

# State of Bangladesh economy in 2003-04: First interim report

The first interim report (July-December 2003) on 'State of the Bangladesh Economy in the Fiscal Year 2003-2004' has been prepared by the Centre for Policy Dialogue (CPD) under its programme titled Independent Review of Bangladesh's Development (IRBD).

## Part 3

### 4. Real Economy

#### 4.1 Agricultural Production

Foodgrain production has increased in FY03 after a decline in FY02. According to per the final estimate of the Bangladesh Bureau of Statistics (BBS), actual foodgrain production for FY03 was 26.69 million metric tons (*Aus* - 1.85 million metric tons, *Aman* - 11.11 million metric tons, *Boro* - 12.22 million metric tons, and wheat - 1.51 million metric tons) which was 2.97 percent higher than that of FY02. Total rice production in FY03 was 4.35 percent more than that of FY02. It may be mentioned here that though the production of foodgrain has increased in FY03, it is still below the production level of FY01 (26.76 million metric tons).

The foodgrain production target for FY04 has been set at 28.12 million metric tons which is 5.36 percent higher than actual production in FY2003. The area under *Aus* production has declined (1.15 million hectare in FY2004 against 1.24 million hectare in FY2003), but the area under HYV *Aus* rice has increased by about 28 percent over the last year. Therefore, preliminary estimates show that the production of *Aus* rice would be able to meet the target level (1.85 million metric tons). BBS is yet to finalise the production estimates of *Aus* rice. The production prospect of the current *Aman* crop seems to be good. According to the Directorate of Agricultural Extension (DAE) sources, the area under transplanted *Aman* rice is at the level of last year, but the yield prospect is better. Harvesting of *Aman* paddy is almost over, and hopefully we will soon get the estimates on the actual production during *Aman* season.

The government has already set the rice procurement target at 200 thousand metric tons for FY2004. The government would buy 150 thousand metric tons of rice and about 73 thousand metric tons of paddy (equivalent to 50 thousand metric tons of rice) directly from the farmers. Procurement of *Aman* paddy was scheduled to start from November 15 and to continue upto

February 28, 2004. Procurement price of *Aman* paddy and rice has been set at Tk. 8.40 and Tk. 12.80 per kg respectively. It remains to be seen whether the Food Ministry will be anymore effective this year than in the past in actually procuring its foodgrain targets directly from the farmers or whether the traders will continue to monopolise the supply chain. The procurement regime will need to ensure that the experience of last year when poor quality foodgrains imported from India ended up in the silos of the Food Directorate, are not repeated.

#### 4.2 Monga Situation

The relatively good performance of the foodgrain production has been foreshadowed by the *monga* situation in FY04 prevailing in some Northern districts of Bangladesh. *Monga* is a local term used to indicate acute deprivation caused due to the erosion of purchasing power from lack of gainful employment opportunities. Although this happens every year during September-November (*Aswin* and *Kartik*) in the Northern districts, this year the situation was more severe than in the recent past. A CPD research team visited two upazillas of Rangpur and Gaibandha districts (one from an "affected" area and another from a "severely affected" area) to assess the reasons for the dire distress experienced this year. Stakeholder consultation and desk level research revealed the following factors responsible for the severity of the hardship this year.

& Reduced production of foodgrain in FY02 and FY03. According to the data obtained from the BBS, total foodgrain (rice and wheat) production in the greater Rangpur region in FY02 was 11.62 percent lower than that of FY01. On the other hand, total foodgrain production in FY03 was 5.87 percent lower than that of FY01.

& Reduced foodgrain production has resulted in reduction of employment opportunities for harvesting and processing of agricultural commodities.

& Loss of crops by flood in '03 has also aggravated the situation by delaying the transplanting time thereby reducing employment opportunities for land preparation, transplanting and weeding of *Aman* rice.

& The worst affected people were also victim of river bank erosion.

& There is a perception among

people that the traditional instruments or disaster relief such as Test Relief (TR), Food for Work and Vulnerable Group Feeding (VGF) programmes have been reduced this year resulting in lower entitlement opportunities in the lean period.

& Outflow of money from the rural area due to greater loan recovery compared to disbursement by both government banks and NGOs.

& Lack of participation by NGOs to help the vulnerable to cope with the hardship has aggravated the situation. Some NGO workers indicated that since the government was not acknowledging the prevalence of *monga*, they did not dare to initiate any targeted programme.

CPD field work further revealed that, for their survival, *monga* affected people tried to cope with the situation in the following ways:

& Forward sale of their labour at reduced wages Tk. 20-25 per day with food or Tk. 35-40 per day without food. This may be compared with the potential wage rate of Tk. 35-40 with food and Tk. 55-60 without food during the crop harvest and planting season.

& Selling of crops (paddy) in advance at a lower price Tk. 150-200 per maund of paddy against a potential price of Tk. 300-350 per maund after harvesting.

& Informal loans obtained from money lenders. An amount of Tk. 100 obtained in *Aswin-Kartik* has to be paid with 50 percent interest after 2-3 months.

& Temporary migration in search of work in other districts such as Comilla, Kishoreganj (Bhairav), Chittagong.

& Eating of *banana thors*, *kachughechu* which are not naturally eaten even by the poor people during the normal period.

At the end of the day the *Monga* situation of FY04, reflected weak monitoring on the part of the government and its slow response to the emerging situation. However, it would be a mistake to view this problem as a mere weakness in governance.

The more fundamental problem highlighted by the recent *Monga* crisis arises from the failure of successive governments to develop a long term solution to the problem which has been affecting certain Northern districts of Bangladesh, with varying degrees of severity at least since the Liberation and possibly before this. The

root causes of the problem, associated with entitlement deprivation, with its territorial location, are well known. Given the local dimensions of the crisis it should have been possible to provide structural as well as programmatic solutions to this problem in all these years. Failure to do so indicates that the problem will remain.

#### 4.3 Industrial Production

The lowest growth rate (3.2 percent) in the manufacturing sector was recorded in the recent past during the 1990s in the year of severe floods, i.e. in FY99. Since then, the sector has gradually recovered. In FY03, the sector recorded 6.6 percent growth with its medium and large component expanding at a slightly lower than average rate (6.0 percent).

For an assessment of the performance of the manufacturing sector in FY04, one has to fall back on the series of Quantum Index of Production (QIP) which is available only upto the month of September. On a point to point basis, industrial production increased between September 2002 and 2003 by about 4 percent. However, what is to be noted is that the QIP in September 2003 fell in comparison to that of in the preceding month by 5 percent.

The faltering growth of the manufacturing sector is largely attributable to the visible withering away of the jute industry in Bangladesh. During the first quarter of FY04 production fell in all categories of jute products (i.e. hessian, sacking, carpet backing etc.) both in public and private sector enterprises. This process has been accelerated by the liquidation of the Adamjee Jute Mill. The weight of the jute textiles in the QIP is still as high as 14.1 per cent. Along with the jute sector, among the major industries, the fall in productions of paper and petroleum products is also discernible.

The most encouraging feature of the manufacturing production during July-September 2003 had been the robust growth of yarn and fabric production which generates confidence about Bangladesh's growing capacity to meet the challenges in the post-Multifibre Arrangement (MFA) period.

Among the other major industries, fertilizer, pharmaceuticals and tea continued to grow, albeit at a moderate rate.

A 4 percent manufacturing growth rate does not inspire excitement particularly when it rests on a

very narrow base. Nor does the current weak manufacturing growth match up to the higher flow of term loan to the industrial sector mentioned earlier and the rise in capital machinery import discussed later.

The issue of industrial and export diversification has been part of the policy discourse for at least two decades. Unless a new generation of industries which can be either globally competitive or can provide efficient import substitution, the promise associated with Bangladesh's export gains and industrial change registered in the last decade may leave us with severe social as well as economic problems.

At the same time, it needs to be recognised that a structural transformation is going on in the country's manufacturing sector and its industrial level data, which are quite often not consistent with macro-economic aggregates.

#### 4.4 Privatisation

At present the total number of state owned enterprises (SOEs) approved by the Government for privatisation is 94. Around ten SOEs have been closed down during the last two years, while only three SOEs were privatised, i.e. handed over to the buyers. These were Nishat Jute Mills Ltd. at Tongi (November 6, 2003), Mymensingh Jute Mills Ltd. at Shambhugonj (November 2, 2003) and Deshb-andhu Sugar Mills Ltd. at Narshingdi (February 20, 2003). Sale proceeds from these three enterprises amounted to around Tk. 68 crores.

Currently Letters of Intent (LOI) for privatisation have been issued for 16 enterprises and these units are yet to be handed over to the buyers. The expected receipt from these sales is around Tk. 112.6 crores. The Privatisation Commission is facing problems regarding handing over of a number of enterprises.

Incidentally, the Textile Ministry has recently taken back three of its big textile mills from the Privatisation Commission list and has planned to liquidate them on its own. The Ministry of Industries is trying to reopen four of its enterprises it sent to the Privatisation Commission years ago. A letter has been sent by the Ministry of Industries to the Privatisation Commission expressing its wish to reopen the North Bengal Paper

Mills in Pakshey. It had already asked the Bangladesh Chemical Industries Corporation (BCIC) to initiate plans to run three other SOEs. A plan is afoot to start production of the Dhaka Leather Company, which was shut down way back in 1998 and, since then, all its employees have been transferred to other enterprises of the Corporation. Several ministries are also keen to take back their enterprises and liquidate them on their own in spite of the fact that no ministry has such cell. Nor do these ministries have any expertise to conduct the liquidation process on their own.

The Ministry of Civil Aviation and Tourism decided not to privatise the enterprises under the Bangladesh Tourism Corporation that had been approved by the government earlier for privatisation. It is apparent from the above evidence that the privatisation process remains paralysed due to lack of a coherent policy within the government. Nor is it clear how the sales proceeds from the privatisation of the SOEs will be reinvested, if at all. On the other hand, the Privatisation Commission is yet to come up with its annual report which is mandated under its Act. Little is known of the fate of the approximately 359 enterprises privatised over the last 30 years except for a few episodic studies. Nor is there any indication that the Privatisation Commission is taking any measures to keep the people of Bangladesh or even the Parliament informed of the fruits yield by the privatisation process. This lack of transparency relating both to the privatisation process and its outcomes may have contributed to the problems faced by the Privatisation Commission.

#### 4.5 Foreign Investment

A new round of debate on estimates of foreign direct investment has once again remerged following publication of foreign direct investment (FDI) inflow data for the first half of the calendar year 2003 by the Board of Investment (BOI). There is no scope for an elaborate discussion here on whether internationally accepted accounting methods of FDI, in the context of practices in Bangladesh, have been used by the BOI. Although there is a high probability that FDI flow remains underreported in the BOP statement in Bangladesh as it often does not fully capture, capital

machinery brought in, reinvested earning and inter-company loans under appropriate heads. Curiously, the current BOP accounts also do not include foreign investments the EPZs. However, the central bank still remains the final authority to confirm the FDI estimates.

CPD estimate based on BOP data on FDI and portfolio investment as well as foreign investments in EPZs indicates that a net total of \$63.50 million of foreign investment came to Bangladesh during July-September 2003. More than 63 percent of it was invested in the EPZs. No portfolio transaction was reported during this period.

The foreign investment figure for the first quarter of FY03 compares favourably with that for FY02 a more than four fold increase. Net flow of FDI increased by almost 2.5 times although on a very insignificant base of \$9 million. In case of EPZs, the growth was almost seven fold. However, one should not lose sight of the fact that all this is projected from an insignificant base.

After a secular fall from the peak in FY98 (the days of high FDI flow to the energy sector) till FY02, foreign investment for the first time recorded an increase in FY03 (\$197.13 million from \$114.80 million). It seems that the figure may rise further in FY04 but largely in the EPZs. However, the resurgence of the controversy regarding trade union rights in the EPZs, reflecting the concerns of Bangladesh's largest export market, the USA, vis-a-vis the concerns of some of Bangladesh's largest sources is investment in the EPZ, drawn from Japan and the Republic of Korea needs to be reserved without prejudice either to Bangladesh's export or investment prospects. This may be no easy task.

#### 4.6 Capital Market

Between January 1, 2003 and November 30, 2003, DSE General Index, Weighted Average Index and DSE20 Index grew by 8.8 percent, 0.14 percent and 13.21 percent respectively. Turnover in terms of volume increased by 18 percent during this period. A bullish trend in the bourse may be observed from mid November which gathered momentum in the early part of December. Suspecting speculative trading, on December 2003, the Securities and Exchange Commission (SEC) suspended

trading of 16 companies with weak fundamentals (Z Category Companies) following a surge in their share prices. Subsequently all prices of all shares in categories B and Z went down resulting in corrections in the prices in Category A.

No rational reason could be identified behind the upward surge observed in the market in November-December 2003. It may be recalled that 64 (29%) companies out of 221 did not pay any dividend in 2000 and 49 in 2001 (21%) out of 230 companies, whereas 76 (32%) companies out of 241 companies are yet to declare dividend for 2002. It is suspected that the lucrative initial public offerings of banks attracted a significant amount of undeclared money to the capital market. It is also reckoned that a number of blue-chip securities had been under-valued for a long time and their prices went up as they started declaring good dividends.

Notwithstanding the above facts there had been some movement in the stock market as 14 new companies were listed in FY03 putting up about Tk. 680 crores as sponsors' equity. These companies offered Tk. 135 crores worth of securities against which Tk. 1801.5 crores was deposited recording a staggering 13.5 fold oversubscription. Only one company could not raise the targeted amount for its IPO from the market.

However, it needs to be pointed out that, although, almost all the IPOs in varying degrees were oversubscribed, it is the IPOs relating to banks, insurance and investment activities which attracted most of the investors' interest.

Nonetheless the capital market remains both shallow and skewed in Bangladesh. Market capitalisation in DSE in October 2003 amounted to \$1290 million which is less than 2.5 percent of GDP. In June 2002 the comparable figure was 2.2 percent GDP. Three groups of listed companies, viz. Banks, Pharmaceuticals and Chemicals, and Food and Allied Products together controlled about 60 percent of the market capitalisation.

It will be interesting to observe how the SEC succeeds in weeding out the dead stocks and restores confidence in the capital. However, the recent movements in the capital markets have revealed that at least Tk. 2000 crores of liquidity is looking for opportunities for investment in dependable scripts.

## STOCK