The Bangladesh Quarterly Economic Update (QEU) has been produced by the Bangladesh Resident Mission of the Asian Development Bank since March 2001. The QEU provides information and analysis on Bangladesh’s macroeconomic and sector developments, key development challenges, and policy and institutional reforms. The QEU has wide readership in government, academia, development partners, private sector, and civil society.

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<td>H. Kim, South Asia Department (SARD)</td>
</tr>
<tr>
<td>Country Director</td>
<td>K. Higuchi, Bangladesh Resident Mission (BRM), SARD</td>
</tr>
<tr>
<td>Team leader</td>
<td>M. Z. Hossain, Principal Country Economist, BRM, SARD</td>
</tr>
<tr>
<td>Team members</td>
<td>S. Viswanathan, Economist, BRM, SARD</td>
</tr>
<tr>
<td></td>
<td>S. Rahman, Senior Economics Officer, BRM, SARD</td>
</tr>
<tr>
<td></td>
<td>M. G. Mortaza, Senior Economics Officer, BRM, SARD</td>
</tr>
<tr>
<td></td>
<td>B. K. Dey, Economics Officer, BRM, SARD</td>
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<tr>
<td></td>
<td>F. Ahad, Associate Programs Analyst, BRM, SARD</td>
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Macroeconomic Developments

Highlights

- Gross domestic product increased by 6.1% in FY2014
- Growth is supported by macroeconomic stability
- Agriculture growth was higher
- Industry growth moderated in FY2014
- Inflation is slowing in recent months
- Capacity deficits in line agencies need to be addressed to increase infrastructure investment
- Better business climate essential for boosting private and foreign direct investment

Sector Performance and Economic Growth

1. Gross domestic product (GDP) growth in FY2014 (ended 30 June 2014) was slightly higher (6.1%) than in FY2013 (6.0%). Public investment rose to 7.3% of GDP, from 6.6% a year earlier, contributing to higher GDP growth, although private investment declined from 21.8% of GDP to 21.4%. Private consumption contributed moderately because of weaker remittance inflows. Net exports boosted GDP growth, with export earnings expanding more than import payments. GDP growth was reasonably broad based as agriculture and services recorded higher growth, although industry growth slowed.

2. GDP growth in FY2015 is projected at 6.4% (Figure 1). Private consumption is expected to pick up as remittance inflows strengthen, and contribute to GDP growth. Exports are expected to perform better in the second half of the year. The government is stepping up project implementation to improve public investment in infrastructure.
3. Several downside risks could, however, affect the GDP growth projection. Renewed political unrest could reduce investor confidence and slow down economic activity. Weak recovery in the European Union economies could impede export growth. Unfavorable weather is always a risk factor (paras. 61–85).

4. Macroeconomic management remained sound. The central bank’s cautious monetary policy stance contributed to gradually lowering the inflation rate since January 2014. In the FY2015 budget, the authorities took several revenue reform measures with a view to boosting revenue collection and keeping the fiscal deficit under control. In FY2014, the current account balance was in surplus.

5. Bangladesh needs to significantly increase private investment to shift the economy to a higher growth trajectory. To encourage higher private sector investment, more public investment will be needed especially for addressing deficits in power supply and skills shortages. Public investment will also need to rise for improving urban infrastructure and services, and transport connectivity; and developing port facilities. To this end, greater attention will be needed to strengthen project implementation capacity in public sector agencies.

6. The World Economic Forum’s Global Competitiveness Report 2014–2015 ranks Bangladesh 109th of the 144 countries surveyed, slightly better than the previous year’s 110th position. In terms of infrastructure quality, Bangladesh ranks 130th of 144 countries. In its perception survey, the report found that 21.0% of the business firms considered that infrastructure shortage is the major problematic factor for doing business, followed by corruption (20.7%) and inefficient government bureaucracy (15.3%). In infrastructure, although power generation capacity has been expanding, in part through small private providers, power shortages intensified, as growing demand outpaced supply. In the World Bank’s Doing Business 2014, Bangladesh ranks last among 189 countries for electricity delivery. The Global Competitiveness Report 2014–2015 found that 9.0% of the selected enterprises considered political unrest as a major problem for doing business. Prolonged political unrest prior to the January 2014 parliamentary elections affected investor confidence.

7. To increase foreign and domestic private investment, create jobs, and encourage growth, the government plans to set up five special economic zones, aimed at providing all logistical facilities, and is implementing several measures to improve the business climate. The introduction of alternative dispute resolution for income tax, value-added tax, and customs duties will contribute to reducing the administrative burden and cost of paying taxes. Current efforts to automate administration of the judicial system will contribute to shortening delays.
in enforcing contracts, while efforts for the processing of exports and imports will facilitate cross-border trade.

**Agriculture**

8. Agriculture plays a key role in ensuring food security and accelerating poverty reduction. About three-fourths of Bangladesh population live in rural areas and are directly or indirectly dependent on the sector. About 47.0% of the total labor force is employed in agriculture, although the share of agriculture in GDP is declining (19.0% in FY2006 to 15.9% in FY2014). Given limited cultivable land, agriculture output must be increased by raising productivity and diversifying sector activities into the production of high-value products. To increase farm labor productivity, labor will need to be shifted to higher productivity manufacturing and services, primarily in agribusiness, and small and medium-sized enterprises (SMEs).

9. Agriculture grew by 3.3% in FY2014 after experiencing two consecutive years of lower growth. The improved performance was aided by good weather and continued government support. The crop and horticulture subsector, accounting for 55.8% of the agriculture sector, grew by 1.9%, up from 0.6% the year earlier. Noncrop subsectors are also gaining momentum; they are crucial for generating rural employment. Within noncrop agriculture, fisheries, which account for 22.6% of the sector, grew by 6.5%, up from 6.2%; animal farming, which accounts for 10.9% of the sector, rose marginally by 2.8%, up from 2.7%; and forestry, which accounts for 10.7% of the sector, grew marginally from 5.0% to 5.1%.

10. Despite land shortages and often unfavorable weather conditions, agriculture has experienced a steady rise in food grain production, due to increasing use of high-yielding variety seeds, more balanced use of fertilizers, better flood control and irrigation, and more attention to credit disbursements. Based on the final Bangladesh Bureau of Statistics estimates, food grain production (rice and wheat) reached an all-time high of 35.7 million tons (2.33 million tons of aus, 13.02 million tons of aman, 19.01 million tons of boro, and 1.30 million tons of wheat) in FY2014; 1.6% higher than the 35.1 million tons in the previous year (Figure 2). Rice production was 34.4 million tons. A good boro harvest followed the good aus and aman harvests; with production rising by 1.1% to reach the highest ever level of 19.0 million tons in FY2014, from 18.8
million tons in FY2013. Boro yield rose to 4.0 tons/hectare, from 3.9 tons/hectare in FY2013. Boro contributed 55.3% to the total rice production, while aman contributed 37.9% and aus 6.8%.

Industry

11. Supply disruptions and subdued consumption demand due to political unrest cut industry growth to 8.4% in FY2014, from 9.6% a year earlier. Manufacturing growth slowed to 8.7% from 10.3%, reflecting weaker production for the domestic market, although garment production strengthened. Expansion in electricity output slowed to 8.2% from 9.7%. Construction growth picked up to 8.6% from 8.0%, reflecting higher government development spending.

12. Industry growth is expected to rise to 9.2% on a rise in domestic demand supported by increased remittances and a likely pick up in exports in the second half of the year. The central bank’s closer attention to directing more credit to SMEs and to agro-based industries is expected to lead to higher production. Industry’s share of GDP is 27.9%, and employment 17.5%. To address Bangladesh’s stark employment challenge, with about 2.0 million people joining the labor force every year, many more better paying jobs need to be created in the industry sector, especially in manufacturing, where productivity is higher. In addition, construction should be able to absorb workers released from agriculture. Industry needs to provide jobs to workers currently involved in low productivity informal economic activities.

13. The quantum index for medium- and large-scale manufacturing industries rose by 8.2% during July–May FY2014 (Figure 3). Wearing apparel, the major industrial group, grew by 11.2%; textiles fell by 0.8%. Food products rose by 8.0%; pharmaceuticals and medicinal chemicals by 13.6%; other nonmetallic mineral products by 2.3%; leather and leather products by 5.7%; basic metals by 9.9%; fabricated metal products, except machinery, by 9.2%; printing and reproduction of recorded media by 2.6%; electrical equipment by 2.9%, beverages by 29.6%, tobacco products by 4.5%; wood and cork products by 2.0%; other machinery and equipment by 10.0%; computer, electronic, and optical products by 5.8%; rubber and plastic products by 6.8%; motor vehicles, trailers, and semitrailers by 9.9%; and other transport equipment by 13.3%. Coke and petroleum products fell by 9.4%.
14. The general index for small-scale manufacturing (1995/96 base) rose by 5.3% during July–March FY2014 (Figure 4). Food, beverages, and tobacco rose by 3.4%; textiles, leather, and apparel by 19.6%; metal products and machinery by 10.7%; basic metal industries by 6.6%; paper, printing, and publishing by 5.3%; wood and wood products by 2.5%; and other manufacturing industries by 23.6%. Chemicals, rubber, and plastic rose by 1.2%; and nonmetallic products fell by 11.6%.

**Services**

15. The services sector accounts for about 56.2% of GDP. The sector is a major employer of the country’s vast and growing unskilled labor force, providing about 35.0% of employment. Informal services, involving lower productivity, and wages have a higher share of services value added than the higher productivity modern services such as financial intermediation, information and telecommunication technology, education, and health. More jobs need to be created in higher productivity subsectors. To improve higher productivity services sector employability, skills development is necessary in many areas. The quality of mainstream and technical and vocation education also needs to be enhanced. Lessons from international best practices, including from other developing countries like India, Malaysia, and Sri Lanka, will be helpful.

16. Aided by stronger agriculture growth and better export performance, services sector growth in FY2014 edged up to 5.8% from 5.5% a year earlier, despite moderating industrial growth and the impact of prolonged pre-election political unrest. Within the sector, good performance was fairly broad based. Value added by the largest subsector, wholesale and retail trade and repair of motor vehicles, rose by 6.6%, up from 6.2% in FY2013. Value added by hotels and restaurants was up by 6.7%, from 6.5%; transport, communication, and storage growth rose to 6.5% from 6.3%. Growth in real estate, housing, renting, and related business activities remained modest at 4.2%, up from 4.0% because of weaker demand and higher interest rates. Public administration and defense services grew by 7.1%, up from 6.5%. Education services growth rose to 8.2%, up from 6.3%. Health and social work services growth rose to 5.0%, up from 4.8%. Growth of the community, social, and personal services subsector remained unchanged at 3.3%; as did financial intermediation at 9.1%.
17. Within the transport, communication, and storage subsector, value added by land transport in FY2014 rose to 6.2%, up from 5.9% in FY2013. Water transport value-added growth remained unchanged at 3.2%, while air transport grew by 3.4% compared with a 1.6% decline in FY2013.

18. Under the financial intermediation subsector, bank services growth fell slightly to 10.5%, from 10.9% in FY2013. Insurance services grew by 1.8%, up from 0.6%, and other financial services grew by 3.5%, up from 3.1%.

19. Services sector growth in FY2015 is projected to rise to 5.9% with higher growth in industry and agriculture. A rise in domestic demand and a pickup in external trade are expected to contribute.

**Inflation**

20. Year-on-year inflation slowed to 6.8% in September 2014 due to declining food and nonfood prices. Food inflation moderated to 7.6% in September 2014 from 7.9% in September 2013; nonfood inflation slowed to 5.6% from 5.9%.

21. Year-on-year urban inflation moderated to 7.0% in September 2014, from 7.8% the year earlier (Figure 5). Rural inflation remained unchanged at 6.7%. Urban inflation continued to be higher than rural inflation.

22. Rural food inflation rose marginally to 7.5% in September 2014 from 7.4% in September 2013, but rural nonfood inflation slowed to 5.3% from 5.6%. Urban food inflation moderated to 7.9% in September 2014 from 9.1% a year earlier; urban nonfood inflation slowed to 6.1% from 6.4%.

23. Annual average inflation, which slowed from 7.6% in January 2014 to 7.2% in September (Figure 6), is expected to decline to 6.5% by the end of June of FY2015. Although an expected rise in gas, electricity, and fuel prices may exert pressure on prices in the coming months, price pressures
are expected to soften with improved supply, a better crop outlook, a continued cautious monetary policy, and a sizable public stock of food grains. Lower global food and oil prices on the international market will likely contribute.

**Fiscal Management**

24. Revenue collected by the National Board of Revenue (NBR), which is responsible for more than 95.0% of total tax revenue, grew by 15.9% in July–September 2014 over the year earlier period (Figure 7). Collection from domestic indirect taxes grew by 15.7%, and from import-based indirect taxes by 16.1%. Import-based value-added tax grew by 14.9%, customs duty by 14.3%, and supplementary duty by 25.6%, reflecting pick up in economic activity after the election.

25. Within domestic indirect taxes, value-added tax revenue grew by 13.8%, supplementary duty by 20.0%, and turnover tax by 20.5%. Revenue collection from excise duty, which is imposed on a limited number of items, e.g., manually made cigarettes and cinema halls, fell by 6.0%. Revenue from income tax grew by 15.3%.

26. NBR is implementing a comprehensive reform program to enhance policies and modernize tax administration. Reforms seek to encourage voluntary compliance by simplifying and automating the tax payment system and by reducing the discretionary power of tax officials. To enhance the efficiency of customs administration, the Automated System for Customs Data (world clearance system) has been introduced at all major customs houses, aiming to have a national paperless customs management system operating in the near future.
The FY2015 budget targets 19.3% growth in tax revenue, to lift the tax-to-GDP ratio by 0.5 percentage points to 10.1%. The budget aims to boost tax revenue largely through ongoing administrative reforms. Fully attaining this large growth in tax collection, which is higher than growth in nominal GDP, may be a challenge unless discretionary tax measures are adopted.

Annual Development Program (ADP) implementation was low at 9.0% during July–September 2014. The top 10 ministries and divisions, which received 71.0% of total allocations, utilized on average only 10.0% of the total allocation. The Local Government Division utilized 16.0% of allocated funds, followed by the Ministry of Education 13.0%; the Ministry of Primary and Mass Education 11.0%; the Bridges Division 9.0%; the Power Division and the Energy and Mineral Resources Division, 8.0% each; the Ministry of Railway, the Road Transport and Highways Division, and the Ministry of Housing and Public Works, 6.0% each; and the Ministry of Health and Family Welfare 4.0%.

Public spending, both current and under the ADP, is budgeted to grow by 15.9%, with current spending rising by 14.3% and the ADP by about 33.0%. Fully implementing a much larger ADP could be challenging in view of the weak capacity of line agencies. The budget deficit target is set at 4.4% of GDP, the same as in FY2014, with 64% of deficit financing from domestic sources and the balance from external sources. While domestic borrowing is assumed to rise modestly by 5.6%, a steeper rise of 30.7% in net foreign borrowing is envisaged.

Monetary policy continues to focus on containing inflation and supporting growth. With inflation still remaining above target (para. 38), the central bank’s main policy rate (repo) remains unchanged at 7.25%. In addition, the central bank increased the cash reserve requirement by 50 basis points in June 2014 to remove part of the excess liquidity resulting from the rise in foreign exchange reserves over the previous months. The central bank also conducted regular auctions of Treasury bills to regulate liquidity growth in the banking system. As private sector lending growth slowed, demand for Treasury bills rose and interest rates on all kinds of Treasury bills declined. The weighted average yield of 91-day Treasury bills declined to 6.8% in September 2014 from 8.5% in September 2013. Similarly, the yields of 182-day bills declined to 7.4% from 10.1%, and of 364-day bills to 7.6% from 10.6%. The weighted average yield of 30-day Bangladesh Bank bills declined to 5.4% in June 2014 from 7.7% in September 2013. The central bank attached priority to improving the performance of state-owned commerical banks through closer monitoring and supervision in line with memorandums of understanding signed with each bank board.
31. Broad money growth slowed to 15.0%, year-on-year in August 2014 from 16.3% in August 2013 (Figure 8), and it remained lower than the half yearly (December 2014) monetary program growth target of 16.0%. Private domestic credit growth rose marginally to 11.4% in August 2014 from 11.2% in August 2013, amid continued weak domestic demand, remaining below the December 2014 target of 14.0%. Although domestic bank lending growth remained modest, a rise in corporations’ borrowing from foreign sources and tighter loan approval procedures aimed at improving credit quality had an impact on private credit growth. The growth of net foreign assets was marginally higher at 36.8% in August 2014, up from 35.8% a year earlier, reflecting higher remittance inflows. Growth in net credit to the government fell sharply, from 18.6% in August 2013 to 8.3% in August 2014.

32. Reserve money growth accelerated, reaching 16.6% year-on-year in August 2014 (Figure 9), up from 13.4% in August 2013, remaining higher than the December 2014 target of 15.5%. Despite a steep decline (292.2%) in the central bank’s net domestic assets, the higher reserve money growth was caused by the still high growth in its net foreign assets. The large decline in lending by the central bank to the government and to commercial banks contributed to the slower growth in net domestic assets. The growth in the central bank’s net foreign assets was 39.1% in August 2014, lower than the 41.0% growth in August 2013. While the net claims on the government declined by 95.8% in August 2014 compared with the 47.1% decline in August 2013, the claims on banks declined by 40.6% compared with the 36.5% decline in August 2013.

33. The call money rate remained stable due to lower credit demand from business and the central bank’s close monitoring of the day-to-day liquidity position in the money market. On a weighted average basis, the interbank call money rate was 6.9% in September 2014, down from 7.4% in September 2013.
Due to slower private credit growth, liquidity in the banking system remained high despite the cautious monetary policy stance and significant sterilization operations conducted by the central bank. Excess liquidity in commercial banks rose to Tk1.5 trillion at the end of August 2014, up from Tk823.2 billion a year earlier.

Commercial bank lending and deposit rates have been declining. The weighted average lending rate declined to 12.8% at the end of August 2014 from 13.6% a year earlier. In addition to lower private credit demand, the lower cost of funds and higher competition among banks contributed to the decline in the lending rate. The deposit rate also declined to 7.6% from 8.6%, remaining positive in real terms as it was still higher than inflation. The large excess liquidity in the banking system contributed to the lower deposit rate. The interest rate spread of the banking system widened marginally to 5.1 percentage points from 5.0 in August 2013.

Disbursement of industrial term lending fell by 0.5% to Tk423.1 billion in FY2014 from the level a year earlier due to weak private investment demand. Although disbursement to small and cottage industries rose sharply by 22.7%, disbursement to large-scale industries rose by only 3.9% (accounting for 68.6% of total industrial term lending) and to medium-sized industries declined by 17.2% (22.7% of total funds).

In line with the central bank’s policy directives, loans to agriculture and SMEs are being prioritized considering their role in contributing to inclusive economic growth and job creation. Of the Tk155.5 billion targeted for new credit disbursement to agriculture in FY2015, Tk17.2 billion was actually disbursed during the first 2 months of the year, an increase of 11.3% over the same period of FY2014. Outstanding loans to SMEs reached Tk1.2 trillion in June 2014, 19.5% growth over June 2013. The ratio of SME loans to total loans in the banking system rose to 23.6% in June 2014 from 21.6% in June 2013.

The half-yearly monetary policy statement (MPS) for July–December 2014 aims to bring average inflation down to 6.5% by the end of FY2015, while ensuring sufficient credit growth to stimulate inclusive economic growth. The MPS projects that year-on-year M2 growth will remain within 16.0% in December 2014 and private sector credit growth (including borrowing from foreign sources) within 16.5%. The MPS advises banks to lend only for productive purposes to creditworthy clients. It stresses continued need for fiscal–monetary coordination and tracking trends in government borrowing to help keep it within budgetary limits. The central bank will continue its focus on effective monetary policy transmission by strengthening credit and debt markets and preserving external sector balance.
39. Although the ratio of gross nonperforming loans (NPLs) to total loans fell slightly, it remained quite high for state-owned commercial banks (SCBs), 23.2% in June 2014, and specialized banks, 33.1% (Figure 10). The net NPL ratios for SCBs and specialized banks remained higher than the sector average. The regulatory capital position of banking improved. In terms of the risk-weighted capital–asset ratio, SCBs are short (by 1.4%) of meeting the regulatory requirement of 10%, while specialized banks had a larger shortfall. Although the overall asset quality of the banking system improved, that of SCBs remained low, mainly reflecting the legacy of poor lending decisions.

40. On the whole, banking demonstrated considerable progress in 2013. Banks’ balance sheet size grew, although at a slower rate than in 2012. Income-earning assets recorded growth, but loans and advances declined due to weak business confidence. Loans were concentrated within a few sectors. Deposit growth declined slightly as the presence of excess liquidity in the banking system led to lower deposit interest rates, making deposits less attractive. Banking profitability rose, largely because of the extensive loan rescheduling and drop in required provision.

41. With total assets equivalent to 3.2% of GDP in 2013, the role of nonbanking financial institutions (NBFIs) has been growing. In 2013, NBFIs recorded notable growth in total assets, borrowings, deposits, and capital. Asset quality deteriorated, and classified loans and leases rose although moderately, resulting in higher provisioning costs and weaker financial results.

42. The central bank continues work to help improve the financial position of SCBs through enhanced supervision and corporate governance, complemented by recapitalization by the government. As agreed under the International Monetary Fund’s extended credit facility arrangement for Bangladesh, revised performance agreements for SCBs and specialized banks set differentiated ceilings on loan growth depending on bank performance. The central bank will publish the quarterly performance targets on its website to promote public accountability.

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Balance of Payments

Exports grew by only 0.9% during July–September FY2015

43. FY2015 started off with weak export growth with first quarter growth of only 0.9%, significantly down from 21.2% in the corresponding period of FY2014 (Figure 11). The lower growth in part reflects the decline in payments made currently to exporters for weaker orders executed during the last year’s political unrest. The government has set the export target of $33.2 billion for FY2015, 10.0% higher than actual exports in FY2014.

Garment exports rose by 0.5% in July–September FY2015

44. Ready-made garment exports—accounting for about 82.0% of total export earnings—grew by only 0.5% in the first quarter of FY2015, significantly down from 24.2% growth in the first quarter of FY2014. While exports of woven garments declined by 2.7%, earnings from knitwear rose by 3.5%. Garment exports to the European Union rose by 4.8%, but garment exports to the US declined by 7.8%. Woven exports to the European Union rose by 3.1% and knitwear exports by 5.8%; woven exports to the US dropped by 8.8% and knitwear exports by 4.9%.

Export earnings from the European Union grew slowly

45. Among the other major export items, earnings from agriculture products rose by 27.1%, but from jute goods declined by 3.5%, petroleum products by 54.9%, leather by 8.8%, raw jute by 7.1%, and engineering products by 22.2%.

46. Export earnings from the European Union—the key source of the country’s export earnings—grew by only 5.7% in the first quarter of FY2015 to $4.3 billion (55.8% of total export earnings); earnings from the US declined by 8.4% to $1.3 billion (16.9% of the total). Export earnings from newly discovered markets also declined. During the first quarter of FY2015, export earnings from 13 such economies slipped by 0.9% to $1.5 billion (19.5% of total export earnings); 5 garment export earnings from these countries dropped by 4.0% to $950.0 million (15.9% of total garment export earnings).

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5 Australia; Brazil; Canada; the People’s Republic of China; Hong Kong, China; India; Japan; the Republic of Korea; the Russian Federation; South Africa; Thailand; Turkey; and the United Arab Emirates.
47. Following the fire and building collapse accidents, progress has been made in improving safety standards and worker rights in the Bangladesh garment industry under the National Tripartite Plan of Action. Other challenges need to be addressed to enhance market access and boost exports, e.g., improving power supply, transport infrastructure, logistics including port facilities, and urban services; and developing skills. To help promote exports, the central bank recently increased the size of the Export Development Fund, from $1.2 billion to $1.5 billion.

48. Import payments rose by 5.3% in July–August 2014 over the corresponding period of 2013 (Figure 12), with higher imports of food grains (mainly rice), intermediate goods, and capital goods. Imports of consumer goods declined by 11.7% due to lower imports of edible oil and sugar. Food grain imports rose by 7.1% because of rapid growth (222.7%) in rice imports. While imports of intermediate goods rose by 5.4%, imports of capital machinery rose significantly by 52.1% in expectation of a revival in business activity. Among intermediate goods, petroleum imports rose by 72.7%, chemicals by 12.7%, raw cotton by 11.2%, and dying and tanning materials by 53.6%; while fertilizer import declined by 21.3%, oil seeds by 48.1%, and iron, steel and other base metals by 29.4%.

49. During July–August 2014, the value of import letters of credit opened rose by 10.4% because of an increase in letters of credit for consumer goods other than food grain (28.0%), capital machinery (19.3%), and industrial raw materials (12.2%).

50. Remittance inflows rose by 22.6% to $4.0 billion in the first quarter of FY2015 over the $3.3 billion in the corresponding period of FY2014 (Figure 13). Remittance inflows from Saudi Arabia rose by 19.6%, United Arab Emirates by 16.6%, the US by 22.5%, Malaysia by 51.9%, Kuwait by 6.5%, the United Kingdom by 1.1%, and Oman by 55.2%.
Out-of-country jobs for Bangladeshi workers grew slowly

51. Out-of-country jobs for Bangladeshi workers rose slowly (0.2%) in the first quarter of FY2015 (Figure 14). A total of 100,491 Bangladeshis found jobs outside the country during the period, compared with 100,249 in the corresponding period of FY2014. While recruitment in Qatar rose by 62.4%, Saudi Arabia by 57.0%, United Arab Emirates by 49.2%, Bahrain by 18.6%, and Jordan by 13.8%, jobs for Bangladeshi workers declined in Oman by 16.9% and Singapore by 10.9%.

Remittances, if put to more productive use, could contribute much to economic growth. A recent survey found that a substantial share of remittances is spent on food and nonfood items (current spending), and remittances are mostly invested in land, house, and apartment purchases. The survey also shows that migrant workers lack professional education; about 62.0% of Bangladeshi out-of-country workers did not complete secondary education. Attention is needed to develop workers’ skills for out-of-country jobs; this could contribute to boosting remittances in the coming years.

FDI and net receipts of foreign aid rose marginally

53. Net foreign direct investment (FDI) and net receipts of foreign aid inflows rose marginally. Net FDI was $244.0 million in July–August 2014, up from $221.0 million in the corresponding period of 2013. To attract more foreign investment, the central bank relaxed restrictions on foreign investors borrowing from the local market and on their ability to access working capital financing from parent companies. Net receipts of foreign aid (loans and grants) inflows was $129.3 million during July–August 2014, up from $122.4 million in the same period of 2013.

Higher trade, services, and primary income deficits narrowed the current account surplus

54. The trade deficit widened to $999 million in the first 2 months of FY2015, from $790 million in the first 2 months of FY2014, as the expansion in export receipts was slower than for import payments. In spite of the higher receipts from workers’ remittances, higher deficits in the trade, services, and primary income accounts compared with a year earlier lowered the current account surplus to $327.0 million in the first 2 months of FY2015, down from a $656.0 million surplus, the year earlier.

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55. The combined capital and financial accounts recorded a surplus of $662.0 million in the first 2 months of FY2015, significantly up from the deficit of $502.0 million in the first 2 months of FY2014 because of a significantly lower deficit in net trade credit. Despite the lower current account surplus, the higher capital and financial account surplus led the overall balance to show a higher surplus of $782.0 million in the first 2 months of FY2015, up from the surplus of $655.0 million in the first 2 months of FY2014.

56. The central bank’s gross foreign exchange reserves rose sharply to $21.8 billion (nearly 6 months of imports) at the end of September 2014 from $16.2 billion a year earlier (Figure 15). The sharp rise in remittance inflows and the central bank’s large purchase of foreign exchange from commercial banks to prevent the taka from appreciating contributed to the large reserve accumulation.

**Exchange Rate**

57. The weighted average nominal (taka–dollar) exchange rate appreciated slightly from Tk77.8 = $1.00 at the end of September 2013 to Tk77.4 = $1.00 at the end of September 2014 (an appreciation of about 0.5%) (Figure 16). A surge in remittance inflows and the central bank’s active exchange rate management strengthened the value of the taka despite weaker export growth. The taka also appreciated in real effective terms by 6.3% year-on-year at the end of August 2014 because of the nominal appreciation, and higher domestic inflation relative to that of trading partners. This led to some erosion in export competitiveness.
58. The major stock market indicators improved as investors injected more money into securities. The Dhaka Stock Exchange (DSE) broad index grew by 28.9% in September 2014 over September 2013, reaching 5,074.3 points (Figure 17). The market price–earnings ratio rose to 18.6 in September 2014 from 14.4 in September 2013, reflecting some price recovery in the market. Since January 2014, 14 new companies have been listed on the DSE. The DSE market capitalization rose by 33.4% in September 2014 over September 2013. Net foreign portfolio investment declined to $69.0 million in July–August 2014, from $113.0 million in July–August 2013.

59. The Chittagong Stock Exchange (CSE) selected categories index largely followed the trends of the DSE broad index. In September 2014, the CSE index rose by 23.3% over September 2013, and CSE market capitalization rose by 41.5% during the same period.

60. Several factors contributed to the recent rise in stock market indicators. Reforms such as demutualization of stock exchanges, and enhanced surveillance of brokerage houses and merchant banks to improve market discipline and strengthen market monitoring stabilized the market, and helped increase investor confidence. Investors are looking for higher returns (e.g., in stocks) away from bank deposits because of the lower deposit interest rates. The Investment Corporation of Bangladesh released funds under the government refinancing scheme for share investors who were most affected by the 2010 stock market crash. The enhanced collaboration between the central bank and the Bangladesh Security and Exchange Commission is also contributing to ensure capital market stability and growth.
Special Topic: Costs of Climate Change and Adaptation in Bangladesh

Bangladesh and Climate Change

61. Bangladesh is among the countries likely to be worst affected by climate change and variability, with adverse effects on all sectors of the economy, increasing the country’s vulnerability and jeopardizing economic growth. Sea level rise, higher temperatures, enhanced and erratic monsoon precipitation and runoff, more intense tropical cyclones and storm surges, floods, droughts, salinity intrusion, riverbank erosion, and heat and cold waves have all been experienced over the recent past. The country’s geophysical and socioeconomic characteristics tend to exacerbate the impacts of these phenomena.

62. The joint objectives of combating climate change and achieving sustained economic growth for poverty reduction and other Millennium Development Goals are huge challenges for Bangladesh. Addressing these challenges requires immediate and urgent action—higher investment and institutional capacity, and stronger government policies and private sector initiatives. Climate change management will be a complex and highly interactive responsibility involving close coordination among all government sector ministries. For both adaptation and mitigation, the development of institutional and human capacity in the country will be essential for managing investments and identifying intervention areas for research and knowledge management. To this end, Bangladesh can access technical and financial support from key development partners, such as the Asian Development Bank (ADB).

Background and Assessment Methodology

63. ADB conducted a study on regional economics of climate change in South Asia to estimate the cost and benefits of adaptation in six South Asia countries (Bangladesh, Bhutan, Maldives, India, Nepal, and Sri Lanka), focusing on six key sectors: agriculture, terrestrial ecosystems, water, coastal and marine resources, energy, and health. The study used the scenarios from the Fourth Assessment Report of

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Using 2000 as the baseline year, the study projects temperature increases for the 2030s of $0.9^\circ C$–$1.9^\circ C$; the 2050s, $1.6^\circ C$–$2.5^\circ C$; and the 2080s, $2.9^\circ C$–$4.2^\circ C$. The high degree of agreement across the global climate models (GCMs) makes the rising temperature trend a very confident estimate. Precipitation also shows an overall rising trend from the 2000 baseline: 2030 up 7.9%–$12.9\%$; 2050, 9.6%–$26.1\%$; and 2080, 12.4%–$16.5\%$. An ensemble mean estimate from the GCMs for the 21st century is a rise of 5%–10% with medium confidence. The projected sea level rise in South Asia by 2100 under both A2 and B2 scenarios is 0.57 meters, higher than the A2 projected global rise of 0.37 meters. Assessment of inundated areas at less than a 1-meter increment could not be done due to limited vertical resolution of the available elevation data.

**Sector Vulnerabilities to Climate Change**

65. **Agriculture.** It is one of the most vulnerable sectors due to the variability of hydrometeorological parameters (precipitation and drought) and extreme events, such as floods, cyclones, and storm surges. Past droughts have typically affected about 47.0% of the country’s area and 53.0% of the population. Floods affect about 80.0% of the land, causing major crop devastation almost every year. Salinity intrusion in the agricultural lands are also threatening food production in the coastal areas.

66. **Coastal and marine areas.** The 710-kilometer coastline is prone to natural disasters like cyclones, storm surges, and floods. The combination of natural and human-made hazards, such as coastal erosion, high arsenic contamination in groundwater, waterlogging, earthquake, water and soil salinity, various forms of pollution, and risks from climate change, has adversely affected lives and livelihoods of the millions of people in the coastal zone and slowed economic and social development.

67. **Forests and other ecosystems.** Sea level rise, higher temperature, and increased frequency and intensity of cyclone will damage the country’s forest resources, put pressure on many climate-sensitive species, and cause higher erosion and deterioration of soil quality in many upland forested areas. Sea level rise will increase saltwater intrusion, affecting the flora, fauna and whole ecosystem of the Sundarbans, the world’s largest mangrove forest.

68. **Energy.** Projected climatic changes can affect both energy generation (especially hydropower and thermal) and energy demand during hot summer seasons, especially during peak hours. Regular
cyclones and floods cause power supply failures and infrastructure damage. A rise in drought conditions can heighten energy demand, especially for rural irrigation.

69. **Water.** More than 90% of Bangladesh's annual runoff enters the country from outside its borders. There is a high degree of uncertainty about the amount of water that will be available from transboundary rivers in the future. Climate change will cause four major problems that will affect natural water resources in Bangladesh: higher runoff due to higher glacier melt, more and erratic precipitation, sea level rise, and enhanced storm surges and coastal flooding.

70. **Health.** Temperature and precipitation will be the key determinants of the distribution of many water-borne diseases, such as diarrhea and dysentery; and vector-borne diseases, such as malaria and dengue. Climate change will increase exposure directly through changing weather patterns and indirectly through changes in the quality of water, air, and food; and changes in ecosystems, agriculture, industry, and human settlements, of an emerging economy aiming to attain higher and sustainable growth.

**Climate Change Impacts on Key Sectors**

71. **Agriculture.** Climate change is expected to cause a 17.0% decline in overall rice production and as much as a 61.0% decline in wheat production from 2002 levels. This translates into a reduction of 4.5 million tons of rice, with aus rice seeming to be the most vulnerable. Boro rice production would rise with doubling of atmospheric carbon dioxide concentration, but decline by up to 32.0% in moisture stress conditions. Rice yield in the northern part of the country would post some gains through the 2080s (Table 1), but the overall impacts of climate change are expected to be negative.

72. **Coastal and marine areas.** Across the country's regions, the largest inundation from a 1-meter sea level rise would be in Khulna (0.58%), while a temporary inundation area would be greatest in Dhaka (14.0%). Dhaka's population would face the highest risks with about 31.0% affected (Figure 18).
Forest ecosystems. Little change is expected in Bangladesh’s forest carbon pool and net primary production from the 1990s (baseline) through the 2080s. Net biological productivity will increase up to the 2050s, but decline toward the 2080s (Table 2). This implies that forest ecosystems will be unable to compensate for rising metabolic losses due to rising temperature.

Table 1: Impact of Climate Change on Rice Yield in Bangladesh

<table>
<thead>
<tr>
<th>Climatic Region</th>
<th>South Eastern Zone</th>
<th>North Eastern Zone</th>
<th>Northern Part of Northern region</th>
<th>North Western Zone</th>
<th>Western Zone</th>
<th>South Western zone</th>
<th>South Central zone</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Rice Yield (tons/hectare)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aus</td>
<td>3.38</td>
<td>2.95</td>
<td>1.86</td>
<td>2.12</td>
<td>2.08</td>
<td>2.08</td>
<td>2.99</td>
</tr>
<tr>
<td>Aman</td>
<td>3.76</td>
<td>3.68</td>
<td>2.54</td>
<td>2.67</td>
<td>2.33</td>
<td>2.44</td>
<td>3.24</td>
</tr>
<tr>
<td>Boro</td>
<td>4.33</td>
<td>4.43</td>
<td>3.48</td>
<td>3.17</td>
<td>2.79</td>
<td>2.67</td>
<td>3.86</td>
</tr>
<tr>
<td><strong>Expected % Change in 2030</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aus</td>
<td>(5.3)</td>
<td>0.8</td>
<td>0.6</td>
<td>(1.0)</td>
<td>(2.1)</td>
<td>(2.8)</td>
<td>(3.3)</td>
</tr>
<tr>
<td>Aman</td>
<td>(4.9)</td>
<td>1.1</td>
<td>1.3</td>
<td>0.4</td>
<td>(1.9)</td>
<td>(2.6)</td>
<td>(3.0)</td>
</tr>
<tr>
<td>Boro</td>
<td>(4.6)</td>
<td>1.5</td>
<td>2.0</td>
<td>0.6</td>
<td>(1.6)</td>
<td>(2.2)</td>
<td>(2.6)</td>
</tr>
<tr>
<td><strong>Expected % Change in 2050</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aus</td>
<td>(10.3)</td>
<td>(1.5)</td>
<td>2.5</td>
<td>(2.7)</td>
<td>(5.8)</td>
<td>(6.2)</td>
<td>(7.1)</td>
</tr>
<tr>
<td>Aman</td>
<td>(9.5)</td>
<td>(0.8)</td>
<td>3.5</td>
<td>(2.3)</td>
<td>(5.3)</td>
<td>(5.6)</td>
<td>(6.8)</td>
</tr>
<tr>
<td>Boro</td>
<td>(8.5)</td>
<td>3.5</td>
<td>5.2</td>
<td>1.9</td>
<td>(4.6)</td>
<td>(4.9)</td>
<td>(6.4)</td>
</tr>
<tr>
<td><strong>Expected % Change in 2080</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aus</td>
<td>(21.2)</td>
<td>(3.4)</td>
<td>4.2</td>
<td>(5.6)</td>
<td>(12.3)</td>
<td>(14.0)</td>
<td>(16.5)</td>
</tr>
<tr>
<td>Aman</td>
<td>(19.9)</td>
<td>(2.7)</td>
<td>5.5</td>
<td>(5.1)</td>
<td>(11.9)</td>
<td>(13.2)</td>
<td>(15.2)</td>
</tr>
<tr>
<td>Boro</td>
<td>(18.6)</td>
<td>6.4</td>
<td>7.3</td>
<td>3.6</td>
<td>(11.5)</td>
<td>(12.3)</td>
<td>(13.9)</td>
</tr>
</tbody>
</table>

() = negative.
Table 2: Forest Carbon Pool, Net Primary Production, and Net Biological Productivity in Bangladesh under Scenarios A1B, A2, and B1

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forest Carbon Pool (grams carbon/square meter)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1B</td>
<td>20,135</td>
<td>18,611</td>
<td>18,394</td>
<td>19,133</td>
<td>(4.98)</td>
</tr>
<tr>
<td>A2</td>
<td>20,135</td>
<td>18,863</td>
<td>19,472</td>
<td>20,829</td>
<td>3.45</td>
</tr>
<tr>
<td>B1</td>
<td>20,135</td>
<td>20,829</td>
<td>20,920</td>
<td>19,491</td>
<td>(3.20)</td>
</tr>
<tr>
<td><strong>Net Primary Production (grams carbon/square meter/year)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1B</td>
<td>1,643</td>
<td>1,899</td>
<td>1,971</td>
<td>1,648</td>
<td>0.30</td>
</tr>
<tr>
<td>A2</td>
<td>1,643</td>
<td>1,869</td>
<td>2,002</td>
<td>1,621</td>
<td>(1.34)</td>
</tr>
<tr>
<td>B1</td>
<td>1,643</td>
<td>1,621</td>
<td>1,851</td>
<td>1,703</td>
<td>3.65</td>
</tr>
<tr>
<td><strong>Net Biological Productivity (grams carbon/square meter/year)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1B</td>
<td>(54.0)</td>
<td>(13.6)</td>
<td>48.2</td>
<td>(541.7)</td>
<td>(903.15)</td>
</tr>
<tr>
<td>A2</td>
<td>(54.0)</td>
<td>(17.2)</td>
<td>97.0</td>
<td>(558.3)</td>
<td>(933.89)</td>
</tr>
<tr>
<td>B1</td>
<td>(54.0)</td>
<td>(391.7)</td>
<td>60.7</td>
<td>(187.4)</td>
<td>(247.04)</td>
</tr>
</tbody>
</table>

( ) = negative value.


74. **Energy.** The trend of rapidly rising energy use of the last few decades is expected to continue. Using the 1990s baseline, the energy supply–demand gap in Bangladesh due to climate change (across scenarios) is estimated to increase by 1.6%–5.0% by the 2030s, and about 3.7%–6.2% by the 2050s (Figure 19).
75. **Water resources.** Due to variations in intensity and distribution of rainfall, South Asia as a whole will experience water deficits. In Bangladesh, the water deficit will be roughly 42 billion cubic meters (m$^3$) in the 2030s and 40 billion m$^3$ in the 2050s (Figure 20). The average number of consecutive dry days is estimated to be 74 in the 2030s, 79 in the 2050s, and 77 in the 2080s.

![Figure 20: Water Supply and Demand in Bangladesh under A1B Scenario](image)


76. **Health.** Climate and anomalous weather events will likely result in rising vector- and water-borne diseases, with slightly more cases during the monsoon months than in winter. The annual cases of morbidity and mortality due to dengue and malaria could rise by 2090 (Table 3).

### Table 3: Predicted Morbidity and Mortality from Vector- and Water-Borne Diseases in Bangladesh under Scenarios A1B, A2, and B1

<table>
<thead>
<tr>
<th>Disease, Period</th>
<th>A1B</th>
<th>A2</th>
<th>B1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Morbidity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dengue 2030</td>
<td>3,315</td>
<td>92</td>
<td>4,807</td>
</tr>
<tr>
<td>2050</td>
<td>5,236</td>
<td>130</td>
<td>9,158</td>
</tr>
<tr>
<td>2090</td>
<td>14,830</td>
<td>195</td>
<td>47,100</td>
</tr>
<tr>
<td>Malaria 2030</td>
<td>101,450</td>
<td>590</td>
<td>147,102</td>
</tr>
<tr>
<td>2050</td>
<td>119,750</td>
<td>638</td>
<td>209,443</td>
</tr>
<tr>
<td>2090</td>
<td>138,600</td>
<td>795</td>
<td>440,194</td>
</tr>
<tr>
<td>Diarrhea 2030</td>
<td>2,820,000</td>
<td>2,620</td>
<td>4,089,000</td>
</tr>
<tr>
<td>2050</td>
<td>3,340,000</td>
<td>4,020</td>
<td>5,841,660</td>
</tr>
<tr>
<td>2090</td>
<td>4,310,000</td>
<td>6,835</td>
<td>13,668,560</td>
</tr>
</tbody>
</table>

Impact Assessments

77. The loss of arable land due to climate change would affect the country’s real GDP. The impact on rice production, water availability, and infrastructure would be significant. The climate change impact on labor supply would also affect production.

78. The decline in arable land (due to degradation and permanent inundation), water availability, and rice production would push up rice prices, and cause higher inflation. The loss of arable land would reduce exports and imports, and put pressure on the stability of the country’s balance of payments.

79. Climate impacts on labor supply (with unchanged labor productivity) and infrastructure would depress all economic sectors, with the magnitude rising over time. The industry sector would experience more adverse impacts than agriculture and services. Growing excess demand for electricity would lower the country’s production, exports, household welfare, and affect economic growth.

Economic Implications

80. Integrated assessment modeling (as well as results from a dynamic computable general equilibrium model) show that under a business-as-usual scenario, Bangladesh could lose an equivalent of 2.0% of its GDP by 2050, which would rise to nearly 9.4% by 2100, on average. Losses would be higher, if damage from extreme weather events is included.

81. If the global community takes action in line with the agreements made in recent years by world political leaders (the so-called Copenhagen–Cancun agreements) to keep the global temperature rise below 2°C, the total economic cost of climate change in Bangladesh would be manageable—only about 2.1% of GDP by 2100, a saving of 7.3% of annual GDP equivalent by 2100.

Adaptation Costs

82. To compensate for the reduction in real GDP due to climate change, Bangladesh would need to increase its investment–GDP ratio. For long-term macroeconomic stability and growth, an appropriate response would be to commit to investment where costs or losses due to climate change would be higher than the costs of adaptation.
Adaptation Options, Policies, and Strategies

83. Overall, climate change would have significant negative impacts on the economy. To mitigate these impacts, the government should adopt country specific policies and programs to enhance productivity in key sectors, as well as address cross-cutting issues, such as lack of infrastructure and the high cost of doing business. The country's vulnerability to climate change also calls for the design of growth, employment, and poverty reduction strategies that can offset, in the best possible way, the adverse economic implications of natural disasters.

84. Bangladesh is proactive in climate adaptation and has already developed a wide range of climate change adaptation options, strategies and action plans. In 2005, the government developed the National Adaptation Program of Action after extensive consultations with various stakeholders across numerous sectors of society. In 2008, the government prepared and adopted the Bangladesh Climate Change Strategy and Action Plan (BCCSAP), which was revised and updated in 2009. The BCCSAP focuses on six thematic areas: (i) food security, social protection, and health; (ii) comprehensive disaster management; (iii) infrastructure development; (iv) research and knowledge management; (v) mitigation and low-carbon development; and (vi) capacity building and institutional strengthening. With future paths and events relating to climate change yet to be fully understood and remedial measures uncertain or potentially carrying their own risks, the BCCSAP 2009 remains a living document that can be reviewed periodically and revised to accommodate new scientific findings and updated development priorities of the government. Bangladesh is now developing National Adaptation Plan, Nationally Appropriate Mitigation Action and National Climate Change Policy for heading towards climate resilient development and green growth.

85. Climate change response policies (both adaptation and mitigation) need to be integrated into overall national development strategies to be fully effective. Integration will require not only governance and institutional capacity development and sustained climate financing, but also strong intergovernmental policy coordination and effective regional cooperation in South Asia.
Bangladesh Quarterly Economic Update
September 2014

The Bangladesh Quarterly Economic Update (QEU) has been produced by the Bangladesh Resident Mission of the Asian Development Bank since March 2001. The QEU provides information and analysis on Bangladesh’s macroeconomic and sector developments, key development challenges, and policy and institutional reforms. The QEU has wide readership in government, academia, development partners, private sector, and civil society.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to approximately two-thirds of the world’s poor: 1.6 billion people who live on less than $2 a day, with 733 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.