October, 2012

Bangladesh Economic Update

Poverty Reduction and Economic Management, South Asia Region

The World Bank
Bangladesh Economic Update

Summary

Despite an unfavourable global economy, economic growth in Bangladesh is projected at close to 6 percent in fiscal 2013 (FY13). Adverse external demand and domestic supply constraints continue to be a drag on growth. Shortfalls in exports and investments due to a possible protracted crisis in the euro area and internal supply constraints may underpin the moderation of growth. Investment targets of the Medium Term Budget Framework 2013 to 2017 face major obstacles in shortage of electricity and gas supplies, and poorly functioning roads and ports. One positive prospect on the investment front is the increase in foreign direct investment in FY12, which surpassed the US$ 1 billion for the second time in Bangladesh’s history.

Favorable international price trends and monetary tightening has reduced inflation. Inflation decelerated to 7.4 percent in September, driven by a deceleration in both food and non-food price rises. Slowdown in global demand pushed both fuel and non-fuel commodity prices downward. The Monetary Policy Statement for the first half of FY13 continues the moderately tightening stance implemented in the second half of FY12. Both the operating and intermediate targets for the first half of FY13 and for the year as a whole are broadly in line with the monetary program under the International Monetary Fund’s Extended Credit Facility (ECF) arrangement and the nominal GDP growth target set in the FY13 budget. The authorities remain committed to maintaining flexible exchange rates and interest rates.

The relative stability and resilience of Bangladesh’s financial sector in the face of the global financial crisis has been somewhat stressed over the last six months. Bank stability has deteriorated in the last six months and capital market volatility has continued. However, banks have been resilient to market risks and shocks such as change in interest and exchange rates. The general tightening of liquidity has pushed up deposit and lending rates at commercial banks.

Fiscal policy is back on track. Fiscal performance in FY12 was favourable, notwithstanding increasing subsidies. The overall budget deficit in FY12 is estimated at 4.5 percent of GDP. Domestic financing of the deficit declined to 3.2 percent of GDP, from 3.5 percent in FY11. Lower government borrowing from the banking system in the second half of FY12 was a welcome reversal from worrying trends in the first half of the year. The FY13 budget deficit target—5 percent of GDP—is modest, though higher than the estimated 4.5 percent of FY12, and is likely to be undershot primarily because of a shortfall in the implementation of the ambitious Tk 550 billion Annual Development Program, by now a familiar pattern. However, the financing of the deficit may be a challenge with a projected US$2.2 billion net external financing need, substantially more than the $1.4 billion of the revised FY12 budget. The rest of the deficit is projected to be financed from domestic sources, with a still heavy 69 percent reliance on bank borrowing.

Pressures on the balance of payments have eased. The overall balance of payments reversed from a moderate deficit in FY11 to a small surplus in FY12 due to much slower than projected import growth and strong growth in remittances. Taking advantage of an improvement in overall balance of payments, Bangladesh Bank (BB) has built up its reserve buffer and is now US$2.1 billion ahead of the ECF program target on net international reserves that was set for end-September 2012. Gross official reserves stood at 11 billion on September 12, equivalent to 3.8 months of prospective merchandize imports in FY13. The inter-bank average exchange rate has been stable at around Tk 82 per USD since February 2012, aided in part by heavy BB intervention, while the real effective exchange rate has begun to appreciate.
Structural reforms have moved forward, although with some slippage. The progressive moves include approval of the new VAT law by the cabinet, renewal of 2G telecom licenses, and adjustments to administered prices. The slippages include increase in the nominal rate of protection and requiring the non-primary dealer commercial banks to absorb T-bills.

Bangladesh’s economic outlook is subject to several near-term risks. Possible intensification of the euro area crisis may deepen Bangladesh’s export slump of the last six months; escalation of global food prices may reverse the recent decline in food inflation; global oil price shock will place the balance of payments under pressure again and shrink fiscal space; banks are susceptible to credit and market risk and the global economic vulnerabilities; and increased political instability and labour unrest may depress investments further. Close surveillance of macroeconomic trends, stronger monitoring and supervision of banks, and building policy space is all that the government can do to guard against these risks. The presence of the Fund’s Extended Credit Facility provides comfort on Bangladesh’s readiness to cope if these risks materialize.

The short-term food outlook is stable. Food inflation in Bangladesh has been declining due mainly to falling rice prices. Adequate production in two consecutive years and higher government procurement resulted in increased stock level of food grains and steady supply situation. A number of safety net programs are in place to safeguard the poor from the impact of a possible global food crisis. With favourable weather condition and satisfactory stock level, Bangladesh food outlook for FY13 appears to be stable.
Recent Economic Developments

GDP growth in FY13 is projected at close to 6 percent despite an unfavorable global economy.

Real GDP growth in FY13 is projected to moderate further to below 6 percent. The Bangladesh economy was not able to meet its GDP growth target of 7.0 per cent set for FY12 in the Sixth Five Year Plan. Provisionally estimated GDP growth is 6.3 percent for FY12, compared with 6.7 percent growth the previous year (Figure-1). The slowdown in FY12 is attributable entirely to reduced contribution from agriculture, from 1 percentage point in FY11 to 0.5 percentage point in FY12 due largely to a decline in crop production. By contrast, the industry sector, driven by its manufacturing and construction sub-sectors, improved its contribution to growth, with 2.8 percentage points of the year’s 6.3 percent overall growth, the highest share in recent history. The service sector’s growth contribution was limited to about 2.9 percentage points.

On the expenditure side, investment as a share of GDP remained nearly stagnant at around 25 percent while private investment declined from 19.5 percent of GDP to 19.1 percent between FY11 and FY12 (Figure-2). At the same time, the public investment rate is estimated to have risen from 5.6 percent of GDP to 6.3 percent, though this may be revised downward due to underutilization of the Revised Annual Development Programme (RADP). The investment target for FY13 is 29.6 per cent of GDP, but the present state of the global economy and internal supply side constraints will make this a tough proposition. Shortfalls in exports and investments may underpin the further moderation of growth in FY13.

Adverse external demand and domestic supply constraints continue to drag growth. The euro area crisis has already affected exports. Although the year-on-year decline in exports observed since February 2012 came to a halt in July-September, with exports growing by miniscule 2.1 percent relative to July-

---

1 This brief was prepared by Zahid Hussain and Nadeem Rizwan (SASEP) with valuable inputs from A.K.M Abdullah (SASFP). The team acknowledges comments from Vinaya Swaroop (Sector Manager, SASEP), Salman Zaidi, Deepak Bhattasali (Lead Economist, SASEP), Chandana Kularatne (Economist, SASEP), and Andras Horvai (Country Program Coordinator, SACBA). Mehar Akhter Khan formatted the document. Cover photo is from The Daily Star.
September, 2011, the outlook for the whole year remains uncertain, due mainly to the possible intensification of the euro area crisis (Figure-3). Garment orders from new markets appear to have offset declining shipments to Europe in July-September. This may not be sustained if orders from Europe continue to decline. Export of knitted ready-made garments remained flat while woven garments grew by 13.9 percent in FY12. In July-September 2012, knitwear exports declined by 1.5 percent while woven garments grew by 9.9 percent. Shifts in supplier sourcing led to prior increases in market share for garment exports to both the US and Europe. At the same time, it has increased vulnerability to a downturn as experienced in the last half of FY12. Export to the US market posted insignificant growth. Export earnings from the EU started to decline from January 2012; before then, they had survived the euro-zone crisis, thanks to the new rules of origin (RoO) under the EU-GSP scheme. Export earnings from non-traditional markets of Bangladesh (i.e. other than US, EU and Canada) increased, although export to India dropped. Overall, this is a positive development in terms of export market diversification for Bangladesh, but the combined share of these markets is still too small to make a dent on overall export growth.

**Weaknesses in the rate of private investment can be expected to continue**, as revealed by the Global Competitiveness Index 2012 in which Bangladesh slipped by 10 places—the second biggest drop in a decade; it now ranks 118 out of 144 economies. Other surveys of industrialists suggest that the following factors affect investment, production and trade adversely: Inadequate supply of infrastructure, access to finance, inefficient bureaucracy, corruption, political uncertainty, and inflation continue to remain the most problematic factors for doing business and accelerating growth in Bangladesh.2

Investment targets of the Medium Term Budget Framework 2013 to 2017 face some major hurdles.3 The gap between the realized benchmarks and the target is likely to widen further in the near term if the deficits discussed below are not mitigated. Three factors appear as most serious constraints in the prevailing business environment in Bangladesh:

**Shortage of electricity supply:** Public and private investment in the power sector contributed to an additional 3,330 MW during FY09-12, thereby increasing total generation capacity to 6,807 MW. However, no more than 50 percent of the additional capacity is normally in active use because of closure of power plants and underutilization of their total generation capacity. The under-use of electricity generation capacity has increased over the years (from 1,557 MW in FY09 to 3,028 MW in FY12), and is mainly due to the need for regular maintenance of power plants, low level of gas pressure, and limited supply of fuel and mechanical failures in old plants.

---

2 These findings are based on views expressed by leading entrepreneurs and business bodies in the Executive Opinion Survey (EOS) 2012 conducted by the Center for Policy Dialogue during February-April, 2012. The survey shows that poor infrastructure was regarded as the most important problematic factor in 2012 for doing business in Bangladesh. A high level of corruption was another major problematic factor. Lack of access to finance re-emerged after some time as one of the three most important problematic factors (it had ranked 6th and 5th in 2011 and 2010). The survey also shows that these three most problematic factors are becoming more important determining factors—their share of the total weighted response increased from 45 percent in 2010 to 46 per cent in 2011 and 48.2 percent in 2012.

3 Government of Bangladesh, Medium Term Budget Framework 2012-13 to 2016-17, June 2012.
Between January 2009 and April 2012, a total of 2.4 million new connections were provided to different categories of consumers which increased domestic connections by 20 percent, industrial unit connections by 12 percent, irrigation pump connections by 111.6 per cent and commercial units by 12 percent. Meanwhile, a large number of applicants are waiting for new connections. The limited supply of electricity combined with the considerable rise in consumer numbers indicates that the overall situation has not improved in a sustained manner.

**Inadequate gas supply:** Between February 2011 and February 2012 the rise in supply was 5.6 percent, far short of the annual growth in demand in recent years.\(^4\) This has led to a widening shortfall, to the extent that the government has stopped providing new gas connections to both households and business units. Bangladesh currently produces around 2,100 million cubic feet (mmcfd) per day for a demand of 2,600 mmcfd. The disparity has led suppliers to limit gas delivery for industries where gas is less urgently needed such as, for example, fertilizer production. As a result, gas supplies to the industrial sector dropped considerably. There is an urgent need to further exploit untapped reserves and modernize and expand the distribution channel to meet shortages, increase supplies to industries, and to establish gas-based power plants.\(^5\)

**Poorly functioning roads and ports:** Physical infrastructure related to domestic and external trade has not improved much, even though a significant share of the government budget is spent on it. Increasing lengths of national, regional, and zilla level highways/roads are becoming treacherous or impassable. The average roughness index of these roads has increased significantly over previous years. Progress on some important highway development projects (e.g. Dhaka-Chittagong four lane highway) has been stalled because of many irregularities in the project implementation process. Progress on the Padma Bridge project has stopped because of governance related issues. The condition of the Chittagong port also appears to have deteriorated. The improvements with respect to equipment availability and berth occupancy at the port have been overshadowed by disruptions caused by rising turnaround time and low productivity.

**Foreign direct investment increased in FY12.** World Investment Report 2012 ranked Bangladesh 16\(^{th}\) among 74 FDI-recipient countries with a record $1.13 billion FDI inflow. This is only the second time Bangladesh’s FDI has exceeded the billion dollar mark in a single year. Increased reinvestment and intra-company loans offered by existing companies, including those in telecom, energy and financial sectors, helped boost FDI; the RMG sector attracted the highest amount followed by the banking and energy sectors. However, FDI from new sources declined by 16 percent. Bangladesh has several strategic advantages, including cheap labor and its location in a fast growing region, which can help attract large FDI inflows into light industry. Rising labor costs in several countries in Asia are opening up prospects for foreign investors to relocate to Bangladesh. However, these prospects will not materialize fully unless the country removes infrastructure bottlenecks, makes land more readily available, upgrades skills of the labor force, and addresses administrative impediments.

**Monetary tightening and favorable international price trends have decelerated inflation.**

---


\(^5\) Because of Bangladesh’s flat terrain, there is very limited potential for hydropower. The rivers in the Chittagong Hill Tracts hold such potentials. Kaptai on Karnafuli river generates 218 MW of power. Other potential rivers are Matamuhuri and Sangu. Exploitation of Bangladesh’s coal deposits has been constrained by environmental and political considerations.
Inflation fell to 7.4 percent in September, driven by lower food and non-food inflation. Inflation has risen over the last three years, but abated somewhat in recent months. From 6.7 percent in FY09, inflation rose to 10.6 percent in FY12 driven largely by increase in non-food inflation from 5.9 percent to 11.2 percent this time (Figure-4). Food price increases still remain high and are the major source of the overall price level increase. The decline in food prices observed since February was partially reversed in August with prices rising by 7.1 percent (year-o-year) compared with 6.3 percent in July. Food inflation declined back to 6.2 percent in September. Prolonged droughts in southern and eastern Europe, coupled with natural disasters in the United States may push up food prices in international market which in turn may reverse the recent declines in food inflation in Bangladesh.

Non-food prices have been declining since April reaching 9.6 percent in August before rising to 10 percent in September. Expansionary macro policies created excess demand which, together with the accounting impact of the adjustment in administered prices of petroleum products and electricity and depreciation of the taka, contributed to the rise of non-food prices. An econometric analysis recently conducted by the Bangladesh Bank found the inflation differential between Bangladesh and India, after accounting for supply shocks, to be mainly a monetary phenomenon, whenever Bangladesh’s monetary growth exceeds India’s monetary growth, Bangladesh experiences higher inflation than India. Continued prudent monetary tightening and favorable external environment will be needed for bringing inflation down to low single digit level. Good news is crude oil price has declined significantly since March 2012 due to comfortable global inventory position and a slowdown in demand growth both from industrialized and emerging economies.

The Monetary Policy Statement (MPS) for the first half of FY13 continues the moderately tightening stance implemented in the second half of FY12. Monetary conditions began to tighten in early 2012 (Figure-5). For the first time in last three years, Bangladesh Bank was able to conduct monetary policy within the announced monetary program targets. In FY12, it is estimated to have significantly undershot the operating (reserve money) target, with actual growth of 9 percent compared to programmed 12.2 percent, and overshot slightly the intermediate (broad money) target, with actual growth of 17.4 percent compared to programmed 17 percent. The estimated monetary intermediate and operating outcomes bear two pieces of good news:

Firstly, net foreign assets (in taka terms) were projected to decline by 8.9 percent in the MPS for the second half of FY12. This did not happen and instead net foreign assets increased by 11.4 percent. While this reflected the impact of exchange rate depreciation, it also meant that the reserve depletion was much smaller by June than had been anticipated in January. The key to the BB's ability to stem the decline in foreign exchange reserves was to allow the exchange rate to be determined by market forces without significant BB intervention in the first half of FY12.

Second, the target for growth of credit to the private sector was overshot-actual growth of 19.7 percent compared with a 16 percent program target. This is due to easing of borrowing pressures from the central government with adjustments in administered prices and improvements in net aid disbursements in the

---

6 Among the sub-categories of non-food items, larger contributions came from clothing & footwear, gross rent, fuel & lighting, and transport and communication.
7 The empirical literature has identified monetary growth as a major contributor to inflation in Bangladesh. While evidence on the role of the depreciation of the taka as well as administered price adjustments is mixed, the weight of evidence appears to suggest that factors such as food and oil prices in the international market, shortage of agricultural commodities, and inflation inertia are also important.
9 For a detailed analysis of the determinants of inflation in Bangladesh see Sadiq Ahmed, Explaining Inflation in Bangladesh, PRI Quarterly Policy Briefs, June 2012.
second half of FY12 as well as removal of all but two interest rate caps on lending to the private sector. The latter freed the BB from the pressure of having to provide quantitative accommodation to banks in order to enable them to lend at repressed rates.

**The authorities remain committed to maintaining flexible exchange rates and interest rates.** The MPS assures that BB will continue to support a market-based exchange rate while seeking to avoid excessive exchange rate volatility. It also commits to flexible lending rates, but focus on the quality/composition of private sector credit and on interest rate spreads. The latter suggests that the BB will not let go of credit markets completely to determine the credit composition and interest rate spread because it wants to ensure that private credit flows to the "productive" sectors and also that bankers do not make "excess" profits. This policy stance needs to be implemented with care to make sure that there is no unnecessary interference in the operation of credit markets.

**The financial sector is passing through stressful times.**

The relative stability and resilience of the financial sector of Bangladesh, in the face of the global financial crisis, has been somewhat dented in the last six months. Bank stability has deteriorated recently and capital market volatility has continued.

- **Deterioration of governance in State-owned Commercial Banks (SCB).** Some irregularities in SCB branches were not detected until the amount went well beyond the threshold allowed. The recently exposed cross-acceptance of inland trade bills of unscrupulous private business people might lead to inter-bank defaults affecting their profitability as well as the balance sheets, especially of the SCBs unless effective actions are taken against the perpetrators and the money is recovered.
- **There has been a general drop in liquidity in banking industry** caused by (i) domestic financing of fiscal deficits through government borrowing from the banking sector, (ii) drop in the loan recovery rate and (iii) a tighter monetary stance of the central bank. This has resulted in higher deposit and lending rates at commercial banks (Figure-6).
- **The central bank is making efforts to maintain stability.** In a bid to reduce riskiness and retain stability the central bank has lately tightened rules regarding loan loss provisioning, redefined the list of eligible collateral, and hardened the reporting requirements. These are steps in the right direction and need consistent follow up.
- **The capital market remains volatile.** Given the protracted lack of investor confidence following the bubble burst in early 2011, the situation in capital market remains volatile. The Securities and
Exchange Commission (SEC) earlier had stipulated a mandatory 2 percent share holding rule for directors of the listed companies. The rule had a mixed impact on the market and triggered a round of volatility. Consequently, the market reached its lowest point in February 2012, following which some of the grounds lost in the preceding eighteen months were recovered. Trading volume has increased, as some international and domestic institutional investors got their way to capitalize on the market lows of securities with good fundamentals. However, sustainability of the partial recovery is not guaranteed, especially in light of the fast approaching election cycle of 2013 and looming instability in the banking sector.

**Fiscal policy is back on track.**

**Fiscal performance in FY12 was favourable, notwithstanding increasing subsidies.** The overall budget deficit in FY12 is estimated to have been 4.5 percent of GDP (Figure-7). Domestic financing of the deficit declined to 3.2 percent of GDP, compared with 3.5 percent the year before (Figure-8). A welcome reversal from the first half of FY12 was restraining government borrowing from the banking system in the second half of that year. This was possible due to strong tax collections and good performance in nontax revenues. Both income tax and VAT collections appear to have offset weaker import taxes. Subsidies increased from 2.2 percent of GDP to 2.9 percent between FY11 and FY12, and would have been much higher were it not for lower international oil prices and administered fuel price increases. These helped contain losses of energy-related state-owned enterprises and, aided by depreciation of the Indian rupee, may have contributed also to reduction of cross-border smuggling.

Low implementation of the Annual Development Program (ADP) during the first three quarters of FY12 induced the government to revise the size of the ADP downward by Tk. 50 billion from the original size of Tk 460 billion. Slower implementation of foreign aided projects reduced the share of foreign financing within the revised ADP to 36.6 percent compared to 40.6 percent in the original ADP.
Larger projects in the ADP appear to be running at a relatively slower pace. A CPD research review of the largest 20 projects included in the ADP since January 2009\textsuperscript{10} revealed only 10.3 percent cumulative implementation up to November 2011.\textsuperscript{11} If one excludes the Padma Bridge project from the exercise, the cumulative implementation rate improves marginally to 13.2 percent for the remaining 19 projects. But note that eight of these largest 19 projects have yet to spend a single taka since their inception and another three jointly have spent just 1 per cent.\textsuperscript{12} The implementation of aided projects has weakened also since 2009. A parallel CPD exercise on a separate list of 20 foreign aided projects with largest allocations and accounting for about 21 percent of the revised ADP of FY12 tells the same story.\textsuperscript{13}

**The FY13 Budget targets a modest expansion.** The FY13 budget sets an ambitious growth target of 7.2 percent and an equally challenging target of lowering inflation to 7.5 percent. However, it falls short on the structural reforms front that could help achieve these outcomes. The overall 5 percent of GDP budget deficit target in FY13 is a modest expansion. Although higher than the estimated 4.5 percent deficit in FY12, the deficit target is broadly in line with the macroeconomic program agreed under the International Monetary Fund’s ECF arrangement. It is likely to be undershot primarily because of shortfall in the implementation of the ambitious Tk 550 billion ADP, a familiar pattern. However, the financing of the deficit may be a challenge with a projected nearly $2.2 billion net external financing, compared with $1.4 billion in the revised FY12 budget. The rest of the deficit is projected to be financed from domestic sources with a still heavy 69 percent reliance on bank borrowing. Domestic financing is projected to remain unchanged at 3.2 of GDP in the FY13 budget. The non-bank domestic financing target is twice as large relative to the revised FY12 budget, and will require a considerable boost in the net sale of National Saving Certificates. The government also seems to have taken a wait-and-watch stance to the issue of sovereign bonds, which is the right approach in the current international scenario.

**The budget proposes to increase total expenditure in FY13 by 18.9 percent** relative to the FY12 revised budget, with the expenditure-to-GDP ratio rising to 18.4 percent, compared with 17.6 percent in the revised budget. This is a modest expansion considering it is the last budget for which full implementation will be in the hands of the current government and the large burden of subsidy (3.3 percent of GDP)\textsuperscript{14} that has to be carried forward with a bloated ADP (5.3 percent of GDP). The expenditure prioritization is broadly in line with Bangladesh’s development needs with social and physical infrastructure getting the highest share (respectively 24.2 percent and 20.5 percent of total expenditures). The share of capital expenditures in total expenditures has increased from 36 percent in the FY12 revised budget to 40 percent in the FY13 budget. However, provisions for maintenance of public assets remain neglected and unchanged at only 1.9 percent of total expenditure in the FY12 revised budget and the FY13 budget. Also the ADP continues to be overburdened with excessive number of projects and a low project completion rate.

**The revenue growth is projected at 21.6 percent with the revenue/GDP ratio rising to 13.5 percent,** compared with 12.4 percent in the FY12 revised budget. Tax revenue is projected to increase by 0.9 percentage point of GDP and nontax revenue by 0.2 percentage point of GDP. The bulk of the revenue is projected to come from VAT (36 percent) and income tax (31.5 percent). The revenue growth target is

\textsuperscript{10} Excluding the new projects included in the RADP of FY12.

\textsuperscript{11} Within this list of 20 projects, 7 are in their third year of implementation, 9 are in second year of implementation and the remaining 4 are in their first year of implementation.

\textsuperscript{12} Padma Multipurpose Bridge is showing 4.6 percent cumulative spending till December 2011.

\textsuperscript{13} CPD, Analytical Review of Bangladesh’s Macroeconomic Performance in Fiscal Year 2011-2012, Third Reading, June 4, 2012.

\textsuperscript{14} Preliminary findings from an ongoing World Bank analysis suggest there was an unequal distribution of electricity subsidy benefits in 2010. The structure of tariffs and subsidies is not pro-poor. Households in the richest quintile receive subsidy benefits that are seven times more than households in the poorest quintile (42 percent versus 6 percent).
achievable with the widening of the VAT net, reduction in the coverage of truncated value system, and several upward adjustments in rates in the area of nontax revenue.\footnote{NBR revenue collection in the first two months of FY13 has been disappointing, with only 10.1 percent growth relative to the same period in FY12.} Proposals for taxation include an increase in export tax at source from 0.6 percent to 0.8 percent. The black money whitening facility finds its way into the budget proposals, with a 10 percent penalty to be paid along with the normal rate of taxation. Key concerns surrounding the announced revenue measures are the likely increase in both the nominal and effective rate of protection rates through increases in supplementary duties on finished goods and reduction in customs duties on imported inputs and extension of the tax holiday facility.

Crowding out risk remains and contingent liabilities have increased significantly. Shortfall in ADP implementation will not necessarily reduce domestic financing. For instance, in FY11, domestic borrowing increased by Tk 57.6 billion compared to the revised budget despite reduction in ADP size. There is limited room for large increase in bank financing because of growing pressures on liquidity in the banking system. Measures are therefore needed to contain domestic financing and increase aid absorption. This is particularly important for maintaining space for contingent liabilities which have increased from 4.6 percent of GDP in FY11 to 7.1 percent in FY12.\footnote{Government of Bangladesh, Medium Term Budget Framework 2012-13 to 2016-17, June 2012.} Bangladesh Petroleum Corporation alone accounts for nearly 53 percent of the total contingent liabilities followed remotely by Bangladesh Krishi Bank (8 percent) and Bangladesh Chemical Industries Corporation (7.9 percent). The government has courageously implemented significant petroleum price adjustments to reduce BPC losses. While this is necessary, it alone is not enough. Better capabilities are needed in BPC, BCIC and BKB to improve their financial and operational performance.

Pressures on the balance of payments have eased.

The overall balance of payments reversed from a moderate deficit in FY11 to a small surplus in FY12 due to much slower than projected import growth and strong growth in remittances. Despite increases in trade, services and income account deficits in FY12, the current account surplus increased from US$885 million in FY11 to $1.7 billion due to robust growth in remittances. Total remittance earnings in FY12 stood at $12.8 billion which is 10.2 percent higher relative to the previous year (Figure-9). The general performance of remittances remains reasonably good, buoyed by a pick-up in the pace of Bangladeshi workers going abroad. The high petroleum oil price and hence renewed economic activity in the Middle East countries along with depreciation of the taka against currencies of major migrant destination countries may have helped to attain this growth.\footnote{Significant growth was posted for almost all major destination countries except for Bahrain and Malaysia. Recently Malaysia agreed to recruit workers from Bangladesh under a government-to-government arrangement in order to reduce the cost of migration. However, the United Arab Emirates has reportedly stopped renewing visas for Bangladeshi workers and issuing new ones. The UAE now hosts an estimated 1.5 million Bangladeshi workers, the second highest after Saudi Arabia.} Remittances in July-September, 2012 grew by 15.7 percent relative to July-September, 2011. Some pick up in aid inflows also helped ease external pressures.

\textbf{The Bangladesh Bank took advantage of these conditions to step up foreign exchange purchases.} BB has built up its reserve buffer and the nominal exchange rate has been stable. The BB is now ahead of the ECF program target on net international reserves by US$2.1 billion set for end-September 2012. Gross official reserves stood at US$11.2 billion on September 27, equivalent to 3.6 months of imports of goods and non-factor services in FY12 (Figure-10). The inter-bank average exchange rate has been stable
at around Tk 82 per USD since February 2012 aided in part by heavy BB intervention while the real effective exchange rate appreciated. The exchange rate remains broadly in line with the fundamentals.\(^\text{18}\)

**The balance of payments vulnerability to an international oil price shock has increased.** Notwithstanding 38.7 percent growth in import of crude oil and petroleum products, growth in overall import bill declined to 5.2 percent in FY12, compared with 41.8 percent last year. Petroleum imports rose by almost US$1.6 billion, reaching US$5.7 billion and accounted for 18 percent of total merchandise imports in FY12. This means Bangladesh’s vulnerability to international oil price volatility is now much higher.\(^\text{19}\) Non-oil imports grew by only 2.2 percent reflecting decline in import of intermediate inputs and raw materials due to slow down in exports and decline in the import of capital machinery due to weak investments. Food imports declined as well.

**Bangladesh’s economic outlook is subject to both external and internal risks.**

*Intensification of the euro area crisis:* Global recovery has recently shown signs of further weakness. Revised baseline projections of the July 2012 World Economic Outlook posit global growth of 3.5 percent in 2012 and 3.9 percent in 2013. Imports by advanced economies are projected to grow at 1.9 percent and 4.2 percent in those two years. These projections are based on the assumptions that “there will be sufficient policy action to allow financial conditions in the euro area periphery to ease gradually and that recent policy easing in the emerging market economies will gain traction.” Delayed or insufficient policy action could lead to even lower than projected output and trade growth, which would severely affect activities in Bangladesh’s flagship garment sector. Balance of payments pressure may intensify on a deeper export slump. Greater exchange rate flexibility and modest fiscal easing will then be needed.

*Escalation of global food and oil prices:* Prolonged droughts in southern and eastern Europe, coupled with natural disasters in the United States, Russia and India have raised global concerns about food security and pushed grain prices higher. If international food prices escalate, it may fuel food inflation in Bangladesh. This will hurt the poor and create pressures to expand budgetary subsidies. Also, world

---

\(^{18}\) The macro balance approach (adjusting for remittances) is about neutral while the equilibrium real exchange rate and external sustainability approaches suggest marginal undervaluation of 4 percent and 5 percent respectively, according to IMF.

\(^{19}\) Demand for fuel oil jumped from 3.6 million tons in FY11 to 4.8 million tons in FY12.
market prices of primary commodities declined markedly in the second half of 2011, but were on the rise again in early 2012, especially oil prices. After rising by 40 per cent to an all-time high average yearly price of US$111 per barrel (p/b) in 2011, the Brent crude oil price increased further, oscillating recently around US$115 to 120 p/b. If international oil prices continue to rise, energy subsidies could rise sharply given rigid administered prices and pressure on balance of payments will also mount. This may warrant additional monetary tightening to offset possible fiscal easing associated with more expensive food imports and expanded safety net operations. Moving to automatic administered price mechanism will be needed to curb subsidies along with greater exchange rate flexibility to cope with balance of payments pressures.

*Heightened risks in the banking sector.* Banks are susceptible to credit and market risk and the global economic vulnerabilities. Stress tests conducted in collaboration with the central bank in the third and fourth quarter of FY12 point to weaknesses in a number of banks because of their deteriorating loan quality. Increase in credit risk and liquidity risk has been significant. A downward shift in the CAMELS rating\(^{20}\) of commercial banks operating in Bangladesh further affirmed riskiness of the banking sector. However, banks appear to be quite resilient to various kinds of market risks and shocks such as change in interest or exchange rates. The BB is taking proactive steps to maintain stability. The International Monetary Fund’s advisor on bank supervision at BB is advising the Committee and the World Bank is financing a local consultant who is familiar with the way the SCBs work. They are supporting the BB to enhance supervision capacity.

*Increased political uncertainty:* Bangladesh is gearing up for parliamentary elections in 2013/14. This is expected to provoke sporadic street agitation, driven by the opposition’s demand for reversal of the ban on caretaker government system that anchored the previous four elections. Labor unrest stemming from demands to increase wages and prospective garment sector lay-offs if exports stagnate could add to these tensions. Pre-election political pressure could upset the fiscal and monetary stance, leading to pressures on inflation and the balance of payments. In the event of major slippages, in addition to fiscal tightening, monetary targets would need to be adjusted and greater interest rate flexibility would also be necessary to ensure a stable macroeconomic environment.

*Bangladesh should be able to handle these risks.* A tradition of prudent macroeconomic management, implementation of fiscal adjustment measures, and Bangladesh’s accumulated experience in crisis management provide comfort on the economy’s resilience to above risks should they materialize. The presence of the Fund’s Extended Credit Facility (ECF) provides additional confidence in Bangladesh’s readiness to cope.

*Structural reforms have progressed with some slippage.*

**Telecom licenses for 2G have been renewed:** The 2G licenses for the four mobile phone operators were renewed in August for fifteen years. The process was delayed due to legal confrontation between the operators, the Bangladesh Telecommunication Regulatory Commission (BTRC) and National Board of Revenue (NBR) over fees for spectrum allocation and value added tax.\(^{21}\) The government will receive a total of Tk 75.63 billion as spectrum charge and renewal fee from the four operators. By August 2012, the government had received Tk 55.56 billion in two installments from the operators. The rest of the fees have to be paid at the third installment by August 1, 2013.\(^{22}\) The government also had posted the draft guideline for 3G mobile services on a website in order to collect feedback and opinion from stakeholders. It plans to finalize the guideline and complete the auction by December, 2012.\(^{23}\) The internet bandwidth

---

\(^{20}\) Composite rating covering capital adequacy, asset quality, management, earning, liquidity and sensitivity.

\(^{21}\) Telcos finally get 2G licenses renewed, The Daily Star, August 8, 2012

\(^{22}\) 3 mobile operators pay 2G license renewal fees, The Financial Express, August 31, 2012

\(^{23}\) 3G guideline to be posted on website for opinion. The Financial Express, July 15, 2012
price has been reduced by 20 percent with effect from September 1, 2012, which should reduce tariff at the consumer level and encourage use of the internet.

**The VAT Law was approved by the Cabinet:** The cabinet has approved the final draft of the Value Added Tax Act 2012, which is now awaiting passage in the parliament. The act is intended to broaden the tax base and modernize the tax regime. This is designed to improve the transparency in government tax collection and payment activities by business enterprises. The law establishes a single VAT rate of 15 percent at all levels and shortens the list of commodities currently exempt from VAT. The law provides waiver of VAT for services and supplies of goods in cases of natural disaster and imports under international aid program and credit agreement. The act also rewards regular tax payers and provides alternative mechanisms for dispute resolution.

**Power tariffs were increased:** The Bangladesh Energy Regulatory Commission (BERC) has increased the average power tariffs for retail consumers by 15 percent—from Tk 5 per unit to Tk 5.75 per unit. The average bulk price also rose by 16.9 percent, while average tariff for agricultural and industrial usage increased by 11 percent and 15 percent. The new tariff schedule took effect on September 1. The BERC also restructured the tariff slabs for domestic consumers, establishing six slabs instead of three. The slab tariffs are: Tk. 3.33 for 0-75 units, Tk. 4.73 for 76-200 units, Tk. 4.83 for 201-300 units, Tk. 4.93 for 301-400 units, Tk. 7.98 for 401-600 units, and Tk. 9.38 for 601 units and above. Slab benefits have also been restored. Electricity generation cost increased on average to Tk. 6.42 from Tk 2.63 as the oil-run rental plants started generation from 2010. The latest increase will further contribute to reducing untargeted energy subsidies.25

**The rise in protection continues:** The average nominal protection rate continues its rising trend in FY13. The highest 3 percentage points increase of average nominal protection was in consumer goods category. Average nominal protection on capital goods decreased slightly to 10.48 percent in FY13 from 10.64 percent in FY12. The share of para tariff in average protection has also maintained its increasing trend, reaching 52 percent with the FY13 budget. The customs duty rate remains unchanged, with five separate slabs, increasing on 25 items and decreasing on 51 items at the 8 digit level in FY13. Supplementary duty increased on 498 items while VAT increased on 87 items and decreased on 17 items. Considering an overall import increase of 10 percent, under the tariff structure of FY13, import tax revenue is projected to increase by 4.5 percent. It is thus evident that the driving force behind increases in para tariffs could not have been the revenue motive. Protection considerations are likely to have played an equally, if not more, important role.

**Non-primary dealer banks are required to absorb T-bills:** The BB has introduced a new policy effective from August 1, 2012 which requires the 15 primary dealers (12 banks and 3 non bank financial institutions) to buy 60 percent of the unsubscribed T-bills and bonds and the rest 40 percent will have to be bought by the 25 non primary dealer banks. Previously, the 15 primary dealers (PD) were equally allotted 100 percent of the notified amount. Although non-PD banks are now obliged to invest in government securities, they would not be considered as PDs but would be eligible for assured liquidity support (ASL) from the BB. The government securities in possession will act as ‘liquidity coverage’ against the banks’ liabilities. Business community and experts fear that this might intensify the liquidity crisis as the non-PD banks will have less cash for commercial investment.

**Reforms under the International Monetary Fund’s extended credit facility are on track:** Bangladesh received US$ 140 million from IMF as the first installment under the ECF arrangement of US$ 1 billion approved in mid-April. Program performance under the ECF arrangement appears to be on track as all

---

24 Power tariffs to be raised by over 20 percent. The Independent, September 6, 2012
25 This is the fourth tariff increase in last six months
performance criteria and indicative targets were met at end June (the first test date), except tax revenues, which underperformed by 0.1 percent of GDP based on initial reporting. Structural benchmarks have also been achieved. Macroeconomic developments and financial policies have also been in line with the program.

**World Bank assistance has remained active.**

As of October 2012, the Bangladesh portfolio consisted of 36 operations with a net commitment of US$4.8 billion. Disbursements in FY12 exceeded US$500 million, which is 11 percent higher than FY11 disbursements of US$450 million. In FY12, the Board approved six operations including one Trust Fund with a net commitment of $920 million. The approved operations are a combination of successful follow on projects as well as smaller yet innovative pilot operations. Five projects closed in FY12 with a net commitment of US$832 million and a total undisbursed balance of US$8 million. The Padma Multipurpose Bridge with a net commitment of US$1.2 billion was terminated prior to effectiveness in June, 2012. Discussions to engage again in this operation are underway. In order to further strengthen the Bank’s portfolio, several country level proactive assessments, such as an assessment of the riskiness of the portfolio, were carried out. Additionally the Bangladesh country office has adopted a “Triple S" approach to further safeguard the program from fraud and corruption, reinforce the Bank’s long-term support to country systems for good governance and let sunshine in through access to information and use of domestic accountability mechanisms.
Bangladesh’s food situation is currently comfortable, but it remains highly vulnerable to food price shocks.

Food inflation in Bangladesh has been declining, driven mainly driven by falling rice prices. Adequate production in two consecutive years and higher government procurement resulted in increased stock levels of food grains and steady supply situation. A number of safety net programs are in place to safeguard the poor from the impact of possible global food crisis. With favourable weather condition and satisfactory stock level, Bangladesh food outlook for FY13 seems to be stable.

Food inflation in Bangladesh has declined in recent months. Inflation is driven largely by food prices although the high inflation in FY12 could be attributed also to the significant increase in non-food inflation. Food inflation reached a peak of 14.3 percent in April, 2011. However, a steady decline in food inflation was observed in the early part of FY12 and the trend continued till September 2012 in both rural and urban areas where levels were 5.6 percent and 7.4 percent.

The single largest driver of food inflation is the price of rice. Rice accounts for 31.1 percent of the annual food consumption expenditure of Bangladeshi households. Also rice accounts for 32.6 percent of the annual household expenditure of the bottom 20 percent of the population. Both wholesale and retail price of rice in Dhaka started to fall from September 2011. The average retail price of rice in Dhaka has been stable since the second half of FY12. The current average retail price of Tk 29 (US$0.36) per kg (range of 28-30 tk) is 18.3 percent less than the peak price of Tk 35.5 (US$0.50) per kg of Tk 35-36 in February 2011. The wholesale price of rice declined by 5.9 percent in the last quarter of FY12. The downward trend of rice prices can be attributed to adequate supplies from the last boro and aman harvests and continuous government distribution through OMS channels.

The price of wheat has risen recently. Consumption of wheat per capita per day is 26.09 gram which is 0.03 percent of overall food consumption. Wheat is mainly consumed as atta. Bangladesh meets 75 percent of its wheat demand through import. The wholesale wheat price decreased by 3.2 percent in the last

---

26 The weights of food and non-food items in inflation basket are 58.8 and 41.2 percent.
27 World Bank staff calculation from Household Consumption and Income Expenditure Survey (HIES), 2010
28 Bangladesh Food Situation Report, Vol.89, April-June 2012, FPMU, Food Division, Ministry of Food and Disaster Management.
30 Bangladesh Grain and Feed Annual Report 2012, USDA.
quarter of FY 12, but for the entire fiscal year there was an overall price increase of 5 percent compared to the previous year. Both the average wholesale and retail price of atta (wheat flour) increased by 14.4 percent and 18.6 percent in the first fortnight of September compared to the same period in the previous year.

There is strong correlation between rice prices in Bangladesh and neighbouring international market. Usually it takes about two weeks to import rice from India. The correlation between the contemporaneous monthly rice prices in Kolkata and Dhaka is about 0.9 indicating a significant nexus between domestic and international prices. However, Bangladesh prices have been less variable than world market prices recently because of bumper harvests of rice in two consecutive years.

The current availability of food grain at the national level is satisfactory. Preliminary estimates suggest that food grain production in FY12 has been higher than that of FY11. In FY12, the production target for food grain was 35.72 million MT. According to preliminary estimates of the Bangladesh Bureau of Statistics (BBS), total rice and wheat production stand at 33.8 million MT and 1.0 million MT respectively. This total production of 34.8 million MT in FY 12 is around 0.8 percent higher than the previous fiscal. For FY13, government has set production target of ahus and aman rice production at 2.89 million MT and 13.3 million MT. Boro rice and wheat production target are yet to be fixed.31

Stock of food grains has increased recently. The opening public stock of food grain in FY13 was 41.6 percent more than the previous fiscal year. As of October 2nd, the public food grain stock was at 1.6 million MT, of which 1.3 million MT is rice and 0.3 million MT is wheat.32 This is equivalent to half month consumption of the projected food grain demand in FY13.33 Higher procurement by the government and relatively lower level of distribution because of adequate production led to this increase in public stock. The current storage capacity for food grains is around 1.7 million MT.34 A satisfactory stock situation and good domestic production also led to a 56.9 percent decline in import of food grain in FY12 compared to FY11. In FY12, Bangladesh imported 0.5 million MT of rice (mainly through the public sector) and 1.7 million of wheat, bulk of which was imported by the private sector. In FY13, rice imports are projected at 0.6 million MT and wheat imports at 3 million MT35. In FY13, as of October 2nd, total import of rice and wheat were 12.7 thousand MT and 396.3 thousand MT.36

In order to protect the poor from rising food prices, the government operates an elaborate system of public food distribution. Preliminary results from the ongoing World Bank Poverty Assessment show that the rural poor bear the brunt of higher food prices in the short run. Taking into account medium term labor market adjustments (increases in nominal wages) largely equalize the impact of higher food prices along the wealth distribution. A number of safety net and social protection programs are in place which can be linked to food

31 Bangladesh Food Situation Report, Vol.89, April-June 2012, FPMU, Food Division, Ministry of Food and Disaster Management (MOFDM)
32 Food Division, Ministry of Food and Disaster Management.
33 WB staff calculation from USDA projection.
35 Bangladesh Grain and Feed Annual Report 2012, USDA.
36 Food Division, Ministry of Food and Disaster Management.
security. In FY12, 2.1 million MT of food grains were distributed through subsidized cash sales and transfer based safety net programs. The total distribution planned for FY13 is 2.77 million MT (Table 1). In the current fiscal year, as of September 27th, a total of 319.9 thousand MT of food grain has been distributed. The open market sale (OMS) operation continues in major cities and southern districts of the country with rice being sold at Tk 24 (US$ 0.30) per kg. The coverage of food security based safety net programs in FY13 is likely to be 27 million poor out of an estimated total number of poor of 47 million.

Table 1: Distribution of Food Grains through Public Food Distribution System (PFDS) (’000 MT)

<table>
<thead>
<tr>
<th>Category</th>
<th>Channels of PFDS</th>
<th>FY11 (Actual)</th>
<th>FY12 (Actual)</th>
<th>Budget FY13</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rice</td>
<td>Wheat</td>
<td>Total</td>
<td>Rice</td>
</tr>
<tr>
<td>Monetized Channels of PFDS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Essential Priorities</td>
<td>155</td>
<td>98</td>
<td>253</td>
<td>157</td>
</tr>
<tr>
<td>Other Priorities</td>
<td>16</td>
<td>5</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>Large Employers</td>
<td>0</td>
<td>17</td>
<td>17</td>
<td>0</td>
</tr>
<tr>
<td>Open Market Sales/FPC</td>
<td>1039</td>
<td>147</td>
<td>1186</td>
<td>340</td>
</tr>
<tr>
<td>Sub-total</td>
<td>1210</td>
<td>267</td>
<td>1477</td>
<td>513</td>
</tr>
<tr>
<td>Non-monetized Channels of PFDS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food For Works</td>
<td>8</td>
<td>120</td>
<td>128</td>
<td>262</td>
</tr>
<tr>
<td>Test Relief</td>
<td>1</td>
<td>176</td>
<td>177</td>
<td>262</td>
</tr>
<tr>
<td>VGF</td>
<td>114</td>
<td>0</td>
<td>114</td>
<td>159</td>
</tr>
<tr>
<td>VGD</td>
<td>142</td>
<td>122</td>
<td>264</td>
<td>115</td>
</tr>
<tr>
<td>Gratuitous Relief</td>
<td>33</td>
<td>0</td>
<td>33</td>
<td>50</td>
</tr>
<tr>
<td>Others</td>
<td>61</td>
<td>37</td>
<td>98</td>
<td>51</td>
</tr>
<tr>
<td>Sub-total</td>
<td>359</td>
<td>455</td>
<td>814</td>
<td>899</td>
</tr>
<tr>
<td>Total Public Distribution</td>
<td>1569</td>
<td>722</td>
<td>2291</td>
<td>1412</td>
</tr>
</tbody>
</table>

Source: Bangladesh Food Situation Report, April-June 2012, FPMU, Food Division, Ministry of Food and Disaster Management

The government of Bangladesh has initiated reforms in some key safety net programs. Bank support for Bangladesh’s flagship safety net program set up in 2009 in response to the 2008 food price crisis, the Employment Generation Program for the Poorest, is a case in point. This $150 million results-based financing project focuses on bringing governance improvements in the program (e.g. rigorous targeting at the geographical, household and gender levels; monitoring and evaluation; modern payments system; etc.). The Bank is also supporting the government in developing a unified targeting system so that the key safety net programs are able to adopt a more coordinated approach to targeting their beneficiaries. Using grant resources from the Bank the government is piloting a conditional cash transfer system through local governments focused on children’s nutrition and education outcomes. The pilot will be using technology-enabled systems of targeting, enrollment, and payments as an example of a second generation of "smart" safety nets for Bangladesh.

The government has been providing support to farmers through price support and subsidies. In order to provide price incentive to farmers in the backdrop of falling rice prices, the government decided to increase local procurement. The government has set a procurement target of 1 million MT of boro rice (0.9 million of rice and 0.1 million of paddy) at a price of Tk 28 (US$ 0.34) per kg and Tk 18 (US$ 0.22) per kg for rice and paddy respectively. As of October 2nd, 873 thousand MT had been procured. In FY12 the government provided fertilizer and seeds free of charge to around 365,000 farmer families and made a Tk 60 billion (US$ 0.7 billion) provision for agriculture subsidies in the FY13 budget.

---

37 Food Division, Ministry of Food and Disaster Management.
39 Fortnightly Food Grain Outlook, No.104, Food Planning and Monitoring Unit, Food Division.
Different policy support has been introduced to expedite imports. There are currently no import taxes or quantitative restrictions on rice and wheat imports. Since May 2008, Bangladesh has imposed a ban on rice exports. However, the ban was lifted for aromatic rice in May 2012 because of falling rice prices. To accelerate the international procurement process, the government has taken action to streamline the approval of rice tenders, reducing the time frame from 25-30 days to an estimated 7-10 days. This inter-ministerial decision was taken on February 13, 2011. However, the public wheat tendering process does not encourage wide participation. Recently, the government has taken steps bring specifications more in line with international practices. These include reducing the performance guarantee from 10 percent to 5 percent, increasing the maximum shipment period from 30 days to 60 days, and increasing the minimum quantity offered from 25,000 to 30,000 tons. These changes have not increased participation, however, in part because unfavorable provisions remain in the tender specifications such as “weight and quality at final discharge.”

The food outlook looks stable for Bangladesh. Although global food prices has increased by 6 percent from July 2012 and is predicted to increase further, comfortable stock level and benign weather condition provides the basis for projecting stable food supplies in FY13. Assuming normal weather condition, rice and wheat production is projected to reach 34.2 million MT and 1.2 million MT in FY13, 0.5 million MT higher than the estimated total food grain production of FY12. The government was even considering exporting rice this year because of the favourable supply and falling prices in the local market, but decided against this in view of the recent global food situation. The monsoon this season has been normal so far and nearly 40 percent of the targeted acreage for aman rice cultivation has already been achieved. While flooding in Bangladesh did not exceed normal levels in July-September, the risk of devastating flood or cyclone still remains. Drought in the US, Russia and Ukraine has increased the price of wheat and soybean oil on international markets that might have an impact on wheat, atta and soybean oil prices in the local market. The demand for wheat according to Ministry of Food and Disaster Management is 3-3.5 million MT. In the current year, production has been 1 million MT and the government decided to import another 1 million MT. The remaining 1.5 million MT will be imported by the private sector. The demand for soybean oil is 1.5-1.6 million MT all of which will be imported. Experts suggest that if government plans prudently to facilitate import these essentials ahead of time, Bangladesh will not be heavily affected by a possible global food crisis in 2012/13.

41 Bangladesh Grain and Feed Annual Report 2012, USDA.
42 FAO Food Price Index, August, 2012
43 Bangladesh Grain and Feed Annual Report 2012, USDA
44 The Daily Prothom-Alo, 25 August, 2012
<table>
<thead>
<tr>
<th></th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13&lt;sup&gt;1&lt;/sup&gt; (Projection)</th>
<th>FY13&lt;sup&gt;2&lt;/sup&gt; (Jul-Sep)</th>
<th>FY12&lt;sup&gt;2&lt;/sup&gt; (Jul-Sep)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth (%)</td>
<td>6.1</td>
<td>6.7</td>
<td>6.3</td>
<td>6.0</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Inflation</td>
<td>7.3</td>
<td>8.8</td>
<td>10.6</td>
<td>7.0</td>
<td>7.4</td>
<td>12.0</td>
</tr>
<tr>
<td>Export Growth (%)</td>
<td>4.1</td>
<td>41.5</td>
<td>5.9</td>
<td>5.0</td>
<td>2.1</td>
<td>22.6</td>
</tr>
<tr>
<td>Import Growth (%)</td>
<td>5.5</td>
<td>41.8</td>
<td>5.3</td>
<td>7.0</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Remittance Growth (%)</td>
<td>13.4</td>
<td>6.0</td>
<td>10.2</td>
<td>9.0</td>
<td>15.7</td>
<td>11.8</td>
</tr>
<tr>
<td>Reserves (Months of Import)</td>
<td>5.1</td>
<td>3.9</td>
<td>3.3</td>
<td>2.9</td>
<td>3.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Exchange Rate (Taka per Dollar)</td>
<td>69.2</td>
<td>71.2</td>
<td>79.1</td>
<td>84.9</td>
<td>81.7</td>
<td>74.7</td>
</tr>
<tr>
<td>Total Revenue (% of GDP)</td>
<td>10.9</td>
<td>12.2</td>
<td>12.8</td>
<td>13.2</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>o/w Tax (% of GDP)</td>
<td>9.0</td>
<td>10.5</td>
<td>10.8</td>
<td>11.1</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Total Expenditure (% of GDP)</td>
<td>14.6</td>
<td>16.3</td>
<td>17.3</td>
<td>17.5</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>o/w Current Exp. (% of GDP)</td>
<td>9.7</td>
<td>9.8</td>
<td>10.0</td>
<td>9.8</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>o/w Subsidies&lt;sup&gt;2&lt;/sup&gt; (% of GDP)</td>
<td>1.4</td>
<td>2.0</td>
<td>3.2</td>
<td>3.3</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>ADP (% of GDP)</td>
<td>3.7</td>
<td>4.2</td>
<td>4.1</td>
<td>4.5</td>
<td>0.5*</td>
<td>0.3*</td>
</tr>
<tr>
<td>Fiscal Deficit (% of GDP)</td>
<td>3.7</td>
<td>4.1</td>
<td>4.5</td>
<td>4.3</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>NBR Revenue Growth (%)</td>
<td>18.0</td>
<td>27.6</td>
<td>19.1</td>
<td>16.0</td>
<td>10.2*</td>
<td>16.3*</td>
</tr>
<tr>
<td>ADP Spending Growth (%)</td>
<td>31.8</td>
<td>26.7</td>
<td>15.2</td>
<td>23.7</td>
<td>57.8*</td>
<td>10.4*</td>
</tr>
<tr>
<td>M2 Growth (%)</td>
<td>22.4</td>
<td>21.3</td>
<td>17.4</td>
<td>15.4</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Growth of Credit to Public Sector (%)</td>
<td>-1.7</td>
<td>33.6</td>
<td>18.8</td>
<td>8.9</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Growth of Credit to Private Sector (%)</td>
<td>24.2</td>
<td>25.8</td>
<td>19.7</td>
<td>15.5</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

<sup>1</sup>Projections are based on IMF
<sup>2</sup>Source of Subsidy amount is Medium Term Budget Framework 2012-13 to 2016-17, Ministry of Finance.
All growth rates are year-on-year
*Till July-August of relevant FY
Source: Bangladesh Bank, Bangladesh Bureau of Statistics, Export Promotion Bureau, IMF and WB staff estimate