Bangladesh Economic Update

Monetary Policy Statement, Real sector and Power

August 2010

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Money, Inflation and Power

The current issue of the *Bangladesh Economic Update,* second issue of the current fiscal year, investigates into money, inflation and power. In particular, the issue focuses on the recently declared monetary policy statement by Bangladesh Bank in which it has stated about its instruments in addressing the inflationary pressures and the processes to enhance to credit in agriculture, SMEs, and renewable energy. That is why the ongoing conditions of these sectors and the credit availability have also been focused in this update.

The Unnyan Onneshan in its analysis of National Budget for 2010-2011 has warned that upcoming fiscal is likely to witness an upward inflationary trend as a result of endogenous factors due to increased fiscal deficit leading to increase government borrowing, the failure of the monetary policy to interest rate to fall, leading increased consumption spending.[1]

The main objective of the MPS of Bangladesh bank are maintaining price stability, supporting faster economic growth and poverty reduction.

This *Update* also touches bases the implications of the inflationary pressures and the stated monetary policies on the developments in real sectors and the livelihood of the people.

Monetary Policy and Inflation

The tenth issue of Bangladesh Bank (BB)'s half yearly Monetary Policy Statement (MPS) outlines the monetary policy stance for the second half of 2010. It rightly identifies the inflationary pressure as a major challenge facing the economy despite the fact hardly a few has identified that as a major challenge while making comments on the economy during the ritual of commentaries flooding at the time of the placement of the proposed national budget for the current year. The main objectives of the MPS of the BB are maintaining price stability, supporting faster economic growth and poverty reduction.

Bangladesh Bank has raised CRR and SLR for scheduled bank by 0.5 percentage point from may 2010 to restrain the expansion of monetary base.

The BB wants to stabilize the existing inflationary pressure by putting a break on money supply growth. The suggested tools to influence the growth of money stocks are: restriction of broad money growth path, adjustment in cash reserve ratio (CRR) and statutory liquidity requirements (SLR) and restriction in the capital accounts. All the banks were required to maintain five percent of their total demand and time liabilities to Bangladesh Bank as CRR and no less than 18.5 percent as SLR. But BB has raised the CRR and SLR for scheduled banks by one half percentage point from May2010 to restrain the expansion of monetary base.

The BB plans to continue to support sufficient credit availability to agriculture, small and medium enterprises (SMEs), renewable energy and other productive sectors, but it also intends to strongly discourage lending expansion for wasteful consumption and unproductive speculative investment. It also has stated that workers' remittance growth would settle down and import growth would increase at a moderate level to ease out the inflows driven appreciation pressure of taka and also the monetary expansion, resulting out of such pressures.

The Table - 1 shows the key monetary targets of the monetary programme for FY-11:

Table -1: Monetary Aggregates (Year over year growth in percent)

	Categories	***FY 2009***	***May 2010***	***June 2010 (estimated)***	***Jun 2011 (Programme)***	***Percentage point change (4 over 2)***
		1	2	3	4	
1	**Credit to the public sector (including Government)**	20.3	-5.9	9.4	25.3	31.2
2	**Credit To the private sector**	14.6	22.3	21.1	16	-6.3
3	**Broad money**	19.2	22.9	18.8	15.2	-7.7
4	**Reserve Money**	31.9	25.2	17.1	13	-12.2

Source: Monetary policy department, Bangladesh Bank.

According to the MPS, the broad money supply that includes currency in circulation and demand deposits will be reduced by 7.7 percentage point from the current base (May 2010) and so will the reserve money by 12.2 percentage point. The principal burden of this reduction will be put on to the private sector as its credit availability will be reduced by 6.3 percentage point. On the other hand it will enhance credit to the government and the public sector by a sharp increment of 31.2 percentage point (Table – 1).

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Inflation

Bangladesh has been facing an upward trend in inflation over the last couple of years. The inflation has a huge bearing on the inequality as the inflation expands the wealth of the asset owners while it reduces the net consumption of the poor as the prices of goods and services go up. If a poor wants to maintain the same level of food consumption, it reduces his or her other consumption, including health, education, and investment. Such increments in price without corresponding rise in disposable income restrain the Government's goal of reduction in poverty. Therefore, the monetary statement rightly points out that "gains from inflation go to the affluent while the pains go to the low income population groups."

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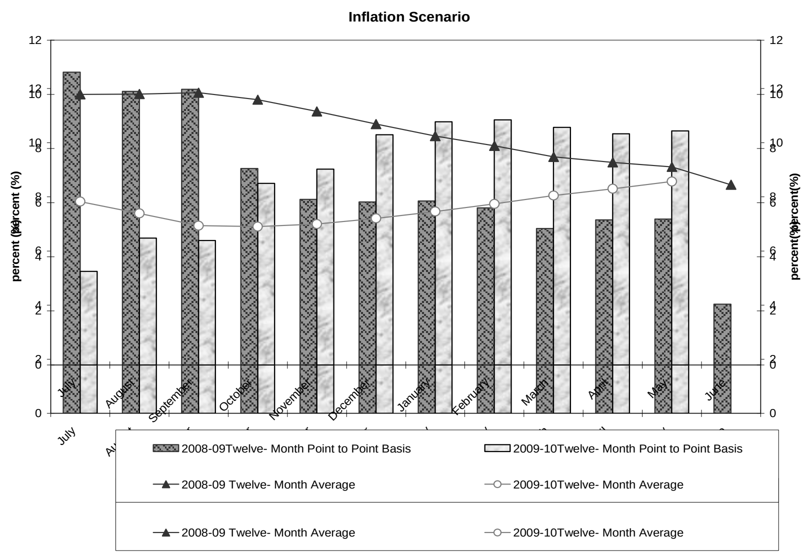
The national budget of FY-2011 targets to contain the average inflation within 6.50 percent. But the government in previous years was not been able to achieve its target. For example, the inflation overshot the target of 6.5 percent in 2008/09.

Figure1: Inflation Scenario of the last two fiscal years



Source: Bangladesh Bank, Bangladesh Bureau of statistics

The maintaining inflation within the target has proved to be difficult (Figure 1). The point-to-point basis inflation rate in FY 2009-10 has shown upward trend. An average estimation based upon the available data except June, 2010 suggest that the twelve month average inflation rate would stand at 7.2 per cent.

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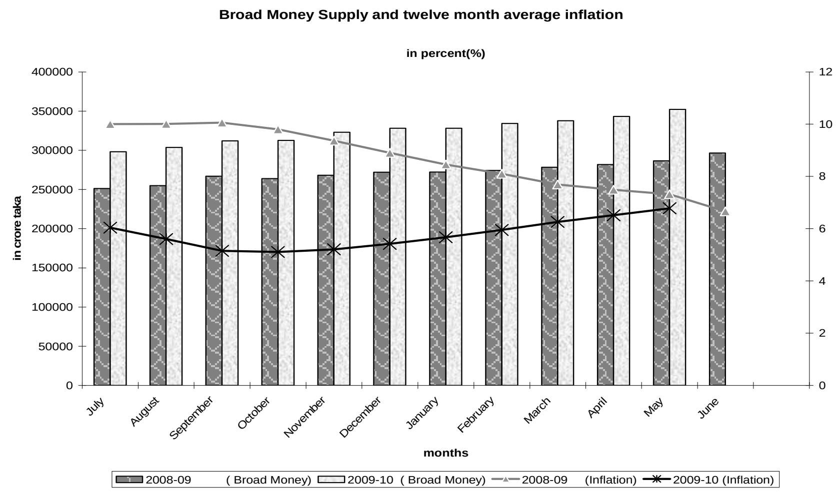
The achievement of the targeted inflation rate, set in the national budget for this year, might be difficult, if this is analysed on the basis of the trend witnessed in the previous years. The inflation has peaked up from 6.04 percent (July 2009) to 6.78 per cent (May 2010), showing an upward trend. The opposite is seen as twelve month average inflation rate reduced at a slower rate from 10 per cent (July 2008) to 6.66 percent (June 2009).

The achievement of the targeted inflation rate, set in the national budget for this year, might be difficult

The international commodity prices are also showing signs of upward movement. As Bangladesh is a net food importing country, the inflation rate has started increasing from the mid of 2009. The BB also points out double-digit inflation in India, from which the country imports highest amount of goods and services, as a concern.

Ii is important to point out whether such textbook approach, favoured by the IMF, to reduce the money supply is the best way to contain inflationary pressures in Bangladesh.

Figure 2: Broad Money supply and average inflation



Source: Monthly economic trends, July 2010, Bangladesh Bank

The BB has taken orthodox text-book approach in containing inflation through reduction in supply of broad money. It is important to venture into a rigorous research to investigate as to whether increase in broad money supply is the major source of inflation in Bangladesh. Apparently, if the data of last two years of supply of broad money is compared with inflation, a definite relationship cannot be established. It is observed from the data of Bangladesh Bank that in July 2008-2009, the broad money supply was Tk. 251251.7 crore and inflation was 10 percent. But, the broad money supply was Tk. 298095 crore in the same month of 2009-2010, the inflation rate was reduced rate of 6.04 per cent. Again, in June 2009, the broad money supply was the highest in that year (Tk. 296499.7 crore), but the inflation rate in that month was 6.66 per cent, which was the lowest in twelve months of that year. Therefore, it is important to point out whether such textbook approach, favoured by the IMF, to reduce the money supply is the best way to contain inflationary pressures in Bangladesh. In Bangladesh changes in money supply may not directly affect prices, and that visible inflation is the result of pressures in the economy expressing themselves in prices. The supply of money may be, but not the only, cause of inflation.

Sources of Inflation

The factors that might affect the movement of the prices upward in Bangladesh include; increased prices of inputs, upward price movements in the country of origin, anticipated upward pressure on prices of gas, fuel and power, undervalued exchange rate, continuous pile-up of remittances vis-à-vis decreasing import, increased non-development expenditure, and lack of prudential management of liquidity.

Cost push Inflation

The international price spikes has caused increased price of some commodities in the domestic market. The rise in input such as petroleum prices also increases the cost of production and transportation, which jacks up the commodity price further. Such boost in prices may also come from domestic market as well. For example, high cost quick rental option (14 quick rental units of 1647 mega watts) would increase the subsidy burden of the government and expand the governmental borrowing. The current sales rate of electricity by PDB is Tk. 2.65 per Kilo watt hour whereas the government has to pay Tk. 11.01 per unit of electricity (if the plants are diesel fired) or Tk. 5.01 per unit (if it is furnace oil based) as subsidy. Accordingly, the amount might be almost Tk. 5000 crore per year which will eventually influence the domestic inflation as consumer may have to pay a higher rate for electricity consumption.

This undervalued exchange rate favours the export sector at the cost of inflation

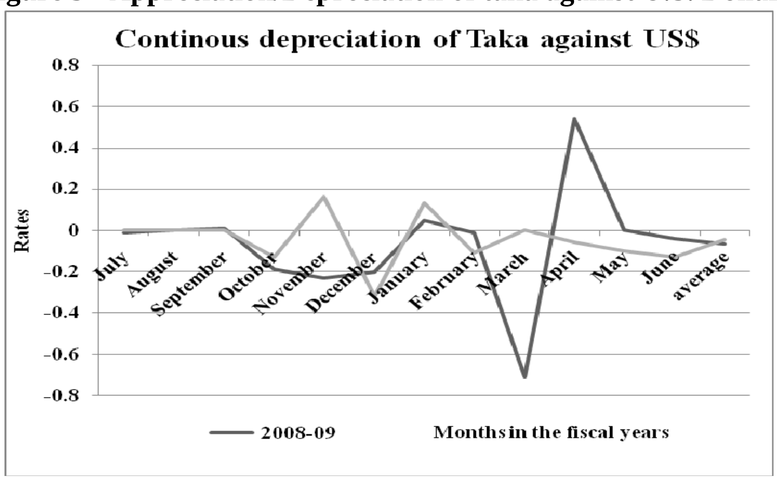
Pay and allowances

The increased growth of pay and allowances has an influence over inflation. For instance, inflation rate in FY2005-06 and FY2006-07 were closer to 7 per cent. But as in FY2006-07, the growth rate of pay and allowances increased to 27.28 per cent from the five years average of 11.26 per cent. In the next fiscal year, both the inflation and CPI growth rate were closer to 10 per cent. This situation indicates that growth rate of pay and allowances has created expectations among the producers that in the next year there will be more disposable income available to the consumers and thus they raise the average prices of their goods.

Devaluation of BDT against U.S. Dollar

In FY 2008-2009 and FY 2009-2010, continuous depreciation of Bangladeshi taka was observed due to the negative growth in the export sector. On an average, in 2008-2009 taka was depreciated by -0.066 points and in 2009-2010 taka was depreciated by -0.046 points. That is why the weighted average exchange rate against the U.S. dollar was 69.006 taka (on average) in FY 2008-09 and 69.4410 taka (on average), with Tk.0.435 difference and .63 percentage change in a year. Thus this undervalued exchange rate favours the export sector at the cost of inflation. Because the devaluation of money creates excess demand of domestically produced goods and thus shortage of supply increases the market prices.

Figure 3 - Appreciation/Depreciation of taka against U.S. Dollar

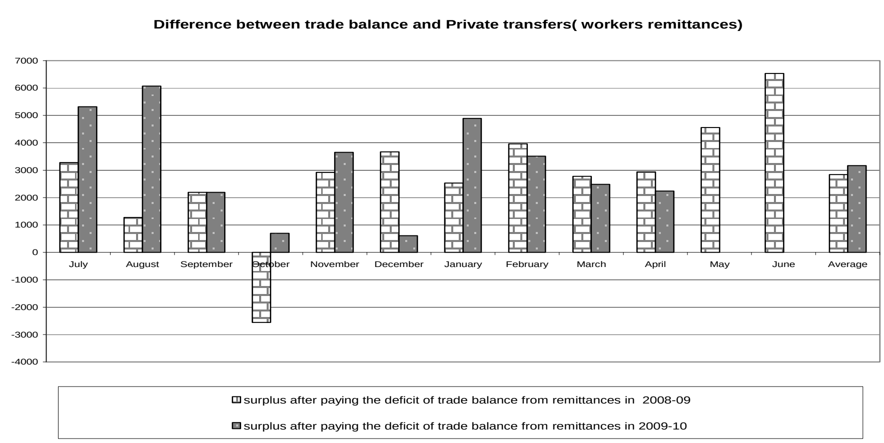


Source: Monthly economic indicators, July 2010, Bangladesh Bank.

Remittance Inflow

The remittance inflows in Bangladesh have been on the rise, contributing as surplus in the balance of payments. In FY 2009-10 a total of Tk. 76010.98 crore was recorded as remittance inflow which is 14 per cent higher compared to the flow in FY 2008-09 which was about Tk. 66676.52 crore (Figure 4).

Figure 4 – Difference between trade balance and private transfers



Source: Bangladesh Bank, Monthly Economic Trends July 2010.

Thus the remittance inflows generates surplus in the Balance of payments and operates in the opposite direction to contraction of money supply.

the central bank's projection of both export and import to grow at double digit rate in FY-2011 is a bit ambitious.

Thus the remittance inflows generates surplus in the Balance of payments and operates in the opposite direction of contraction of money supply. The MPS asserts that remittance inflows are settling down around lower double digit trend level. But an average inflow of Tk. 6334.2483 crore has been maintained in the FY 2009-10 with a slight decrease in the last three months of the fiscal year, which also averaged more than Tk.6000 crore. Percentage change in case of export and import between years 2008-2009 (July –May) and 2009-10(July-May) shows (BB's data on BOP, monthly update) that, there is 2.52 percentage increase in export and 2.72 percentage increase in import. So the central bank's projection of both export and import to grow at double digit rate in FY-2011(page 9, MPS) is a bit ambitious.

Thus if the import bill is not increased and the inflow continuous to grow like this, which has a probability of further expansion as government is trying to send more workers abroad. There is a possibility that BB's monetary contraction might be endangered by this surplus.

Possible Consequences of the Monetary Policy Statement

Credit squeeze to private sector due to monetary contraction

According to the MPS of FY2011, credit to the private sector will be squeezed by 28.25 percent at the end of FY 2011

According to the MPS of FY2011, credit to the private sector will be squeezed by 28.25 percent at the end of FY 2011. But contribution of broad sectors in GDP in FY 2009-10 illustrates that service sectors' contribution to GDP (Gross Domestic Product) is 49.90 per cent, industrial contribution is 29.95 per cent and the agricultural contribution is 20.16 per cent.

The Government's increase in public expenditure, mainly financed through borrowing, by 19.6 per cent to 1321.7 billion taka will also result in crowding out of private sector. Thus inavailability of credit and unfavorable investment may hamper the growth generated by the private sector, thereby impacting on the overall GDP growth.

Increase in the Average Interest rate

further raise may hamper the aggregate demand as the cost of borrowing would increase and firms spending on new factories and equipments would also reduce.

According to the theory of liquidity preference, which is also espoused by the IMF, the interest rate rises when the central bank decreases the money supply. But this puts the central bank in the contrast of the opposite, as it also acknowledges that "lowering of lending rates is a persistent demand from the entrepreneur community."

Since the average commercial lending rate in Bangladesh is almost close to 12.75 per cent (FY 2010) and further raise may hamper the aggregate demand as the cost of borrowing would increase and firms spending on new factories and equipments would also reduce.

As Bangladesh economy is in need of higher investment, be that public or private, as stated by the MPS (page-9 MPS), the average increase in the interest rate from the existing rate may not only increase the capital inflow but also dampen the business confidence of the investors as they would face credit squeeze due to the MPS.

This may also discourage them not to hire more workers. Thus less hiring means lower employment. As Bangladesh economy is in need of higher investment, be that public or private, as stated by the MPS (page-9 MPS), the average increase in the interest rate from the existing rate may not only increase the capital inflow but also dampen the business confidence of the investors as they would face credit squeeze due to the MPS's instruments.

The average increase in interest rate will be borne mostly by the service and industrial sectors. The increased interest rate will enhance the cost of doing business. This will seriously hamper the employment generation scheme of the Government.

The lending rate of agriculture sector has been proposed to be stationed at a current level. So, the average increase in interest rate will be borne mostly by the service and industrial sectors. The increased interest rate will enhance the cost of doing business. This will seriously hamper the employment generation scheme of the Government.

Impact on the employment generation

In recent year, the unemployed population in Bangladesh has increased by 28.57 per cent and the shifting of employed population from agriculture to non agriculture has also increased by 4.50 percentage point (Table 4). Poverty reduction is not possible without employment generation. If the service and industry sector could not increase labour absorption capacity, the monetary policy may fail to fulfill one of its dual objectives.

Table 4 – Employment Scenario

Categories	*MES 2009*	*LFS 2005-06*	*Percentage change*
Unemployed population (million)	2.7	2.1	28.57
Employment by Broad economic sector (%)			percentage point change
Agriculture	43.60%	48.10%	-4.5
Non- Agriculture	56.40%	51.90%	4.5

Source: Bangladesh Bureau of Statistics, Monitoring on employment survey 2009 and Labour Force Survey 2005-

The overall situation can be seen at a flow chart view.

Flow chart: Probable consequence of reduction in Money Supply

Decrease in Money Supply

↓

Increases the interest Rate

↓

Increases the cost of borrowing and return to saving

↓

Thus lowers the quantity demanded of goods and services at any given price level

↓

Firms are discouraged to spend on new factories and equipments, thus they reduce their business investment.

↓

As firms invests less, less workers are appoint .Thus higher Unemployment situation arises as workers supply increases due to population pressure.

The Government is going for an expansionary fiscal policy while the monetary policy is of contractionary nature.

In the FY 2010-11 budgets, the Government has planned to increase public expenditure to Tk.1321.7 billion, which is 19.6 per cent higher than the previous year. Therefore, it is clear that the Government is going for an expansionary fiscal policy while the monetary policy is of contractionary nature.

Expansionary fiscal policy is supposed to produce multiplier effects through increased aggregate demand which in turn increases money demand. While the government is increasing money demand through fiscal policy on the one hand, the central bank is squeezing the money supply on the other. This opposite policy directions may result in further increased rate of interest.

Following such MPS would result in opposite direction of what the MPS has aspired to achieve as it states that “Bangladesh economy is at this moment in need of robust spur in investment expenditure.” The higher interest rate may reduce investment spending and may put downward pressure on aggregate demand. The following of the contarctionary monetary policy may reduce the aggregate demand and may also reduce the gain achieved out of the expansionary fiscal policy.

As both the monetary and fiscal policy work with a lag and that make the economic forecasting imprecise. Moreover, once these effects occur, they can last for several years. Especially, the monetary transmission mechanism can have diversified effects, as it works through different complex channels. It may prove to be opposite to aspirations of the government. That is why a section of economists has advocated for a passive monetary policy with slow and steady growth in money supply. Therefore, Bangladesh Bank may need to be cautious about the implementation of this monetary contraction, otherwise it can end up being a cause of concern rather than a cure of economic fluctuations.

Agriculture:

The credit disbursement rate of agriculture for the recently completed FY 2009-10 is approximately 97 per cent of the target which is satisfactory in terms of disbursed amount. The disbursement record shows mismatch in disbursement time which in turn force the agricultural growth to shrink, with lower contribution to gross domestic production. From the monthly credit disbursement records (Table 5 and Figure 5) of FY 2009-10, it shows that the disbursement rate is high in half of the year and vice-versa.

The disbursement record shows mismatching in disbursement time which in turn force the agricultural growth to shrink

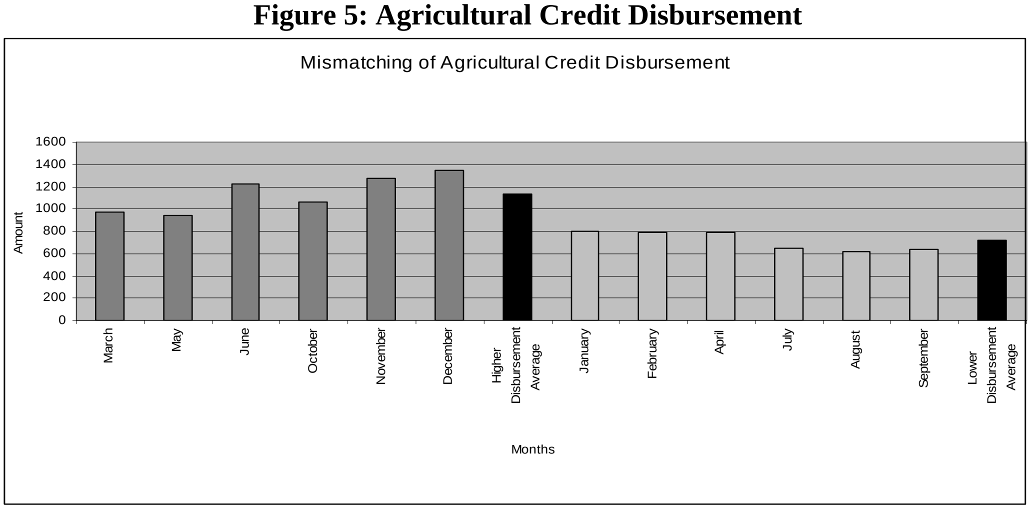
Table 5: Credit Disbursement (in crore Tk.)

Months	***Disbursement***	***Sowing Period of Crops***
March	967.95	Kheshari, Robi-chillie, coriander
May	939.65	
June	1227.91	
October	1062.25	
November	1275.07	
December	1348.21	
Higher Disbursement Average	1136.84	
January	804.06	Aus, Aman, Jute, Bhadoi Chilies, Turmeric Ginger
February	789.37	
April	789.75	
July	648.82	
August	622.63	
September	640.92	
Lower Disbursement Average	715.925	

Source: Bangladesh Bank

Considering the sowing period of the crops, the credit disbursement record can be categorized into two periods such as high credit disbursement period and low credit disbursement period (Table 5). Higher credit disbursement period comprises half of the year with a high average disbursement of Tk.1136.84 crore whereas lower credit disbursement period comprises rest half with a lower average of Tk. 715.92 crore.

Figure 5: Agricultural Credit Disbursement



Source: Bangladesh Bank.

Credit disbursement for cash crop jute is very low during both the sowing and harvesting period.

In order to ensure food security, it is crucial to attain the target of rice production which depends on the use of quality seeds. The disbursement of credit is very low during the sowing period of Aus and Aman which is on average Tk. 715.925 crore(Figure 5). Credit disbursement for cash crop jute is very low during both the sowing and harvesting period. If this trend continues, the production of jute might decline in future. The disbursement of credit is also very low in the case of necessary spices like chilies, turmeric and ginger.

On the other hand, in case of Boro and other crops, the disbursement of credit is high which stands on average Tk. 1136.84 crore. The disbursement of credit for Aus and Aman is low compared to Boro which is not fit for food production and food security.

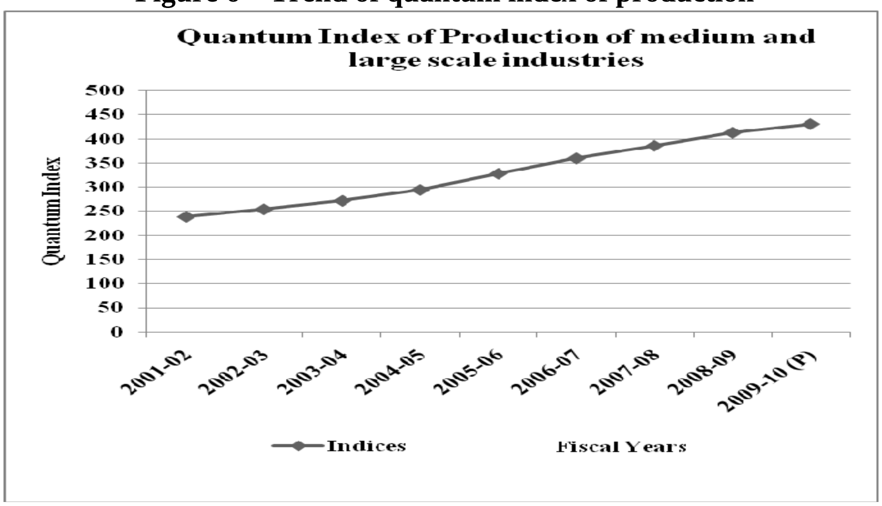
Industry:

The growth rate declined by -0.04 percentage point. The major export oriented industries were not able to show expected performance.

The contribution of the industrial sector in GDP was 29.95 per cent in FY2009-10. The aim is to raise this contribution in GDP to 40 per cent by 2021. Though this sector is growing and it registered a growth of 6.42 per cent during FY2009-10, but it was the lowest in the last ten years. Compared to FY2008-09, the growth rate declined by -0.04 percentage point. The major export oriented industries were not able to show expected performance.

Though the trend of the general quantum index of production showed an upward improvement during the last ten fiscal years (Figure 6), but some export oriented industries have shown a negative prospect in the last 6 months of FY2009-10 compared to the same time period of the previous FY2008-09 (Table 6).

Figure 6 – Trend of quantum index of production



Source: Bangladesh Bank major economic indicators, monthly update June 2010.

Table 6 – Quantum index of production of different industries:

Commodities	*July-Dec, 2009P*	*July-Dec, 2008P*	*% Change during July-Dec, 09 over July-Dec, 08*
Food, beverage & tobacco	336.73	308.04	9.31
Jute, cottons, apparel and leather	523.95	539.29	-2.85
Wood product including furniture	303.67	292.2	3.92
Paper and paper product	504.55	487.8	3.43
Chemical, petroleum and rubber	438.27	322.78	35.78
Non-metallic products	520.91	508.84	2.37
Basic metal products	195.73	349.6	-44.01
Fabricated metal products	186.16	175.01	6.37

Source: Bangladesh Bank.

The main export oriented industries (Jute, Cotton, Leather and Apparels) shows a negative index growth.

It is a matter of concern that the main export oriented industries (Jute, Cotton, Leather and Apparels) show a negative index growth. In order to increase export, these industries should be given due attention including the availability of proper loan facility and correct implementation of industrial policy.

Besides these institutional supports, the government should also be concerned about the recent unrest that took place in the RMG sector. In order to keep the RMG sector alive, the government should take proper steps to maintain the stability of this sector. As this sector holds a huge number of labors, the government should also pay attention about the employment condition of the labor forces.

Again considering the development of SME sector, it shows a fluctuating trend. The availability of loan must be ensured for the proper growth of this sector. The target of credit allocated by the government must be ensured through proper disbursement process.

The main problem of this sector is that it receives a limited percentage of the total loan sanctioned by different banking, non-banking and other financial institutions (Table 7 and Figure 7).

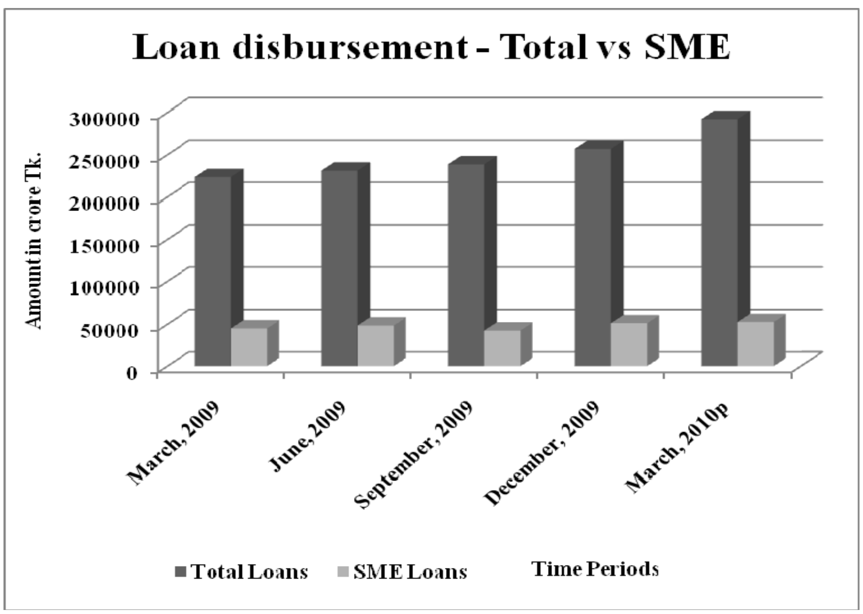
The SME receives a limited percentage of the total loan sanctioned by different banking, non-banking and other financial institutions.

Table 7 – SME loan sanctioning status against the total sanctioned loan (in crore Tk.)

Quarterly Time periods	***Total Loans***	***SME Loans***	***% of SME loans***
March, 2009	223443.79	44969.51	20.12564771
June, 2009	231065.43	48473.52	20.97826577
September, 2009	238520.55	42485.77	17.81220528
December, 2009	256926.77	51147.59	19.90745846
March, 2010p	292196.85	52618.84	18.0080107

Source: Bangladesh Bank.

Figure 7 – Loan status for the SME sector



Source: Bangladesh Bank.

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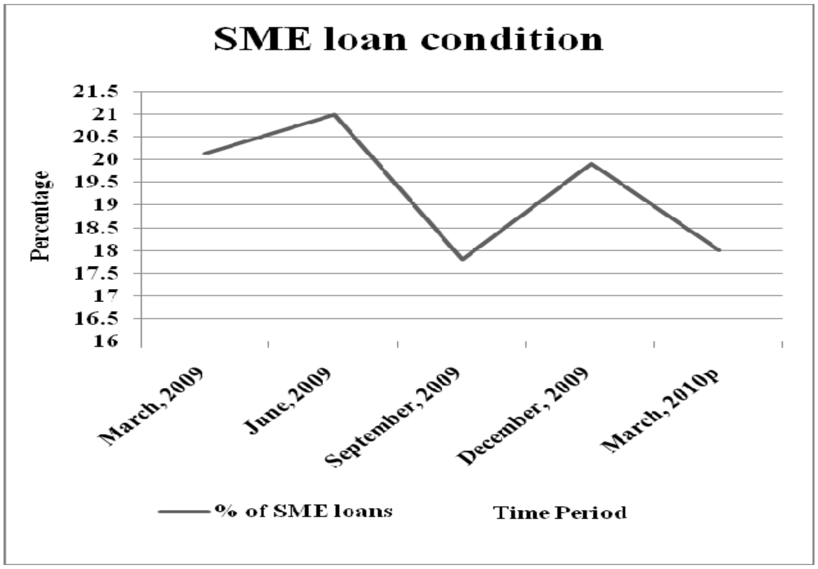
The amount of loan is not even at a stable situation rather is fluctuating (Figure 8)

Figure 9 – Percentage of SME loan



Source: Bangladesh Bank

These ups and downs in the SME sector are hampering the growth and thus this sector will also face lack of entrepreneurs.

The present total installed capacity is 5928 MW of which 5376 MW is the actual generation capability. For around 6.57 per cent of net generation system loss and some other reasons like gas shortage, maintenance, rehabilitation, over hauling, aged power plants etc, on an average 3929.33 MW of electricity (based on generation query of BPDB) has been generated in the last year against the demand of 5000 MW to 5500 MW.

The government, therefore, must keep into strict consideration on the SME loan sanctioning performance by the local banks and state-owned banks. NBFIs' must also encouraged for more contribution.

Power:

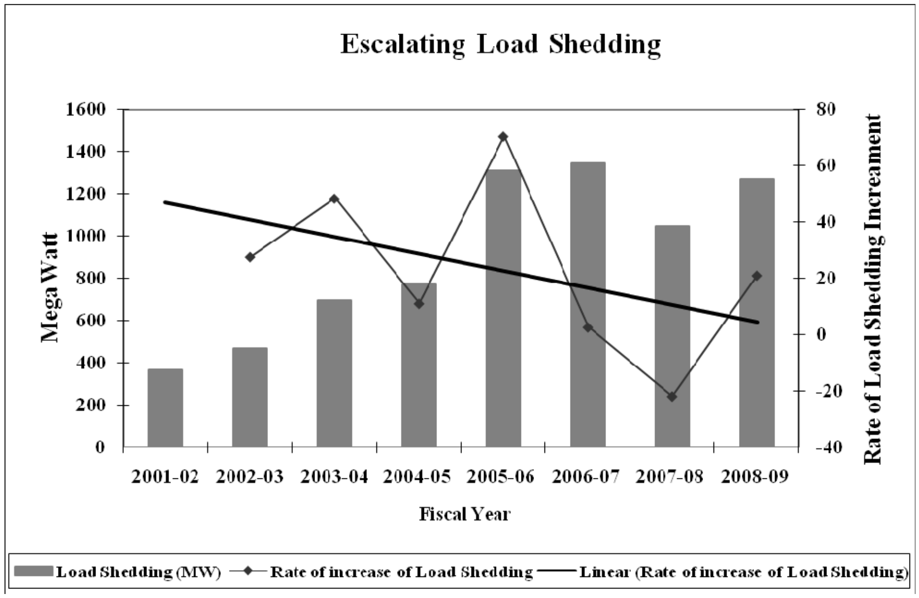
Bangladesh is facing severe power crisis in recent times. The per capita energy consumption is one of the lowest (165.32 kWh) in the world. Only 47 per cent of the total population has access to electricity. The electricity generation is mostly dependent on natural gas (83 per cent). Another 17 per cent of installed capacity is based on coal (5 per cent), furnace oil (5 per cent), diesel (3 per cent) and Hydro (4 per cent), whereas in the neighboring country, (India) most of the generation capacity is based on coal (54 per cent) and hydro (25 per cent).

Load Shedding: Demand-Supply Gap

Adequate power supply is the precondition for sustained growth and development. However, regular power outage is a common phenomenon in Bangladesh in recent time which is hindering usual business growth and thereby overall country's development. Therefore, the relationship between power and the gross domestic products is noteworthy.

The present total installed capacity is 5928 MW of which 5376 MW is the actual generation capability. For around 6.57 per cent of net generation system loss and some other reasons like gas shortage, maintenance, rehabilitation, over hauling, aged power plants etc, on an average 3929.33 MW of electricity (based on generation query of BPDB) has been generated in the last year against the demand of 5000 MW to 5500 MW. There had been a significant gap between power supplies against power demand overtime (Figure 10). It is seen that the average rate of load shedding increment for the last ten years is about 22 percent and it maintains an increasing trend.

Figure 10 – Escalating Load shedding



Source: Annual Report (2008-09), Bangladesh Power Development Board (BPDB).

Based on the annual report of BPDB, it is seen that there is a significance gap between the required electricity for growing demand group and the supply overtime. There has been observed average 980 MW to 1000 MW of shortage for the last five years.

From the fiscal year 2001-02 to till now, load shedding is increasing because of the gap between supplies of power against the demand. In the recent record of Bangladesh Power Development Board (BPDB), on an average 1250 MW of shortage has been observed. Moreover, due to gas shortage, maintenance and overhauling, and aged power plants, sometimes there has been shutdown of some power units which widen the demand-supply gap.

On a particular day's (27th July, 2010) record provided by BPDB, 1265 MW of shortage is observed. Based on the annual report of BPDB, it is seen that there is a significance gap between the required electricity for growing demand group and the supply overtime. There has been observed average 980 MW to 1000 MW of shortage for the last five years.

Privatization of Power Sector

The present Awami League led government planned to provide about 9426 MW of electricity within the next six years. For avoiding the lengthy tender process, the government decided to buy power rather than to go for generation. In the present status of installed capacity, there is 1991 MW of private sector oriented capacity out of total 5803 MW of generation capacity according to the BPDB up to December 2009. If the mega plan provided by the present government is being successful, most of the generation will be based on the private sector. The power sector thus will be private sector dependent.

Due to rental power plants with high per unit cost, the government has to bear huge cost per year for buying electricity from the private operators.

There might be some adverse implications on the economy due to movement toward private operators, they are the followings:

Due to rental power plants with high per unit cost, the government has to bear huge cost per year for buying electricity from the private operators. The ongoing rate of sales of electricity by PDB is 2.65 per Kilo watt hour whereas the government has to pay Tk.11.01 per unit of electricity (if the plants are diesel fired) or Tk.5.01 per unit (if it is furnace oil based) as subsidy. The amount might be almost Tk. 5000 crore per year. The government planned to provide 1647 MW of electricity in this fiscal, if these units are furnace oil based , then the government will have to provide (1647000 kilo watt/ hour * 5.01) extra amount only for the production cost excluding operating and distribution cost.

The government may avoid huge subsidy by increasing the power tariff for the consumers. If the government provides the entire amount of extra payment, this might be resulted as higher budget deficit with higher borrowing for the government. On the other hand if the government decides to make higher the tariff level for avoiding higher subsidy, this might result with an inflationary pressure.