

EXECUTIVE SUMMARY

Global Economy

The global pickup in activity that started in the second half of 2016 gained further momentum in the first half of 2017. Notable rise in investment, trade and industrial production coupled with enhanced business and consumer confidence are supporting the recovery of world economy. Based on these outcomes International Monetary Fund (IMF) has predicted an increase in the global economic growth. In the IMF's latest World Economic Outlook (WEO), October 2017 the global growth has been projected at 3.6 percent for 2017 and 3.7 percent for 2018, 0.4 percentage point and 0.5 percentage point higher compared to the growth of 2016. The continued boost in domestic demand in the developed economies, favourable financial conditions, strong business and consumer confidence are expected to play a vital role in achieving such growth targets. Significant improvement in the investment situation, increased investment in China's infrastructure and housing sector and revival from the downturn of commodity prices, even in partial, are expected to induce growth momentum of emerging and developing economies. Among the possible risks causing substantial uncertainty in global growth, the intrinsic conservation policy of some advanced economies may exert a negative impact on global trade and cross-border investments. Moreover, an atmosphere of persistently subdued inflation may weaken central bank's capacity to control real interest rates. Again, continued easy monetary conditions in advanced economies may make

the financial system vulnerable to an abrupt decompression of risk premiums.

Macroeconomic Scenario: Bangladesh Context

The economy of Bangladesh has been able to maintain sustained economic growth even in the face of global financial crisis. According to the final estimate of Bangladesh Bureau of Statistics (BBS), the GDP growth of FY2016-17 stood at 7.28 percent, 0.17 percentage point higher from 7.11 percent of the previous fiscal year. In FY2015-16 per capita GDP was US\$1,385 which rose to US\$1,544 in FY2016-17. Likewise, per capita national income increased to US\$1,610 in FY2016-17, US\$145 higher than a year earlier. Gross investment increased to 30.51 percent of GDP, 0.86 percentage point higher than the preceding fiscal year.

In FY2016-17 satisfactory growth has been achieved in revenue receipts. During this period, revised target for revenue receipts was set at Tk.2,18,500 crore (11.06 percent of GDP), of which tax revenue from NBR sources was marked at Tk.1,85,000 crore (9.37 percent of GDP), tax revenue from non-NBR sources at Tk.7,261 crore (0.37 percent of GDP) and non-tax revenue at Tk.26,239 crore (1.33 percent of GDP). Against these targets as per the provisional estimates of Integrated Budget and Accounting System (*iBAS++*), tax revenues received during the concerned year amounted to Tk.1,77,824 crore, up by 17.08 percent from the previous year. Non-tax revenues grew by 9.00 percent to Tk.22,961 crore from Tk.21,065 crore

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during the same period. Attaining 91.89 percent of the revised target, total revenue receipt in FY2016-17 increased by 16.09 percent to Tk.2,00,785 crore over the previous year outturn. Total revenue receipts reached 10.16 percent of GDP, up by 0.27 percentage point compared to the preceding fiscal year.

As per the revised budget, the expenditure for FY2016-17 was targeted at Tk.3,17,173 crore (16.05 percent of GDP) of which non-development expenditure was set at Tk.2,06,473 crore (10.45 percent of GDP) and Annual Development Programme (ADP) expenditure was fixed at Tk.1,10,700 crore (5.60 percent of GDP). As per the *iBAS++* provisional data, the total expenditure in the reporting year rose by 9.90 percent to Tk.2,63,017 crore (13.31 percent of GDP) over the previous year outturn. The total expenditure under non-development budget (including non-development capital expenditure and development programme) increased by 16.61 percent to Tk.1,85,699 crore in FY2016-17 from Tk.1,59,244 crore in FY2015-16. However, ADP expenditure declined by 3.44 percent to Tk.77,318 crore in FY2016-17 from Tk.80,076 crore in FY2015-16. The budget deficit was estimated at Tk.98,673 crore which was around 5.00 percent of the GDP. Of this deficit, Tk.28,771 crore was targeted to be financed from external sources (including foreign grant) and Tk.69,904 crore from domestic sources. As per the preliminary data of *iBAS++*, the budget deficit stood at 3.15 percent of GDP (excluding grants) in FY2016-17, of which 2.75 percent was financed from domestic

sources and the remaining 0.40 percent from external sources.

In recent years the Monetary Policy Statement (MPS) has been drawn up with an aim to contain inflation in moderation and ensure uninterrupted supply of credit to the productive sector of the country. Due to the downward trend in inflation since the beginning of FY2013-14, the MPS for FY2016-17 was based on certain policy directions aimed at attaining a GDP growth rate of 7.2 percent. In the MPS for the second half of FY2016-17 (January-June 2017), the targets have been set taking into account the current economic situation of the country as well as the objective of bringing down inflation below 5.8 percent. In this pursuit, the MPS targeted to contain broad money growth at 15.5 percent and private sector credit growth at 16.5 percent at the end of June 2017. During FY2016-17 broad money (M2) increased by 10.88 percent and credit to the private sector grew by 15.66 percent as compared to the growth of the previous year. Year-on-year inflation decreased to 5.44 percent which is well below the targeted level of 5.8 percent.

In recent years the interest rate of lending and deposit interest rate of commercial banks are gradually declining. The weighted average lending rate of interest of commercial banks decreased by 1.28 percentage points to 10.39 percent at the end of June 2016. It further decreased to 9.56 percent at the end of June 2017. Similarly, the weighted average deposit rate of interest decreased to 4.84 percent at the end of June 2017 from 5.54 percent at the end of June 2016. The interest rate spread decreased slightly to 4.72 percent from 4.85

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percent during FY2016-17. In the current fiscal year, the situation of both stock exchange remained almost stable. The market capitalisation and the price of both capital markets increased significantly in June 2017 compared to June 2016.

In FY2016-17 the country's total exports amounted to US\$34,846.84 million, which was 1.72 percent higher than the previous year. During the same period the total value of import (c&f) provisionally stood at US\$47,005.2 million, up by 9.00 percent from the previous year. Over this period consumer goods imports increased by 26.85 percent, intermediate goods by 5.62 percent and capital machinery by 7.35 percent.

Remittances inflow dipped to US\$12,769.5 million in FY2016-17 from the previous year's inflow of US\$14,931.1 million with a deceleration rate of 14.48 percent. The slowdown in the economy of the Middle East countries emanating from low oil prices and the geo-political situation were mainly responsible for the deceleration of remittances inflow. Moreover, appreciation of USD against British Pound Sterling and Euro contributed to such reduction of remittances inflows. However, during the period overseas employment increased considerably by 32.12 percent from the previous year.

The trade deficit in FY2016-17 has been provisionally estimated at US\$9,472 million whereas in the previous year it was US\$6,460 million. Elevated import growth and slow export growth mainly caused the widening of trade deficit in FY2016-17. Due to tumbling growth in remittances inflow the current account encountered a deficit of US\$1,480

million in FY2016-17 from a surplus of US\$4,262 million in FY2015-16. On the other hand, the capital and financial accounts recorded a surplus of US\$4,493 million in FY2016-17 from US\$1,408 million in FY2015-16. An uplift of Gross Foreign Direct Investment (FDI) to US\$2,985 million and a positive balance of US\$3,174 million in the Medium and Long-term Loans (MLT) account aided the surplus in the capital and financial accounts to upsurge. Despite the deficit in the current account, the surpluses in the capital and financial account left the overall balance in surplus amounting to US\$3,169 million. As a result, the foreign exchange reserve increased to US\$33,407 million at the end of FY2016-17. During the period exchange rate of Taka against US dollar remained almost stable.

Considering the prospects and potential risks in the global and domestic economy the Medium-Term Macroeconomic Framework (MTMF), 2018-2020 has been formulated. GDP, under MTMF, has been projected to grow at an average rate of 7.6 percent over short and medium term and predicted to attain a growth rate of 8.0 percent in FY2019-20. Investment is expected to increase to 31.9 percent of GDP in FY2017-18 from 30.3 percent in FY2016-17. If this trend continues investment is likely to be 34.5 percent of GDP in FY2019-20, of which the investment of private and public sectors are expected to be 25.4 percent and 9.0 percent of GDP respectively.

Agriculture

Over the last few years, there has been an increasing trend in food production.

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According to BBS, food grains production in FY2016-17 stood at around 388.14 lakh MT of which *Aus* 21.33 lakh MT, *Aman* 136.56 lakh MT, *Boro* 180.24 lakh MT, wheat 14.23 lakh MT and maize 35.78 lakh MT. During the period against the target of Tk.17,550.00 crore a total of Tk.20,998.70 crore was disbursed as agriculture and rural credit which was about 119.65 percent of the target.

In FY2016-17 fishing sector contributed 3.61 percent to GDP and 24.43 percent to the country's total agricultural products. It is mentionable that Bangladesh secured 4th position in inland capture fishing and 5th in aquaculture production in the world. To immune livestock and poultry against diseases 161.92 lakh and 2,375.41 lakh doses vaccines were produced respectively in FY2016-17.

Industry

To accelerate the pace of industrialisation the Government has declared the 'National Industrial Policy 2016'. This policy is expected to play a vital role in alleviating poverty and mainstreaming women in the industrialisation process by creating productive employment for them. While emphasising on establishing labour intensive industries this policy articulated certain directives to promote cottage, small and medium industries as well as women entrepreneurship. The Government is continuing its efforts to encourage small and medium industries by providing loans and ancillary supports through banks and other financial institutions. As a result, the amount of both distribution and recovery of industrial credit is on the increase. To promote the

environment friendly jute industry as well as to increase the domestic demand for jute and jute goods the Government is implementing 'Mandatory Jute Packaging Act-2010'. The Export Processing Zones (EPZs) are playing an important role in promoting rapid industrialisation and attracting foreign direct investment. Both investment and export in the EPZs are increasing gradually.

State-owned Enterprises (SOEs)

Following the trend of last three consecutive years the state-owned enterprises earned a net profit of Tk.6,644.47 crore and contributed Tk.2503.48 crore to the national exchequer in FY2016-17. The total Debt Service Liabilities (DSL) against 112 SOEs stood at Tk.2,03,172.89 crore in FY2015-16. In the same year the operating profit on assets rose to 3.46 percent from 1.58 percent, net profit on operating revenue to 7.97 percent from 3.06 percent and rate of dividend on equity to 2.68 percent from 2.39 percent.

Power and Energy

At present 80 percent people of the country are under electricity coverage. During FY2016-17 the total installed electricity generation capacity stood at 15,755 MW of which the highest generation was 9,479 MW. Before that during FY2015-16 the net electricity production (including renewable energy) was 52,193 million kWh which increased to 57,276 million kWh in FY2016-17. The total system loss in transmission and distribution of electricity reduced substantially to 9.98 percent in FY2016-17 from 21.25 percent in FY2005-06.

Around 68 percent of the country's total commercial consumption of energy is met by

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natural gas. A total of 26 gas fields have been discovered till June 2017 from which about 14.73 trillion cubic feet of gas has been produced cumulatively leaving recoverable net at 12.39 trillion cubic feet. In addition, the country has a reserve of about 12.21 MT fuel oil. In order to secure energy supply of the country in long term, the highest emphasis is given on the diversification of energy sources, particularly on the efficient and best use of energy.

Transport and Communication

With a view to developing a well-knit and efficient transport and communication system that would synchronise with international and regional transport, information and other communication networks, numerous projects are being implemented on priority basis. The activities to construct/reconstruct roads, bridges and culverts are continuing. In addition, several major projects such as *Padma* Bridge, Metro-rail, Dhaka Elevated Express Way are being implemented in this regard. To sustain the role of rail as a dependable, affordable, environment friendly and compatible mass-transport system, a wide range of development activities are carried on. A number of programmes are also being implemented for dredging of drying river ways, development and maintenance of navigability of different river routes, ensuring safe movement of water crafts, development of inland river ports and establishment of infrastructure facilities to carry container goods in inland waterways. To modernise and improve the information and communication technology sector conforming to the United Nation's Sustainable Development Goals (SDGs) and

the 7th Five Year Plan a wide range of initiatives have been undertaken. Various development projects and programmes are in progress to ensure the use and application of information and communication technology by increasing digital literacy at all walks of life, extend public service through IT-based activities and, finally, build a modern and developed Bangladesh through the introduction of e-governance and e-commerce.

Human Resource Development

Human Resource Development (HRD) has been included as one of the main goals in the Government's development agenda. In order to achieve this goal, the Government has allocated around 24 percent of its budget for human resource development. According to the Human Development Report 2016, Bangladesh ranked 139th in 2015 from 142nd position in 2014 with a satisfactory progress in human resource development indicators. Various programmes including the adoption of the Education Policy, 2010 have been undertaken to create skilled and competent human resource by enhancing the quality of education while increasing people's accessibility to the secondary, higher secondary, technical and all tiers of higher education. As an outcome of the policy for recruiting 60 percent female teachers in the Government primary schools, the number of female teachers increased notably from 21.0 percent in 1991 to 62.67 percent in 2016.

Remarkable progress has been made in reducing child and maternal mortality and in increasing average life expectancy. Malnutrition has also been reduced

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significantly. After the successful completion of the 3rd sector programme named 'Integrated Health, Population, Nutrition Sector Development Programme', 4th sector programme has been initiated for 2017-2022. After achieving the target of health sectors in light with the MDGs, SDGs have been formulated which will be achieved in 2030. To ensure women empowerment by developing them as educated and skilled manpower and increasing their participation in politics, administration and socio-economic activities, various programmes are being implemented according to the National Women Development Policy 2011, National Plan for the Prevention of Violence against Women and Children 2013-2025 etc.

Poverty Alleviation

Owing to the relentless multi-dimensional efforts from the Government and non-government edges the poverty rate in Bangladesh has substantially declined to 24.3 percent in 2016 from 56.7 percent in 1991-1992. Poverty rate has been projected to reduce further to 18.6 percent by 2020. To achieve the desired goal of poverty alleviation, the scope of social safety programmes is widening and the allocations are increasing every year. In order to ensure efficiency and effectiveness of social safety net programmes, the country has adopted the life cycle approach of social safety and formulated 'National Social Security Strategy (NSSS)' in this regard. In FY2016-17 a total of Tk.40,857 crore has been allocated against social safety net programmes. Bangladesh achieved the targets of hunger and poverty reduction of the Millennium Development Goals (MDGs) much before the scheduled

time. Now activities are going on to fulfill the targets of Sustainable Development Goals (SDGs) relating to poverty and hunger. Various government, non-government banks and Non-Government Organisations (NGOs) including *Palli Karma Shahayok* Foundation (PKSF), Social Development Foundation (SDF) are also involved in the implementation of different development programmes of the Government directed to alleviating poverty. A total of Tk.43,583.59 crore microcredit has been distributed by the four public sector banks and two specialised banks. Over the same period a total of Tk.46,266.98 crore loan has been recovered by these banks. The activities of various ministries, divisions, agencies including Finance Division are continuing to implement the microcredit and other programmes aimed at combating poverty.

Private Sector Development

With a view to attracting local and foreign investors the Government is working relentlessly for improving the overall investment environment of the country. In addition to taking projects individually under the initiatives of the Government and private sectors, the Government is implementing various development projects on the basis of Public-Private Partnership (PPP). In FY2016-17, a total of 1,745 private projects were registered in Bangladesh Investment Development Authority (BIDA) with recommended investment of Tk.18,52,618 million. The development of clothing and knitwear sector under the private edges has strengthened the industrial sector that contributed to the development of an investment friendly environment in the

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country. Private ventures are also working in ensuring uninterrupted access to electricity for all citizens by 2021. A total of 52,276 million kWh of electricity was produced in FY2016-17 of which 45 percent was generated under private initiatives. However, in 2016, a total of US\$2,333 million flowed as Foreign Direct Investment (FDI) in the country which was US\$2,235 million in 2015. Bangladesh has achieved stable rating by Moody's (Ba3) and Standard and Poor's (BB-) for the seventh consecutive periods. It has also received BB- rating for the 2nd time by another credit rating institution-Fitch Ratings. In addition, the Government is working persistently to build a modern and developed Bangladesh by providing employment opportunities to the people in knowledge and technology based industries through the introduction of e-governance and e-commerce.

Environment and Development

With a view to mitigating the risks arising from climate change as well as dealing with climate change adaptation Bangladesh Climate Change Strategy and Action Plan 2009 (BCCSAP, 2009) is being implemented. In this regard Bangladesh Climate Change Trust Fund (BCCTF) has been constituted with domestic resources and a total of

Tk.3,100 crore has been allotted to this fund till the end of FY2016-17. For better management of BCCTF the Government has enacted Climate Change Trust Fund Act 2010 and formulated Climate Change Trust Fund Policy. A multi-donor trust fund called 'Bangladesh Climate Change Resilience Fund (BCCRF)' has been created for implementing BCCSAP 2009.

The Finance Division has undertaken a technical assistance project titled 'Inclusive Budgeting and Financing for Climate Resilience (IBFCR)' to be implemented with the financial assistance of UNDP at an estimated cost of Tk.185.20 million over a period of 5 years. Considering the importance of bio-diversity in maintaining environmental and ecological balance the National Action Plan 2020 has been formulated under which various projects have been undertaken. National Bio-safety Framework and National Biodiversity Strategy and Action Plan are being implemented and updated for biodiversity conservation in the country. Bangladesh Biodiversity Act, 2017 has been enacted. The Ministry of Disaster Management and Relief remains agile in implementing various programmes aiming to tackle eventualities emanating from natural disasters.