SUMMARY

1. Since the last TPR in 2012, real GDP has grown at an average annual rate of approximately 6.8%, and reached nearly 7.9% in 2017/18. Growth has been driven mainly by the ready-made garment (RMG) sector; consequently, the economy has continued to diversify away from an agrarian to a more manufacturing-based economy, supported by abundant low-cost labour. Growth has resulted in a decline in poverty levels, which fell to 21.8% in fiscal year (FY) 2018, and an improvement in other social indicators. In addition to providing a stimulus to growth, sound macroeconomic policies have contributed to stable inflation, moderate public debt, and greater resilience to external shocks. As a result, Bangladesh reached the World Bank's threshold for lower-middle-income country status in 2015, and is on course to graduate from least developed country (LDC) status in 2024. Furthermore, growth has been led by strong domestic demand, with private consumption contributing to about two thirds of the growth. However, the informal nature of a considerable portion of the economy implies that GDP is significantly underestimated, and it possibly undermines the effectiveness of government policy.

2. Sustaining growth would depend on continued reforms. To address structural impediments, action was taken in areas such as taxation, improving the business environment, enabling private participation in public infrastructure projects – particularly in the power and transport sectors – and labour policy. The authorities have also tried to address these and other trade-related impediments in their reform and growth agenda, which is detailed in the 7th Five-Year Plan (FY 2016-FY 2020).

3. During the review period, the focus of monetary policy has remained unchanged, namely to contain inflation and ensure an uninterrupted supply of credit to the productive sector of the country. The easing of the monetary policy stance in FY 2018 was prompted by the tightening of the liquidity condition, due to the widening current account deficit and the weakening of the balance of payments. Bangladesh continues to have a managed floating exchange rate, with the central bank intervening in the foreign exchange market to keep the exchange rate relatively stable against the US dollar. During the period under review, the fiscal deficit has remained in the 3%-5% of GDP range. In FY 2017, the fiscal deficit was 3.5% of GDP, below the budgeted target of 5%, while in FY 2018 it rose to 5.0%, also below the budget target. This was achieved through a prudent fiscal stance resulting in spending control, and the slower implementation of development projects, which compensated for revenue under-performance. With tax revenues at around 10% of GDP, there is a pressing need to boost collection; in this context, a new VAT regime, whose implementation has been delayed over some years, is now expected to be implemented by July 2019.

4. During the period under review, Bangladesh's current account balance improved from a deficit of 0.3% of GDP in 2011/12 to a surplus of 1.9% in 2015/16, before deteriorating to a deficit of 3.6% in 2017/18. The deterioration was mainly due to slower exports, higher imports, and a decline in remittances (these rebounded in FY 2018). Consequently, the trade deficit as a proportion of GDP increased from around 3% in 2015/16 to around 7% in 2017/18. Remittances declined, mostly due to the slowdown in the Gulf Cooperation Council (GCC) countries and a shift towards informal remittance channels. Bangladesh's exports continue to be heavily concentrated in textiles and textile articles, which accounted for nearly 90% of total exports in 2017/18. The largest export market in 2017/18 was the EU-28, followed by the United States, Canada, and Japan. The structure of imports is less concentrated than exports. The largest single import category continued to be textiles, which are used as inputs for the garments industry. Over 80% of imports originate from Asia. Bangladesh's largest import suppliers are China, India, and the EU-28.

5. Bangladesh remains open to investment, and encourages it through incentives to various sectors under many schemes, despite its requirement for foreign investment prior clearance/permission on 17 controlled sectors and foreign ownership limitations on e-commerce ventures, as well as four sectors being reserved for government investment. In 2016, the Bangladesh Investment Development Authority (BIDA) was set up. Initiatives to improve the investment environment, including the operation of a one-stop-shop, are ongoing. An array of tax and non-tax incentives remain available to companies operating in designated zones, highest priority activities, and creative and special development sectors. During the period under review, Bangladesh signed new bilateral double taxation avoidance agreements. FDI inflows increased from approximately USD 1.2 billion in 2011/12 to nearly USD 2.6 billion in 2017/18. FDI is concentrated in the energy sector, followed by the garment manufacturing sector, the financial sector and telecommunications. The largest investors in Bangladesh are the United States; the United Kingdom; the Republic of Korea; Singapore; Australia; and Hong Kong, China.

6. During the review period, Bangladesh pursued wide-ranging trade-related and investment policies based on its Perspective Plan of Bangladesh (2010-2021) (Vision 2021), which is focused on, *inter alia,* export-led growth. Export and Import Policies, which continue to set the main trade policy objectives and measures on a three-year basis, remained relatively unchanged. Efforts to formulate a comprehensive trade policy, including production diversification, increased competitiveness, and trade agreement utilization and expansion, are ongoing.

7. Bangladesh, a prominent voice for LDCs, remains committed to the multilateral trading system. During the review period, it improved its WTO commitments by ratifying the Trade Facilitation Agreement (TFA). Its expected graduation from LDC status in 2024 is to have some implications for, *inter alia,* preferential market access to certain major markets, special and differential treatment (S&D)-related WTO benefits (e.g. TRIPS), and the level of official development and technical assistance; the authorities are about to address post-graduation challenges. Bangladesh attaches importance to deepening intra-regional trade ties, *inter alia*, because of its graduation prospects; since its last Review, it has taken initiatives to negotiate regional trade agreements (RTAs) with a few countries. Bangladesh is a participant in several slow-progressing RTA initiatives, of which only the Asia Pacific Trade Agreement, the South Asian Association for Regional Co-operation (SAARC) Preferential Trading Arrangement (SAPTA) and the South Asia Free Trade Agreement (SAFTA) are in force; many of these arrangements have had relatively limited product coverage and trade importance for Bangladesh until now. It remains a beneficiary of the Generalized System of Preferences schemes of several countries, and is entitled to additional LDC-specific preferences under certain schemes. Furthermore, it continued to receive assistance to reach economic development objectives, including export diversification under the Aid for Trade Work Programme and the Enhanced Integrated Framework (EIF) projects. Despite being a long-standing beneficiary of trade-related technical assistance and submitting its WTO GATS enquiry points and TFA category commitments notifications, Bangladesh continued to have a limited regular notifications record (i.e. customs tariff four times) during the review period; at the same time, it had no involvement in trade disputes in the WTO.

8. The general thrust of Bangladesh's trade policy has remained unchanged. The tariff remains one of the main trade policy instruments and a significant source of tax revenue (11.7% of total tax revenue in 2016/17). Although over 95% of tariff lines are *ad valorem*, and therefore transparent, the tariff involves 16 different rates (6 *ad valorem* duties, and 10 specific duties), two more than in 2011/12. As a result of the nomenclature change to HS2017, the splitting of tariff lines and the increase in the coverage of specific rates, the simple average applied MFN tariff was slightly reduced from 14.9% in 2011/12 to 14.8% in 2018/19. Tariff protection varies substantially across and within sectors, averaging 18.1% for agricultural products, an increase from 17.8% in 2011/12, and 14.1% for non-agricultural products in 2018/19 (WTO definitions), a slight decrease since the last Review. *Ad valorem* tariff rates continue to range from zero to 25%; by late-2018 the *ad valorem* equivalents (AVEs) of the specific rates ranged from 0.01% to 9.8%. Almost 53% of tariff lines are subject to rates of 10% or below, and rates of 25% apply to 45.5% of tariff items. To support industrial development and accommodate domestic supply and demand, imports of capital machinery and spare parts, both those for exporters those for a specific use or user, continued to benefit from customs duty concessions and general exemptions. A regulatory duty continues to be levied on a c.i.f. value plus 1% landing charge basis at several rates on 46.4% of all tariff lines, thus raising the average applied MFN border duty burden (i.e. customs and regulatory duties) to 22.8%. Bindings cover 19% of all tariff lines, and all are at *ad valorem* rates; although the average gap of 147.2 percentage points between applied and bound MFN rates suggests low predictability in the tariff, the authorities did not use this scope to raise tariffs during the review period.

9. During the review period, Bangladesh undertook several trade facilitation initiatives in the context of its Customs Modernization Action Plan (2013-2017), and implemented commitments under the TFA and the WCO Revised Kyoto Convention; these initiatives also included regulatory developments, migration to the most recent generation of ASYCUDA World, and a regulation on the introduction of an Authorized Economic Operator scheme. The transaction value method remains in general use, and pre-set customs value or minimum value continue to apply for numerous items.

10. Import prohibitions, restrictions and licensing remain in place to, *inter alia*, protect public morals, and human life or health. The scope of the list of controlled goods, which covers several agricultural and industrial items banned or imported under certain conditions and/or requiring prior approval (including certain used motor vehicles and parts), remained unchanged during the review period. Import bans under this list include shrimps – a major domestic produce and export item –

chassis with two-stroke engines of three-wheeler vehicles, and three-wheeler vehicles with two-stroke engines. Several items (e.g. methanol/methyl alcohol, and crude soya-bean oil) can only be imported by recognized industrial units or stakeholders. During the review period, the legislative framework governing anti-dumping, countervailing and safeguard measures remained unchanged, as Bangladesh faces capacity constraints.

11. During the period under review, there were no changes to Bangladesh's export procedures. Certain products continue to be subject to export prohibitions and restrictions, and export duties ranging from 2%-25% continue to be levied on certain products. Bangladesh also provides export subsidies/cash incentives on selected products (whose range was expanded during the review period), ranging from 2%-20%, and subject to local content requirements. Bangladesh also provides a wide array of other support measures to export sectors, including concessional tariffs, a duty drawback system, special bonded warehouses, export processing zones (EPZs), and income tax rebates. Exporters can also avail of concessional credit from banks at a 7% rate of interest for the financing of pre-shipment requirements. Additionally, all exporters also benefit from an income tax exemption on half of the total income from the exports, provided that they do not avail of any other tax incentives under any other scheme. Bangladesh has no export licensing requirements.

12. Measures involving various open-ended tax and non-tax concessions, such as income tax incentives, accelerated depreciation, grants, low-interest loans and cross-subsidized electricity tariffs, continued to support production and trade in agriculture, energy development and supply, and several manufacturing activities, as well as to encourage, *inter alia,* the activities of Cottage, Micro, Small and Medium Enterprises (CMSMEs), the establishment and operation of designated economic zones, product diversification, and regional development. The tax system remains dependent on trade-related taxes, comprising customs duties, regulatory duty, supplementary duty, VAT, advance trade VAT (on imports by commercial importers only), and advance income tax; should all these duties and taxes be considered, the average total tax incidences (TTI) on imports would be equivalent to 59.3%, at rates ranging from zero to 845.6% (semi-finished products of iron or non-alloy steel) in 2018/19. During the review period, corporate income tax rates continued to vary, depending on the activity, and some rates were reduced or raised.

13. The number of Bangladesh Standards (BDSs) increased by 14.2% over the review period; 4.4% (2018) of all standards were adopted in technical regulations (mandatory), whereas about 52% (42% in 2012) were aligned with international standards, and 4.5% (1.5% in 2012) with regional standards. New food safety legislation and institutional improvements were made, to ensure overall coordination in this area.

14. During the review period, as a result of a standstill in the privatization process, state involvement in certain parts of the economy remained important, relatively unchanged, and spread over several activities, including agriculture, fisheries, food, jute, textiles, electricity, petroleum, gas, construction, banking, insurance, telecommunications, and transport. Although several state-owned enterprises are portrayed as being profitable and contributing to employment generation and revenue earning, they are recipients of subsidies, and run significant debt servicing liabilities. Bangladesh, which is not a member of the WTO Agreement on Government Procurement (GPA), continues to use public procurement to benefit domestic suppliers through price preferences of up to 7.5% in the case of works and up to 15% in the case of goods. Its procurement regime remains centralized, and is operated through an electronic government procurement system, whose coverage is being expanded.

15. During the review period, the competition policy regulatory and institutional framework was put in place. The legislation covers all areas, except for practices related to those goods and services which are controlled by the Government in the interest of national security and not open to the private sector; matters relating to import and export cartels (including exclusive dealership arrangements) are yet to be dealt with. State-owned enterprises continued to influence domestic pricing in certain areas (e.g. essential commodities and energy). The consumer rights regulatory and institutional framework remained unchanged.

16. Bangladesh, which, as an LDC, benefits from a renewed extension of the transition period for the full implementation of the provisions of the TRIPS Agreement, has sought to strengthen intellectual property rights (IPR) protection, by passing new or amending existing legislation on geographical indications and trade marks; further changes and developments are expected in patents, designs and plant variety and farmers' right protection. Despite a slight improvement,

institutional and other constraints have continued to impede the effective enforcement of existing legislation.

17. Bangladesh's climate-sensitive agricultural sector continues to make a significant, albeit steadily declining, contribution to the economy (13.7% of GDP in 2017/18), and accounts for a large portion of employment and rural income, and the expansion of exports. Self-sufficiency remains of high importance, and action was taken to address relevant challenges. Several long-standing and new policies have been focused, *inter alia,* on self-sufficiency in food grain production, improving food and nutrition security, broadening the export base through diversification of exports, and developing and commercializing biotechnology.

18. During the review period, average tariff protection for agriculture increased, and remains higher than the overall applied MFN average. Several agricultural commodities remain subject to export restrictions/prohibitions to ensure adequate domestic supply. Cash incentives continue to promote exports of certain agricultural products. To scale up productivity, domestic support measures included concessional credit for the purchase of agricultural inputs; credit support regarding the storing and marketing of agricultural products; procurement of rice and wheat from poor farmers; lower electricity tariffs for irrigation pumps; and a reduction on electricity invoices of agro-based industries. The Trading Corporation of Bangladesh maintain a buffer stock of selected essential commodities, to stabilize their market prices. Most of the product-specific aggregate measures of support (AMS)-related expenditure was used for price support for rice and wheat, and non-specific AMS was mainly focused on subsidizing fertilizer inputs. Bangladesh is one of the world's largest inland fishing nations, with shrimp being an important agricultural export. The National Shrimp Fish Policy has been in place since 2014. Average MFN tariff protection for fish and fishery products remains high (23.8% in 2018/19, 23.4% in 2011/12 on a HS basis), and certain support measures, including concessional loans, are available for fish production and processing.

19. The mining sector's importance rose slightly from 1.7% of GDP in 2011/12 to 1.8% in 2017/18. The state-owned Bangladesh Oil, Gas and Minerals Corporation continues to engage in, *inter alia*, coal and granite mining, the development and marketing of minerals, and production sharing contracts. Bangladesh's energy structure remains simple, with natural gas meeting almost 71% (2017/18) of total commercial requirements. The country is becoming more dependent on energy imports (e.g. oil and electricity) because consumption is growing faster than indigenous production. Several tax incentives remain available to investors in the sector. Energy tariffs, prices and charges continue to be regulated by the Bangladesh Energy Regulatory Commission. State involvement remains in place regarding hydrocarbons, including an oil refining monopoly, and in the generation and distribution of electricity. Subsidies were provided for the import of petroleum products until 2013/14 but, following the world oil price drop in recent years, no subsidy was required in the periods 2015/16 and 2016/17. An Energy Security Fund is to support projects for exploring, extracting, purifying, transmitting, and distributing gas, importing liquified natural gas (LNG), and undertaking other related projects. Retail electricity tariffs continue to differ according to consumer category and voltage level (low, medium, high, extra-high), therefore involving cross-subsidization elements; as at 2018, the flat tariff for agricultural irrigation pumping was one quarter of the highest tariff, which was charged on construction, and was followed by those on industry and commercial and office activities.

20. Manufacturing, an increasingly important activity (19% of GDP and 96.8% of total exports in 2017/18), remains heavily dependent on the labour-intensive textile and RMG sectors, although efforts are being undertaken to expand the relatively narrow industrial base. In addition to several policies in place, the National Industrial Policy 2016 promotes, *inter alia,* sustainable and inclusive industrial growth, infrastructural transformation, and diversification of the economic base while focusing on CMSMEs. Average tariff protection on industrial goods stands at 13.2% in 2018/19, a slight reduction from 13.9% in 2011/12 (on a HS basis); textiles and textile articles, and footwear, headgear, etc. attracted the highest average tariff rates, of 20.4% and 25%, respectively. CMSMEs mainly engaged in manufacturing have been assisted through industrial loans and other additional support. Some highest-priority activities with non-utilized potential benefit from, *inter alia,* corporate income tax rebates, concessional loans (including for export credit), and possible financial benefits or subsidies for utility services. Relatively similar assistance is available to RMG firms and for the pharmaceuticals industry, as Bangladesh kept taking advantage of the transition period during which LDCs do not have to protect or enforce patents or undisclosed information relating to pharmaceuticals. The jute industry continues to benefit from compulsory jute packaging

requirements for 17 items, reduced corporate income tax rates, the highest level of tariff protection (25%), and a cash incentive subsidy for exports (varying from 5% to 20% on the f.o.b. value).

21. During the review period, the services sector remained the main contributor to GDP, despite a slight decrease from 56.2% (2011/12) to 55.9% (2017/18). Bangladesh's GATS commitments remained unchanged; the SAFTA includes provisions on trade in services.

22. Banking and insurance activities continued to expand, with bank assets having grown almost threefold. Microfinance institutions remain the dominant players in rural financial markets. Regulatory improvements in banking covered, *inter alia*, liquidity indicators, risk-based capital adequacy, the reporting format, and the regular monitoring of fraud/forgery. The capital shortfall in some banks, accumulated non-performing loans (NPLs) in state-owned commercial banks, and weakening corporate governance across the board have affected the stability of the financial sector; the NPL rate in the banking system increased from 6% in 2011/12 to 10% in 2016/17. Several regulatory reforms, largely focused on the Bangladesh Securities and Exchange Commission's operational framework, have been undertaken to strengthen the capital market. The insurance sector remains rather small, and the vast majority of the population remains untapped across product segments. Half of the re-insurable general insurance business is required to be re-insured with the state owned Shadharan Bima Corporation (SBC), and the remainder may be re-insured either with the SBC or with any other insurer, whether in or outside of Bangladesh.

23. The telecommunications sector continued to expand, with mobile telephony and Internet user penetration rising. State involvement in certain telecom activities persists. Strategic policies for developing a digital Bangladesh and providing affordable telecommunication services led to institutional and regulatory developments involving the creation of the Ministry of Posts, Telecommunications and Information Technology in 2014, and the issuance of directives on services and tariffs, which require all tariff structures to comply with the official cost model. Universal service obligations remain in place, and number portability was introduced in 2018.

24. Bangladesh's transport industry continues to face challenges. During the review period, policies were put in place to improve connectivity. At least 40% of the sea-borne cargoes relating to foreign trade must be carried by Bangladesh-flag vessels, unless no national-flag vessel or flag vessel of the trading country is available. No foreign-flag vessel may carry Bangladeshi coastal trade cargoes. The two main trade cargo ports remain state-owned and -operated; projects to energize operating activities were undertaken. During the review period, air freight dropped dramatically, and the state-owned Biman Bangladesh Airlines remained the dominant player in the market. Bangladesh has continued to pursue greater integration in its aviation into international markets. Its policy has targetted enhancing operational facilities of existing airports and developing new ones. Several projects are underway to improve rail and road transportation.

25. Tourism (1% of GDP in 2017/18) is considered as a key driver for future growth, economic diversification and poverty reduction. Policy priorities in the industry include the expansion of fixed infrastructure and the upgrade of facilities. In this context, some public-private partnership projects have been underway.

26. Bangladesh's short-term growth outlook remains robust, and the economy is expected to grow at its current level. However, internal risks may stem from the effects of possible political developments on investor sentiment; rising inflation due to higher food prices; a sustained increase in NPLs and weak governance in the banking sector, affecting growth-supporting credit; and a further deterioration in the financial health of state-owned commercial banks. Exogenous risks may involve the impact of global trade conflicts on the Bangladeshi economy. If the RMG sector is excluded from the increase of customs tariffs in major export markets, then the direct impact could be relatively small given Bangladesh's limited integration in the global supply chain. However, in addition to the ongoing reforms, which address diversification and competitiveness, improvement of the business climate and fiscal reform, the authorities recognize the need to undertake further reforms, including infrastructure development promoting rural growth and technical/vocational training, to sustain the inclusive and widespread growth that has been achieved. These reforms would help Bangladesh attain its economic and welfare policy objectives and further integrate into the world trading system.