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Bangladesh Economic Update

Economic Policy and Poverty, and Finance and Private Sector Team

South Asia Region

The World Bank

Summary

- *The outlook for FY2011 has changed since the last macroeconomic update in October 2010.[1] While GDP growth is still projected to be around 6.2 percent in FY11, inflationary pressures have strengthened and the external position has weakened.*

- *Rising energy and food subsidies are placing a strain on the budget, but higher-than-anticipated revenues and lower-than-budgeted Annual Development Program expenditures leave sufficient fiscal space for the government to react to these pressures.*

- *Progress on reforms is mixed, with advances made on Value Added Tax reforms, efforts to tighten liquidity and setting up a framework for public-private partnership projects. Developments on telecommunication policy, the Anticorruption Commission, and policy responses to stock market volatility are a cause for concern.*

- *The growth outlook for FY12 remains good but there are risks that need to be contained. Short-term risks include rising food and fuel prices, deteriorating remittances, an increased reserve drawdown, a growing quasi-fiscal deficit, stock market volatility and its potential impact on the banking sector. Long-term risks include the inability to sufficiently alleviate power shortages, raise public investment, and remove bottlenecks for private investment.*

Recent Economic Developments

Real GDP growth is projected to be rising in FY11…

1. **Real GDP is projected to grow at around 6.2 percent in FY11, up from 5.8 percent in FY10.** Domestic demand is likely to remain strong this fiscal year, with consumption expenditures receiving a boost from increased public and private wages, and a good agricultural performance. Increased imports of capital machinery point to a likely rise in private investment this year. Improved global economic conditions and rising labor costs in competing countries are providing impetus to exports from Bangladesh after a lackluster performance in FY10.

2. Quarterly or half-yearly estimates for real sector performance are not officially produced in Bangladesh, but preliminary signs suggest better economic performance in all sectors compared to last year. Agricultural performance is likely to be good, according to preliminary estimates of the Aus and

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Aman harvests, and if the Boro harvest is broadly in line with targets set for FY2011 (see *Special Focus: Food Inflation in Bangladesh*, pg. 9). Industrial activity looks to have picked up in FY11, judging by a marked increase in manufactured-garment exports over those of FY10, and increased imports of intermediate goods. The service sector's output is also likely to have received a boost from the impact on wholesale and retail trade impact of good agricultural and manufacturing output, but this may be partially counteracted by flat remittances.

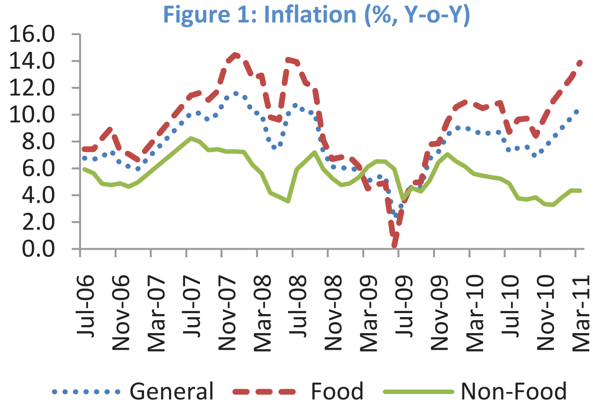
…while inflationary pressures have worsened…

3. **The increase in consumer prices that started in FY10 continued through the first nine months of FY11, driven largely by a double-digit rise in food prices.** Consumer Price Index (CPI) growth reached 10.5 percent in March 2011, over that of March 2010, extending the trend that began in the previous fiscal year. Given food's large weight in the inflation index (58.8 percent), the 13.9 percent rise in food prices by March 2011 has affected overall inflation. The food price rise has been driven mainly by the upward trend in international prices (see *Special Focus: Food Inflation in Bangladesh*, pg. 9, for details). Non-food inflation rose to 4.3 percent in March 2011 (Figure 1).

4. **Meanwhile, growth in money and credit is estimated to remain high in FY11, as it was in FY10.** By end-February 2011, broad money had risen by 21.7 percent (Figure 2) and reserve money by 20.8 percent over February 2010. Broad money rose mainly because of the growth in net domestic assets – specifically, credit to the private sector, which grew by 28.3 percent, and credit to nonfinancial public sector entities, which grew by 38 percent. At this rate, the monetary growth targets of 15.2 percent for broad money and 13 percent for reserve money, set forth in the Monetary Policy Statement of January 2011,[2] are likely to be exceeded. The increase in broad money so far this fiscal year has outstripped the projected growth in nominal GDP and may have been a factor in the stock market rally, before its recent volatile decline.

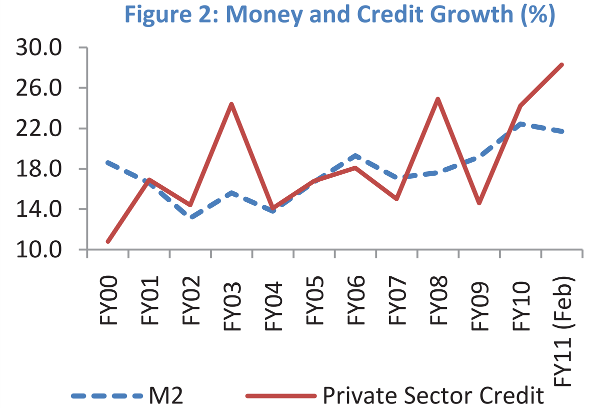
5. **The regulator's efforts to deal with the stock price surge that built up after July 2009, and the subsequent reversal of these policies, may have increased volatility in the stock index in the past**

Figure 1: Inflation (%, Y-o-Y)



Source: Bangladesh Bureau of Statistics

Figure 2: Money and Credit Growth (%)

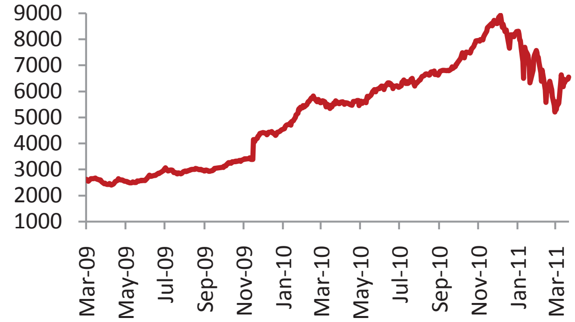


Source: Bangladesh Bank

2 Monetary Policy Statement (January 2011).

few months (Figure 3). In fact, stock trading was suspended a few times as the government sought to prevent major sell-offs. The index at end March 2011 was about 31 percent below the peaks seen in early December 2010. The developments in the stock market could potentially affect the banking sector in three ways: (i) through the commercial banks' exposure to the stock market, reportedly at 3 percent of total liabilities, which could raise nonperforming loans further; this could be exacerbated by their uneven exposure to their merchant bank subsidiaries; (ii) the proposed Tk50 billion mutual fund created by the Investment Corporation of Bangladesh and the state-owned banks and financial institutions to intervene in the stock market exposes these institutions to risk; and (iii) other lending from commercial banks – such as the "all-purpose loans" and some SME credit – may be entering the stock market, inadvertently exposing the banks further to stock-market volatility. The Bangladesh Bank has indicated that it is maintaining a close watch and taking action to safeguard the soundness of the banking system.

Figure 3: Dhaka Stock Exchange General Index (Daily)



Source: Dhaka Stock Exchange

…the external current account surplus has narrowed and reserves have declined, but…

6. **Both exports and imports rose in the first part of FY2011 while remittance growth fell sharply, thus narrowing the external current account surplus.** In the first half of this year, exports recovered strongly from the depressed base of FY10. In value terms, cumulative exports had risen by 40 percent by February 2011, from 4 percent the year before. Except for pharmaceuticals and tea, exports rose across the board: raw jute and jute products, leather, frozen food, engineering products and agricultural products. Imports also rose to meet investment needs. Cumulative imports rose in value terms by 37 percent in the first half of FY11, well above the 5.4 percent growth recorded in FY2010. Cumulative capital imports rose by 27 percent in the first half of FY2011, compared to 6 percent in FY10. In addition, rising food and oil imports, combined with higher international prices of oil and food, have intensified the pressures on the external account.

7. **Remittances fell sharply in the first half of FY11 but have since recovered slightly.** Growth in cumulative remittances in the first nine months of FY11 was around 4 percent, significantly below the 19 percent growth seen during the same period the previous year. The drop, especially in the first half of FY2011, was caused by declining remittances from the Middle East, where most Bangladeshi migrants work. According to the Refugee and Migratory Movement Research Unit, it usually takes a year and a half of employment before a migrant laborer can remit money home. Thus, remittance growth rates possibly started slowing due to a significant decrease in the net outflow of migrant workers over the past year and a half; there was a 10.9 percent drop in the number of workers going abroad in the first eight months of FY11 (July-February) compared to the same period last year. This comes on the heels of a 47 percent decline in the outflow of migrant workers in the second half of FY09. In addition, it is also possible that the move to formal banking channels and money transfer companies (as opposed to the

informal channels), that started a few years ago "inflated" the actual growth of remittance inflows to Bangladesh, and that this "boost" to the official growth figure has now been exhausted.

8. If these trends continue through the fiscal year, the current account balance for FY11 is likely to deteriorate as compared to our forecast in October 2010. The current account balance is likely to go from a surplus of 3.7 percent of GDP in last fiscal year to a projected deficit of around 0.8 percent in FY11. The capital and financial account balances are also projected to be in deficit. The projected overall balance of payments deficit of about US$1.2 billion is likely to be financed by drawing down reserves.

9. Foreign exchange reserves are under pressure with the import cover declining from 5.4 months in FY10 to 4.4 months at end-April 2011. Compared to end-June 2010, weak remittances and the rise in import payments have led to a 4.9 percent nominal depreciation of the interbank weighted average exchange rate of the taka against the US dollar. Exchange rate premium in the curb market has increased in FY11 to 3.3 percent on average, compared with 1.8 percent in FY10. The Bangladesh Bank intervened in the foreign exchange market and sold (net) $346 million between July 2010 and April 27, 2011. The gross foreign exchange reserves increased from $10.75 billion in end-June 2010 to $11.2 billion in end-December, but dropped to $10.2 billion in early January. Since then, reserves have fluctuated and currently stand at $11.2 billion (4.4 months of import).

…there is fiscal space to deal with emerging stresses on the budget

10. **The fiscal deficit in FY11 is likely to be lower than the budget estimate, despite pressures from rising food and fuel prices.** In the first seven months of FY11, National Board of Revenue (NBR) revenues have been 28.4 percent higher than in the same period last fiscal year. As a result, tax revenues this year are expected to be one percentage point of GDP higher than they were in FY10. Total revenues are expected to be around 12.1 percent of GDP in FY11, up from 10.9 percent in FY10.[3] The higher tax revenues stem from policy measures adopted in the FY11 budget and an intensification of collection efforts.

11. Meanwhile, total expenditures are projected to remain broadly in line with what was set forth in the FY11 budget, although the composition of expenditures has changed. Growing food imports have put pressure on the budget, leading to slightly higher expenditures on subsidies and transfers. Annual Development Program (ADP) and non-ADP capital spending combined is likely to be about 1.5 percentage points of GDP lower than budgeted. Rising fuel prices are also intensifying pressures on the budget. With better-than-anticipated revenue collection, these additional pressures could be absorbed without increasing the overall budget deficit.

12. The projected fiscal deficit (excluding grants) for FY11 is expected to be around 4.6 percent of GDP, below the 5 percent deficit targeted in the budget but higher than the 3.7 percent deficit in FY10. This is likely to be financed more from domestic sources (3.4 percent) than from external sources (1.2

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[3] Given the revenue performance through January 2011, NBR revenues need to grow by only 5.6 percent over the next five months in order to achieve the 19 percent FY11 budget target.

percent). The share of the more expensive nonbank sources of domestic financing is projected to decline from 1.8 percent of GDP last year to 0.5 percent in FY11.

Economic and Structural Policies

Recent policy changes present a mixed picture

13. **Efforts are being made to tighten reserve money.** On March 9, 2011, the Bangladesh Bank lifted the 13 percent lending rate cap on banks that was introduced in April 2009 in response to the world economic crisis. However, the cap still remains in effect for the agricultural sector and industrial term loans. The maximum interest rate remains 7 percent for various kinds of export credits while the interest rate on import finance for rice, wheat, lentils, edible oil (refined and non-refined), chickpeas, onions, dates and sugar remains at a maximum 12 percent. Based on FY10 numbers, it is estimated that about 46 percent of bank lending to the private sector is no longer subject to the 13 percent interest rate cap.

14. The Bangladesh Bank increased the Cash Reserve Requirement and the Statutory Reserve Requirement by 50 basis points in December 2010, and raised the repo and reverse-repo rates by 50 basis points in March, 2011, and by another 25 basis points in April.[4] However, the impact of these measures on tightening reserve money growth is likely to be weakened by the continued accommodation of liquidity by the Bangladesh Bank's repo operations. The size of Bangladesh Bank's daily repo has increased from Tk5 billion in early November 2010 to Tk75 billion by mid-January and varied between Tk70 to 90 billion in March and April. In contrast, the daily size of the infrequently-used reverse-repo has varied between Tk0.22 billion and Tk24 billion.

15. **Microcredit interest rate fixed at 27 percent.** In November 2010, the Microcredit Regulatory Authority (MRA) put a 27 percent cap on interest rates and made it mandatory to allow at least 15 days between the dates of loan issuance and first repayment. All 1,200 microfinance institutions in the country must comply with these changes by June 30. In 2009, Microfinance Transparency, a US-based agency, found that the effective rates of interest charged by microfinance institutions in Bangladesh are between 18.75 percent and 51.68 percent, with some 75 percent of these institutions charging 31-40 percent. A MRA study, however, found the minimum effective interest rates to be 24-41 percent, if payments on savings and insurance made during loan commissioning are excluded.

16. **Draft new Value Added Tax (VAT) law opened to public discussion.** The draft VAT law and rules were placed on the NBR website for public discussion. As part of their consultations, NBR officials met with key business associations in Dhaka, Sylhet and Chittagong and will extend their activity to other areas. The NBR officials also discussed the draft VAT law during their retreat in mid-March, attended by the board, commissioners and key policy makers within NBR. The feedback obtained from these discussions will be considered by the NBR, who would review and modify the law accordingly. The law is expected to be introduced with the FY12 Budget, and is supposed to take a year for full implementation.

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[4] The repo rate is currently 6.25 percent and reverse repo rate is 4.25 percent.

17. **Power tariffs increased.** The Bangladesh Energy Regulatory Commission raised power tariffs by an average 11 per cent for bulk consumers, and issued an interim order to raise tariffs for retail customers by 5.0 per cent, with effect from February 1, 2011. In addition, bulk tariffs will be further increased by an average 6.66 percent from August 1, 2011. The average bulk tariff has been increased from Tk2.37 per KWh to Tk2.63 per KWh in the first stage, and will reach Tk2.80 per KWh in the second stage. This represents an 18.14 percent rise for bulk users at the end of the year. According to the regulators, 5.17 percent of the average bulk tariff would be used to create an electricity maintenance and development fund.

18. **New guidelines for license renewal in telecommunications give cause for concern.** Significant gains were made by the telecommunications sector with a succession of reforms between 1998 and 2010. These reforms gave mobile phone network access to about 99 percent of Bangladeshis, with over 40 percent of them using the service. It gave Bangladesh some of the lowest mobile tariffs in the world, attracting world-class foreign investors to the telecommunications sector. In December 2010, however, the government issued draft license renewal guidelines for mobile operator licenses. These guidelines, if implemented in their current form, could adversely affect the performance of this sector and discourage future investments in it, as the government seeks to raise high spectrum-renewal fees from the operators. The government is now evaluating the submissions made by stakeholders on the license renewal issue and has indicated an open mind on the issues raised.

19. **The public-private partnerships (PPP) agenda is moving forward slowly.** In the past year, the government has made progress on both developing the PPP framework and investment. Regarding the former, the cabinet has approved guidelines for small, medium and large projects, has decided to establish a PPP Office under the Prime Minister's Office, and has approved the organizational scheme for the PPP Office. In addition, the government has designated a PPP focal point in each of the line ministries responsible for PPP project identification and coordination. Regarding investments, the Ministry of Finance has formed the Bangladesh Infrastructure Finance Fund, with US$225 million transferred from the PPP allocations provided for in the FY2011 budget. As an interim arrangement, a Joint Secretary in the Ministry of Finance is looking after the affairs of the fund while a separate organization is set up for this. The fund has yet to finance an infrastructure project. On balance, overall progress remains slow, with several problems: (i) The PPP guidelines need to be made more actionable; (ii) capacity needs to be developed so that the key decision-makers in the line ministries understand the concepts and complexities associated with PPP projects; and (iii) the recruitment of a CEO for the PPP office is still pending, which inhibits the hiring of other necessary professionals.

20. **The Anticorruption Commission (ACC) may be weakened.** Bangladesh's Anti-Corruption Commission has faced several actions undertaken by the Government in the past few months. In late February 2011 the Cabinet approved and tabled in Parliament a set of 10 amendments to the Anti-Corruption Commission Act which include a number of procedural changes but also three changes which, if passed into law, would circumscribe the ACC's effectiveness. These three critical changes involve:

- A requirement to receive prior Government approval before the ACC is permitted to file a corruption case in court against public servants;
- Introducing a penalty of up to five years of imprisonment for whistle-blowers who provide information "without being fully sure of its veracity", even if provided in good faith; and

- Depriving the ACC of the right to independently appoint its Secretary, the chief administrative officer in the institution.

Outlook for FY12 and Risks

21. **The global recovery continues, with the emerging and developing countries leading the way.** According to the World Economic Outlook (IMF, April 2011), world output is projected to grow by 4.5 percent in 2011 and 2012. The advanced economies are projected to grow at a slower pace, 2.4 percent in 2011 and 2.6 percent in 2012. Meanwhile, the emerging and developing economies are expected to see much stronger growth rates – projected to be around 6.5 percent in 2011 and 2012. There are several risks to these projections, including: (a) developments in the Middle East and their potential impact on oil prices and demand for migrant labor; (b) sovereign debt in EU countries; (c) the collective impact of countries exiting from fiscal and monetary stimuli; (d) rising commodity prices; (e) persistence of global macroeconomic imbalances; and (f) potential impact of the tsunami in Japan and the speed with which the nuclear power problems are solved.

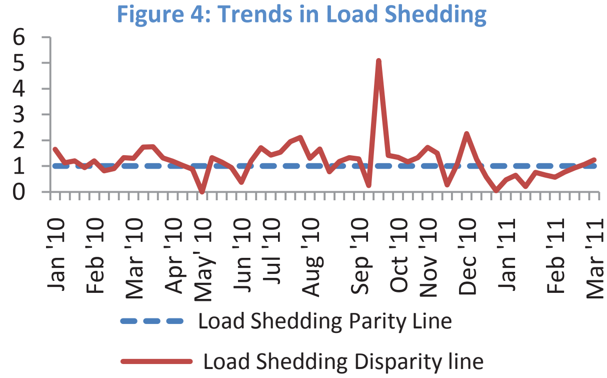
22. **GDP growth is projected to be about 6.4 percent in FY2012 (Table 1).** The increase from the projected 6.2 percent growth in FY2011 is based on expectations of higher public and private investment as well as increased capacity utilization due to export growth. Public investment will rise if the recently approved Policy and Strategy of PPP 2010 starts yielding results and ADP implementation continues to improve. Private investment will rise if the supply-side constraints, particularly energy (Figure 4),[5] are eased and global economic conditions improve.[6] A recovery in remittances will support consumption growth and help finance the imports associated with increased domestic investment without drawing down reserves, but the outlook for such an increase is still uncertain.

Table 1: Projections

	FY11	FY12
Real GDP Growth (%)	6.2	6.4
Investment (% of GDP)	25.5	26.6
Export Growth (%)	27.0	19.6
Import Growth (%)	36.1	15.0
Current Account Balance (% of GDP)	-0.8	-1.6

Source: World Bank staff

Figure 4: Trends in Load Shedding



Source: Power Development Board

23. **Apart from the risks to the global economy, there are several short- and long-term risks facing the Bangladesh economy.** Short-term risks include rising food and fuel prices placing stress on fiscal and external balances (Tables 3 & 4

[5] The load shedding parity line in Figure 4 refers to the ratio between hours of load shedding in FY2011 compared to same period in FY2010. Parity is shown by the dotted line. When load shedding is worse in FY2011, the bold line rises above the dotted line, and vice versa.

[6] The World Bank's Investment Climate Assessment (2007) shows power shortages to be the main constraint to private-sector investment and growth. The ICA says power shortages "rob the country of two percentage points of growth".

in *Annex*); deteriorating remittances and impact on the current account, leading to the possibility of increased reserve draw down; the growing quasi-fiscal deficit; and stock market volatility and its possible impact on the banking sector. The macroeconomic policy response will need to strike a balance between maintaining a comfortable level of reserves, containing inflation and allowing greater exchange-rate flexibility. Long-term risks include the inability to sufficiently alleviate power shortages, raise public investment, and remove bottlenecks to private investment. In addition, the impact of rising food and fuel prices on poverty will need to be carefully managed.

Special Focus: Food Inflation in Bangladesh

Recent Changes in Food Grain Prices

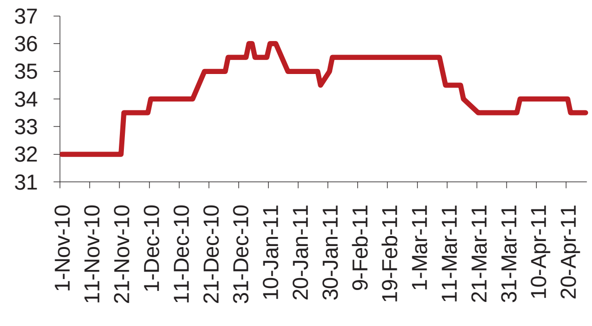
24. **Food prices continue to drive overall inflation higher.** Overall inflation, as of March 2011, was 10.5 percent (year-on-year), even as food inflation rose to almost 14 percent.

25. **Coarse rice – consumed mostly by the poor and accounting for more than 30 percent of household expenditure by the representative household in the bottom 20 percent of the population – peaked in price in Dhaka in late December, before moderating slightly.** It has increased by 29.5 percent since February 2010 (Figure 5). In the first week of January 2011 the price shot up to Tk38 per kg. It has since declined to about Tk33.5 per kg on average. The last time prices reached such high levels was in April 2008, during the global food crisis.[7] Contribution of rice to overall inflation was 8.4 percentage points in rural areas, and 3.3 percentage points in urban areas in March 2011.

26. **Wheat prices have also increased recently, but still remain 17 percent below the peaks registered during the global food crisis of 2008.** The price of wheat in Dhaka has increased by about 54 percent since February 2010. It is now around Tk36.5 per kg on average, which is about 8.2 percent higher than in November 2010. The price has remained more or less stable between January and March 2011.

27. **Rice price hikes will exacerbate poverty.** Food items constitute 66 percent of the total consumption expenditure of the poorest 40 percent of households in Bangladesh. Rice, the main staple, accounts for about 33 percent of total household expenditure for these households. The rise in food prices, therefore, has adverse implications for poverty reduction. Estimates based on simulation suggest that the rate of poverty reduction would have fallen by about 1.6 percentage points due to 19

Figure 5: Price of Coarse Rice in Dhaka (Taka per Kg)



Source: Department of Agricultural Marketing

[7] At that time, the highest price of coarse rice was recorded at Tk36 per kg.

and 45 percent increase in rice and wheat prices respectively between June and December 2010.[8]

Reasons for Price Increases

28. **There appear to be no major supply-demand imbalances in food grain stocks at the aggregate level.** Total effective demand for food grains has increased at an annual rate of 5 percent in the last three years (Table 2). Based on this growth rate, the projected effective demand for food grain during FY11 is 38.5 million metric tons (Mt). The total target production and planned imports of food grain for FY11 amount to about 40.35Mt, implying no shortage of supply.

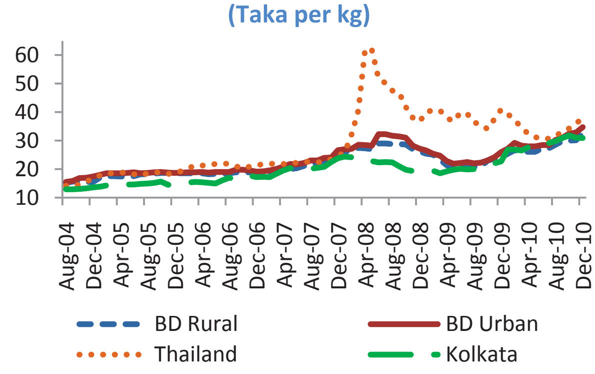
Table 2: Production and Import of Food Grain

	Production (million metric tons – Mt)					**Import (million metric tons – Mt)**				
	FY08	**FY09**	**FY10**	**FY11**		**FY08**	**FY09**	**FY10**	**FY11**	
	Actual	Actual	Actual	Target	Estimate	Actual	Actual	Actual	Target	Actual (Till Mar 13, 2011)
Rice	28.9	30.9	32.3	35.4	…	2.1	0.6	0.1	1.3	1.2
Aus	1.5	1.9	1.7	2.7	2.1	…	…	…	…	…
Aman	9.7	11.2	12.2	13.5	12.8	…	…	…	…	…
Boro	17.8	17.8	18.3	19.2	…	…	…	…	…	…
Wheat	0.8	0.8	1.0	1.2	…	1.4	2.4	3.4	2.4	2.3
Total	29.8	31.7	33.2	36.5	…	3.5	3.0	3.5	3.8	3.4

Source: BBS, DAE, and FPMU

29. The *production target* for food grain in FY11 is 36.6Mt, with 35.4Mt of it for rice (2.7Mt for Aus, 13.5Mt for Aman, and 19.2Mt for Boro), and 1.2Mt for wheat. Both Aus and Aman fell short of their targets by 21 percent and 5 percent. Actual Aus production in FY2011 amounted to 2.1Mt which, while short of the target, was still 24.6 percent higher than last year. The preliminary estimate for Aman production is around 12.8Mt, which is below the target but 5 percent higher than last year. If Boro production does not suffer major setbacks, and the import target is met, total demand could be met, even with the Aus and Aman shortfalls.

Figure 6: Price of Rice (Taka per kg)



Source: BBS, Ministry of Consumer Affairs, India, and DECPG

30. The *grain import target* for FY2011 is 3.75Mt (1.32Mt of rice and 2.43Mt of wheat), of which 1.65Mt will be imported by government and the rest by the private sector. By March 13 this year, 3.43Mt of food grain had been imported. The public stock of food by March 13 amounted to 0.88Mt.

31. **In the absence of any major shortfalls in**

[8] Ivanic Marcos, Will Martin and Hassan Zaman. (April 2011). *Estimating the Short-run Poverty Impacts of the 2010-11 Surge in Food Prices.* The World Bank Policy Research Working Paper # 5633.

domestic availability of food grains, the rising price trends could be attributed to rising international prices. In fact, data show that food price increases in international markets are transmitted quickly to Bangladesh. For example, rice prices on the Indian market (Kolkata) appear to be very closely matched with prices in Bangladesh (Figure 6). The contemporaneous correlation between the monthly rice prices in Kolkata and Dhaka is about 0.88.[9] Similarly, the correlation between the monthly rice price in Thailand and rice price in Dhaka is 0.78, indicating that they move together.[10]

Government Response

32. **To protect the poor from rising food prices, the government operates an elaborate system of public food distribution.** During the first eight months of this fiscal year, 1,030,000 metric tons (t) of food grain had been distributed (amounting to 37.7 percent of the annual target) through subsidized cash sales and transfer-based safety-net measures, compared to 1,034,000t (or 38.6 percent of the annual target) the previous year.

33. **Subsidized cash sales of rice have been significantly increased through open market sales (OMS), newly-introduced Fair Price cards, and rationing.** The government extended OMS to upazila (sub-district) level from October 6, 2010, and increased the number of OMS dealers in Dhaka city from 125 to 150 in January 2011. In addition, OMS coverage has been extended to all divisional cities, 54 district towns and 379 upazillas, involving 2975 dealers. Previously, OMS was limited to Dhaka and other divisional headquarters. During the first eight months of FY11, 396,000t of rice has been distributed through OMS (72 percent of its annual target). The government has also distributed 69,600t of rice through Fair Price cards, and plans to increase the number of these cards to 2.23 million to cover the ultra-poor households, village defense police, and third- and fourth-class employees of public and private organizations.[11]

34. **The coverage of social safety-net programs has been increased.** A number of safety-net and social-protection programs are in place, which can be linked with food security. These are as follows:

a. *Vulnerable Group Feeding* – a program designed to provide food resources to a select number of women, selected by the Chairman of the Union Parishad, who receive 10kg of rice per month in periods of distress. The total allocation for this program in the current budget is Tk15.4 billion;
b. *Vulnerable Group Development* – a program to assist women by providing 30 kg of rice or wheat per month. In collaboration with NGOs, this program also trains the beneficiaries to develop skills so that they can undertake income-generation activities. The total budget allocation for this program in the current fiscal year is Tk6.4 billion;
c. *Test Relief* – a program administered by the Ministry of Food and Disaster Management, and undertaken as needed following large-scale or localized disasters. The participants are largely self-selecting, with wages and labor requirements set to discourage the non-poor from participating. Workers are paid 3.5 kg rice or wheat for every day of work. The total budget allocation for this program in the current fiscal year is Tk9.5 billion;

[9] Converted into Taka.
[10] Converted into Taka.
[11] A Fair Price cardholder gets 20 kg of rice every month at Tk24.

d. *Gratuitous Relief* – administered by the Union Parishad, this program provides immediate food grants to households, if needed, following a disaster. The total budgetary allocation for this program in the current fiscal year is Tk2.2 billion; and

e. *Food for Work* – this program operates in rural areas only. The beneficiaries are generally women selected by the Union Parishad who must be fit and willing to work in infrastructure projects in the area for food. The work includes planting trees, digging canals, building embankments, road building and maintenance, etc. The total budget allocation for this program in the current fiscal year is Tk9.9 billion;

35. **Different forms of policy support to private traders and importers have been introduced.** To increase the import of rice by private importers, the government has allowed the duty-free import of rice and wheat since 2008. Bangladesh Bank has increased the repayment period for revolving cash credit or overdraft loans taken against pledges and hypothecations for rice procurement by millers and traders. The government has also decided to reduce the VAT on edible oil by 5 percent.

36. **Anticipating that fixing the procurement price at Tk28 per kg for rice may inflate the rice price in the local market, the government has decided not to procure the Aman rice crop from the domestic market.** Instead, it has decided to import more to build up public stocks of food grains. The opening stock in July 2010 was 50 percent lower than last year's opening stock. Public food grain stocks have been declining since July due to a shortfall in the government's last Boro procurement, from May to August, 2010. By March 13, 2011 the public food grain stock amounted to about 0.88Mt, less than half of the total public storage capacity. By that time, it had imported about 0.91Mt of food grain (of which about 0.63Mt was rice). In addition, there are 0.25Mt of food grains in the import pipeline. The government has raised its target import of food grains from 1.6Mt to 2.2Mt. Rice imports of 0.2Mt from Vietnam, 0.2Mt from Thailand and 0.3Mt from India are underway.

37. **The total food subsidy may exceed the amount allocated in the FY2011 budget because of increases in the volume and price of imported rice, but there is fiscal space to accommodate the additional spending.** The total food grain import bill is likely to rise for two reasons – the increase in imports and the increase in the price of food-grain in the international markets. During the first half of this fiscal year, the government provided a Tk0.2 billion subsidy on account of cash sales (through OMS and Fair Price cards). Another Tk3.9 billion subsidy will be given during the remainder of the year based on planned cash sales for the year (excluding the newly-announced scheme). The new scheme, if fully implemented, will require an additional 265,065t of rice and 174,000t of wheat over the amount allocated in the budget for cash sales. The subsidy required for this additional amount may range from Tk7-16 billion, depending on import prices.[12] The FY2011 budget has a Tk10.9 billion provision for subsidies in the food account. Also, implementation of the ADP is likely to fall short of targets, which will create further fiscal space to accommodate higher volumes and prices.

[12] Assuming price increases of 10-25 percent.

Annex

Table 3: Impact on Import Bill

US$ Million

	Price Increase	
	10%	**25%**
Food Grain	123	307
Fuel	304	759
Total	**427**	**1066**
As % of FY11 GDP	**0.4**	**1.0**

Source: WB Staff Estimates[13]

Table 4: Estimated Fiscal Impact of Higher Prices

(Billion Taka)

	Price Increase	
	10%	**25%**
Food Grain	7	16
Fuel	25	62
Total	**31**	**78**
As % of FY11 Budgeted Expenditure	**2.0**	**4.9**
As % of FY11 GDP	**0.4**	**1.0**

Source: WB Staff Estimates[14]

13 Five-year average growth rate is applied on FY2010 import payments, which is then increased by 10 percent and 25 percent. Then the amount required without 10 percent and 25 percent price increase is subtracted to calculate the impact. The impact of a 10 percent and 25 percent price increase on additional quantity (over and above what has been implied by five-year average growth rate) on account of expansion of social safety-net and new rental power plants is then added to derive the total impact.

14 Based on FY2011 planned safety-net activities and fuel requirements, the estimate of subsidy required is calculated. The calculation is repeated with prices increased by 10 percent and 25 percent. The difference gives the impact. Similarly, the impact of a 10 percent and 25 percent price increase on additional quantity on account of expansion of social safety-net and new rental power plants is calculated and added to the above to derive the total impact.

Table 5: Bangladesh Key Macroeconomic Indicators					
	FY08	**FY09**	**FY10**	**FY11**	**FY12**
		Actual		**Projection**	
Real GDP Growth (%)	6.2	5.7	5.8	6.2	6.4
CPI Inflation (%, average)	9.9	6.7	7.3	8.8	7.4
Investment (% of GDP)	24.2	24.4	25.0	25.5	26.6
Export (f.o.b) Growth (%)	17.4	10.1	4.2	27	19.6
Import (f.o.b) Growth (%)	25.6	4.2	5.4	36.1	15.0
Current Account Balance (% of GDP)	0.9	2.7	3.7	-0.8	-1.6
Revenue (% of GDP)	11.4	10.4	10.9	12.1	12.7
Expenditure (% of GDP)	15.0	14.3	14.6	16.7	18.2
Overall Balance (% of GDP)	-3.6	-3.9	-3.7	-4.6	-5.5
Public Debt (% of GDP)	46.8	45.4	41.5	41.6	41.2

Source: Government of Bangladesh, IMF and World Bank