QUARTERLY ECONOMIC UPDATE

BANGLADESH

September 2005
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**Notes**

(i) The fiscal year (FY) of the Government ends on 30 June.
(ii) In this report, “$” refers to US dollars.
MACROECONOMIC DEVELOPMENTS

Highlights

- For FY2006, GDP growth is forecast at 6%, higher than 5.4% recorded in FY2005.
- Agriculture output rebounds in the summer of 2005 after the flood-induced damages of last year.
- Foreign investors demonstrate a growing interest in Bangladesh.
- Although fiscal management is prudent, revenue collection continues to lag projections.
- The balance of payments remains under pressure due to higher oil prices, but the adverse effects have been partly moderated by rapid growth in worker’s remittances.
- Monetary policy continues to accommodate buoyant growth in domestic demand.
- Inflation is on an uptrend due to higher domestic food prices and higher petrol import prices.

Agriculture

1. The agriculture sector, which suffered a setback in FY2005 due to serious flooding, is expected to recover during FY2006. The outlook for summer crops appears to be good. The aus (i.e. the first rice crop) was planted on 1.03 million hectares and production stood at 1.75 million tons, an increase of 16.7% over the preceding year. The actual and targeted aman acreage are close to 6 million hectares, of that, 5.4 million hectares are believed to have been planted with transplanted aman, while some 0.6 million hectares have been planted with others. Due to incessant rainfall and minor flooding, there has been some loss to the standing aman crop in the following districts: Dinajpur, Rangpur, Nilphamari, Gaibandha, Kurigram, Lalmonirhat, Thakurgaon, Joypurhat, Naogaon and Rajshahi. On balance, the overall output level appears
promising due to a generally favorable climate, and to a sufficient supply of high yielding varieties, and other agro-inputs. This year’s *aman* production is estimated at 11.5 million tons, an increase of 17% over the production of the preceding year. With an expected recovery in summer crop production, and provided that winter crop performance is good, overall agriculture production is expected to rebound sharply in FY2006.

2. Higher food grain prices have inspired debates to consider reimposing measures aimed at restricting trade and controlling domestic markets. The evidence suggests that there is no need to roll-back measures taken to liberalize agriculture because of the sharp price increases recorded in FY2005. As 2005 comes to an end, real rice prices are starting to trend downwards. The overall seasonal components of rice and other food grain prices are falling, and although Bangladesh is entering into the lean supply months, there is no evidence of upward price spikes. Moreover, while the income of the average farmer is less than the median income in Bangladesh, the farm community has become more commercially oriented, flexible and dynamic over time. Although the Government continues to support a high-cost public procurement program, the markets have continued to deliver food at an affordable and globally competitive price (see the article on rice price policy on pages 20-23).

**Industry and Services**

3. Industrial production continues to register strong performance, reflecting steady growth in manufacturing and construction and supported by the utilities sub-sectors, which include power, gas, and water supply. During FY2005, output of large and medium manufacturing grew by 7% while output of small scale manufacturing increased by 8% compared with the preceding year. Similar trends are likely to prevail during FY2006 as indicated by the recent steady increase in imports of industrial raw materials, machinery and capital goods, and by the expansion of private sector credit. However, some moderation is expected in export-oriented manufacturing. In July, FY2006, output of medium and large manufacturing increased by over 8% relative to same month of the previous year. The output of food processing and beverage, textile, knitwear, furniture, paper and paper products, non-metallic products, basic metal production and pharmaceutical is steadily increasing. The recovery in agriculture and strong growth in manufacturing and imports
are likely to propel the services sector towards higher growth during FY2006.

4. Earlier concerns about the adverse effects on the industrial sector because of the ending of MFA quotas have not been realized. Although the exports of woven garments have fallen after the phase-out of the MFA, knitwear exports continued to register strong growth (Box 1). On balance, the garments industry continues to expand. While uncertainty remains about the long-term impact of the MFA phase-out, the initial effects of heightened global competition appear to be favorable for Bangladesh. Despite infrastructure constraints and limited availability of local fabrics, the country is likely to remain competitive in this highly labor-intensive industry due primarily to abundant supplies of low-cost labor. In addition, Bangladesh has already established a reputation as a reliable garment producer, and has established marketing channels, particularly with US and EU buyers. Careful management of the exchange rate has also ensured that Bangladesh remains externally competitive. At the same time, the voluntary export restraints imposed on the garment exports from the People’s Republic of China (PRC), are likely to benefit Bangladesh in certain goods and in certain markets. There are several domestic policy measures including setting up central bonded warehouses and endorsing SAARC cumulation which are needed for boosting the external competitiveness of the garment industry.

**Box 1: Knitwear Sector of Bangladesh**

Bangladeshi Knitwear is exported to 90 countries of the world. A combination of competitive wages, an easily trainable workforce, entrepreneurial skills, expanding supply side capacity, and government policy support have helped to translate the comparative advantages of the knitwear sector into a true industrial competitive advantage. The knitwear sector has strong backward linkages. While the entrepreneurs have increased their stitching capacity, they have also invested in allied industries to improve overall knitwear capacity. As a result, the knitwear sector has became almost self sufficient in fabric and yarn. This has become possible because of the integrated growth of spinning factories in line with the growth of country’s stitching capacity and increased demand for yarn and fabric. Local suppliers now provide 90% of the total fabric requirements of the sector. In 1993-94 the total number of spindles was 1.38 million, supplying 10.70 million KG yarn. In 2003-04 there were 3.77 million spindles, supplying 239.00 million KG yarn. More than $2 billion has been invested to build backward linkages in the industry.
Growth in backward linkages has helped the knitwear sector to boost value addition and increase its net retention rate. Currently BKMEA members supply 90% of the knit fabric requirements of the sector. Local yarn suppliers provide around 75% of the total requirement of the sector. A separate dyeing and finishing industry also has grown up over time to support the sector. There are more than 100 composite factories; besides the composite units, many industries have their own dyeing and finishing units.

Source: Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) (http://www.bkmea.com).

**Economic Growth**

5. GDP growth is expected to level off at 6% in FY2006, higher than 5.4% during the previous year. While aggregate growth in FY2006 will be aided by recovery in agriculture, growth in industry and services is expected to moderate from its strong performance in FY2005. This slowing in part reflects a more moderate gain expected in overall export growth as the garment and textile industry comes under more intense competitive pressure. More generally, the outlook for growth points to the need to tighten monetary policy, both to keep a lid on pressures on the exchange rate as the current account deteriorates and also to contain inflationary pressures. Tightened interest and credit policies in turn may slow consumer and investment spending.

6. Foreign direct investment (FDI) is expected to maintain steady growth from a low base but could pick up significantly if ongoing negotiations over several large investment projects prove successful (Box 2). Foreign investors have demonstrated widespread interest in Bangladesh. Flagship companies like Microsoft, Singapore Telecom and Orascom have recently commenced their investment activities in Bangladesh. The Government has received a host of large FDI proposals from various business groups, such as Tata of India, Asia Energy of UK, Dhabi Group of UAE, Kingdom Group of Saudi Arabia, textiles SMEs of Taiwan, and various companies from PRC, Republic of Korea, Malaysia, Thailand, etc. The Board of Investment (BOI) estimates that the total amount of foreign investment proposals is presently about US$10 billion, well in excess of levels recorded in the past.

7. Although the investment climate in the country compares favorably with most South Asian countries, particularly in terms of its competitive labor costs and flexible labor laws, the cost of doing
business in Bangladesh is perceived to be high. High costs are a reflection of corruption; weak law-and-order; inadequate infrastructure and services; gaps in the skills base; and distressed financial markets. While policies relating to private sector development are generally favorable, an effective regulatory framework to ensure that such enabling policies are actually enforced has yet to develop. If FDI commitments are to be realized, major improvements in infrastructure, public policies and governance will be required. For the large scale foreign investors, significant improvements are required in infrastructure provision and operations, including in the ports, road, and rail and in the provision of energy.

**Box 2: World Investment Report 2005: Bangladesh FDI Facts**

According to the World Investment Report (WIR) 2005, Bangladesh has advanced by ten steps to 122 in 2004 from a 132 ranking in 2003 in its Foreign Direct Investment (FDI) Performance Index.

Bangladesh attracted $456 million net FDI in 2004, a 72% increase over $265 million recorded in 2003. The growth is attributed to the improved investment environment and the privatization of state-owned enterprises. The growth in FDI inflows in 2004 was the second highest in South Asia.

In view of the improved economic situation, a better policy environment, and significant regional integration efforts, the report forecasts that Bangladesh will receive increased inflows primarily because of an increase in FDI from India. Finally, the end of the textiles and clothing quotas should benefit countries such as Bangladesh, India and Pakistan in attracting more textile-related FDI.

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8. There are several risk factors that affect Bangladesh’s medium-term economic prospects. These include the longer-term consequences of the loss of quotas for the garment industry; the implications of high oil prices on macroeconomic management; and weak governance and political uncertainty, especially in the lead-up to the January 2007 elections.
National Poverty Reduction Strategy

9. The National Economic Council (NEC), the country’s highest policymaking body, approved on 16 October 2005 the Poverty Reduction Strategy Paper, titled ‘Unlocking the Potential: National Strategy for Accelerated Poverty Reduction’. Fully consistent with the millennium development goals (MDGs), the PRSP aims to halve the number of poor people by 2015, and to achieve substantial improvement in all aspects of human development. It builds on past achievements, aims to prevent slippages in areas where progress has been made, addresses weaknesses in implementation, and includes a large number of targets and benchmarks to enhance the results-orientation of poverty reduction efforts. Building on the policy triangle of growth, human development, and governance, the PRSP aims to make progress in (i) employment generation, (ii) nutrition, (iii) maternal health, (iv) quality of education, (v) sanitation and safe water, (vi) criminal justice system, (vii) local governance, and (viii) monitoring of results.

10. There are eight policy priorities through which the goal of accelerated poverty reduction will be pursued in the PRSP. First, ensuring a supportive macroeconomic environment with a particular focus on stable macroeconomic balances, improved regulatory environment, higher private investment and increased inflow of FDIs, effective trade and competition policies, and, poor and gender sensitive budgetary process. Second, maximizing pro-poor benefits from the growth process with special emphasis on the rural, agricultural, informal and SME sectors, improved connectivity through rural electrification, roads, and telecommunications. Third, protecting the poor, especially women, against anticipated and unanticipated income/consumption shocks through targeted and other efforts. Fourth, fostering human development of the poor for raising their capability through education, health, sanitation and safe water, nutrition and social interventions. Fifth, supporting participation and empowerment of the poor, especially women, and other disadvantaged and marginalized groups. Sixth, promoting good governance through improving implementation capacity, promoting local governance, tackling corruption, enhancing access to justice for the poor, and improving sectoral governance. Seventh, improving service-delivery in the areas of basic needs. Eighth, caring for environment and its sustainability.

11. Private sector development is a central theme of the PRSP. To stimulate pro-poor growth, the PRSP accords priority to (i) accelerating growth in rural areas and developing agriculture and nonfarm economic activities led by the private sector; (ii) assisting SMEs; (iii) improving rural infrastructure (e.g., irrigation, rural roads, and electrification) including measures to reduce natural and human-induced shocks; and (iv) better access to ICT. With prudent macroeconomic management and steady improvement in the enabling environment for private sector investment, economic growth is forecast to increase to 7% by FY2008. Medium-term macroeconomic forecasts will be revised annually to ensure that poverty reduction efforts are underpinned by a stable
financial framework. The FY2006 budget corresponds to the first year of the PRSP, and seeks to operationalize its strategic elements through ensuring broad-based people’s participation, good governance, improved service delivery, and environmentally sustainable development. To bolster the links between the PRSP and the budget, the Government introduced a medium-term expenditure framework in four ministries effective FY2006. This is to be extended to another 6 ministries in FY2007.

12. Access to primary education has increased at a tremendous rate over the past decade; however, its quality and relevance remains a major concern. The PRSP aims to foster social development by increasing education quality by improving delivery, management, finance, and assessment systems. Particular attention is accorded to developing skills, boosting access, and fostering community participation in the management of education and training services. In the health sector, the PRSP accords priority to improving maternal and child health care; strengthening nutrition programs; controlling communicable diseases; and reorienting health care assistance, finance, and governance to better serve the poorest groups. Women’s advancement will be fostered by enhancing women’s access to banking services over and above microfinance, combating violence against women, and assisting female migrants.

13. Good governance is to be fostered in the PRSP by reforming the criminal justice system, strengthening public administration, combating corruption, promoting local governance, and improving public expenditure management. This will be complemented by fostering partnerships between government, private sector, and civil society organizations to improve service delivery.

14. Environmental management is an integral component of the PRSP. It includes specific measures to address the problems of air and water pollution in Dhaka and secondary cities and towns, reverse land degradation and salinity, preserve biodiversity, promote afforestation, and mitigate arsenic contamination of the groundwater supply.

15. The PRSP has the requisite ingredients of a sound poverty reduction strategy, i.e., an insightful poverty diagnostic, a wide-ranging consultative process, short- and medium-term poverty reduction and sector development targets, and a comprehensive set of sector and thematic strategies underpinned by a consistent medium-term expenditure and macroeconomic framework. The goals and targets of the PRSP are consistent with the MDGs, and a large number of monitorable reforms, socioeconomic targets, and indicators make the strategy results-oriented.

16. The effective implementation of the PRSP will be a tremendous challenge. The unfailing leadership of the Government is critical in this regard. However, the Government alone cannot deliver all that needs to be done to realize the PRSP goals and objectives. The active support
and contributions by other key players, such as the private sector, the
civil society and the development partners are also extremely important.
To make this happen, there is a need to improve governance, to
enhance law and order, to address corruption, and to promote the
effective functioning of the civil service. Improvements in these key
areas are essential to achieve levels of public spending efficiency,
effectiveness and accountability.

**Fiscal Management**

17. Revenues have continued to record steady gains, although at a
pace lower than projected annual growth. Revenue collection during
July-October of FY2006 increased by 14.2% compared with the same
period of the previous fiscal year. All taxes registered healthy growth
including import based taxes (12.4%), domestic indirect taxes (16.7%)
and income tax (16.2%). Amongst the import based taxes,
supplementary duties and VAT at the import stage posted 15.5% and
17.2% growth respectively while customs duty grew by 8.4%. With
regard to the domestic indirect taxes, excise duty increased by 9.1%
although on a narrow base, VAT at the domestic level by 15.5% and
supplementary duty at the domestic level by 18.1%. The growth of
import taxes was supported by the high growth of imports while the
growth of the domestic indirect taxes reflected steady growth in
domestic economic activity, as well as, strengthening of the revenue
mobilization efforts.

![Revenue collection needs to be augmented](image)

18. Given the ambitious revenue target for FY2006, it is essential to
further streamline tax administration and improve monitoring and
supervision of tax collection by the revenue authorities. The
medium term revenue modernization strategy prepared by the
National Board of Revenue needs forceful implementation if vital
d Public goods and services are to be
provided. Taxpayer services need to be improved, transparency in tax collection enhanced, audit and enforcement streamlined and long-pending tax disputes settled to underpin a major increase in revenue collection.

19. The three-year resource envelope and budget guidelines
introduced during FY2006 budget for four ministries, and expanded to
another 6 (accounting for about 50% of total budget) for preparing
FY2007 budget, will enhance fiscal discipline and ensure better
coordination between revenue and development expenditures. This, in
conjunction with measures aimed at improving financial management
and accountability, are steps in the right direction.
20. The preparation of annual development program (ADP) projects needs to be further streamlined with clearer prioritization, sound project approval and adequate financing to ensure strong development impacts and timely project completion. The progress made in streamlining public procurement since 2003, with the formulation of uniform public procurement regulations, will be further consolidated with the expected enactment of a procurement law. Implementation of the new law will serve to accelerate project implementation by bringing about greater efficiency and transparency in project procurement and more timely utilization of financial resources.

21. In response to soaring global petroleum prices, the Government further adjusted upward the prices of various types of domestic petroleum products. This has helped to reduce the huge losses being incurred by the state-owned Bangladesh Petroleum Corporation (BPC). In the latest tariff readjustment, effective 4 September 2005, the price of octane has been increased by 18% to Taka 45 per liter, petrol by 17% to Taka 42, and diesel and kerosene by 15% to Taka 30. To help reduce the adverse effects of rising petroleum spending on the budget, the Government has introduced a two-day a week holiday, and has reduced outlays on a number of items in the current revenue and development budget.

Monetary Developments

22. Monetary policy continues to exhibit an expansionary trend with 16.8% annual growth in the outstanding stock of broad money in September 2005 from a year earlier. The accommodative stance of the monetary authority was occasioned by the need to support domestic investment and to respond to the reconstruction and rehabilitation requirements posed by the 2004 floods. During the year ending September 2005, domestic credit grew by 20.9% compared with 13.5% during the previous year. Credit to the Government recorded a modest growth during the first quarter of FY2006 following a sharp increase towards the end of FY2005 due to delays in the availability of budgetary support from the development partners. Private sector credit maintained a robust 17.2% growth during the year up to September 2005, as against 14.3% growth in the previous year, reflecting steady credit demand from the domestic manufacturing and service sectors. Credit to the “other public sector” increased sharply by 42.9%, compared with 19.7% growth in the previous years. This was primarily a reflection of higher
borrowings by the state-owned BPC to finance increased import costs of petroleum. There was a negative annual growth (-3.3%) in the stock of net foreign assets of the banking system in September 2005 compared with 25.1% growth during the previous year. In the face of healthy growth in remittances during the period, the decline in net foreign assets was caused by the increased outflow of foreign exchange to pay for higher imports, especially for oil, during this period. To help absorb the excess money supply, Bangladesh Bank raised the cash reserve requirement (CRR) from 4% to 4.5% in March 2005 and again to 5% in October 2005. In addition, the central bank conducted routine auctions of treasury bills to stabilize money supply and actively used repo and reverse repos as instruments for open market operations. Due to the concerted policy actions by the central bank, the money market remained stable during the first quarter of FY2006 with call money rates remaining in the neighborhood of 6% during July–September 2005.

Balance of Payments

23. Despite earlier uncertainties surrounding the impact of the ending of MFA quotas, exports grew by a solid 14% during FY2005. Even though growth of woven garments slowed, that of knitwear registered an impressive 31% expansion, with the garment sector matching the previous year’s strong performance. However, exports showed subdued performance during July-September with only 4.4% growth. While knitwear export growth maintained strong performance with a growth of 18%, exports of woven garments declined. Amongst the other major traded goods, exports of jute goods increased by 14%, and leather by 10%. Exports of frozen foods declined by 2.7%.

24. Imports during FY2005 grew substantially faster than exports at 20.6%, reflecting a 57% jump in the oil import bill, and a strong increase in imports of foodgrains and food products, industrial raw materials, and capital goods. Although import growth has slowed down, a 15.8% growth during the first two months of FY2006 was significantly higher than the growth in exports. Substantial growth in imports was registered for rice, wheat, oil seeds, fertilizer, petroleum, yarn, capital goods and iron and steel. The latest data for imports (in terms of L/C’s opened) during July-September of FY2006, however, suggested a smaller growth in imports, 4.2% over July-September of FY2005. This is despite a 45.3% increase for imports of petroleum and petroleum products and an 18.4% increase for capital machinery. All other major items e.g. food grains (-47.8%), other consumer goods (-25.2%), intermediate goods (-
10.1%), industrial raw material (4.2%) and other machinery (3.4%) reported either negative or very low rates of growth.

25. The pressures on the balance of payments heightened during the first few months of FY2006 as global petroleum prices rose. However, a serious balance of payments crisis was avoided mainly due to robust growth in workers remittances. The trade deficit during July-August of FY2006 increased sharply to US$312 million from US$92 million during the same period of FY2005. During the July to August period, the surplus in current account (excluding official grants) declined to US$112 million, from US$291 million during the corresponding period of the previous fiscal year, in spite of an impressive growth in workers remittance of 29%. The remittances continued this robust performance with 27.2% growth during July-October of FY2006 over the first four months of the previous year. The lower surplus in the current account was reinforced by the sizable deficit in the financial account leading to a deficit of US$195 million in the overall balance during July-August of FY2006 as against a surplus of US$363 million in the corresponding period of FY2005.


27. Higher petroleum prices have triggered an increase in import requirements of nearly $600 million dollars in FY2005. During the first quarter of FY2006, petroleum imports continued to accelerate. While there has been some loss of reserves, and the exchange rate has weakened, the effects would have been much more severe if it were not for a substantial increase in workers’ remittances. Remittances increased from $3.4 billion in FY2004 to just under $4.0
billion in FY2005, offsetting the vast increase in the petroleum import bill\(^1\). The robust growth in the workers remittances continues during FY2006. There are several reasons for the increase in official remittances (i.e. tracked through the banking system) including heightened money laundering surveillance and exchange rate effects. In addition, remittances appear to be also positively related to increases in global petroleum prices, and hence provide Bangladesh with an in-built buffer from this form of global shock. Some 70% of all Bangladeshis that work abroad are employed in the Middle East. When global petrol prices increase, so does the demand for expatriate workers in the Middle East, and so do the wages paid to expatriates employed there. This combination of factors appears to explain the sharp rise in remittances.

28. The analysis of external sector outcomes raises a number of concerns. Due primarily to the soaring import bill for petroleum, there is some sign that other essential imports, including for raw materials and intermediate goods, have been crowded out, and that this is adversely affecting domestic economic activity. Higher import payments for oil have also placed pressures on the country’s exchange rate and foreign exchange reserves. If the money supply is excessively tightened, to reduce inflation and ease foreign exchange pressures, this may lead to a deceleration in domestic economic activity, exacerbating the effects of lower imports of raw materials and intermediate goods. Given that the petroleum shock is likely to be transitory in nature, the key challenge for the Government is to mobilize sufficient external financing to ensure that foreign exchange is available in the market both for oil and other essential imports, such that excessive pressures are not placed on the exchange rate or on the country’s foreign reserves.

**Inflation and Exchange Rates**

29. The rising trend in inflation continues with the point-to-point inflation rate increasing from 5.5% in December 2004 to 6.7% in March 2005, 7.9% in August, and 7% in September 2005, due mainly to a rise in domestic food prices but also due to higher import prices for petroleum

\[^1\] Since 1976, about 4.1 million workers went abroad to seek employment. Between 1976 and 2005, cumulative remittances amounted to around $34 billion. From a meager $576 million in 1986, the remittances rose to $3.8 billion or 6.3% of GDP in 2005, implying an average annual growth rate of 10.5%. Currently, remittances are higher than the combined flows of foreign aid disbursements and foreign direct investments.
and other goods. Increases in both food and non-food prices contributed to the increase in the inflation rate. The expansionary monetary policy contributed to strong domestic demand, further aggravating inflationary pressures.

30. Reflecting the widening current account balance, the Taka depreciated against the US dollar by over 3% between June 2005 and October 2005, with the weighted average exchange rate of Taka increasing from Taka 63.7/dollar to Taka 65.7/dollar. The exchange rate also increased in the informal curb market, with the prevailing rate slightly higher than the inter-bank rate. On November 16, the curb market rate varied between Taka 67.1 and Taka 67.3 to a dollar.

Political Developments

31. The overall security situation remains a source of considerable concern. There have been several incidents of bombings, with active investigations underway in different parts of the country. The Government has arrested several perpetrators in connection with the bombing incidents and has banned several extremist groups for their alleged involvement in the incidents. In the run-up to the next elections, the political situation remains confrontational with the Awami League boycotting the Parliament sessions.
DEBT SUSTAINABILITY AND ECONOMIC DEVELOPMENT IN BANGLADESH

32. Debt sustainability is an essential condition for economic stability and growth. Excessive public debt levels create repayment flows that can crowd-out much-needed public spending, and can create adverse incentives for private investors to engage in activities that spur long-term growth. An excessive level of public debt can make the nation vulnerable to interruptions in aid flows or to the sudden shifts in domestic financial market sentiment. These problems are aggravated by a narrow export and production base, and various structural, political, and institutional factors that reduce returns on investment.

33. To maintain a sustainable level of public debt, the guiding principle is to ensure that borrowing is kept in line with repayment capacity, taking into account the amount and terms of new borrowing, as well as the vulnerability of income sources (exports/fiscal revenue) to unexpected shocks. In practice, however, developing an optimal borrowing strategy is difficult. An overly conservative approach to new borrowing is likely to unnecessarily constrain net inflows, and hence hamper efforts to achieve national poverty reduction targets. On the other hand, an excessive amount of borrowing raises the risk of future debt service problems. Given that repayment obligations cover a time horizon of several decades, the uncertainties are large in forecasting any Government’s ability to sustain its external obligations.

Public Sector Borrowing Trends

34. The Government of Bangladesh remains heavily dependent on deficit financing to finance its capital budget. In two decades, total public sector debt has increased from approximately US$7 billion (1985) to US$28 billion (2004). Of this total, outstanding foreign debt in 2004 was US$18.5 billion, and domestic debt was US$9.5 billion.

35. During the last decade, net foreign borrowing has increased at a modest pace due to sluggish implementation of agreed policy and institutional reforms, delays in the utilization of project assistance commitments, and slow growth in available concessionary loan resources amongst Bangladesh’s principal external financiers. As a result, the Government has become increasingly more dependent on domestic borrowing to meet its deficit financing requirements. Outstanding foreign debt was US$16.8 billion in 1995, and this increased by just $1.7 billion by 2004. By contrast, outstanding domestic debt was US$3.1 billion in 1995, and this tripled in US dollar terms by 2004. During the past decade, domestic debt has increased from 8% to 17% of GDP, while the share of foreign debt has fallen from 44% to 33% of GDP. Increasing reliance on domestic debt to finance public investment is a concern because of the harder financial terms (i.e. higher interest rates, shorter maturities) of domestic borrowing, the potential crowding-out of private investment by public borrowing from domestic financial markets, and the inflationary impulse arising from domestic deficit finance.

36. While public sector debt has been rising in absolute terms, it has remained relatively modest compared with the carrying capacity of the economy as a whole. Since 1995, the total stock of government debt has stabilized at 45-50% of GDP, while medium and long-term external debt service has fallen from 13.5% of total exports in 1995 to 7.4% in 2004, largely due to a sharp increase in exports and to the concessionary nature of the external debt. In net-present value terms, public sector debt outstanding is about one-third of GDP due to the concessionary nature of Bangladesh’s foreign borrowing (i.e. a 55% grant equivalent on

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2 Based on ADB’s draft report of the study on Bangladesh: Public Sector Borrowing Capacity.
average of external borrowing), and is well below the sustainability–thresholds for the ratio of public sector debt to GDP.

**Future Borrowing Requirements**

37. Bangladesh will continue to require substantial external assistance in the decade to come, given the low tax-effort, the overhang of financial distress in the SOEs and public sector financial institutions, and the limited extent to which private sector resources can be mobilized for economic infrastructure, social services and other poverty reducing investments. In the future, due to limited availability of concessionary resources, Bangladesh may need to tap both concessionary and non-concessionary sources of external assistance to close the domestic savings–investment gap, and to avoid pre–empting the private sector from domestic sources of finance. During the past decade, the Government of Bangladesh has run fiscal deficits averaging slightly more than 4% of GDP, which have been financed without recourse to excessively high rates of inflation. Looking ahead, the Government’s medium-term economic framework in the PRSP envisions that fiscal deficits will remain in the range of 3-5% of GDP, to meet the nation's growing public investment requirements.

38. The volume of concessionary financing that Bangladesh can expect to mobilize in the future will be limited by the financing constraints faced by official creditors, as well as by the Government’s capacity to absorb new project loans. Based on recent trends, it is reasonable to assume that the Government will borrow an average of $1 billion per annum for the next decade in concessionary foreign loans (i.e. new soft foreign borrowing), and that this would represent a likely “ceiling” on new commitments from Bangladesh’s development partners.

39. ADB is the second largest source of multilateral finance to Bangladesh. Prior to 1999, Bangladesh was classified by ADB as a Group-A borrowing country due to its low level of income and weak debt repayment capacity. As a Group-A borrower, Bangladesh was only eligible to borrow from ADB’s concessionary resources—the Asian Development Fund (ADF). In 1999, Bangladesh’s borrowing status was upgraded by ADB to a Group B1 country, making it eligible for a blend of ADF and Ordinary Capital Resources (OCR) or near-commercial term loans. ADB is planning to provide US$315 million per annum on OCR terms to the Government of Bangladesh for the next 3-5 years. This is predicated on the assumption that the public sector’s total financing requirements will continue to exceed the total resources—both concessionary and commercial—that Bangladesh’s development partners can provide; and that the Government of Bangladesh would continue to prefer not to borrow more from ADB on OCR terms than it does on ADF terms.

40. Domestic debt will become more important as a source of deficit finance given limits to the amount of external concessionary resources available to Bangladesh, and given the Government’s reluctance to borrow large volumes at near-market terms from its official creditors. This will contribute to an overall hardening of the borrowing terms faced by the Government since the effective cost of domestic borrowings are much higher than concessionary foreign borrowing, and grace periods are much shorter.

41. Will the Government of Bangladesh remain creditworthy if it continues to borrow some 4% of GDP each year, especially as financing terms are hardening, and as the grace periods on the stock of historic concessionary debt expire? A related question is whether it is appropriate for Bangladesh to tap OCR resources at its present level of development? A public sector borrowing capacity model has been prepared to help answer these questions.
Modeling Debt Sustainability

42. A public sector debt sustainability model has been developed for Bangladesh, and is constructed to be consistent with IDA/IMF guidelines on analyzing debt sustainability. The baseline forecast in this model incorporates the amortization and debt service schedules from existing loans, and the macroeconomic assumptions used are consistent with the medium-term macroeconomic outlook presented in the PRSP. In the base case simulation, it is assumed that Government will borrow, from all development partners, the equivalent of US$1 billion per year in concessionary foreign loans, and an additional US$315 million per annum from ADB’s OCR resources. The balance of the government’s financing requirement, over and above that which can be financed using foreign loans, would be met through domestic borrowing, and in an augmented base-case, from $250 million per annum in commercial finance. The robustness of the debt sustainability outcomes are tested by simulating debt dynamics under anticipated (i.e. base case) conditions, in a case in which the Government rapidly pursues state-enterprise and national commercial bank reforms, and also under a series of simultaneous export, growth, fiscal and exchange rate shocks (i.e. stress case).

43. The dynamics of the public debt can be described by the following debt-dynamics equation:

\[
db = -p + (r - \Pi (1 + g))/c)b - (g/c)b + (s)(e^*)(1+r)/c)b
\]

where \(db\) is the arithmetic increase in the debt-to-GDP ratio, \(r\) is the real interest rate, \(g\) is the rate of growth of real GDP, \(b\) is the stock of gross external debt, \(p\) is the primary (i.e. non-interest) fiscal deficit relative to GDP, \(e^*\) is the rate of change of the real exchange rate and \(s\) is the share of foreign-currency denominated public debt, \(\Pi\) is the inflation rate (i.e. GDP deflator), and \(c = (1+ g + \Pi + g\Pi)\).

44. In the debt sustainability model, a set of growth, fiscal, exchange rate, inflation and interest rate assumptions are made to determine a macro-consistent trajectory of future public debt. The evolving public debt stock and debt service requirements are then compared to several indicators of the carrying capacity of the economy—i.e. GDP, government revenues and merchandise exports to test whether or not the public debt is approaching sustainability limits.

Calculating the NPV of the Outstanding Public Debt Stock

45. The face value of the public debt gives a misleading picture of the nation’s total public debt burden, since a large portion of that debt was assumed on concessionary terms. Loans need to be converted into their Net Present Value (NPV), and then aggregated to derive an estimate of the total debt burden, in order to correct for differences in the degree to which loan terms differ from market-based finance—i.e. the degree of concessionality. Given that World Bank, Government of Japan and ADB have provided close to 80% of all outstanding external debt, a weighted average of the grant-element in 2003/2004 of outstanding foreign debt of 55% is used in the simulations to forecast the net present value of foreign loan obligations\(^3\). This is then added to the face value of outstanding supplier’s credits, and outstanding domestic debt to derive the total NPV of public sector debt.

\(^3\) The IMF (2005) also reports that the grant-element of Bangladesh’s foreign borrowings is equivalent to 55%.
Model Assumptions

46. The key macroeconomic parameters that were used to generate the debt sustainability forecast are listed in Table 1 below. In line with the medium-term projections in the Government’s PRSP, the base case scenario envisages continued growth in exports, but at a slower pace than in recent years, due to heightened international competition. Thanks to steady improvement in public policy and buoyant global demand, the rate of economic growth is forecast to gradually increase to 7% per annum; the fiscal deficit will remain at about 4.5% of GDP; inflation will be held in check; and the exchange rate will devalue gradually to preserve external competitiveness. Over time, government revenues will gradually rise as a share of GDP, albeit from an extremely low base.

Table 1: Key Macroeconomic Assumptions for the Base-Case Debt Sustainability Simulation, 2006-2020

<table>
<thead>
<tr>
<th>Key Macroeconomic Assumptions</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (% per annum)</td>
<td>5.4</td>
<td>6</td>
<td>6</td>
<td>6.5</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Target fiscal deficit (% GDP)</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Avg. nominal effective interest rate on public debt (%)</td>
<td>2.2</td>
<td>2.0</td>
<td>1.9</td>
<td>1.7</td>
<td>1.5</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Nominal depreciation of local currency (Tk$/ in %)</td>
<td>4</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Inflation rate (GDP deflator, % per annum)</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Convertible Currency Principle Repayment (mill. $)</td>
<td>458.0</td>
<td>492.0</td>
<td>523.0</td>
<td>550.0</td>
<td>600.0</td>
<td>680.0</td>
<td>730</td>
</tr>
<tr>
<td>Exports of Goods and Services (mill. $)</td>
<td>8655</td>
<td>9693</td>
<td>10662</td>
<td>11622</td>
<td>13681</td>
<td>22537</td>
<td>40974</td>
</tr>
<tr>
<td>Ratio of Revenues (and grants) to GDP</td>
<td>10.8</td>
<td>11</td>
<td>11.2</td>
<td>11.5</td>
<td>11.9</td>
<td>12.9</td>
<td>13.5</td>
</tr>
<tr>
<td>Concessionary borrowing (new $ million)</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>ADB OCR Borrowing (new $ million)</td>
<td>315.00</td>
<td>315.00</td>
<td>315.00</td>
<td>315.00</td>
<td>315.00</td>
<td>315.00</td>
<td>315.00</td>
</tr>
<tr>
<td>Foreign Debt Service $ million</td>
<td>1051</td>
<td>1057</td>
<td>1073</td>
<td>1103</td>
<td>1157</td>
<td>1262</td>
<td>1291</td>
</tr>
<tr>
<td>Foreign Interest Payments</td>
<td>593.00</td>
<td>565.00</td>
<td>550.00</td>
<td>553.00</td>
<td>557.00</td>
<td>582.00</td>
<td>561.00</td>
</tr>
<tr>
<td>Exchange Rate (Tk/US$)</td>
<td>61.3</td>
<td>65.0</td>
<td>67.0</td>
<td>68.5</td>
<td>71.5</td>
<td>80</td>
<td>89</td>
</tr>
</tbody>
</table>

Source: Staff Estimates.

47. In the simulation, domestic debt is assumed to fill the financing gap over-and-above that, which can be financed from foreign sources. The Government’s domestic debt is assumed to be rolled-over from year-to-year, and the volume of new domestic borrowing is generated within the debt-dynamics model to fill the gap between the government’s total financing requirements, and that, which its foreign official creditors are likely to supply (i.e. $1 billion plus $315 million in OCR). Interest payments on the domestic debt are generated internally within the model, and are linked to historic trends in the real cost of carrying domestic debt.

Simulation Results

48. In the base case simulation, public sector debt indicators improve steadily over time. The ratio of public debt to GDP is forecast to continue to decline, from 48% in 2004 to some 45% in 2010 and to 43% of GDP by the end of the forecast period in 2023. In net present value terms, the ratio of public sector debt to GDP is stable at 31% of GDP through 2010, and then rises gradually to 36% of GDP by 2023 due to increased reliance on domestic (i.e. non-concessionary) borrowing to meet a rising share of the financing gap. By 2012, half of total public sector debt outstanding would be from domestic sources, and by 2023 nearly three-quarters of outstanding public debt would be from domestic sources.

49. Throughout the next two decades, the ratio of public debt to GDP remains well within the debt ceiling (i.e. NPV of debt to GDP of 45%) that World Bank estimates would apply for
Bangladesh. In the base-case forecast, the ratio of foreign debt and debt service to exports falls steadily from 14% of merchandise exports (i.e. excluding remittances) in 2004 to some 7% of exports in 2013. The ratio of total (i.e. foreign plus domestic) debt and debt-service is forecast to decline gradually from 22% of total revenues in 2004 to 14.7% at the end of the forecast period. If Government borrows $250 million per annum, over and above that forecast in the base-case, than the ratio of foreign debt and debt service declines more slowly, from 14% of export earnings in 2004 to 9% by 2009; and an additional two years would be required before domestic debt would provide a majority of the outstanding public sector debt. Public debt and debt service are forecast to require about 20% of domestic revenues per annum for the next decade before gradually declining to 17% of domestic revenues in the decade thereafter.

50. A major financial restructuring of the distressed state enterprises and national commercial banks would not put public sector borrowing on an unsustainable debt trajectory. In a simulation of a major reform scenario, the heavy restructuring costs result in a temporary deterioration of public sector debt indicators, and the trend towards improved debt sustainability is restored shortly thereafter. In this case, the ratio of debt to GDP peaks temporarily at 54% of GDP in 2009, and declines steadily thereafter. Likewise, the ratio of debt and debt service to revenues peaks at 24.4% of government revenues in 2009, and declines gradually through the balance of the forecast period.

51. Even in a “worst case” scenario of multiple fiscal, exchange rate and growth shocks, there is little risk that Bangladesh’s public sector borrowing requirements would become unsustainable. In a “worst case” scenario, the ratio of public sector debt to GDP peaks at 58% of GDP in 2009, before declining gradually to 45% of GDP in 2023. The NPV of public debt to GDP peaks and at 39% of GDP in 2009, and stabilizes at 37% of GDP thereafter, still well within the bounds of the 45% threshold for this indicator estimated by World Bank. The ratio of the NPV of public debt to GDP peaks at 261% in 2009 and declines gradually thereafter. The ratio of foreign debt and debt service to exports peaks at 26.1% of GDP in 2009, and declines gradually thereafter. The ratio of debt and debt service to revenues peaks at 25.4% of government revenues in 2009, and declines gradually through the balance of the forecast period.

Key Conclusions

52. Bangladesh’s public sector debt and debt-service burden is well within the bounds of debt sustainability. Compared to GDP, the overall level of public sector debt appears high, but the NPV of public sector debt is not. Public sector debt service requirements are forecast to fall to 7% of exports over the next decade, which given buoyant remittances, is well within the bounds of sustainability. The NPV of public sector debt to exports is estimated at 204% and the NPV of public sector debt to government revenues is estimated at 276% for 2005. This does not mean, however, that Bangladesh is highly indebted or faces a risk of a liquidity crisis, largely because the country has access to $5 billion per annum in remittance inflows, and Government has ample recourse to borrowing from the domestic financial market.

53. The public sector borrowing capacity simulation model shows that concessionary sources of external finance will meet less than half of Bangladesh’s fiscal gap financing requirements in the decade to come. Given crowding-out concerns, the high carrying costs and short duration of domestic debt—and given reasonable assumptions about the devaluation risk—borrowing on OCR terms is both economically and financially advantageous compared with domestic debt to help close the fiscal gap, even though OCR borrowing is not as concessionary as OECF or other soft loans.
This could change over time—i.e. the domestic debt market could deepen, domestic debt terms could improve, or the currency could devalue by far more than expected. Hence, a prudent build-up of OCR borrowings is warranted, while Government continues to monitor its financing options. The simulations contained in this paper suggest that OCR borrowing of $315 million in the next five years, under a variety of assumptions and stress tests, will not cause the public sector debt burden to become excessive. Borrowing $315 million per annum on OCR terms is both prudent from a debt management standpoint and financially advantageous vis-à-vis borrowing the same amount of resources from a thin and distressed domestic financial market or in the form of costly suppliers’ credits.
BANGLADESH RICE PRICE POLICY

Introduction

55. Bangladesh’s policy of diffusing high-yielding rice varieties, large investments in rural infrastructure including irrigation, and ready availability of fertilizer triggered a sharp increase in rice supply, especially in the post-liberalization period (1993/4–2003/4) (Table–2). The per capita supply of both rice and food grains was significantly higher in the post-liberalization period compared with the earlier period. After liberalization, the role of the public food grain distribution system (PFDS) was substantially reduced. The annual growth rate in rice production of 2.98%, and the annual rate of growth in food grain production of 2.7% during 1981–2004 were faster than the rate of population growth, and led to an increase in per capita rice and food grain availability.

56. The liberalization of agricultural input and output markets has had a salutary effect on rice production. In per-capita terms, the supply of rice grew by 1.3% per annum during 1981–2004, while the supply of food grains increased by 0.91% per annum. The share of boro rice, which is mainly a cash-crop, has increased in proportion to the total output, while the share of aman rice has declined.

<table>
<thead>
<tr>
<th>Table 2: Rice Production and Food Grain Growth Rates</th>
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<tbody>
<tr>
<td>Rice production</td>
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<tr>
<td>Rice market supply</td>
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<tr>
<td>Food grain production</td>
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<tr>
<td>Food grain supply</td>
</tr>
<tr>
<td>Rice supply per capita</td>
</tr>
<tr>
<td>Food grain supply per capita</td>
</tr>
<tr>
<td>Import ratio of national food grain availability (%)</td>
</tr>
<tr>
<td>Public distribution as % of national food grain availability</td>
</tr>
</tbody>
</table>

Source: Food Planning and Monitoring Unit (FPMU) data, author’s calculations.

57. The comparatively steep rise in rice prices in FY2005 has prompted a great deal of concern. Increased state intervention in the rice markets has been proposed as a way of both containing higher consumer prices, and ensuring that the benefits of rice price growth are reflected in more buoyant farm-gate prices. This note asks if increased intervention is warranted and likely to be effective.

The Soaring Rice Prices of 2003-2005

58. Rice prices have increased sharply in 2004/05. In fact, price increases have never been this high during any of the last five years. In fact, if averages of these changes were to be

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4 Contributed by N. Chowdhury, Small & Medium Enterprises (SME) Policy Expert with ADB’s Technical Assistance (TA) Grant team based at the Ministry of Industries (MOI), Government of Bangladesh.
compared across the years in the table, then the two years that offer themselves as the most similar comparator to 2004/5 are 1997/8 and 1998/9—years of severe crop losses and bulging back-to-back price increases.

Table 3: Annual percentage increases in wholesale coarse rice price, 1996/7-2004/5

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<tbody>
<tr>
<td>-18</td>
<td>17</td>
<td>20</td>
<td>-12</td>
<td>-6</td>
<td>4</td>
<td>11</td>
<td>-2</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculated from monthly rice prices compiled by FPMU (various issues).

59. Although prices have been firming up in recent years, rice prices have become more stable, seasonally, over time. The average value of the seasonal component of rice prices in 1996-2000 and 2000-2004 was lower than in the previous years. This suggests that private imports are helping to dampen seasonal price fluctuations. Indeed, the dispersion between the maximum and minimum seasonal component of rice prices has been falling steadily since 1996.

60. In addition, an analysis of seasonal price components during the two months traditionally associated with Bangladesh’s main rice surplus—the two months’ of the harvest of the aman rice, namely December and January—shows that, in recent years, seasonal price components actually ratcheted up, instead of falling. This, however, should be of little policy concern since Bangladesh’s rice farmers have been witnessing a secular decline in the real price of rice. During 1980/1-2003/4, real coarse rice price in Bangladesh had registered a (statistically significant) negative trend growth rate, of as much as 2.57% per annum.

61. Why did rice prices rise so sharply in 2004/5? There are several reasons for this. The first reason is that the Food Corporation of India’s stocks have been declining, and there are expectations of tight supplies for the exportable surplus of food grains from India, especially of wheat and then of rice. It is important to note that rice prices in Bangladesh and India are closely linked. The second reason is because of weather-induced crop losses in Bangladesh, as a result of severe flooding. The third reason has to do with tightening supply prospects in the global rice economy.

62. Government’s initial response to high rice prices was to ease imports. The Letters of Credit (L/C) margin, which at the beginning of calendar 2003 was a full 100% was first lowered to 25% in February, 2003 and then was finally removed altogether in December 2003. Import duties were also lowered from a combined 35% in 2001/2002 to 14% as of the July 2005.5

63. At the same time, however, the Government has re-emphasized the strategic importance of domestic rice procurement and public distribution of food grains. Towards this end, the Government has entered into long-term contracts with the largest among rice mills and quite a number of the medium-to-large sized mills for the supply of rice to the PFDS at pre-set prices. The millers’ margins on Government purchase are quite remunerative, especially during

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5 In 2005, customs duties on rice is 7.5%, IDS is 3.5% and advanced income tax is 3.0%. On wheat, they are the same except for IDS which is levied at 2.5%.
the first six or so weeks of the onset of the official procurement season. Furthermore, the Sonali, Agrani and Janata banks have been instructed by the government to increase the supply of credit to those mills having long-term government contracts. These banks have indeed substantially increased their credit to mills with government contracts, and as a result, the credit supply to rice milling sector has risen strongly.

64. Some argue high prices are a sign of hoarding, and therefore the Government should bring back into force the Anti-hoarding Act, which has not been used since 1993. Those who argue for more public intervention to contain rice price growth argue that: (a) that the government should raise the quantity of rice it “procures” using its public procurement system; and (b) that the government should strenuously strive to maintain a level of public food grain stocks around 900,000 metric tons (MT).

65. There are those who argue that an expanded role for the public procurement system, and a re-activation of the Anti-hoarding Act are counter-productive because private food grain markets are highly competitive, and evidence suggests that they operate quite efficiently. They point to the fact that there are nearly 40,000 private rice importers, who act to keep domestic and global prices closely integrated. They note that, after the 1998 floods, private importers responded by quickly importing 2.4 MMTs of food grain, which limited food price inflation, protected food consumption levels of the poor, and saved the Government from making large expenditures on public stocks and official imports.

66. There are also concerns that the public procurement program contributes to high-cost distortions in the operation of the food grain market. The cost of operating the public procurement program has been in the range of $250 million per year. Much of what the Government buys for its public procurement is from walk-in sellers (i.e. traders) and less than 5% is purchased from farmers directly. A number of econometric studies have shown that regional differences in farm gate prices are the main determinants of farm incomes, and not the fixed Government procurement price. Indeed, if Government was primarily concerned with improving farm incomes, it would be better to use Government resources to invest in measures that better integrate prices in one region with prices in another—through improved market information, transport and communications for example.

67. One immediate way of reducing spatial price differences, and hence contributing to higher farm incomes, would be to ensure that the public has access to up-to-date information on stocks, prices and trade. Government should consider mounting an in-depth study of private rice and wheat stocks (over time and in different regions) in Bangladesh, with the results posted on the web site of the Director General of Food. Such data should then be updated on a selective basis for each of the food grain market seasons. Quarterly data on private rice and wheat imports, disaggregated by country of origin and showing both quantities and prices (US dollar) of such imports, should be analyzed and posted on the DGF Website.

68. Looking ahead, the Government should reduce its reliance on an expensive public procurement program and, instead, seek to further the involvement of the private-sector in importing (and exporting) rice based on evolving price parities between Bangladesh and other relevant markets. Towards this end, the Ministry of Food should prepare regular updates on the global rice and wheat markets, and should actively promote the informed involvement of the private sector in the global food grains trade.
Concluding Remarks

69. There is no apparent need to roll-back measures taken to liberalize agriculture because of sharp price increase in 2004/05. As 2005 comes to an end, real rice prices and real wheat prices are starting to trend downwards. The overall seasonal components of rice and other food grain prices are falling, and although Bangladesh is entering the lean supply months, there is no evidence of upward price spikes. Moreover, while the incomes of the average farmer are less than the median income in Bangladesh, the farm community has become more commercially oriented, flexible and dynamic over time. Although the Government continues to support a high-cost public procurement program, the markets have continued to deliver food at an affordable and globally competitive price yet again in 2004/5.
About the Asian Development Bank

The Asian Development Bank (ADB)'s work is aimed at improving the welfare of the people of the Asia and Pacific region, particularly for the 1.2 billion who live on less than $2 a day. Despite the success stories, Asia and the Pacific remains home to two thirds of the world's poor.

ADB is a multilateral development finance institution owned by 63 members, 45 from the region and 18 from other parts of the globe. ADB's vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their quality of life.

ADB's main instruments in providing help to its developing member countries are policy dialogues, loans, technical assistance, grants, guarantees, and equity investments. ADB's annual lending volume is typically about $6 billion, with technical assistance provided usually totaling about $180 million a year.

ADB's headquarters is in Manila. It has 26 offices around the world. The organization has more than 2,000 employees from over 50 countries.