



MINISTÈRE  
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# ECONOMIC LETTER OF BANGLADESH

A LETTER FROM

THE ECONOMIC DEPARTMENT

OF THE EMBASSY OF FRANCE IN DHAKA

N° 4 – June 2023

## Editorial

June was a particularly active month for the bilateral relationship, showing how agile and complete the French ecosystem can be in contributing to the development of Bangladesh and to the enhancement of trade. Business France, the agency supporting the international development of the French economy, the French Development Agency (AFD), MEDEF international, the apex trade body and the France-Bangladesh CCI were all fully mobilized during this month.

This month was also marked by the Summit for a New Global Financing Pact, held in Paris on June 22-23. A strong delegation from Bangladesh attended the event, led by H.E. AK Abdul Momen, MP, Minister of Foreign Affairs and included Mr. Saber Hossain Chowdhury, MP, recently appointed PM's special envoy for climate change as well as representatives from academia (ICCCAD) or the youth of Bangladesh (YPF, YouthNet Global). Concrete steps have been taken to reach a debt relief plan for Zambia and to call for specific tools including climate resilient debt clause. A coalition of countries also supported a Multilateral Development Banks vision statement to call on MDBs to do more on biodiversity, climate risk finance, capacity building and policy dialogue, etc. In this regard, the Summit laid the ground for a renewed international financial system, reconciling the fights against poverty, climate change and biodiversity degradation.

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Happy reading! and Eid Mubarak

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## A. FRANCE-BANGLADESH NEWS

### AFD delegation to build policy dialogue

A four-member delegation of the French Development Agency (AFD) spent 10 days in Bangladesh to strengthen the policy dialogue between AFD and the Bangladeshi authorities, covering areas such as water quality, gender, climate change, etc. They also met multiple actors from the civil society and donors.

### 3 AFD projects signed for 277 M EUR

AFD and the Economic Relations Division of Ministry of Finance signed three credit facility agreements totalling 277 M EUR. The three projects are:

- Chattogram Metropolitan Sewerage Project for North Kattoli Catchment (175 M EUR) that aims at building a sewerage system and wastewater treatment unit in Chittagong;
- Greater Dhaka Sustainable Urban Transport Project (62 M EUR) to provide a modern system to the BRT being implemented between the airport and Gazipur;
- And Bangladesh Environmental Sustainability and Transformation Project (40 M EUR), a project co-financed by World Bank to strengthen environmental regulations and to build a guarantee scheme for projects addressing air pollution.



### Field visits of Gandharbpur Water Treatment Plant and Thales' radar

This month, the Ambassador of France visited two flagship projects involving French companies.

A joint-venture between SUEZ International and OTV-Veolia is building one of the largest water treatment plant in the region in Gandharbpur, with co-financing from French Development Agency, EIB and ADB. From next year, the plant is expected to supply quality water to 4.3 million people in the capital city Dhaka.

As part of the upgradation of Dhaka airport, Thales is working on a new Air Traffic Management system including a new radar. A great contribution in order to make Bangladesh an aviation hub.



### Business France mission in Dhaka

Eric FAJOLE, French trade commissioner for India, Bangladesh and Sri Lanka visited Dhaka from June 4<sup>th</sup> to June 6<sup>th</sup> in order to enhance trade from France to Bangladesh. He had the occasion to meet officials of CCIFB, of French companies and of Bangladeshi conglomerates that are keen to grow ties with French companies not yet present in the country.

Business France is in charge of fostering export growth for French companies and also covers support to foreign investors interested in investing in France.

### CCIFB business lunch in Westin

On June 6<sup>th</sup>, the France-Bangladesh Chamber of Commerce held a business lunch in Westin to discuss current state of the economy and prospective. Mr. Mamun Rashid, managing partner at PwC, was the keynote speaker. He highlighted some of the challenges for Bangladesh such as foreign exchange reserves, power sector and the external position. This was also the occasion for businesspersons to network.

### Presentation to MEDEF international in Paris

On Thursday 29<sup>th</sup>, the head of economic department was invited by MEDEF international

to talk about the business perspectives in Bangladesh. MEDEF international is the international wing of MEDEF, the French apex trade body. It signed a MoU with FBCCI in 2021 during the visit of Honorable Prime Minister Sheikh Hasina in Paris.

Representatives of Airbus, Saint-Gobain, Colas, Renault and Société Générale attended the meeting among others.



## B. FRESH NEWS FROM BANGLADESH

*This section provides a brief overview of economic and business-related news from Bangladesh*

### ----- FOREIGN AID -----

#### Additional USD 400 million from ADB for rail link between Chittagong and Cox's Bazar

The Asian Development Bank (ADB) has just signed a new USD 400 million loan to complete work on the double-gauge railroad line between Chittagong and Cox's Bazar, as part of the "SASEC Chattogram-Cox's Bazar Railway" project involving USD 1.5 billion in ADB financing. The new rail link, which will serve this tourist region in the south-east close to the Burmese border, is scheduled to be operational

from 2023, carrying around 3 million passengers.

This project is part of the Bangladesh Railway Master Plan 2016-2045 published by Bangladesh Railway in January 2018. It includes a strategic investment plan envisaging the realization of 230 railway projects between 2016 and 2045 for a global amount of BDT 5,500 bn (USD 51 bn) by 2045.

#### Bangladesh could join the BRICS in August

Following a meeting between Prime Minister Sheikh Hasina and South African President Ramaphosa, the Foreign Minister announced that Bangladesh will participate as a guest at the next BRICS summit in August in South Africa. Saudi Arabia, the United Arab Emirates and Indonesia are also invited. According to the Minister, this invitation could pave the way for Bangladesh to become a member of the organization.



Since September 2021, Bangladesh has been an official shareholder in the BRICS development bank, the New Development Bank (NDB). It holds 1.8% of the capital (USD 188M), alongside the five founding countries (Brazil, Russia, India, China and South Africa) and three other new members (United Arab Emirates, Uruguay and Egypt). The NDB has since opened a regional office in India, with responsibility for Bangladesh in May 2022.

No project has yet been financed by NDB in Bangladesh. The most advanced discussions concern a drinking water supply project in Dhaka (USD 235 million) to build the distribution network for the Padma (Jashaldia) Water Treatment Plant financed by the EXIM Bank of China. NDB has also undertaken to finance the renovation of the gas pipelines between Dhaka and Narayanganj (south of the city) for 440 M USD. In the long term, NDB plans to lend USD 1 billion a year to the public and private sectors in Bangladesh. The loans could be disbursed in US dollars or yuan, and would be untied aid.

#### USD 1.2 billion in budget supports expected in June

The Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB) have both approved and signed a "Sustainable Economic Recovery Programme" budget support project for a total of USD 800 million, following the IMF programme signed in January 2023. The disbursement will take place shortly, bringing foreign currency to the country's reserves, which fell below the 30 billion USD mark in May. JICA will also provide co-financing equivalent to USD 216 million.

The first part of this program had been approved in September 2021 with an envelope of USD 250M and aimed to support the post-covid recovery, by improving tax collection and reducing losses and subsidies to public companies in particular. This new program aims to continue building the regulatory framework for income tax and VAT, strengthening public financial management (iBAS++, public

procurement and action plan 2024-2028) as well as increasing financial inclusion for women. At the same time, and also this month, South Korea (EDCF) is expected to contribute a further USD 100 million and the OPEC Fund for International Development a further USD 100 million, bringing the total budget support lending envelope in June to around USD 1.2 billion.

With the Aid festival taking place at the end of June, remittances from expatriates should also be higher, helping to temporarily reduce pressure on foreign exchange reserves and letter of credit openings.

#### ----- ENERGY -----

##### LNG supply contract signed with Qatar

Faced with dwindling onshore natural gas reserves, and awaiting the start of exploitation of offshore reserves in its territorial waters, Bangladesh is increasingly turning to imports of Liquefied Natural Gas (LNG), for which domestic demand is expected to reach 8 Mtpa (Millions of tons per year) by 2026.

Originally reserved since 2018 for two suppliers from Oman (Oman Trading International, 1 Mtpa) and Qatar (RasGas, a joint venture between Qatar Petroleum and ExxonMobil for 2.5 Mtpa) on long-term contracts, the LNG market has recently been opened up to spot purchases on which TotalEnergies is present. Soaring prices linked to the war in Ukraine have prompted Bangladesh to start negotiations to increase its import capacity with long-term contracts. Petrobangla has just signed an agreement with QatarEnergy for an additional 2 Mtpa from January 2026. Discussions are also underway with Oman.

In addition, to cope with rising imports, Bangladesh is to invest in a third regasification unit. The Ministry of Finance has just approved the bid from Summit Power, a Bangladeshi-Singaporean group, for a 600 mmcf/d capacity. The liquefied gas is regasified on Moheshkhali Island, near Chittagong, by two floating stations (FSRU or *floating, storage, re-gasification unit*). The 1st is owned and operated since August

2018 by the American EXCELERATE ENERGY; it has a capacity of 3.75 million tonnes per year (500 mmcf). The second, owned by Summit Power, has the same capacity and began operation in April 2019.

#### Moody's downgrades Bangladesh's sovereign rating from Ba3 to B1

The American rating agency has just announced that it is downgrading Bangladesh's sovereign rating by one notch from Ba3 to B1, the first time this has happened since Moody's began rating Bangladesh in 2010. The rating has a stable outlook.

Moody's points in particular to the deterioration in foreign exchange reserves, liquidity risks and, more generally, the country's vulnerability in terms of its external position. This vulnerability is reflected in constraints on the opening of letters of credit for imports, causing electricity shortages which affect the productive sector.

In the same breath, Moody's downgraded 6 local banks (BRAC, City, Dutch-Bangla, Eastern, NCC and Premier) by one notch. Moody's had already downgraded the Bangladeshi banking sector a few weeks ago.

#### Inflation rises again to 9.94% in May

Inflation is at its highest level for over ten years, with food prices up 9.24% year-on-year, while non-food prices are up 9.96%. After a slight lull at the end of 2022/beginning of 2023, with food inflation down to 7.7%, prices are set to rise again as a result of supply constraints, despite the fact that the global environment is tending to ease.

### ----- MONETARY POLICY -----

#### Central bank adopts more restrictive monetary policy to counter inflation

Bangladesh Bank has just announced its monetary policy for the first half of the 2023-24 fiscal year. This policy aims to make access to credit more expensive in order to limit inflation, which has reached almost 10% against a target

of 7.5%. As a result, the central bank has reduced its target for private sector credit growth from 14% (2022-23) to 11% (2023-24).

As part of its new monetary policy, Bangladesh Bank has introduced a corridor for interest rates for banks and non-bank financial institutions (NBFIs), replacing the 9% cap that had been imposed in April 2020. The corridor will be centered around a reference rate set monthly by the central bank (SMART, or six-month moving average rate of Treasury bill), with a margin of +3% for banks and +5% for NBFIs. At present, this would represent a new ceiling of 10.1% and 12.1% respectively.

The central bank also raised its key interest rates. The *repo rate*, the rate at which commercial banks borrow from Bangladesh Bank, has been increased from 6.0% to 6.50% with +/- 2.0%, giving a new rate of 8.5%.

Finally, this monetary policy includes a unified, market-determined exchange rate, as opposed to the current different rates for exports, imports and expatriate remittances.

### ----- BUDGET -----

#### Presentation of the 2023-24 budget and climate budget by the Minister of Finance

Finance Minister AHM Mustafa Kamal presented the budget for fiscal year 2023-24 to Parliament. The total budget is Tk 7,618 bn (approx. USD 70 bn) or 15.2% of GDP, stable compared with the previous year. The deficit is forecast at Tk 2,579 bn or 5.2% of GDP, in line with previous budgets, financed 40% by external sources (around USD 9 bn) and 60% by domestic financing (notably the banking sector and the central bank). Recourse to the costly National Saving Certificate (interest rate around 13%) is gradually being reduced. Tax revenues, which are under particular scrutiny in the context of the IMF program, should reach 9.0% of GDP, compared with 8.7% of GDP in the previous budget and 7.5% in the 2021-22 budget.

## MISCELLANEOUS

### 3000 cases involving foreign companies awaiting trial

More than 3,000 lawsuits involving foreign companies are still pending according to Ministry of Justice data, while the number of disputes is growing: 186 in 2019, 256 in 2020, 374 in 2021 and 427 in 2022. These disputes with other companies or individuals concern financial transactions, transfer of shares or ownership, breach of contract, fraud, and supply of substandard goods, most often based on the Companies (Bangladesh) Act 1994. Bangladesh has no court dedicated to these cases with foreign interests, and they are among

the 350,000 commercial disputes awaiting judgment in the country. The lack of human and financial resources meant that only 7,309 judgments were completed in 2022.

A draft Commercial Dispute Settlement Act is currently being prepared by local authorities.

### Life expectancy at birth reaches 72.4 years

The Bangladesh Bureau of Statistics has published its latest demographic statistics. Life expectancy at birth is 70.6 years for men and 74.1 years for women, compared with 64.5 and 65.4 respectively in 2001. The adult literacy rate in 2022 is 74.4%, a slight increase. The median age of the population remains around 27.

## C. A NEW BUDGET FOR 2023-2024

### Underlying assumptions that differ between the Ministry and the IMF

Finance Minister AHM Mustafa Kamal presented the budget for fiscal year 2023-24 (FY24) to Parliament on June 1<sup>st</sup> in a context of new challenges faced by the country since August 2022 and of the signing of an agreement with the IMF in January 2023. The budget is based on a forecast of a rebound in the economy, with growth of 7.5% in 2023-24, compared with 6.0% expected for 2022-23 and 7.1% achieved in 2021-22. This forecast relies on the assumption of a fall in inflation to 6.0% and a significant increase in exports (+12%) and expatriate remittances (+10%). The Ministry is also counting on a recovery in private investment. These underlying assumptions are significantly more optimistic than those of international institutions. The IMF, for example, expects for FY24 a GDP growth of 6.5% and private investment of 22.8%, compared with 27.4% in the budget. Finally, the budget foresees exports to catch up by +12% in FY24, versus +8.6% for the IMF.

	FY22 actual	FY23 budget	FY23 revised	FY24 budget	FY25 proj.	FY26 proj.
GDP growth (%)	7,1	7,5	6,0	7,5	7,8	8,0
Inflation (%)	6,2	5,6	7,5	6,0	5,5	5,4
Private investment (%GDP)	24,5	24,8	21,8	27,4	28,8	29,4
BDT/USD	86,3	95,0	97,8	104	104,5	105,0
Foreign exchange reserves (\$bn)	42,7	45,3	34,6	35,8	41,1	48,9

Source: MTMPS 2023-24

### A budget in line with previous years

The total budget is Tk 7,618 bn (approx. USD 70 bn), or 15.2% of GDP, stable compared with the previous year. The deficit, for its part, is forecast at Tk 2,579 bn or 5.2% of GDP, in line with previous budgets, financed 40% by external sources (around 9 bn USD) and 60% by domestic financing (mostly the banking sector and the central bank).

**The cost of debt servicing is controlled:** Despite the gradual increase in loans on market terms from donors, a more unfavorable exchange rate and the global rise in interest rates, the rise in implicit interest rates from external financing should remain contained, from 1.5% in 2022-23 to 2.0% in 2023-



24. At the same time, recourse to the very costly National Saving Certificates (NSCs) (interest rate of around 13%) is gradually being scaled back, reducing the cost of domestic debt.

Interest payments on debt will therefore remain under control, at Tk 943 bn, or 12.4% of the budget in 2023-24, with a very large proportion going to finance domestic interest (10.8% of the budget). On the other side, interest on external debt has grown rapidly, from Tk 43 bn in FY21 to Tk 124 bn in FY24, but remains low at 1.6% of the budget.

**Revenues will increase, following the IMF program:** Tax revenues, which come under particular scrutiny in the context of the IMF program, should reach 9.0% of GDP, compared with 8.7% of GDP in the previous budget and 7.5% in the 2021-22 actual budget. Ministry of Finance documents show a clear discrepancy between initial and actual budget revenues, with a difference of 14% in 2021-22 according to Medium Term Macroeconomic Policy Statement (MTMPS).

In order to reach 9.0% of GDP in tax revenues, the National Board of Revenue will seek to increase taxes on income and profits from 2.7% of GDP to 3.1%. VAT revenues, which a few years ago accounted for over 50% of tax revenues, have been relatively eroded over time. An Asian Development Bank (ADB) program aims to make online VAT registration compulsory, develop online payment and remove several exemptions.

**Relative decline in spending on development projects:** Budget earmarked for the Annual Development Program (ADP) has been proposed with an increment half the one of the budget (+7% versus +15%), falling to 5.3% of GDP, the lowest level for at least a decade. The Tk 2630 bn (USD 25 bn) ADP is mainly directed towards the transport and communications sector (27%), education and technology - including the Rooppur nuclear power plant (16.8%) and rural development (15%). This year's ADP includes a total of 1,250 projects, nearly a quarter of which are more than six years old. The 20 mega-projects account for 30% of the ADP. Five of them are due for completion in the new fiscal year, including the Padma Bridge Rail Link (financed by EXIM Bank of China) and the rail link to Cox's Bazar (financed by ADB).

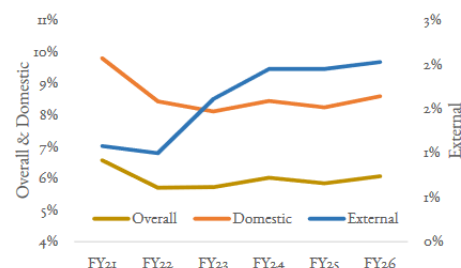
Finally, budget for social ministries remain low compared to other comparable countries in the zone. The education budget has risen slightly to 1.8% of GDP, at the bottom of the ranking of Least Developed Countries (LDCs). The allocation for health, meanwhile, is just 0.76% of GDP, and Bangladesh currently ranks 184th out of 186 on this index.

**Subsidies representing 11% of the budget:** The 2023-24 budget provides for Tk 840 bn in public subsidies (11% of the budget), slightly down compared to the revised budget for 2022-23 (12%). These subsidies mainly target electricity, LNG and fertilizers. In order to reduce the envelope, Bangladesh has already revised some tariffs upwards, and will introduce a monthly adjustment mechanism for certain energy products. Another noteworthy development is the 10% reduction in the budget of the Ministry of Agriculture, due to a 34% cut in subsidies to the sector compared with the revised 2022-23 budget thanks to a decrease of fertilizer prices.

#### A climate budget for the sixth year

For the sixth year in a row, climate change has been given a specific booklet (Climate Financing for Sustainable Development), which details the budget for the actions planned by various ministries. The allocation for climate change increases by 14% in the new budget: it amounts to Tk 370 bn (EUR 3.1 bn), equivalent to 9.0% of the total budget, compared with Tk 324 bn for the previous fiscal year. For this

Figure 24: Implicit Interest Rate Movement



fiscal year, the 2023-24 climate budget encompasses 25 administrations and mainly finances health, social protection and food security (42%) and infrastructure (29%).

The main ministries involved are agriculture (Tk 93 bn), local authorities (Tk 75 bn) and water (Tk 39 bn), supporting development projects such as the development of more resistant cropping systems, adaptation of crops to drought and salinity, repair of polders and adaptation to flooding.

An update of the Bangladesh Climate Change Strategy and Action Plan 2009 is currently underway, and aims to extend the number of topics from 6 to 11, adding for example natural resource management, gender and adaptation to climate change in urban areas.

	2021-22		2022-23				2023-24		FY23 vs. FY24
	Actual		Budget		Revised		Budget		
	Tk bn	% GDP	Tk bn	% GDP	Tk bn	% GDP	Tk bn	% GDP	
Total revenues	3346	8,4	3880	8,7	4330	9,8	5000	10,0	28,9%
Tax revenue	2996	7,5	3880	8,7	3880	8,7	4500	9,0	16,0%
of which: VAT and additional taxes	1169	2,9	1412	3,2	1462	3,3	1638	3,3	16,0%
Taxes on income and profits	961	2,4	1210	2,7	1211	2,7	1533	3,1	26,7%
Customs and excise duties	799	2,0	1078	2,4	1027	2,3	1129	2,3	4,7%
Total expenditure	5182	13,0	6781	15,2	6605	14,9	7618	15,2	12,3%
Operating expenditure	3257	8,2	4114	9,2	4143	9,3	4753	9,5	15,5%
Of which: Interest	732	1,8	732	1,6	892	2,0	935	1,9	27,7%
Annual Development Program (ADP)	1861	4,7	2461	5,5	2276	5,1	2630	5,3	6,9%
Overall deficit (including grants)	-1812	-4,6	-2418	-5,4	-2242	-5,1	-2579	-5,2	6,7%
Total financing	1812	4,6	2418	5,4	2242	5,1	2579	5,2	6,7%
Foreign borrowing	650	1,6	954	2,1	838	1,9	1025	2,0	7,4%
Borrowing	783	2,0	1125	2,5	1019	2,3	1272	2,5	13,1%
Debt repayment	-133	-0,3	-170	-0,4	-181	-0,4	-247	-0,5	45,3%
Domestic borrowing	1152	2,9	1463	3,3	1404	3,2	1554	3,1	6,2%
from banking system	755	1,9	1063	2,4	1154	2,6	1324	2,6	24,6%
outside the banking system	397	1,0	400	0,9	250	0,6	230	0,5	-42,5%
of which : National Savings Scheme	203	0,5	350	0,8	200	0,5	180	0,4	-48,6%
Nominal GDP	39717	100,0	44500	100,0	44393	100,0	50068	100,0	12,5%

Source: Budget, Ministry of Finance

The French Treasury is present in more than 100 countries through its Economic Departments. To learn more about its missions and network: <https://www.tresor.economie.gouv.fr/Institutionnel/our-international-network>

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