, the 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 the second quarter of the current fiscal year; current account deficits increased to 5.3 billion USD during July-January2015 (Figure 6). Although remittance earnings and exports are expected to rebound in the rest of the last quarter of the current fiscal year, higher import demands may pressure to keep current account deficits at the end of the fiscal Year. The current account balance faces pressure in the current fiscal year, but inflows of capital and financial accounts may offset the current account deficit, which turns into the 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 the 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 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 support further to make strong financial and capital account surplus (Figure 7).

**Gross international reserves are buoyed, Bangladesh Bank should sterilize to restrain taka appreciation:**

Despite current account deficits, a large capital and financial account surplus led to an overall balance surplus of USD 1.7 billion during July-January in the fiscal year, which accounts for slightly lower than the same period of the earlier year. However, a significant amount of the balance of payment surplus is expected to continue. In addition, persistent BOP surplus registered a huge amount of net foreign assets stock, which helps to increase gross international reserves. Thus, the 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 7).

Moreover, persistent BOP surplus, and increasing patterns of foreign exchange reserves in commercial banks, greatly impact the exchange rate. Recently, it is observable that the taka has appreciated more against the US dollar, while the Euro has depreciated against the dollar faster (Figure 8). As remittances are expected to increase from the last quarter of the current fiscal year, the taka may appreciate to a greater extent if Bangladesh bank does not manage the exchange rate, which erodes the competitiveness of our exports. Thus, the government should sterilize to prevent the taka from appreciating, while it leads to further reserves buildup. During this episode, Bangladesh Bank manages the exchange rate well; the exchange rate has remained stable. Because of the Bangladesh bank sterilization of foreign exchanges, at the end of February 2015, the taka depreciated by 0.22 percent from its level end of June 2014, while the taka still appreciated by 0.12 percent during January 2015, showing stability in the 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 slightly decreased, indicative of some gains in export competitiveness.

**Figure 7. External Vulnerability: Reserves Cover Imports**

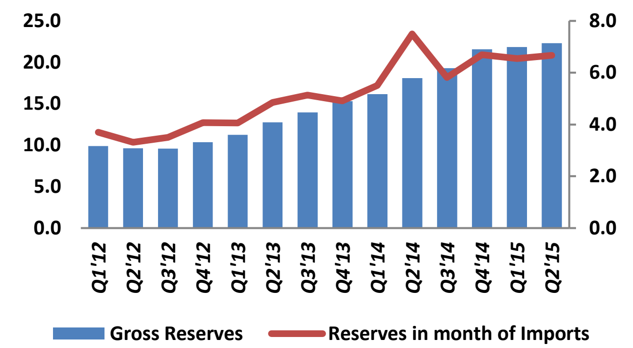
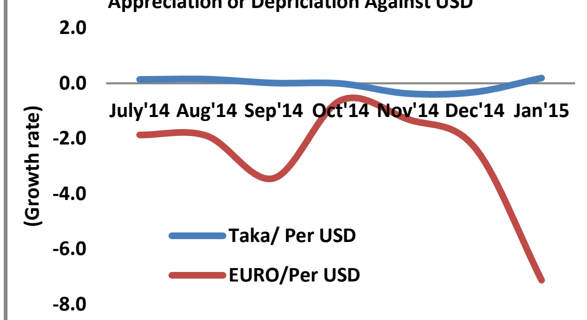



**Figure 8. External Vulnerability: Currencies Appreciation or Depriciation Against USD**

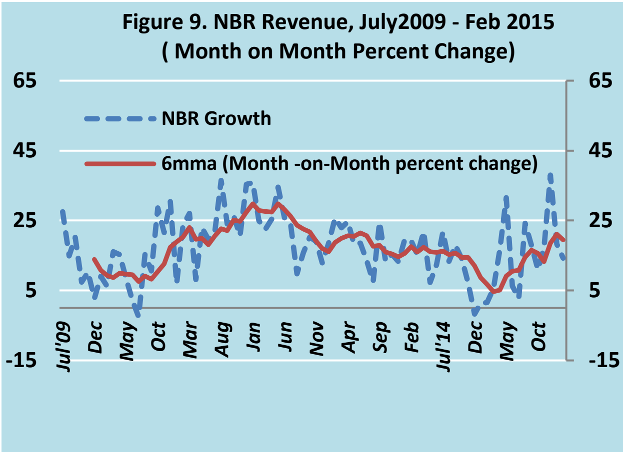


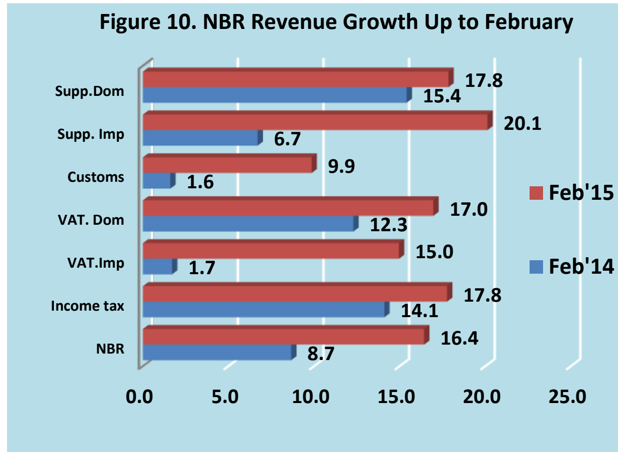

### A3. Fiscal Risks and Development:

**Despite revenue shortfalls, the budget deficit in the current fiscal year will remain below the budget target, owing to continued problems in implementing the Annual Development Program (ADP)**: Historically, NBR revenue earned shortfalls, but in the recent couple of 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 fiscal year, NBR tax revenue seems to be buoyant, with fairly higher enough revenue growth than last fiscal year's period, but still not the margin of the budget target in terms of a lower tax base. During the first eight months of the current fiscal year, NBR revenue collection grew to 16.4 percent from 8.7 percent in the same period of the previous year, falling below the budget's target (Figure 9).

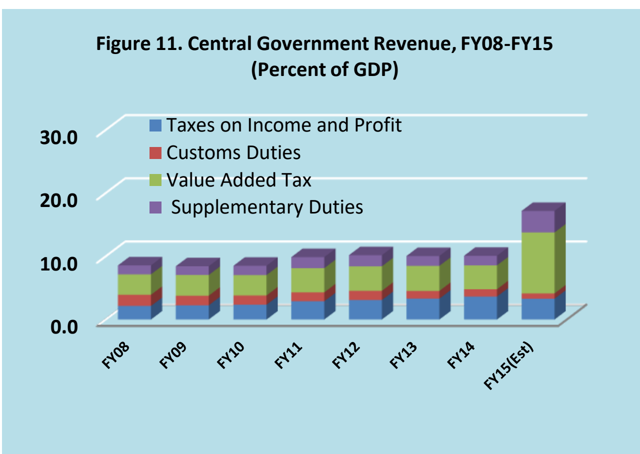
Consequently, NBR's revenue shortfall through February is estimated to be TK 125 billion[5]. Based on the 5-year average collection pattern, actual revenue through February was 4.0 percent below the 57.4 percent target required to achieve the budget target. This shortfall was due to domestic VAT, domestic supplementary duty, and income taxes due to persistent strikes, which bolster and hamper domestic economic activities. Higher tax efforts in the case of domestic VAT and income taxes determine sturdy tax revenue efforts. During the first eight months of FY15, domestic-based tax revenue recorded higher growth, both domestic VAT and income tax, but it was less buoyant (Figure 10).

[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.



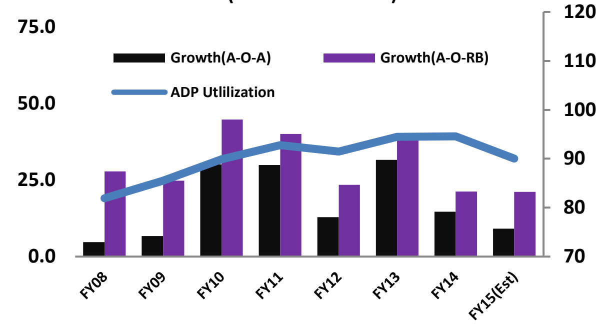

Meanwhile, import-based revenue performance records well, resulting in higher growth in import-based tax revenue. Both import-based VAT and customs duty increases to 15 percent from 1.7 percent and 1.6 percent from 9.9 percent in July-February due to higher growth in nominal imports. This trend will expect to continue striking at the end of June in the current fiscal year because of the recent rebound in LC opening to support more, creating a broader base of import-based tax revenue. Thus, NBR revenue shortfalls remain at a lower extent, improving than the previous year, but still lower tax efforts not to mitigate NBR revenue growth target.




On the other hand, the transition of tax structure underlying economic growth may play a vital role in establishing an economy's equitable and efficient tax system. If we compare NBR tax revenue compositions in FY10 with FY15, we observe that the share of domestic Value added tax increases while the proportion of VAT import decreases over the years, but the proportion of VAT domestic increases relatively at a lower pace, implying plateau VAT efforts. Conversely, we observe positive development in the case of the income tax share trend, which registers a higher proportional increase during the last five budgets, while the declining trend reflected in the case of customs 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 a year of every budget. Thus, the tax structure of Bangladesh may not be reflected as ensuring more equitable because the 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's tax system is more efficient due to enormous distortions that remain to disappear.

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

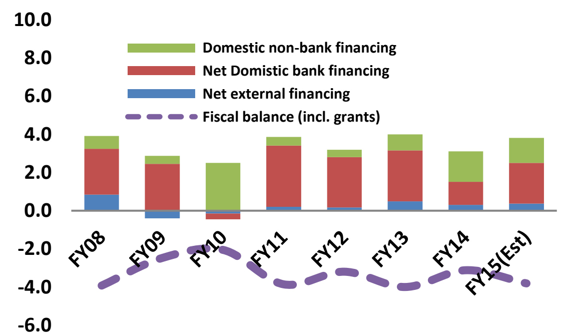
Figure 12. ADP Utilization and Growth (FY2008 to FY2015)




Moreover, ADP implementation challenges remain adequate in the first half of FY15; they may be the same at the end of FY15. The first half growth rate of ADP expenditure accounts for 16.8 percent, slightly higher than FY14 but relatively lower enough than FY13. If we look forward to ADP utilization, the utilization rate is still lowered enough, which signals higher ADP expenditure savings from the 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 was implemented fully, but the revenue expenditure utilization rate up to the first half of FY15 remains still lower compared to the same period of the previous FY14. One main reason for this episode is the downward pressure of oil prices in the global market; thus, subsidy falls from power sectors.

**The government's fiscal deficit level, ranging from 3.5 to 4.8 percent of GDP, should not give rise to any debt sustainability issue[7], but debt services increase at an alarming rate.** However, an 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, the government had to depend more on domestic sources of financing due to financial constraints in the global market. Recent borrowing from the banking system by the government was recorded as remarkably higher than non-bank borrowing; this may be a threat in terms of higher inflation, domestic debt burden, and a higher level of domestic debt servicing costs (Figure 13). Although fiscal deficits remained below 5 percent of GDP, domestic debt to GDP exceeded external debt.

Figure 13. Source of Financing, FY08 -FY15 (In Percent of GDP)




In addition, heavy reliance on National Savings Certificates (NSD) and short-term treasury bills gives birth to a huge amount of debt service payments, while a larger proportion of debt services come from domestic debt. Indeed, the amount of domestic debt stock remains low compared to the external debt stock. This considerable cost from domestic debt financing should give way to long-term treasury bills

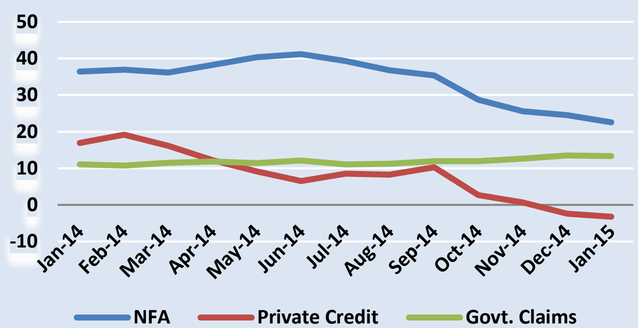
[6] ADP, which is an Annual Development Program, indicates all capital spending related to infrastructure development and others development projects financed by both external and domestic sources.
[7] Debt sustainability indicates the capability to repay debt including debt services. In Bangladesh, the public debt to GDP ratio declines gradually, which is below than threshold indicator, and total external debt services to exports fall at a slower pace due to a relatively higher burden on domestic debt services.

and bonds, infrastructure bonds, etc., with an excellent secondary market and a well-developed yield curve (which does not exist today in Bangladesh). Thus, the government would need to diversify its sources of financing with the proper mix of domestic and external financing and, on both fronts, identify market-based additional sources of financing

**A4. Monetary and Financial Development:**

In the current fiscal year, the monetary policy aimed at ensuring macroeconomic stability and supporting inclusive growth through enhancing private sector credit. Historically, yearly in Bangladesh till FY11 monetary targets were exceeded by large margins, indicating that lax monetary policy stance has created a liquidity over-hang. This current monetary policy seems to be accommodative, and broad money (M2) 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 FY14. This growth is lower than the current monetary program growth target of 17.0 percent due to slow growth in private sector credit and net foreign assets, while net claims on government recorded negative growth. During the first seventh month of the current fiscal year, private credit growth remained slightly upper at the same period of the previous year's level of 6.75 percent, reflecting weak domestic demand, lying with the persistent nature of political uncertainty and growing international borrowing by the corporate sector impacted domestic credit demand, which further support to lower private investment (Figure 14). On the other hand, net foreign assets growth declined to 4.75 percent in July-January of FY15, from 20.6 percent in the same period of the 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 2014 to -5.4 percent in July-January 2015 because of the lower amount of government borrowing from the banking system resulting from lower pressures from fiscal deficit financing due to lower subsidies and low level of ADP utilization.

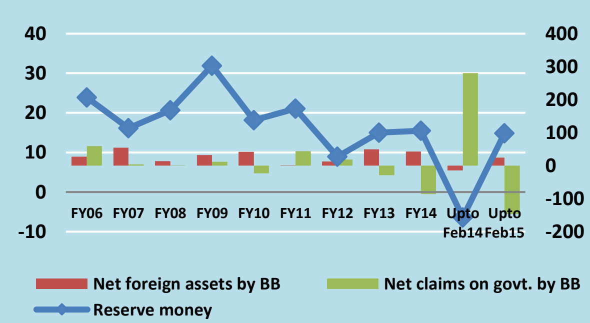
Figure 14 : NFA , Private and Public Credit Development
( In Percent Change)




Source: Bangladesh Bank

Reserve money growth remained below the FY15 target of 16.2 percent. Reserve money growth increased slightly, reaching 14.9 percent in February 2015, upward from 6.4 percent in February 2014, while a 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, the central bank's net foreign assets increased to 24.7 percent in February 2015 compared with the same period of the previous year, while lending to commercial banks by Bangladesh bank increased to 27.9 percent in January 2015. These buoyant in both

Figure 15. Contribution to Reserve Money Growth
( FY2006 - Feb'2015)



NFA and claims on commercial banks have been subdued by a more substantial decline in net claims on government by Bangladesh Bank.

Furthermore, to ensure continued macroeconomic stability and promote investment, a significant monetary policy challenge is to bring down inflation, which remained stable at 6.1 percent in February 2015 compared to 7.3 percent point to point basis[8]. On the other hand, Bangladesh's economy needs to stimulate investment; innovative ways need to be found to channel the sizable 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 dollars from the exchange market to stabilize the exchange rate.

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

**Figure 16. Bank's Excess Reserves and Interest Spreads ( Q1'2008 to Q2'2015)**

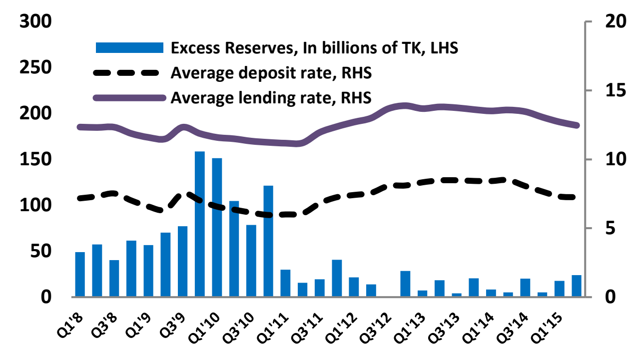
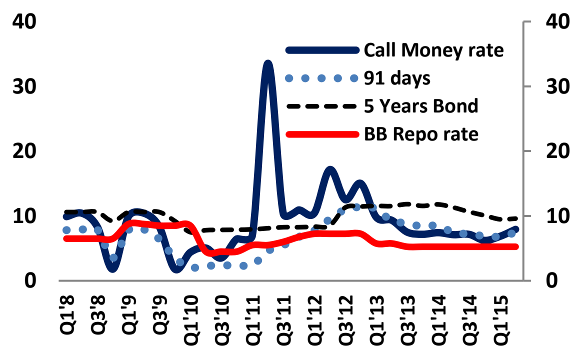



**Figure 17. Interest Rates, Q1'2008 - Q2'2015 ( In Percent, end of each quarter)**



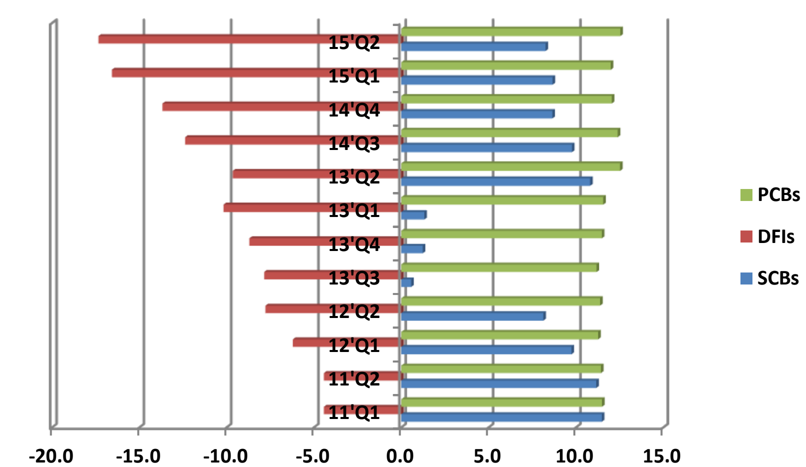

Commercial banks' excess reserves rose to 23.9 billion at the end of the second quarter of 2015, up from taka of 5.2 billion at the end of the second quarter of 2014. Consequently, lending and deposit rates declined in recent months, accounting for the weighted average lending rate declining to 12.5 percent at the end of December 2015 from 13.6 percent at the end of September 2014 (Figure 17). Moreover, the deposit rate declined to 7.3 percent from 8.4 percent, remaining positive in real terms as inflation was still lower than the deposit rate, and the interest rate spread of the banking system 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 rates.

[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 be crucial in promoting private and public investments by transferring savings to bank deposits. Bangladesh's financial market consists mainly of the baking industry. Recent financial soundness indicators (FSIs) point to remarkably 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 the second quarter of FY15 from 10.6 percent in the first quarter of FY15. While private and foreign commercial banks maintain risks weighted capital asset ratios, state-owned and specialized banks are registered to keep a lower level than the Minimum Capital Requirement (MCR) based on Basel II. A recent trend in RWA indicates that both commercial and domestic private banks and foreign banks are incapable of covering risks potentially, but state-owned commercial banks and specialized banks still have potential risks to cover financial risks.

**Figure 18. 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 significantly higher amounts of bad loans at the end of the first half of 2015. Total outstanding loans increased by 4.9 percent during Q2FY15 over Q1FY15, while total classified loans decreased by 13.6 percent over the same period, resulting in the NPL ratio for all banks decreasing from 11.6 percent at the end of Q1FY15 to 9.7 percent at the end of Q2FY15 (Figure 19). This improvement in the gross NPL ratio of the overall banking sector was due to the reduction of non-performing loans of state-owned and private domestic and commercial banks, which was attributed partly to some progress in the recovery of outstanding long loans and partly to the write-off of loans classified as 'bad' or 'loss.

**Figure 19: NPL Ratios in Basnking System**

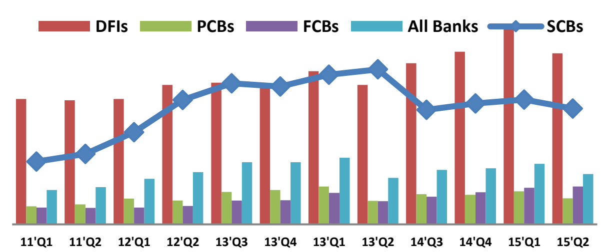
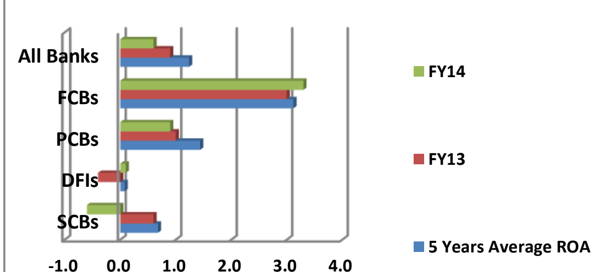



**Figure 20. Bank Profitibility: Return on Assets**

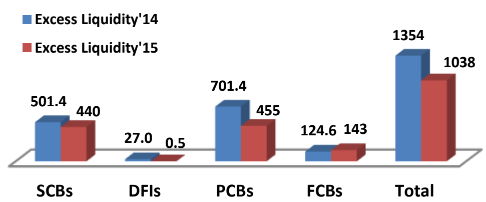



In banking, sector profitability has been measured by Return on Assets (ROA) and Return on Equity (ROE), which may differ significantly within the banking industry. Analyses of these two indicators reveal that the ROA of the SCBs was less than the industry average. SCBs' ROE showed a sign of positive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

Moreover, excess liquidity in the banking system remains fairly enough in the current fiscal year, slightly lower compared to the previous fiscal year. During July-February in FY15, excess liquidity in the banking system was recorded at Tk.1038 billion, while it was Tk.1354 billion in FY14. Excess liquidity is enormous in the banking system, implying a lower loan demand in the private sector due to recent strikes and sluggish domestic economic activities. In addition, Bangladesh bank purchases US dollars from the foreign exchange markets to restrain taka appreciation against the US dollar maintaining export competitiveness in the European market and other trading partners. This is because Cash Reserve Ratio (CRR) remains almost the same compared to the previous year, while investment in unencumbered approved securities by commercial banks increased to almost 73 percent of commercial banks' total liquid assets during FY15. This excess liquidity may cause a reduction in commercial banks' lending and deposits rate, which further supports reducing the return on assets and interest income of the commercial banking systems. Additionally, it creates more pressure on the inflation rate due to greater monetary expansion than real GDP growth in a whole economic system. Thus, properly channelize excess liquidity through enhancing investments, and conducting conducive monetary management with given fiscal management, is a key concern for financial stability.

**Figure 21. Excess Liquidity in Banking System**

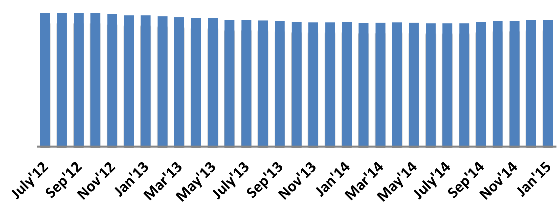
(In billions of Taka)




Source: Bangladesh Bank

**Figure 22. Loans to Deposit ratios**

( As Percent of Total Deposits ecluding interbanks)

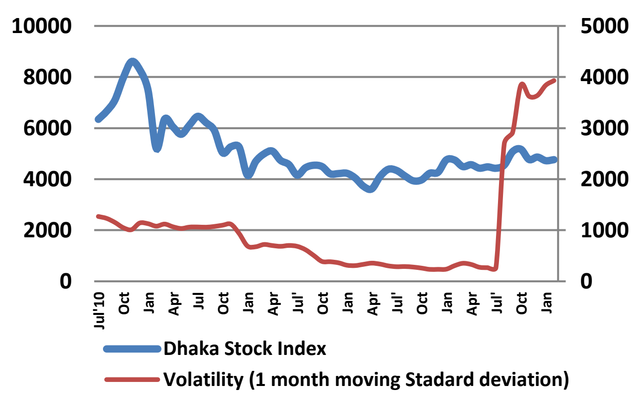



Source: Bangladesh Bank

## Capital Market Developments

Efficient capital markets are important for financial stability, as vibrant capital markets contribute to 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

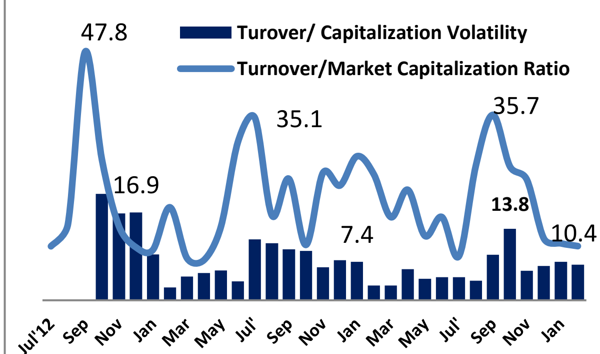
**Figure 23. Stock Market Performance**




Source: Bangladesh Bnak

**Figure 24. Dhaka Stock Market Volatility**

**(During July2012 to February2015)**




Source: Bangladesh Bnak

listed companies and issued capital have grown 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.

The 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, the turnover to market capitalization ratio remained at a lower level for the last two fiscal years, while it started to increase during the end of the second quarter of 2015 but fell to 10.4 percent at the end of February 2015, reflecting that the stock market is still not keeping pace with the aggregate economy. Volatility registered to lower slightly in the second quarter of FY15, but it remained 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 significantly to invest more in the stock market. Finally, the Dhaka stock exchange market is not diversified enough to avoid anti-competitive practices in the stock market because few numbers of investors occupy a significant proportion of market shares. In contrast, most Dhaka stock exchange stocks are heavily concentrated on banking institutions, non-bank financial institutions, telecommunications, and energy sector power. However, in recent FY14, market concentration has been less concentrated in these sectors than in the previous fiscal years.

## B. Straight Talks

### An Unending Debate of Budget 2015-16: Expectations, Realities, and Challenges

Biplob Kumar Nandi[9] and Al Mamun[10]

**Overview and Summary:** National Budget FY15, the last budget under Sixth Five Year Plan, was, on the whole, a bold budget. Like previous budgets, this budget can be considered ambitious but achievable, particularly regarding macroeconomic objectives like real GPD growth and spending. In this fiscal year, the bureau of statistics Bangladesh (BBS) has estimated to be 6.23 percent of real GDP growth against a budget target of 7.3 percent. Although the political environment remained stable in the first half of FY15, rebound in imports demands and significant positive growth in remittance, real GDP growth has been estimated lower due to a slow down in private investments and sluggish export performance. Moreover, the Bangladesh government has achieved little success in increasing public investment, especially in the area of infrastructure, but it is still not substantial to achieve the 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. While higher than last year, the public revenue mobilization target in the 2015 budget was feasible given Bangladesh's low tax effort. However, achieving the revenue target may not be possible, while it has been expected that there will be a 100 - 150 billion NBR revenue shortfall in this current fiscal year. The primary sources of NBR revenue shortfall may be domestic VAT and supplementary domestic and income taxes due to a slowdown in domestic economic activities resulting from political turmoil during the last quarter of FY15. On the expenditure side, the development budget, while large in the past, is still low for the country's development needs. The weak implementation argument, while valid, is not insurmountable with the 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 be lower in FY15 because oil prices in the international market are declining and have a lower level of world inflation. The pressure from growing subsidies could also release, which will remain a stable overall budget deficit. On the financing side, the main question is whether the government can 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 the case of a source of deficit financing, the Bangladesh government is still on the right path to limiting borrowing from the banking system and increasing external financing through FDI and loans. Thus, underlying the current fiscal deficit, the ability to keep monetary expansion within prudent limits to prevent inflation and contain a favorable overall balance of payments surplus may reduce substantial macroeconomic policy challenges in FY15.

### Budget Size and How the Resources Allocated

Although there has been much discussion on the "so-called large size of budget," it may not consider the increased allocation as particularly large given several considerations. If anyone compares the FY15 budget with FY14 and another recent budget, it is observable that at 18.2 percent of GDP, it was almost the same as the FY14 budget and a little bit higher than other recent budgets. Thus, modest increases remain unavoidable with the increased size of the economy and the growing demand of the citizens for a broad range of public services.

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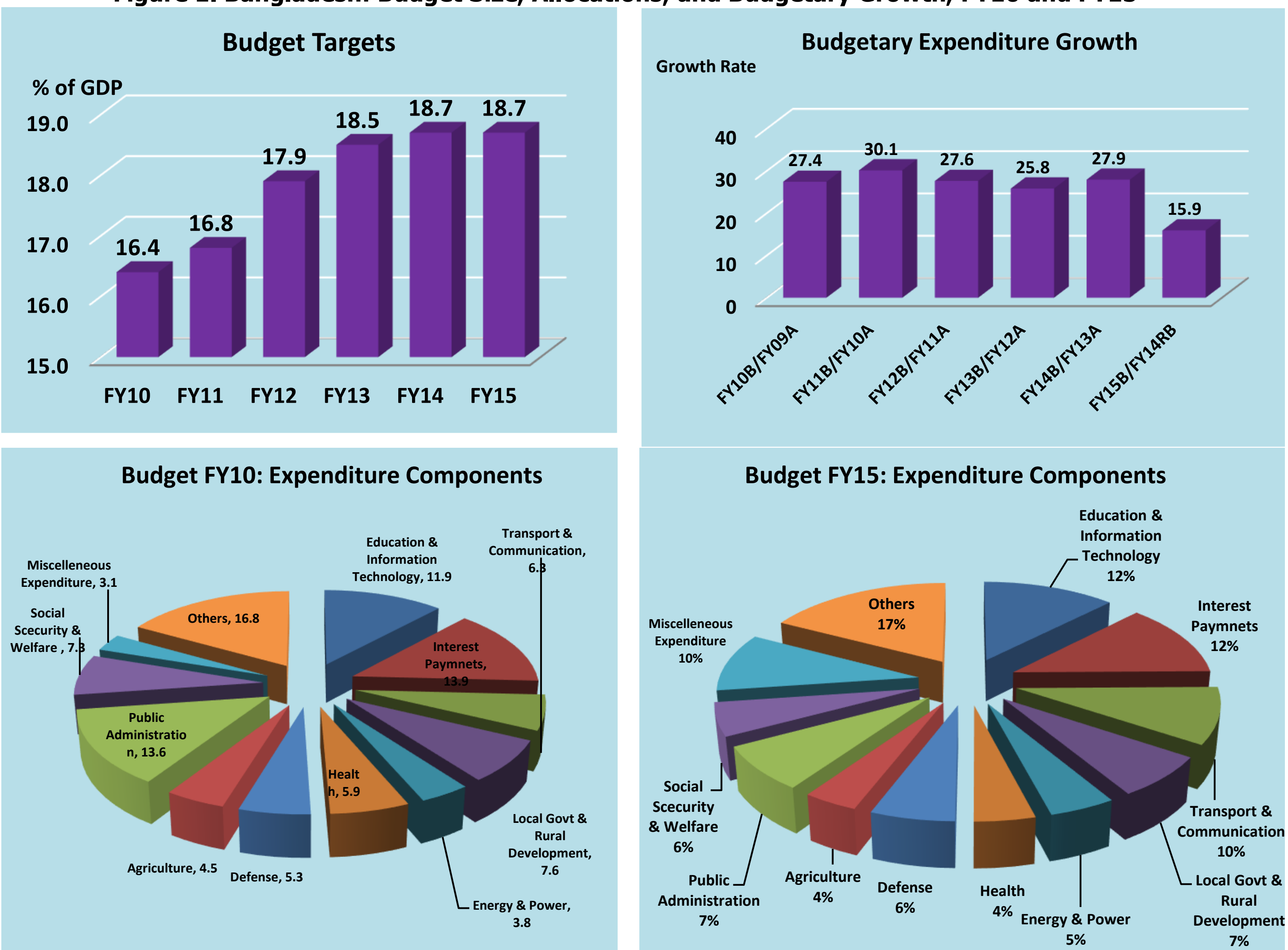
**Figure 1. Bangladesh: Budget Size, Allocations, and Budgetary Growth, FY10 and FY15**




***Source: Budget Documents, Ministry of Finance Bangladesh***

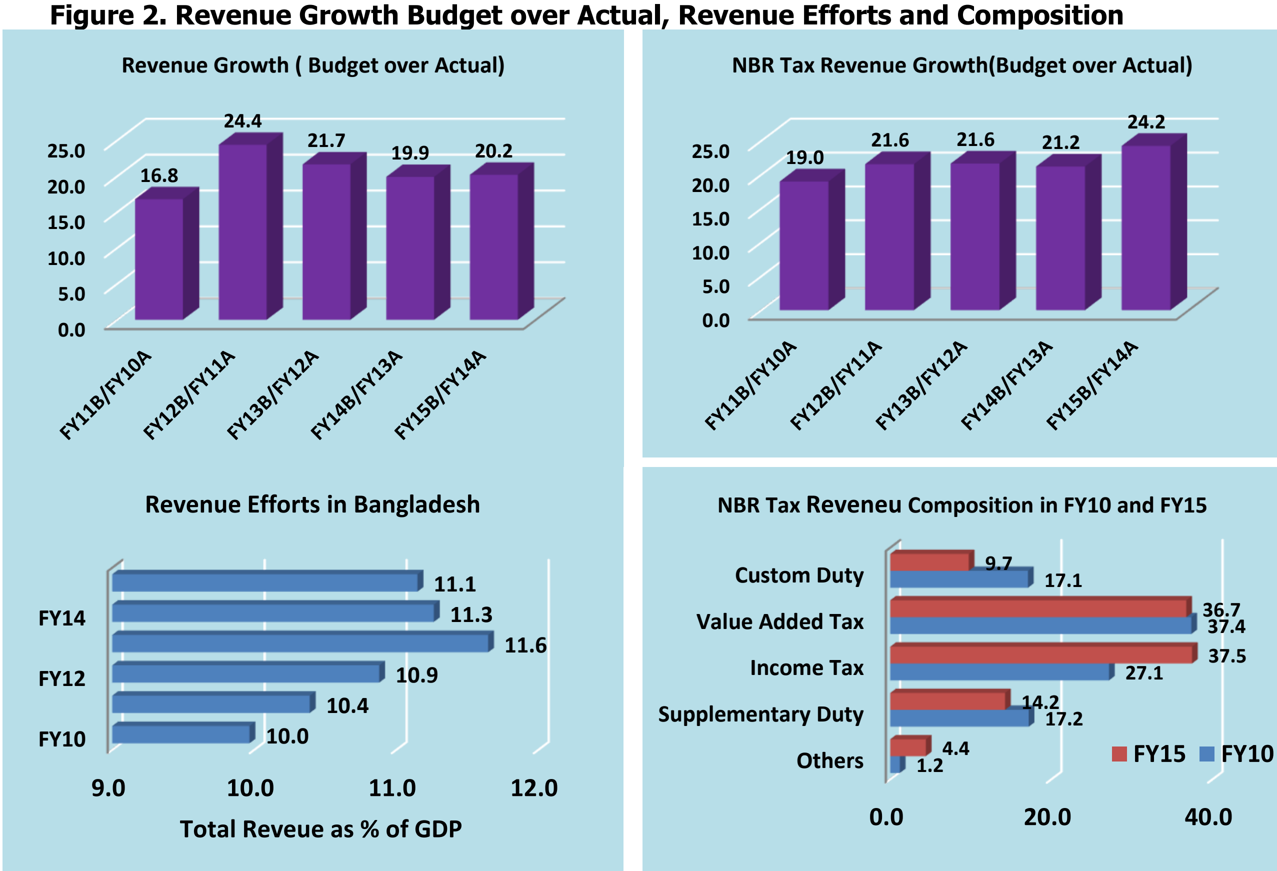
Regarding the increase in government spending relative to the actual expenditure or the revised budgetary expenditure of the previous years, we observe a major deceleration in expenditure growth compared with the expenditure growth observed in the preceding years. Expenditure growth in FY15 is 15.9 % over the revised FY14 budgetary spending, which is the lowest increase recorded in any year of the Awami League government. We do not observe major shifts in terms of overall resource allocation over the years. However, 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 have declined in recent years, but 12 % of total spending in FY15 is very close to spending on education and information technology.

A matter of concern is the 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 points to lesser transparency and a potential weakening of expenditure control. In recent years the allocations for key social sector programs witnessed a secular decline in GDP and the total budget. This decline had to stop compared with the FY14 budget. We are pleased to observe that the 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 to target the 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 remain, and no remarkable improvement has been incurred to enhance higher revenue efforts. In the FY15 budget, total revenue has been projected to increase from the budget over actual by 20.2 percent. In comparison, NBR tax revenue has been projected to increase from actual over budget by 24.2 percent, which was ambitious in line with the scarcity of tax automation in income tax and VAT system association with lower tax base in income and Value Added Tax. Moreover, 24.2 percent growth in the FY15 budget was not prudent because we have no good record of achieving this higher revenue target.

**Figure 2. Revenue Growth Budget over Actual, Revenue Efforts and Composition**



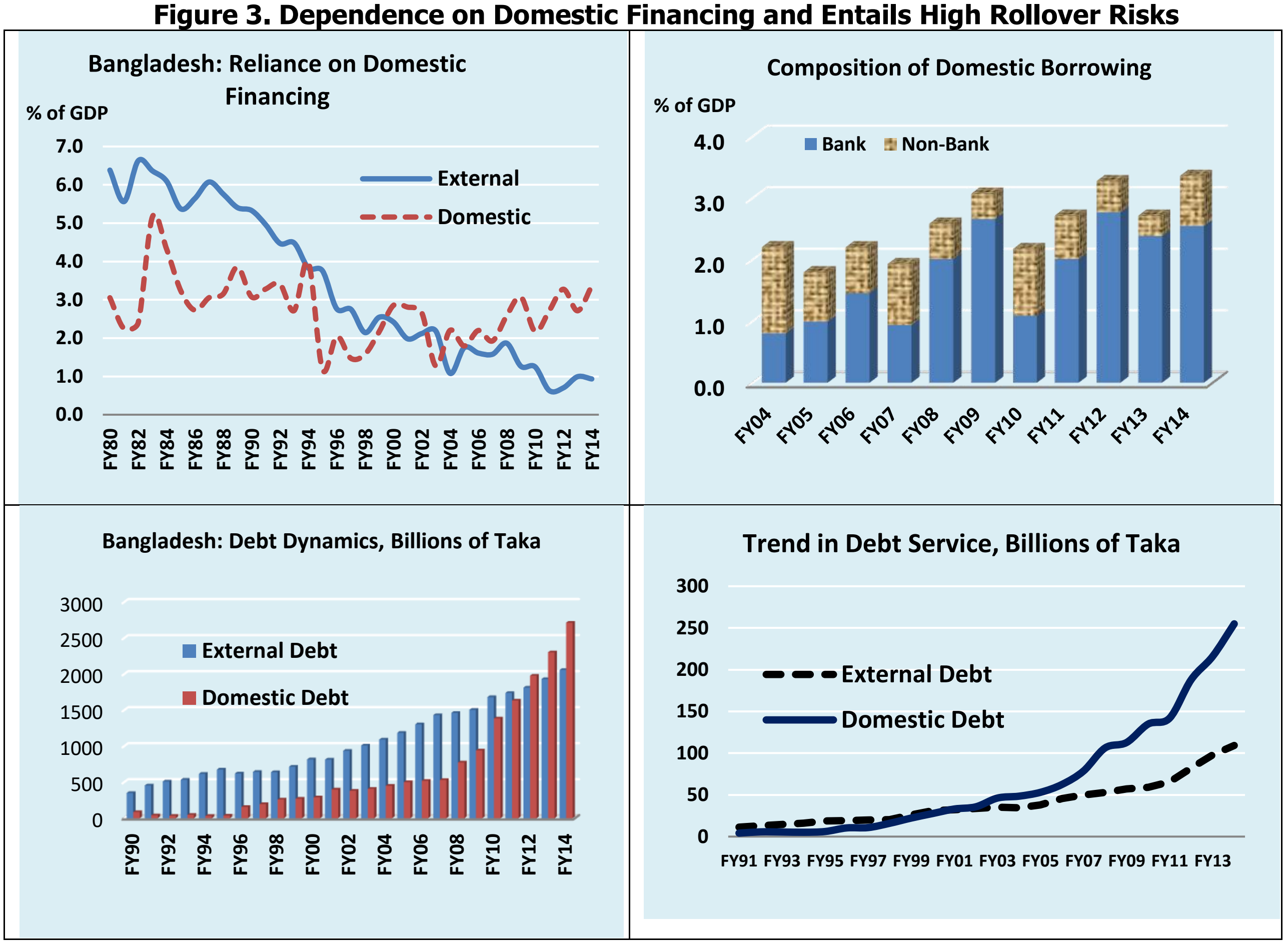

**Source: Ministry of Finance, Bangladesh**

Additionally, most revenue efforts come from NBR tax revenue performance, mainly domestic VAT tax revenue and Income tax. Thus, it seems to be dark to achieve the budget target without tax automation, no increase in tax coverage and implementing the entirely new VAT Law 2013. On the other hand, the transition of tax structure underlying economic growth may play a vital role in establishing an economy's equitable and efficient tax system. If we compare NBR tax revenue compositions in FY10 with FY15, we observe that share of Value added tax remains stagnant - the proportion of VAT import decreases over the years, but the proportion of VAT domestic increases relatively at a lower pace, implying higher VAT efforts. Conversely, we observe positive development in the case of the income tax share trend, which registers a higher proportional increase during the last five budgets. In contrast, the declining trend is reflected in the case of customs duty and supplementary duties because of tax laws reforms and more involved in international trade, which force to keep lower import duties over a year of every budget.

## Sources of Financing, Deficit, and Debt Target

The 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, an 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 a huge amount of debt service payments while a larger proportion of debt services come from domestic debt; indeed, the amount of domestic debt stock remains 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 an excellent secondary market and a well-developed yield curve (which does not exist today in Bangladesh). Thus, the government would need to diversify its sources of financing with the proper mix of domestic and external financing and identify market-based additional sources of financing on both fronts.

**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 the 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 more decisive year over year. Moreover, it proves an ominous indication of domestic debt management because domestic debt service is almost double with almost the same level as domestic and external debt stocks in terms of taka. If no attention is given to higher utilization of external concessional aid in the pipeline and new commitments, debt servicing will become increasingly costly for the budget, limiting the 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, the traditional reliance on nonbank 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 the international capital market through the issuance of long-term bonds will be necessary.

**Budget FY15: Where We Stand?**

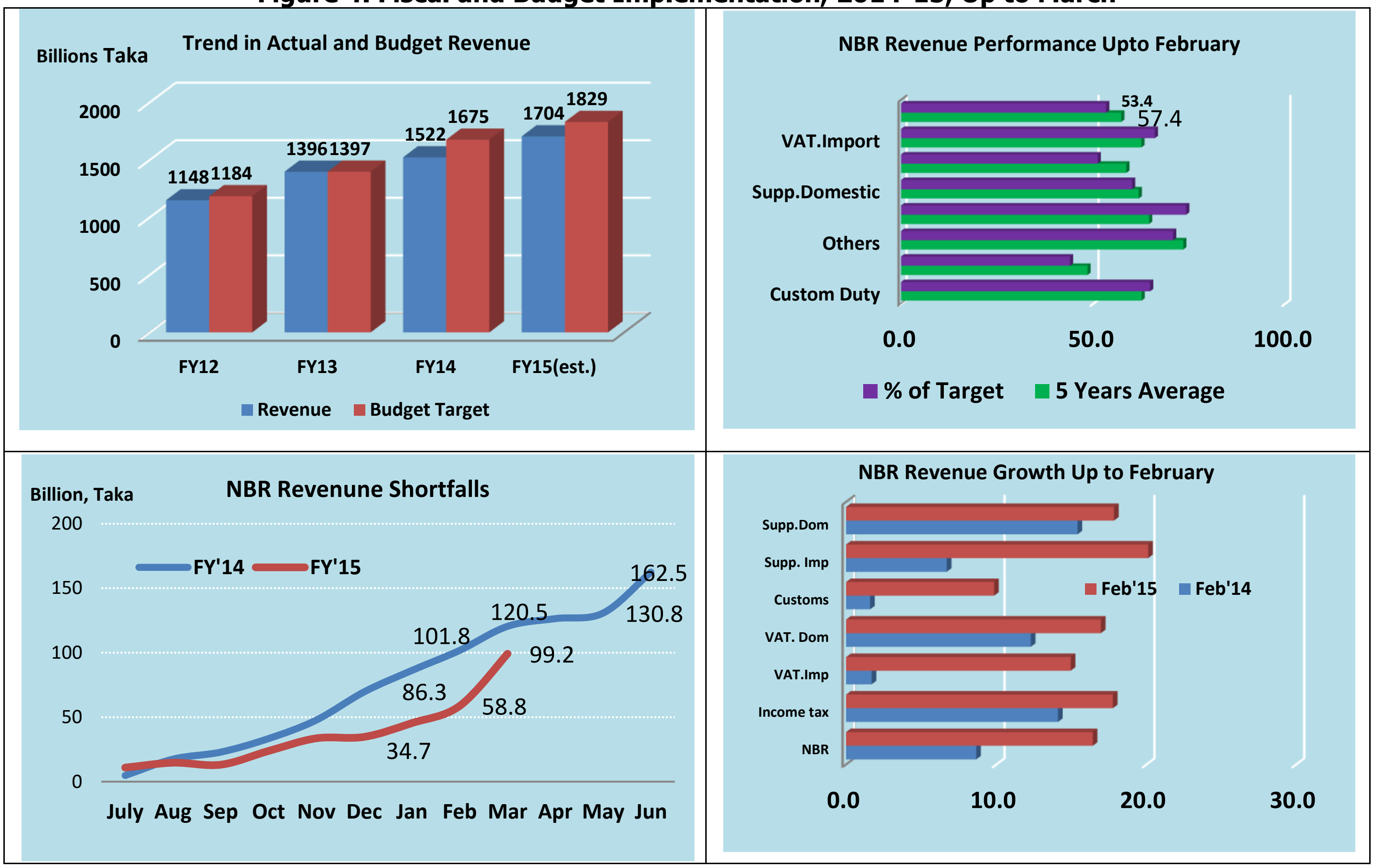
Despite higher budget allocation in infrastructure development expenditure, huge expected NBR revenue shortfall in the ongoing fiscal year, and line with lower expected subsidy costs due to a decrease in oil prices in the international market, the fiscal policy stance in FY 10 has not been expansionary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

**Revenue outlook**

Although NBR revenue collections seem to be improving and closer to target, while the huge shortfall in the previous fiscal year, NBR revenue collections remain sluggish during February in FY15. Due to the sluggish NBR outlook compared with the previous year, total revenue collections for this fiscal year are estimated at Tk.1704 billion, registering 125 billion below the target. The main driver of this total revenue shortfall is NBR tax revenue collections up to February, which is less buoyant despite a lower base and growing import demands. During the first eight months of FY15, NBR revenue collection scored 99.2 billion takas below the budget target (See Figure 3), which is lower compared to the same period of FY14. Thus, NBR revenue collections have been estimated at the end of the current fiscal year to be closer to 120 to 150 billion takas.

NBR revenue collection has been estimated to be relatively lower in the current fiscal year because NBR tax revenue efforts recorded remarkably adverse due to a slowdown in domestic economic activities and persistent political turmoil at the beginning of the third quarter of FY15. During the first eight months, growth in NBR revenue (16.4%) was much higher in FY15, while FY14 total NBR and all components recorded significantly slower growth than in the last FY14. Based on the 5-year collection pattern, actual revenue through February was 4.0 % below the 57.4 % target required to achieve the budget target. If we observe NBR performance in various components, then primary sources of NBR revenue shortfalls come from domestic-based revenue- especially domestic VAT and income tax. At the same time, a reverse trend observes in the 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**

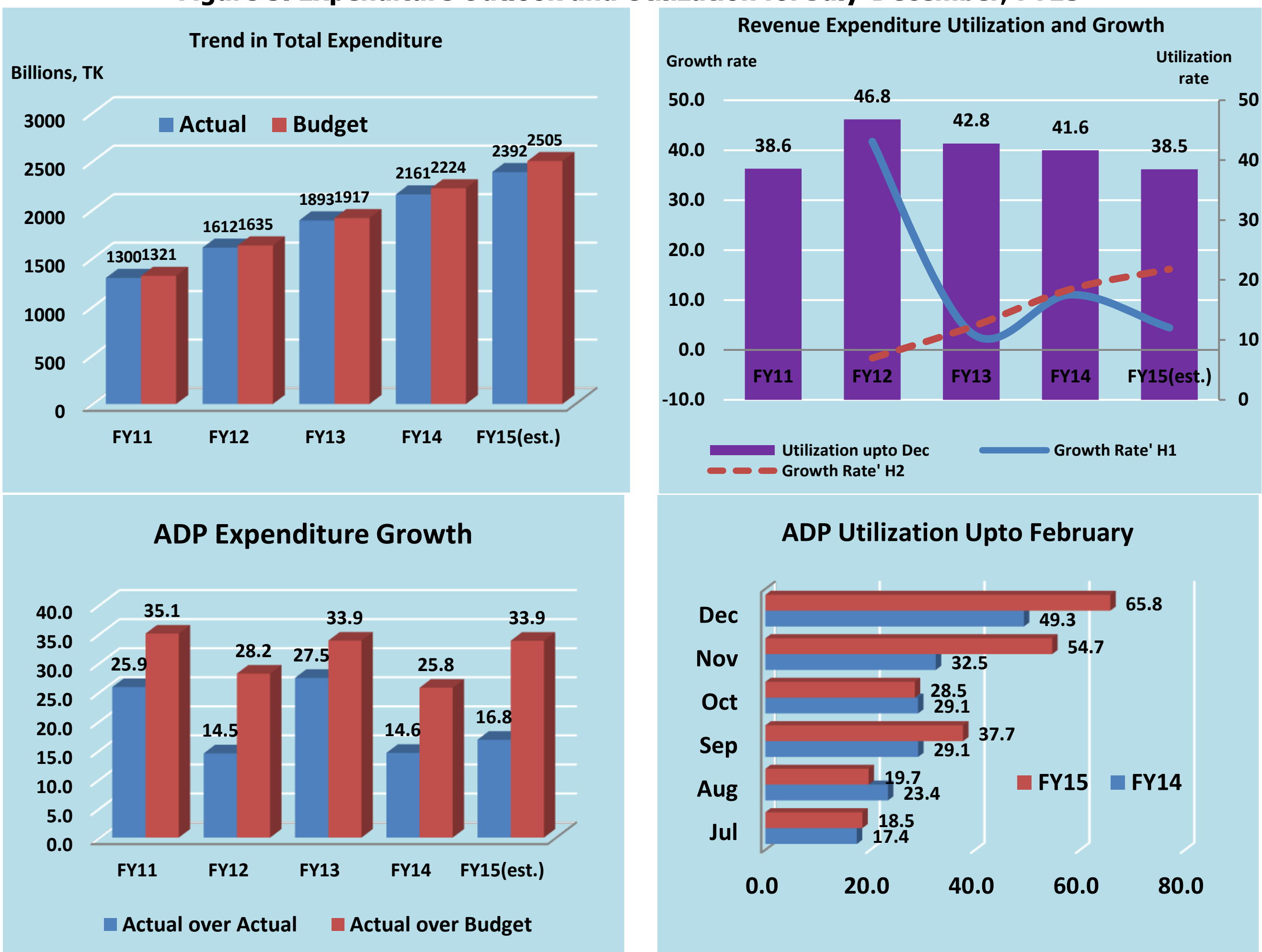



***Source: National Board of Revenue, Bangladesh***

## Expenditure Outlook

At the beginning of budget FY15, total expenditure allocations were Tk.2505 billion, which registered a 15.9 percent increase over budget. Historically, actual expenditure fell short of targets due to huge expenditure savings from ADP allocations, implying a lack of implementation capacities in lying with institutional weakness and scarcity of funding in mega projects. Moreover, the recent declining trend in oil prices in the international market may reduce huge subsidy pressure from energy sectors. Thus, current expenditure maybe falls short of the budget target. The government has revised the ADP target, which was 100 billion down from the budget target due to political unrest hampering various projects' implementation on time.

**Figure 5. Expenditure Outlook and Utilization for July-December, FY15**




**Source: Ministry of Finance, Bangladesh**

The revenue expenditure utilization rate consistently achieves the budget target, closer to the full utilization of the target. However, sometimes it may vary due to up and swing in subsidy allocations, highly correlated with oil price fluctuations in the international market. This year government may gain benefits from money savings accrued to subsidy allocation in the budget due to lower oil prices**.** If we observe the first half growth of revenue expenditure, then its trend sharply declines from the same period of the previous year, with also lower utilization rate compared with the same period as the previous year; this lower growth explains government subsidy declines in energy sectors (Figure 5).

On the development expenditure front, it is clear that the size of actual ADP expenditure will be smaller in the current fiscal year. Moreover, there is no success story that actual over actual ADP expenditure growth exceeds the previous year's Actual budget allocation (Figure 5). In the current fiscal year, the ADP utilization rate, which registers to 49.3 percent, remains lower till July -December compared with FY14. Thus, greater expenditure savings from energy subsidies and a revised smaller ADP size may limit overall fiscal deficits at the end of FY15.

**Deficit Financing and its composition:**

Historically, the Bangladesh government managed fiscal vulnerability well to keep a lower fiscal deficit. However, suppose we observe the composition of fiscal deficit financing. In that case, it looks inefficiency in domestic debt management policy, and, thus, we have to pay more money for debt services in every fiscal year, especially growth pattern of domestic debt service is more robust than the external debt services, given the almost same level of domestic debt stock as well as external debt. This may be an alarming future situation, leading to rollover risks to paying the debt. In the current fiscal year, the Bangladesh government manages well to limit domestic borrowing- bank borrowing keeps a low level at the end of the first half of FY15, while the government can improve inefficiencies to implement externally financed projects; this helps to open up new doors for external market loans and grants. Thus, net external financing flows increased more during the first half of FY2015 compared with the same period of FY14, which may reduce loan requirements from the 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 the upcoming expected massive fiscal expansion- New Pay Scale, Mega Infrastructure Projects, etc., what should be budget priorities in the 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 the government implements new pay scales, it requires allocating more than 180 to 200 billion as revenue expenditure, increasing revenue expenditure to GDP by 1.8 to 2 percent of revenue expenditure to GDP in FY16. Moreover, ADP demand grows every budget. Assuming that the government increases ADP allocation by maintaining 15-20 percent actual over-budget growth, which is the previous three years' average, the government should allocate handsomely large money in ADP allocation. This is crucial to enhance public investment to foster investment to GDP ratio to 32 percent in the last year of the Seventh Five year Plan. Thus, it may increase the fiscal deficit to GDP, which may reach exceeding 5 percent of GDP.

Secondly, a more than 5 percent deficit to GDP aligns with 7 to 8 percent growth. It may be quite sensible if the government improves deficit financing to reduce dependency on short-term T- bills and bonds, NSD. Moreover, to increase commitments of external funding because our interest payments in domestic debt instruments grow at an alarming rate which may hinder the growth path in the future and crowd out more private investments.

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

Finally, it may not be rational, and oil prices remain a declining trend for upcoming years. When oil prices start to increase, the government will have to provide more energy subsidies to control energy prices, while the government has taken initiatives to scale up energy prices.

Underlying this reality, what should be the 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. Experience in implementing major transport and power projects has 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 want to see a fundamental change in private sector investment sentiment, these large projects must get off the ground, and their actual implementation is started in FY16.

- Budget implementation should be done in such a manner those guards against potential revenue shortfall. This would essentially imply prioritizing projects and programs to set aside projects that 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 financing the FY16 deficit, the government should not be more ambitious before ensuring new financing commitments if shortfalls on the external financing front will occur, creating massive pressure on domestic financing. Already, reliance on domestic debt grows faster, pushing tremendous domestic debt service pressure that may intensify the domestic debt burden if the government takes fiscal expansion in the FY16 budget. Thus, to reduce pressure on domestic debt, the 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 emphasize long-term bonds and improvement in the domestic bond market, including secondary bond markets.

- Government should focus more on allocating higher in the case of health, education, and technology sectors to enhance the productivity of factors of production. However, it is still surprising that allocation in the education and health sectors was lower than the previous budget in terms of GDP ratios in the last two budgets. So, the government should be more concerned about ensuring higher allocation in both the education and health sector in the FY16 budget.

- Trends in higher allocation for social sectors in the 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 the secretary's Committee.

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

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## Hike in Commercial Bank's Investment in Government Securities: A Symptom of Lazy Banking?

Biplob Kumar Nandi,[11] Arifur Rahman,[12] and Al Mamun[13]

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 make profits by parking their money in safe deposits of government securities. Every agent in an economic system wants to maximize profit based on their constraints. So, why do Commercial private banks not engage in so-called lazy bank activities if they have scopes to utilize this opportunity? Empirical evidence is somewhat mixed on these issues. Nevertheless, recent experiences of banking sector activities support that private commercial banks may engage in lazy bank practicing to some greater extent.

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

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

Every event happened with plausible reasons. Before proving the 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 the bank's laziness based on banking sector performance during the last five couple of years. Based on the 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 the share of the loan-to-deposit ratio decreased to 58.2 percent in FY2013 from 60.6 percent in FY14, and deposits with Bangladesh Bank remained identical. In comparison, banking sector investments in government securities and bonds increased sharply from 13.4 percent to 19.5 percent, indicating that the banking sector is more responsive to investing in government securities than the private sector (Figure 1).

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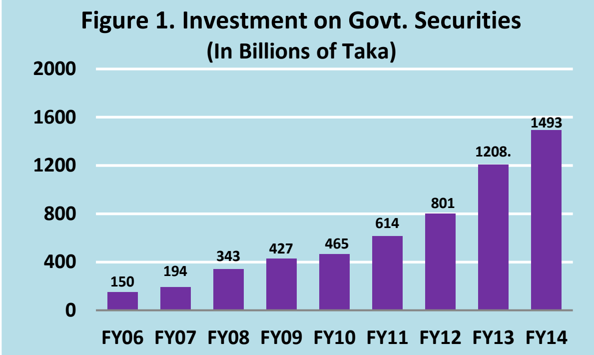
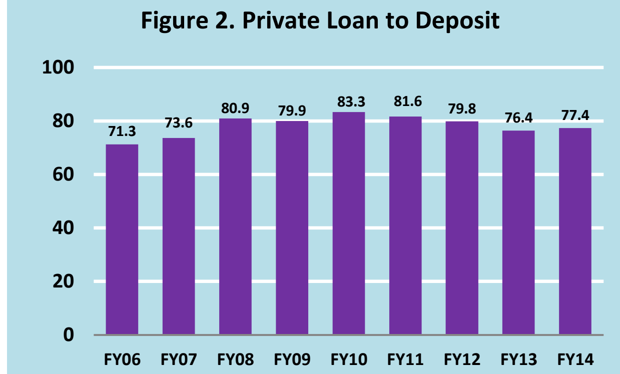



Source: Economic Trend, Bangladesh Bank




Source: Economic Trend , Bangladesh Bank

The banking sector's tendency to invest more in government securities may be responsible for the remaining higher bad debt in banking systems and the tightening monetary policy stance by the central bank. 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 the public sector's contingent liabilities; SCBs have adverse selection problems in loan markets. Besides, investments in government securities by commercial banks may increase due to higher deficit financing from the banking system. Nevertheless, in the last two years, government borrowing did not contribute less to crowding out a loan from the private sector because the government managed to prevent more borrowing from banking systems.

Moreover, causality between private sector loans to deposit and investment in government securities and bonds by commercial banks may reveal a symptom of laziness in banking activities. If commercial banks respond highly to investing more money in government securities relative to private sector loans expanding, keeping lower bank borrowing from the 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 have been validated in recent years due to persistent lower investment, and Bangladesh Bank's purchase of the US dollar, it has been attempted in this exercise to capture long-format monthly data from July 2007 to January 2015 to capture the long-run relationship between private loan to deposit ratio and investment in government securities of commercial banks. Logically, a 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. On this occasion, causality between lower private loans to deposit and commercial bank investment in government securities may not lead to laziness in the 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[14].

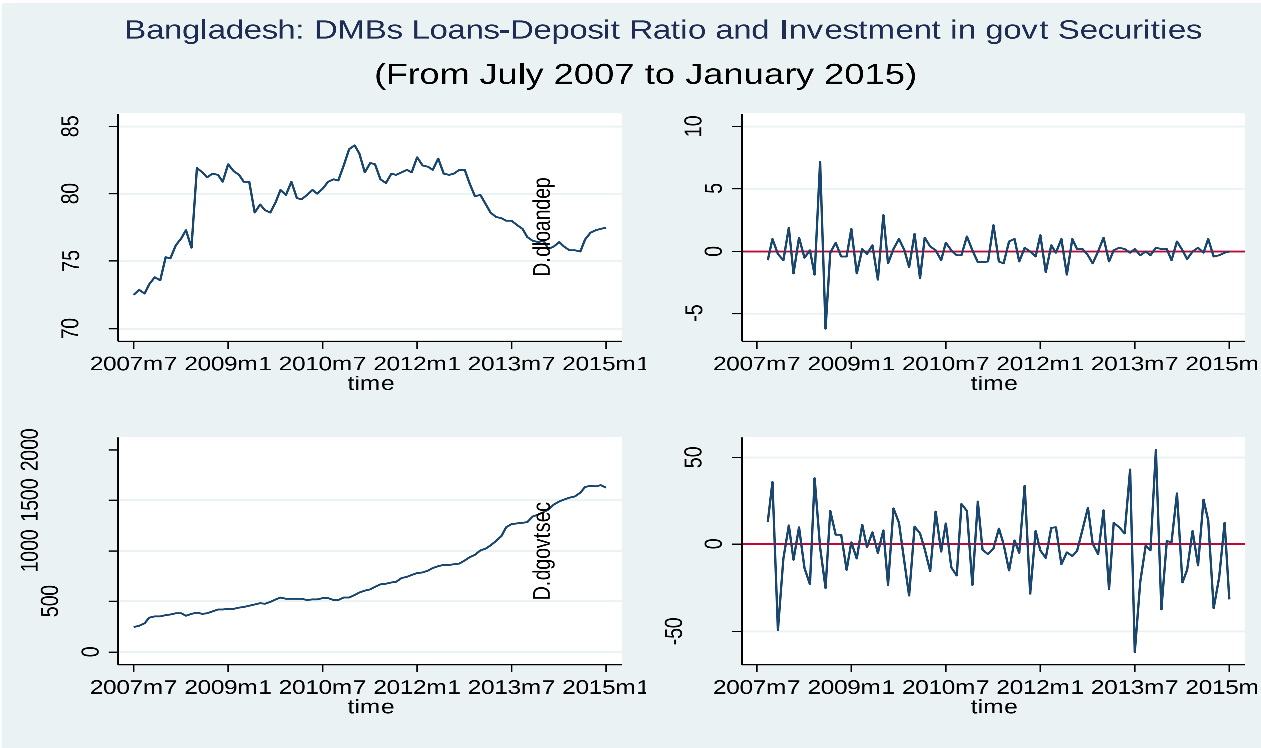
To examine whether there is any co-correlation between deposits in government securities and lower private credit to commercial bank investments, it has been used to Engle-Granger co-integration test- the so-called two steps Error Correction Model (ECM).[15] Before applying the ECM model, it is required 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 loans to deposit and private banks' investment in government securities are plotted

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

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

in Figure 3 to capture the nature of the association between these two series; and to investigate any trending pattern that exists.

**Figure 3. Bangladesh: DMBs Loans-Deposit Ratio and Investment in Government Securities**




*Source: Author's Estimates*

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, the commercial bank made investment decision depending on change in policy variables and local credit demands. In addition, to understand the nature of time series, whether time series follow any systematic pattern or not of the series analysis, stationary or non-stationary[16], augmented Dickey-Fuller and Phillip-Peron tests have been used. The null hypothesis has a unit root in case level, and the first difference form has been rejected in ADF[17], indicating that all series at the 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 before checking impulse response and forecasting ahead- it has been applied to the Engle-Granger causality test 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 a reverse way. Based on the Engle-Granger causality test result in table 1, model I suggests that higher investment in government securities granger causes commercial bank's lower private loan to deposit, indicating no lazy bank symptoms because the

[16] 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.

[17] 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.

private loan to deposit ratio decreases resulting from higher investment in government securities by the commercial banking system.

**Table 1. 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 do not cause to Loan to deposit | (P>F) = 0.032 | Rejected |
| **Model-II:** | | |
| **NA: Null Hypothesis** | | |
| Loan to deposit does not cause to Govt. securities | (P>F) = 0.170 | Accepted |

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

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

After estimation, Model 1 described result shows that the effect of any change in loan-to-deposit ratio on government securities is invalid, and there is no significant long-run relationship because the long-term correction coefficient's estimated value is 0.012, which is not lie between -1 and 0. On the other hand, Model 2 described result shows that the effect of any change in government securities on loan to deposit ratio is valid, and there is a significant long-run relationship because the long-term correction coefficient's estimated value is -0.09, which lies between -1 and 0. Thus, there exists both the short-run and long-run impact of any changes in investment in government securities by commercial banks, causing to loan to deposit ratio change. This augmented support also validates the granger causality decision. Model 2 indicates that increases in investment in government securities by the commercial bank will cause deviations from this equilibrium, causing the private loan deposit to be low. Moreover, it shows that private loans to deposit will then increase to correct this disequilibrium, with 9.9 percent of the remaining deviation corrected in each subsequent 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.

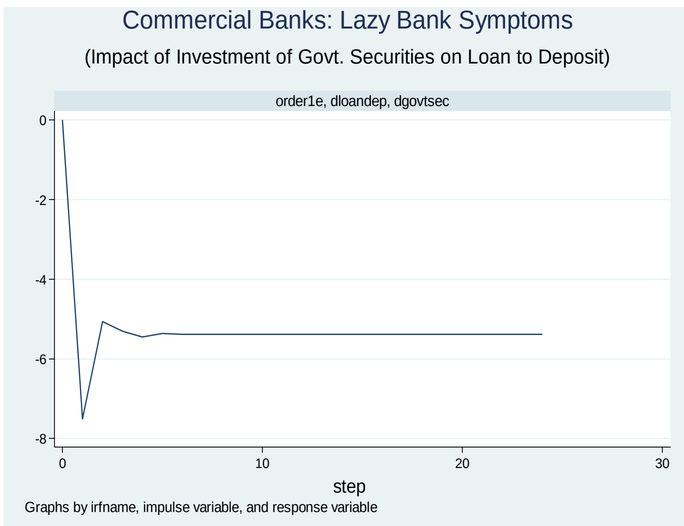
This outcome from the error correction model may seem logical because short-run adjustment has a minor effect than long-run. The effect of higher investment of government securities registers lower in short-run because a larger number of primary dealers of private and public both invest money at a higher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

It has also been used to impulse response functions based on the ECM model. This figure shows the effect of higher government investment in government securities by commercial banking on loans to deposit twenty-four months before January 2015. This figure shows that impacts in the short-run appear buoyant, gradually starting to stable after six months with adverse impacts of higher investment in government securities by commercial banks on private loan-to-deposit ratios. There is no explicit lazy banking symptom in the commercial banking system in Bangladesh, while investment in safety instruments (government bonds and other securities) depicted a gradual upward trend, especially significantly upper till FY12.

| Table 2. 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 estimates**

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 returns on government securities.
- Recent Bangladesh bank initiative to purchase US dollars to depreciate the taka targeted to enhance exports competitiveness in the global market and create more local currency resulting in excess liquid in commercial banking systems. Thus, commercial banks use this excess money to invest in government securities.
- Although FY14 to date, the government managed domestic financing well to put less pressure on borrowing from banks, before FY14, government borrowing from the banking system was pretty enough, indicating higher investment in government securities.
- Some of these commercial banks' nonperforming loan (NPL) to total loan has a slightly upper trend, leading to the risky assets of the banking system increase. Thus, these types of banks seek less risky investments to keep profitability.

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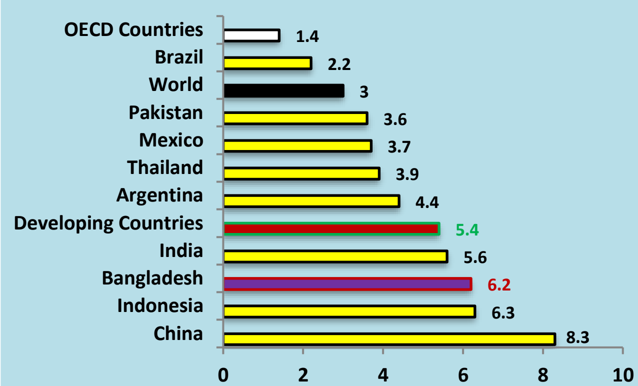
**A Tale of Bangladesh Growth Episodes under SFYP: Strategies Need to Promote Investment**

Saiyeeda Saniya Munim[18] and Al Mamun[19]

*A brief history of economic growth in Bangladesh shows that, after the setbacks caused by the Liberation War, the economy picked up its pace in the late 1980s. The economy of Bangladesh experienced around 3.7 percent average growth from 1980 to 1990. Even during 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 the previous decade's. The second half of the 1990s demonstrated a more impressive growth performance (5.3 percent, FY1996-2000) compared to the first half (4.5 percent for FY1991-95)[20]. What happens for the eight percent growth target by 2015 under Sixth Five Year Plan (SFYP)? Is it fallacious for Bangladesh? There are many beliefs in hearts at the beginning of SFYP to achieve a real GDP growth target of 8 percent by 2015. What is our true story about the 8 percent growth target? This is very straightforward that Bangladesh achieves growth of 6.3 percent on average, which is far below 7.3 percent under SFYP. This achieved growth indicates Bangladesh operates below a potential level based on the assumptions of resource utilization, mobilization, and enhancing factor productivity.*

**The real GDP growth rate of Bangladesh has reached Plateau but moderately at a higher rate:** In the last two decades, from 1990 to 2009, it can be seen that the GDP growth increased smoothly up to 2007 and then started to fall slightly from 2008. From 2008 to 2012, the level becomes more similar, but at the end of 2013, the GDP growth again picks up the upper train. Now the question may arise in our mind, is it possible to achieve the SFYP growth target in the present health condition of our economy? Some economists say, "it is difficult to achieve but not impossible," but other economists would have different views. However, regarding adequate information, Bangladesh was holding the third position, with 6.2 percent growth below China (8.3 percent) and Indonesia (6.3 percent), among developing countries from 2010 to 2013 (Figure1). *Bangladesh achieved* growth, which was impressive based on other developing nations' growth performance for the last five years. Bangladesh enjoyed growth in this period due to a stable balance of payment positions, lower domestic and global inflation, and a rebound in domestic demands while it was starting to slow at the beginning of 2013.

**Figure1. International Growth Comparision, 2010-13**




Source: Seventh Five Yaer Paln, Background Paper

**Vision 2021 and the associated Perspective Plan 2010-2021 have set solid development targets for Bangladesh by the end of 2021:** Vision 2021 targets 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. Many economic kinds of literature[21] believe that to enhance growth in the least developing countries, there is no alternative way

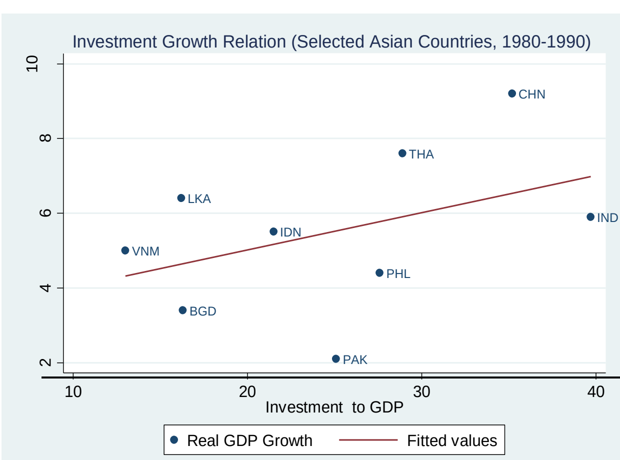
[18] Senior Lecturer, Department of Economics, East West University
[19] Senior Research Associate, Emerging Credit Rating Ltd.
[20] Effect of Public and Private Investment on Economic Growth in Bangladesh: An econometric Analysis by Sheikh Touhidul Haque
[21] Slow growth model assumes capital accumulation 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 the degree of variation in technological advancement

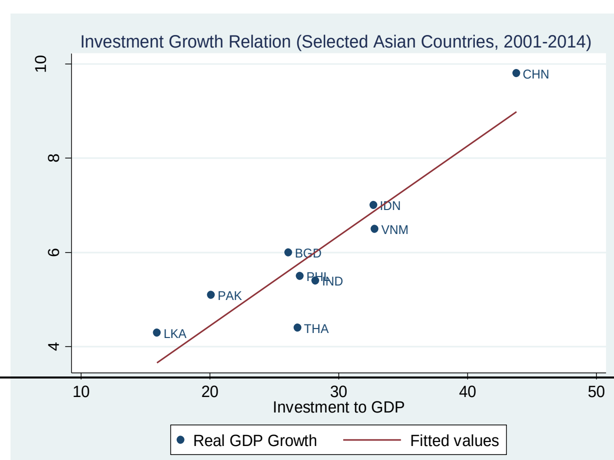
to accumulate capital at a faster rate through enhancing both private and public investment in lying with infrastructure development and political stability.

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

- **The average real GDP growth rate of 7.3 percent per year.**
- **Reduce head-count poverty ratio by 10 percentage points.**
- **Increase the 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 the 12th class to 60 percent.**
- **Increase the 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 females to males for the age group 20-24 from 71 percent to 100 percent**
- **Increase productive forest coverage by 2 percentage points.**
- **Attain WHO air quality standards in Dhaka and other large cities by 2015.**
- **Treat all urban waste water by 2015 to clean river waters**

The below scatter plots focus on the importance of investment on real GDP growth, indicating that at the 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 the productivity of capital and technological advancement. The trend line shows that real GDP growth increases in response to higher investment. From 1980 to the 1990s, this scatters plot reveals that countries above the on-trend fitted line performed well compared to other sample countries, while china is a complete outlier, and Bangladesh's position demonstrates below than average performance during this period. This storyline remains parallel even from 2001-2014, but an improvement is that most of these sample countries reach significantly closer to the fitted line except China, but the fitted line shows a steeper slope. This fitted line shows that one percentage point of investment to GDP increase causes real GDP growth to increase more compared to 1980 to 1990. This indicates that the efficiency of capital increases due to technological advancement and labor productivity through investments in human capital.



During the last decade, Bangladesh's effort to enhance the investment-to-GDP ratio was impressive, but the investment-GDP ratio seems to be stagnant for the last few years. Thus, the ICOR rate remains higher for Bangladesh, reflecting that it is more responsive to gain incremental growth to increase incremental growth. However, Bangladesh suffers more in fostering investment in terms of both private and public. Although Bangladesh achieved some credit from public investments[22], it is not enough to reach the investment GDP ratio target in Vision 2021. Persistent political hazards, embryonic infrastructure, and lower foreign direct investment hamper to increase investment GDP ratio at a faster pace.

Table 1. Comparison of Infrastructure Quality

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.

Moreover, the quality of an economy's infrastructure helps attract private and foreign investors to invest in various sectors and influences the marginal productivity of foreign and private capital. Hence, there is no room to subdue infrastructure development to increase investment and growth. According to the Global Competitiveness report 2014-2015, inadequacy in the supply of infrastructure has been identified as one of the significant reasons for lesser growth than the target growth in SFYP. Developing countries like Bangladesh, India, and China have the insufficient infrastructure - inadequate highways, airports, maritime facilities, and less advanced telecommunication- while Bangladesh's position based on the quality of infrastructure is shallow (Table 1). Such an inadequacy of infrastructure plays a constraint on Bangladesh's growth prospects. So it is not surprising that these countries seek to find room in their budgets for greater public and private infrastructure investment.

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

**Larger funds to finance investment and infrastructure projects can be achieved through the government's prudent policy response**: To what extent keeping fiscal space to increase public investment and infrastructure development through implementing higher allocation in the development budget may be a big deal to this issue. Bangladesh's government has already initiated strategies to enhance public investments through Public Private Partnerships (PPP) and allocating persistent higher money to the Annual development program (ADP). However, the experience reveals inefficiency due to the failure of PPP implementation, lack of external projects, and domestic resource mobilizations. Although the government of Bangladesh allocates more to ADP, we never meet the budget target, so a significant amount of expenditures savings from ADP accrued each year at the end of the fiscal year.

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

Now, the major issue is what is the optimal fiscal space to enhance investment in both infrastructure and private?

Nevertheless, no economic policy outcome comes without its consequences. The government of Bangladesh is already going to initiate an increase in revenue expenditure in Budget 2015-16, announcing new pay scales, which create more pressure on fiscal deficit leading to domestic debt burden and interest payments due to the declining trend of external loans. Moreover, with a narrow tax base, the 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 the government's prudent fiscal stance to promote infrastructure and private investment? It has been tried to closer look at 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 increased domestic financing in development projects. For this purpose, the government should implement the new VAT law properly and automate the entire tax system by shirking to a lower corporate income tax level.

- Government should attempt to find an 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.

- The government should emphasize the PPPs project by ensuring transparency among stakeholders, reducing bias on specific agents, and allowing more incentives to invest in PPP projects.

- Bangladesh has already reached its record reserve of foreign currency. Government can issue long-term bonds against these inactive reserves to finance 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 opportunities, but in the process, inflation might rise. The history of monetary policy also does not give any comforting answer. Much economic literature exists worldwide and proves a positive relationship between money supply and economic growth (Milton Friedman).[23] This policy works well if the money market is functioning well. Countries have less functioning money, and the financial market leads to more excess liquidity with a higher money supply. In the case of Bangladesh, excess liquidity in the banking system creates a problem due to a lack of private-sector investment opportunities; this may be more intensive if Bangladesh further easing monetary policy stance to promote private investment. Thus, increasing growth through monetary expansion is challenging without ensuring infrastructure facilities and political stability.

Using data on money supply and real GDP growth from 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 that money supply causes real GDP growth and real GDP growth causes money supply in both directions, but the money supply causes real GDP growth to be more significant. This may indicate that private-sector credit increases cause lower interest rates to foster more real GDP growth. This provides a further signal to financial sector improvement. Although this causality test reveals causality between monetary expansion and economic growth, this may not be a valid policy because, with further improvement in the financial and bond market, it is impossible to get a real return from monetary expansion.

[23] Monetarists 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 the money supply at a constant rate, equivalent to the rate of growth of real GDP.

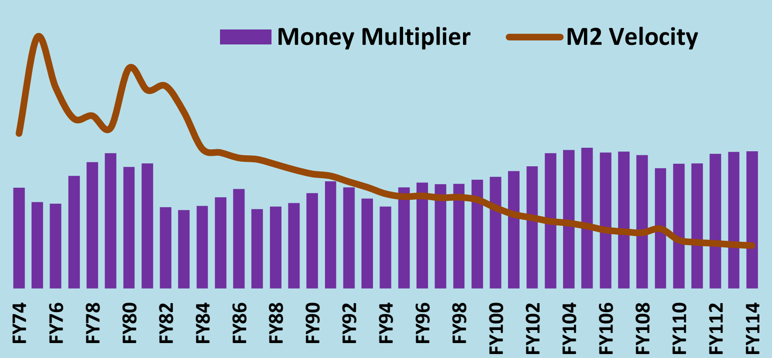
Moreover, monetary policy may not be more effective in the case of least developed and developing countries because to get relevant results from implementing expansionary monetary policy. In the case of well-functioning financial and money markets, it takes more than one and a half years. Milton Friedman points out eighteen months lags of monetary policy effects on economic growth. This thinking may be ridiculous in the context of developing countries; otherwise, the expansionary monetary policy creates more excess liquidity and inflationary pressure. Sometimes, higher inflation may endanger severe problems in the case of actual effective exchange rate deprecation, a higher burden of external debt services, and net gains by investors from investing in domestic debt and deposit instruments.

**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***

**Figure 3. Monetray Policy Effectiveness**
**(Money Multiplier and Velocity )**




From figure 3, we can observe that the velocity of the money supply gradually declined, indicating that more monetary expansion may create more inflation and excess liquidity through lower loans and less private sector investment. Attaining further improvement in the financial market and political stability and ensuring sufficient infrastructure, it may not be prudent to adopt much monetary expansion to enhance economic growth. Thus, monetary policy should accommodate fiscal policy for further private and public investment. Besides, to improve the overall investment scenario in Bangladesh, we have to focus more on foreign direct investment. Without increasing the larger FDI share in GDP, it is challenging to manage 32.5 percent investment as a percentage of GDP at the end of 2020 for eight percent growth. Our FDI to GDP ratio ranges from 0.5 to 1.1 percent, which is very low compared to other comparators countries- like Vietnam, Cambodia, and even Nepal. Thus, the government should take initiatives through long-term master plans and build relevant, sufficient infrastructure to attract foreign investors to invest in various development projects.

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# C. Economic Watch: Bangladesh Vs. Global

- Stock Price Update
- Real GDP growth
- Inflation
- Bond Market

**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.**

***** The Emerging Research Division has estimated all projected Figures**

# D. Bangladesh: Selected Macroeconomic and Financial Indicators

**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**

***** The Emerging Research Division has estimated all projected Figures**

**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**

***** The Emerging Research Division has estimated all projected Figures**

**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**
***** The Emerging Research Division has estimated all projected Figures**

**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**

***** The Emerging Research Division has estimated all projected Figures**

**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: Ministry of Finance**
***** The Emerging Research Division has estimated all projected Figures**

**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 grants, 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 of taka) | 13.7 | 14.2 | 15.5 | 17.4 | 24.1 | 27.9 | 34.8 |
| The 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 |
| The 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**
***** The Emerging Research Division has estimated all projected Figures**

# About ECRL

Emerging Credit Rating Limited (hereinafter referred to as ECRL) began its journey in the year 2009 with the motive to deliver credible superior & quality credit rating opinion in various industry segments around Bangladesh. ECRL obtained credit rating license from Bangladesh Securities and Exchange Commission (BSEC) in June 2010 as per Credit Rating Companies Rules 1996 and also received Bangladesh Bank Recognition as an External Credit Assessment Institutions (ECAI) in October 2010 to do the rating of Banks, Financial Institutions and their borrowers and also from Insurance Development & Regulatory Authority (IDRA) in 2015 to do the rating of Insurance Companies & affiliated with Malaysian Rating Corporation Berhard.

Emerging Credit Rating Limited's team is oriented towards the continuous improvement of processes, striving for an important role in the leadership of the business world. Every individual in ECRL is committed to providing topmost ingenious Credit Rating Services and Comprehensive Research Services in Bangladesh. ECRL's rating services and solutions reflect independence, professional, transparency and impartial opinions, which assist businesses in enhancing the quality of their decisions and helping issuers access a broader investor base and even smaller known companies approach the money and capital markets. The Credit Rating process is an informed, well-researched and intended opinion of rating agencies on the creditworthiness of issuers or issues in terms of their/ its ability and willingness of discharging its financial obligations in a timely manner. Issuers, lenders, fixed-income investors use these risk assessments for the purpose of lending to or investment in a corporation (such as a financial institution, an insurance company, a non-banking corporation or a corporate entity) as well as evaluating the risk of default of an organization's financial obligations in terms of loan or debt.

# Editorial Overview

**ECRL Research** *provides insights, opinions and analysis on Bangladesh and International Economies. ECRL Research conducts surveys and produces working papers and reports on Bangladesh's different socio economic issues, industries and capital market. It also provides training programs to professionals from financial and economic sectors on a wide array of technical issues.*

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