CHAPTER 1

MACROECONOMIC SITUATION

The Bangladesh economy has been able to maintain sustained economic growth. The economy grew at a rate of 7.28 percent in FY2016-17, satisfactorily up from 7.11 percent growth in FY2015-16. The per capita national income reached US$1,610 in FY2016-17, up by US$145 a year earlier. Continuing the declining trend since FY2013-14 year-on-year inflation in FY2016-17 slid down to 5.44 percent from 5.92 percent in FY2015-16. With a growth rate of 16.08 percent revenue receipt in FY2016-17 also remained at satisfactory level. Exports registered a growth of 1.72 percent while import grew by 9.00 percent in FY2016-17, of which capital machinery import increased by 7.35 percent. Despite slight contraction in remittances inflow, manpower exports increased by 32.12 percent. In spite of the deficits in the current account, the surplus in capital and financial account left the overall balance of the Balance of Payment (BoP) account in surplus of US$3,169 million. Due to the surplus in BoP foreign exchange reserve at the end of June 30, 2017 stood at US$33,407 million. During the period, exchange rate broadly remained stable. Lending rate also continued to fall which led the private sector credit to grow at 15.66 percent. The GDP under the Medium-Term Macroeconomic Framework (MTMF) has been projected to grow at the rate of 7.4 percent in FY2017-18 which is expected to be achieved through the implementation of prudent fiscal management, effective application of cautious monetary policy, appropriate management of expenditure, sound implementation of the reform activities.

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 the growth outcomes in the first half of 2017, the International Monetary Fund (IMF) has readjusted the growth forecast of the euro area, Japan, China, emerging Europe and Russia in upward direction and that of the United States, the United Kingdom and India in downward direction in its World Economic Outlook (WEO), October 2017 compared to its April 2017 outlook. In the WEO, October 2017, the global growth has been projected at 3.6 percent for 2017 and at 3.7 percent for 2018, 0.1 percentage point higher compared with the April 2017 WEO forecast.

Growth in advanced economies has been projected to expand at 2.2 percent in 2017, 0.2 percentage point higher than April 2017 projection. The forecasted growth of the US economy is 2.2 percent for 2017 and 2.3 percent for 2018, which are 0.1 percentage point and 0.2 percentage point lower than the April 2017 WEO forecasts but still moderately above the growth of 1.5 percent in 2016. The projection of continued growth reflects favourable financial conditions and strong business and consumer confidence.

In the euro area, recovery is expected to gain strength in 2017, with a projected growth of 2.1 percent in 2017 and 1.9 percent in 2018. Particularly, some economies in that area such as, Germany, France etc. are expected to pickup in 2017 owing to enhanced domestic as well as external demand. However, in the light of weaker-than-expected growth outturn for the first half of the year mainly driven by softer growth in private consumption, 2017 growth of the United Kingdom has been revised downward by 0.3 percentage point relative to April Outlook, while 2018 growth projection has been kept unchanged at 1.5 percent. On the other hand, stronger private consumption, investment and external demand bolstered overall growth momentum of Japan in early 2017 which is expected to continue in late 2017, with growth forecast at 1.5 percent. But the pace of expansion is expected to slow down to 0.7 percent in 2018 due to higher imports and slower growth in foreign demand.

Growth prospects for emerging and developing economies are marked up by 0.1 percentage point for both 2017 and 2018 relative to April forecast, primarily because of a stronger growth projection for China. In China, growth is projected to notch up to 6.8 percent in 2017 and then slow down to 6.5 percent in 2018. The upward revision to the 2017 forecast—0.2 percentage point relative to the April 2017 WEO—reflects the stronger-than-expected outturn in the first half of the year underpinned by previous policy easing and supply-side reforms. India’s economy might be slower in 2017-2018 due to the lingering impact of the currency exchange initiative introduced in November 2016 and the uncertainty related to the mid-year introduction of the country-wide Goods and Services Tax in July 2017. Brazil’s economy reverted to the territory of positive growth in the first quarter of 2017 after eight quarters of decline. A bumper crop production and boost in consumption have led to an upward revision of half a percentage point in 2017 relative to the April forecast of Brazil, but ongoing weakness in investment and an increase in political and policy uncertainty have led to a downward adjustment of the 2018 forecast by 0.2 percentage point. Though fuel exporting economies are still experiencing stagnant per capita incomes due to protracted adjustment to lower commodity revenues, growth in oil-exporting advanced economies has been projected to recover soon. However, regional insecurity and geopolitical risks in parts of the Middle East still weighed on economic activity.

The weak position in investment, manufacturing industry and trade sector during the second half of 2015 and the first half of 2016 was strengthened in late 2016 and early 2017. During this period production of both consumer durable and capital goods increased. Significant improvement in the investment situation and increased investment in China's infrastructure and housing sector also contributed to this advancement. The IMF's Primary Commodities Price Index declined by 5.0 percent between February 2017 and August 2017. While energy and food prices declined substantially, by 6.5 percent and

4.3 percent respectively, metal prices increased modestly, by 0.8 percent. Despite the announcement of a cut in oil production by the oil exporters, oil prices fell by 8.1 percent between February and August 2017 mainly due to the enhanced crude oil production in the United States and production recoveries in Libya and Nigeria. Following some strengthening in recent weeks, oil prices stood at about $50 a barrel as of late August. Natural gas prices fell because of lower demand. Coal prices increased and remained high.

In the face of the recent drop in commodity prices, both producer price inflation and consumer price inflation softened, especially in the second quarter of 2017. Despite the recent decline in commodity prices, inflation has been forecasted to pick up from 0.8 percent in 2016 to 1.7 percent in 2017 in advanced economies because of the continued cyclical recovery in demand and the increase in commodity prices in late 2016. Moreover, the release of China's producer price index from the four years' long negative position will also play a role in raising the raw materials prices. Inflation in emerging market and developing economies (excluding Argentina and Venezuela) is projected to remain roughly stable in 2017 and 2018. After averaging $43 a barrel in 2016, oil prices are expected to average $50.3 a barrel in 2017 (down from $55.2 a barrel in the April 2017 WEO) and stay at about that level in 2018. Table 1.1 and Table 1.2 highlight the global output growth and inflation projection.

However, considerable downside risks both in the short and medium term could dent global growth. The adoption of trade restrictions and unpredictability of regulatory and fiscal policy of some advanced economies may exert a negative impact on

Table 1.1: Overview of the World Output Growth Projections

(Percent Change)

	Actual		Projection	
	2015	**2016**	**2017**	**2018**
World Output	**3.4**	**3.2**	**3.6**	**3.7**
Advanced economies	2.2	1.7	2.2	2.0
USA	2.9	1.5	2.2	2.3
Euro Area	2.0	1.8	2.1	1.9
Japan	1.1	1.0	1.5	0.7
Emerging Market and Developing Economics	**4.3**	**4.3**	**4.6**	**4.9**
Emerging and Developing Asia	6.8	6.4	6.5	6.5
China	6.9	6.7	6.8	6.5
India	8.0	7.1	6.7	7.4

Source: World Economic Outlook, October 2017, IMF.

Table 1.2: Overview of World Inflation Projections

(Percent Change)

	Actual		Projection	
	2015	**2016**	**2017**	**2018**
Advanced Economies	0.3	0.8	1.7	1.7
USA	0.1	1.3	2.1	2.1
Euro Area	0.0	0.2	1.5	1.4
United Kingdom	0.0	0.7	2.6	2.6
Japan	0.8	-0.1	0.4	0.5
Emerging Market and Developing Economics	**4.7**	**4.3**	**4.2**	**4.4**
Emerging and Developing Asia	2.7	2.8	2.6	3.2
China	1.4	2.0	1.8	2.4
India	4.9	4.5	3.8	4.9

Source: World Economic Outlook, October 2017, IMF.

global trade and cross-border investments. An atmosphere of persistently subdued inflation can lower inflation expectations and weaken central bank's capacity to control real interest rates for restoring full employment during an economic downturn. Continued easy monetary conditions in advanced economies may make the financial system vulnerable to an abrupt decompression of risk premiums. Rising geopolitical tensions, domestic political discord, weak governance and large-scale corruption can hurt confidence and hamper economic activity.

Macroeconomic Scenario: Bangladesh Context

Economic Growth

As per the data released by BBS, GDP growth for FY 2016-17 has been estimated at 7.28 percent, slightly higher than the growth of 7.11 percent in the preceding fiscal year. Among the broad sectors of GDP, the contribution of agriculture and service sector to GDP slid down by 0.61 percentage point to 14.74 percent and by 0.27 percentage point to 52.85 percent which was offset by an increased share of industry by 0.88 percentage point to 32.42 percent in relation to the preceding year.

During the period broad agriculture sector registered a growth of 2.97 percent, up by 0.18 percentage point compared to the previous year due to the better performance of all of its sectors and sub-sectors. Crop and horticulture grew by 0.96 percent, 0.08 percentage point higher than the previous year. Animal farmings and 'forest and related services' sub-sectors also progressed at faster paces than the year before. Fishing sector similarly grew at a rate of 6.23 percent, 0.12 percentage point higher than the previous year.

In FY2016-17, broad industry sector grew by 10.22 percent, slightly lower than the growth of 11.09 percent in the previous year. In broad industry sector, the growth of mining and quarrying sector, manufacturing sector and 'electricity, gas and water supply' sector declined to 8.89 percent, 10.97 percent and 8.46 percent respectively in FY2016-17 from 12.84 percent, 11.69 percent and 13.33 percent in FY2015-16. In contrast, construction sector experienced a growth of 8.77 percent, 0.21 percentage point higher than a year before. Of the manufacturing sector, large and medium-scale manufacturing sector grew at a pace of 11.20 percent compared to the growth of 12.26 percent in the preceding year but small scale manufacturing sector exhibited a growth of 9.82 percent, slightly higher than FY2015-16. Of the 'electricity, gas and water supply' sector water sub-sector registered a faster growth in relation to the previous year.

In FY2016-17 broad service sector grew by 6.69 percent, up by 0.44 percentage point a year earlier. Among the broad service sector, wholesale and retail trade, hotel and restaurants, transport, storage and communication, real estate, renting and business activities performed better than the year before, but some other sectors such as public administration and defence, education exhibited slightly lower pace of progress.

Continuing the upward trend per capita GDP of Bangladesh reached US$1,544 in FY2016-

17 from US$1,385 a year earlier. Likewise, per capita national income increased to US$1,610 in FY2016-17, US$145 higher than the previous year as per the final estimates of BBS.

Savings and Investment

During FY2016-17, domestic savings reached 25.33 percent of GDP, up by 0.35 percentage point from the previous year. During the same period, national savings as percent of GDP slightly declined to 29.64 percent from 30.77 percent mainly due to the downturn of remittances inflow.

On the other hand, investment in FY2016-17 increased to 30.51 percent of GDP, up by 0.86 percentage point from the preceding fiscal year. Of this, the share of private investment stood at 23.10 percent of GDP, slightly higher than the previous year and that of public investment augmented to 7.41 percent of GDP, considerably higher than the previous fiscal year (6.66 percent of GDP).

Inflation

From the beginning of FY2013-14 a downward trend has been observed in year-on year inflation. Starting from 7.35 percent in FY2013-14 year-on-year inflation declined to 6.41 percent in FY2014-15, 5.92 percent in FY2015-16 and 5.44 percent in FY2016-17. Satisfactory domestic production, favourable domestic environment, low budget deficit and prudent monetary policy coupled with low fuel and commodity prices in the international markets contributed to such sliding of overall inflation.

Following downward trend food inflation declined from 8.57 percent in FY2013-14 to 6.68 percent in FY2014-15 and 4.90 percent in FY2015-16, but in FY2016-17 shifting the direction it upturned to 6.02 percent. On the other hand, with an upward inclination since FY2013-14 non-food inflation shot up to 5.99 percent in FY2014-15 and 7.47 percent in FY2015-16 from 5.54 percent in FY2013-14, but after that it came down to 4.57 percent in FY2016-17.

Fiscal Sector

Revenue Mobilisation

In FY2016-17 satisfactory growth has been achieved in revenue receipts. During this period, revised target for revenue receipt 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 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 as percent of GDP reached 10.16 percent, up by 0.27 percentage point compared to the preceding year's revenue outturn.

During FY2016-17 tax revenue receipts from NBR sources amounted to Tk.1,71,523 crore which was 17.29 percent higher than the previous year's receipt. Among the NBR sources of revenue, taxes on income and profit increased by 16.45 percent, Value Added Tax (VAT) and supplementary duties by 18.08 percent and import duties by 16.68 percent.

Similarly, during this period tax revenues from Non-NBR sources increased from Tk.5,644 crore to Tk.6,301 crore registering a growth of 11.64 percent. Revenues received from the sale of non-judicial stamp played a vital role in uplifting non-tax revenues. On the other hand, the most contributory sources for the rise in non-tax revenue were receipts from interests and tolls and levy.

Government Expenditure

As per the revised budget, the expenditure for FY2016-17 has been targeted at Tk.3,17,173 crore (16.05 percent of GDP) of which non-development expenditure has been set at Tk.2,06,473 crore (10.45 percent of GDP) and Annual Development Programme (ADP) expenditure has been 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 in FY2015-16.

Budget Balance and Financing

In the revised budget of FY2016-17, budget deficit has been estimated at Tk.98,673 crore which is 5.00 percent of GDP. Of this deficit, Tk.28,771 crore will be financed from external sources (including foreign grant) and Tk. 69,904 crore will be backed by domestic sources. As per 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.

Monetary and Financial Sector

Monetary Policy and Monetary Management

In recent years the Monetary Policy Statement (MPS) has been drawn up with an aim to contain inflation in moderation and ensure continuous supply of credit to the productive sector of the country. Due to the downward trend of inflation since the beginning of FY2013-14, the MPS for the first half of FY2016-17 was based on certain policy directions aimed at attaining a GDP growth rate of 7.2 percent. In this pursuit, the MPS targeted to contain broad money growth at 14.8 percent at the end of December 2016 and 15.5 percent at the end of June 2017. The growth in domestic credit was set at 15.9 percent at the end of December 2016 and 16.4 percent at the end of the fiscal year. Private sector credit was marked at 16.6 percent by December 2016 and 16.5 percent by the end of FY2016-17.

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. The targets for the broad money, domestic credits and private sector credit as in the MPS for the first half of FY2016-17 have been kept almost unchanged in the MPS for the second half.

Money and Credit Situation

In FY2016-17 narrow money (M1), broad money (M2) and reserve money (RM) progressed at a slower pace compared to the preceding fiscal year. During this period narrow money increased by 13.01 percent as compared to an expansion of 32.10 percent in the previous year. During FY2016-17 broad money (M2) increased by 10.88 percent against 16.35 percent growth in FY2015-16.

The substantive decline in the growth of M1 was mainly attributable to the significant shrinkage in growth of both currency notes and coins with the public (from 38.81 percent to 12.66 percent) as well as demand deposit (from 23.99 percent to 13.49 percent). Slow growth of both narrow money and time deposit (from 12.31 percent to 10.24 percent) were responsible for the slower growth of broad money compared to the preceding year. Looking into the sources of broad money reveals that slow growth in Net Foreign Assets (NFA) and substantial decrease in public sector credit pushed the broad money growth much below the target. On the backdrop of robust import growth, slow export growth and shrinking remittances inflow the growth in NFA decreased to 14.40 percent from the previous year's growth of 23.20 percent.

Due to declining growth in NFA of Bangladesh Bank (BB) (from 23.39 percent to 14.81 percent), offset by increasing growth in the Net Domestic Assets (NDA) (from -11.12 percent to 3.75 percent), the year-on-year reserve money growth in June 2017 moderated at 16.28 percent against a growth of 30.12 percent in the preceding year.

Owing to the surge in the Government's earnings resulting from soaring revenue income and high receipts from the net sale of national saving certificates the Government's borrowing from banking system substantially declined in FY2016-17, resulting in slow growth of both domestic credit (from 14.22 percent to 11.16 percent) and net domestic assets of the banking system (from 14.18 percent to 9.68 percent). On the other hand, credit to the private sector registered a growth of 15.66 percent as compared to the growth rate of 16.78 percent in the previous year.

Interest Rate

Balancing the upside potentials and the risks the policy stances- repo and reverse repo rates were kept unchanged at 6.75 percent and 4.75 percent respectively in FY2016-17. The rate of Treasury bills (91-days, 182-days and 364-days) decreased approximately by 1.0-1.5 percentage points in June 2017 compared to July 2016. The weighted average interbank call money rate remained within 3.5-4.0 percent indicating adequate liquidity in the banking system.

On the other hand, lower inflation rate, excess liquidity and healthier competition in the banking system exerted a downward pressure on the interest rate of both deposit and lending in FY2016-17. The weighted average lending rate of commercial banks decreased to 10.39 percent at the end of June 2016 from 11.67 percent of at the end of June 2015. It further reduced to 9.56 percent at the end of June 2017. Similarly, the weighted average deposit rate was 6.80 percent at the end of June 2015, which reduced to 5.54 percent at the end of June 2016 and it further reduced to 4.84 percent at the end of June 2017. The interest rate spread decreased slightly to 4.72 percent at the end of FY2016-17 from 4.85 percent at the end of the preceding fiscal year.

Capital Market

In FY2016-17 capital market remained almost stable. Although Dhaka Stock Exchange (DSE) Broad Index began the fiscal year with a fall, its growth from October 2016 was noticeable. Total market capitalisation of all listed securities in the DSE was Tk.3,18,574.93 crore (18.38 percent of GDP) in June 2016 which stretched to Tk.3,80,100.10 (19.24 percent of GDP) in June 2017, representing an increase of 19.31 percent. The DSE Broad Index (DSEx) increased by 25.48 percent from 4,507.58 points at the end of FY2015-16 to 5,656.05 points at the end of FY2016-17.

On the other hand, market capitalisation of the Chittagong Stock Exchange (CSE) at the end of FY2016-17 stood at Tk.3,11,324.29 crore, up by 24.68 percent compared to the market capitalisation of Tk.2,49,684.89 crore at the end of FY2015-16. CSE All Share Price Index reached 15,580.37 points in June 2017, up by 14.37 percent from June 2016.

External Sector

Export

In FY2015-16, the country's total exports amounted to US$34,257.18 million, which was 9.77 percent higher than the previous year's export earnings. In FY2016-17, total export earnings moderated at US$34,846.84 million, up by 1.72 percent from the previous fiscal year. Of the two major export items of the country, knitwear exports registered a modest growth of 3.01 percent with earnings of US$13,757.25 million whereas exports of woven garments declined by 2.35 percent with export earnings of US$14,392.59 million. Among the other major export items, export growth of leather and leather products (6.29%), pharmaceuticals (8.60%), chemical products (13.21%), engineering products (35.05%), plastic products (31.40%), handicrafts (44.66%), jute and jute goods (4.66%) was noticeable. On the other hand, export earnings from agricultural products, frozen food and live fish and petroleum by-product decreased by 7.20 percent, 1.74 percent and 17.93 percent respectively in the reporting period.

The USA, as a single country, remained the main destination of Bangladesh's export commodities in FY2016-17 as before. The export earnings from the USA stood at US$5,846.64 million, which was 16.78 percent of the total exports. The second largest destination of country's export commodities was Germany (15.72%), followed by UK (10.25%) and France (5.43%). The economy of the USA, Germany etc. has been anticipated to improve in the coming years due to a boost in their domestic demands and business and consumers' confidence. As a result, a positive impact on our export performance is quite expected.

Import

Import recorded a growth of 9.00 percent in FY2016-17 against a growth of 5.94 percent in the preceding year. The total value of import (c&f) provisionally stood at US$47,005.2 million during the reporting period, up from US$43,122.5 million (based on the Customs records) of the previous year. In case of commodity-wise imports, while rice import declined by 20.83 percent compared to the previous year, wheat import increased by 26.14 percent. On the other hand, import of consumer goods increased by 26.85 percent and that of intermediate goods grew by 5.62 percent. Among the intermediate goods, the increase in import of clinker by 12.18 percent, crude oil by 23.79 percent, petroleum products by 27.34 percent, chemicals by 6.61 percent, pharmaceuticals by 3.54 percent, plastic and rubber articles by 13.80 percent, raw cotton by 12.65 percent and iron, steel and other base metals by 16.54 percent was noteworthy. During this period, capital goods import increased by 9.46 percent indicating a spur in investment. In the case of capital goods, capital machinery import increased by 7.35 percent and other capital goods (including EPZ) increased by 10.63 percent.

China remained the main source of import for Bangladesh in the concerned period. In FY2016-17, Bangladesh imported US$13,292 million (28.28% of total imports) worth of commodities from China. The second largest source of import for Bangladesh was India (13.48%), followed by Singapore (4.50%) and Japan (4.32%).

Overseas Employment and Remittance

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 of the economy of the Middle East countries emanating from low oil prices and geo-political situation was 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.

The Government of Bangladesh has taken massive initiatives to explore new labour markets abroad and boost overseas employment. In this regard, the Government has taken steps to conduct feasibility studies in 50 countries including European countries, Australia and Brazil. Besides, the Government is up-taking various activities including implementing projects in order to expedite remittance disbursement, encourage remittance through proper channel and ensure dignified employment for the overseas workers. However, the overseas employment increased considerably in recent times. In FY2016-17, manpower export stood at 9.05 lakh, up by 32.12 percent from the previous year. Therefore, in the coming years remittances inflow is expected to be boosted.

Balance of Payments (BoP)

The trade deficit in FY2016-17 has been provisionally estimated at US$9,472 million whereas in FY2015-16 it was US$6,460 million. Elevated import growth and slow export growth mainly contributed to the widening of trade deficit in FY2016-17.

During this period, the net receipt and net payment in the service account amounted to US$3,621 million and US$6,905 million respectively and that of primary income account were US$82 million and US$2,089 million respectively. Among the sources of primary income, US$1,506.6 million, US$965.9 million and US$580.9 million income from investment, Foreign Direct Investment (FDI) and reinvestment respectively and US$391.0 million interest payment against foreign loan were significant.

Due to the tumbling growth in remittances inflow the surplus in the secondary income account declined to US$13,283 million from US$15,345 million over the concerned period. As a result, 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. During this period, Gross FDI registered an uplift of 19.30 percent from US$2,502 million to US$2,985 million. Besides, 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.

Foreign Exchange Reserve

Due to the surpluses in overall balance of BoP foreign exchange reserve registered an increase in FY2016-17. On 30 June 2016 foreign exchange reserves stood at US$30,176 million which increased to US$33,407 million at the end of FY2016-17, providing import coverage of 8.53 months.

Exchange Rate

Exchange rate of Taka against US dollar remained almost stable from FY2012-13. Further, in FY2013-14 and FY2014-15, the average exchange rate of Taka against US dollar appreciated by 2.76 percent and 0.06 percent respectively. However, in the following financial year the value of Taka depreciated by 0.72 percent against US dollar. This trend continued in FY2016-17. In FY2016-17 the weighted average interbank exchange rate stood at Taka 79.13 per US dollar while it was Taka 78.26 per US dollar in FY2015-16 showing a depreciation of about 1.10 percent. Over the same period, Taka appreciated against Euro by 0.72 percent and UK Pound Sterling by 13.57 percent but depreciated by 0.92 percent against Indian Rupees. Moreover, based on 15 currencies basket, the Real Effective Exchange Rate (REER) index appreciated by 1.87 percent from 105.53 to 107.5 in FY2016-17.

Reform Initiatives in Macroeconomic Management

A number of reform activities were undertaken during FY2016-17 in order to ensure a stable macroeconomic situation. Some of these are mentioned below:

Tax Revenue Mobilisation

- New Value Added Tax and Supplementary Duty Act, 2012 has been enacted which will be effective from July 2018.
- Integrated VAT Administrative System *(iVAS)*, which is the core of online Value Added Tax (VAT) system, has been introduced.
- Besides installing Automated System for Customs Data (ASYCUDA) World, activities to establish National Single Window (NSW) have been initiated to further simplify customs data processing.
- As a member of World Trade Organisation (WTO) Bangladesh has signed Trade Facilitation Agreement (TFA), which, if properly implemented, will reduce both the expenditure and the time of import and export. Through the complete implementation of the TFA it will be possible to perform all the process starting from the announcement of the imported commodity release to tax refund more rapidly through online.
- A draft Direct Tax Code has been uploaded in the website of NBR which is set to be approved by the concerned authority within July 2018.

Non-Tax Revenue Mobilisation

- To enhance the collection of non-tax revenue the ongoing reforms to simplify and rationalise the rates of revenue are continuing. To make tax payments easier e-payment activities have been initiated in small scale.

Budget Management

- The assessment of the key performance of the ministries/divisions/agencies is going on. To enhance the institutional capacity of the ministries/divisions/agencies training and monitoring activities are also continuing.
- To strengthen the budget planning and budget management process the Integrated Budgeting and Accounting System has been upgraded to *iBAS++*. Budget for FY2016-17 was prepared using this system.
- The revised Budget Account Classification Structure (BACS) in line with international norms has been finalised. This coding system will play a stronger role in managing the public expenditure system more efficiently.
- To have a clear idea about the position of the country in public financial management in relation to international standards, Public Expenditure and Financial Accountability (PEFA), 2015 assessment has been completed. On the basis of it the Public Financial Management Strategy, 2016-2021 has been finalised.

Annual Development Programme (ADP) Implementation

- In order to speed up and simplify the process the existing method of formulation, processing and approval of development projects has been examined and a revised circular has been issued in this regard.

- To ease procedural complications in project approval process a project titled 'Implementation of Digital ECNEC Project' is going on.
- Electronic Government Procurement or e-GP system has been initiated to institutionalise government procurement process on-line. Mobility and transparency in government procurement process is expected to be ensured through the institutionalisation of this new system.

Money, Banking and Financial Sector Reforms

- With the newly introduced liquidity indicators namely ‘Liquidity Coverage Ratio (LCR)’ and ‘Net Stable Funding Ratio (NSFR)', which were hosted in light of Basel-III, the liquidity status of the banks is being monitored regularly.
- To make banking risk management system more resilient and updated, a new reporting format namely ‘Comprehensive Risk Management Reporting (CRMR)’ has been introduced, in the light of which the risk management system of the banks is being monitored. Besides, in conformity with the changes in the banking system the ‘Risk Management Guidelines for Banks’ is being reviewed.
- As part of strengthening the internal audit system in Bangladesh regular monitoring of fraud/forgery in the light of Self-Assessment of Antifraud Internal Control is being carried out. Reviewing of it is at final stage.
- Due to the changes in the legal framework and international standards, Bangladesh Financial Intelligence Unit (BFIU) updated Uniform Account Opening Form for all scheduled banks which was circulated on 16 January 2017. The revised form includes a format for Know Your Customer (KYC), transaction profile, customer's risk grading and account opening information. Besides, BFIU has drafted Uniform Account Opening Form for all insurance companies which is going to be circulated within a short span of time.

Capital Market

- During FY2016-17 formulation of the Bangladesh Securities and Exchange Commission (Exchange Traded Fund) Rules, 2016; Bangladesh Securities and Exchange Commission (Qualified Investor Offer by Small Capital Companies) Rules, 2016; Bangladesh Securities and Exchange Commission (Development of Investors Education and Training) Rules, 2016; Bangladesh Securities and Exchange Commission (Market Maker) Rules, 2017; Bangladesh Securities and Exchange Commission (Clearing and Settlement) Rules, 2017 and amendment of the Depository (User) Regulations, 2003; Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015 took place.
- Bangladesh Securities and Exchange Commission (BSEC) issued order regarding dissemination of price sensitive information, which was published in the Bangladesh Gazette on 15 February 2016.

- BSEC issued a gazette notification on 24 November 2016 exempting the Public Private Partnership (PPP) companies from the obligations of taking approval of the Commission for capital raising. It also exempted the PPP companies from the obligations of becoming public limited company and being enlisted in stock exchanges before fund raising.

Short and Medium Term Prospect of Bangladesh Economy

The Medium-Term Macroeconomic Framework (MTMF), 2018-2020 envisaged the macro-economic and fiscal indicators for the budget year and the projection of two outer fiscal years. Based on the prospects and potential risks in global and domestic economic context, 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 of 8.0 percent in FY2019-20. Investment as percent of GDP is expected to increase to 31.9 percent 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 is expected to be 25.4 percent and 9.0 percent of GDP respectively.

The achievement of the growth targets as set in the MTMF is contingent upon the success of certain reform programmes of the Government. Enhancement of productivity with particular attention on education, health, Information and Communication Technology (ICT) and development of physical infrastructures like power, energy, communication, transportation in a coordinated way are very important in this context. The Government has been implementing a wide range of activities in this regard, particularly to encourage private investment by reducing infrastructure constraints and creating ample opportunities for them. The success of these initiatives will dictate the extent to which the targets envisaged in MTMF will be fulfilled.

Though all the three broad sectors of the economy- agriculture, industry and service sector are likely to contribute equally in attaining the desired growth, the share of industry in GDP is expected to increase gradually. Due to the gradual escalation of productivity and existence of lower wage rate in agriculture relative to industry the overall contribution of the latter in GDP is expected to rise over time.

For the sustained growth in agriculture, the Government’s supports for expanding technology, diversifying crops, extending production of non-seasonal crops along with the seasonal ones, innovating new variety of salinity tolerant seed and high yielding variety of paddy and jute, providing subsidy and agricultural credit, ensuring uninterrupted power supply for irrigation and extending assistance to agro-based industries are indispensable. These sorts of supports are expected to continue in the coming years also.

The Government has been trying relentlessly to overcome the infrastructural and energy constraints. In the face of increasing demand for electricity, the Government is implementing its plan of increasing electricity generation capacity to 24 thousand

MW by 2021. In this context, initiatives have been taken to import Liquefied Natural Gas (LNG) and to explore new gas fields. To remove the bottlenecks of infrastructural paucity the Government is prioritising integrated development of roads, rail and water ways. To expedite economic development as well as industrialisation establishment of 100 special economic zones by the next 15 years is in progress. Establishment of 79 economic zones has already been approved, of which 56 will be established under Government initiatives and the rest will be built under private edges. In addition, to speed up the implementation of the growth enhancing transformational projects including the *Padma* Bridge project, special fund has been allotted in the national budget. Successful implementation of these projects is expected to play a significant role in promoting economic growth.

In the MTMF the revenue target for FY2017-18 has been set at 13.00 percent of GDP which is 1.8 percentage points higher than the revised target for FY2016-17. Revenue is projected to scale up to 13.5 percent and 14.1 percent of GDP in the following two years. Continuation of legal, procedural, structural and administrative reforms as before, proper implementation of the new Value Added Tax and Supplementary Duty Act, 2012, execution of alternative dispute resolution and automation of all customs houses will augment revenue mobilisation to the desired level.

With the estimation of the Government expenditure at 16.2 percent of GDP in the revised budget for FY2016-17, MTMF has projected the same as a percent of GDP at 18.0 percent in FY2017-18, 18.4 percent in FY2018-19 and 19.1 percent in FY2019-20. Of this, expenditure on Annual Development Programme is estimated to reach 6.9 percent of GDP in FY2017-18, 7.0 percent in FY2018-19 and 7.1 percent in FY2019-20 from 5.7 percent in FY2016-17 (revised). Channeling necessary funds for the implementation of the mega projects of the Government is likely to increase the outlay of ADP.

As per the revised budget of FY2016-17 the overall budget deficit has been anticipated to remain within 5.0 percent of GDP, 72 percent (3.6 percent of GDP) of which will be financed by domestic sources and the rest will be backed by external sources. Of the domestic financing, one-third (1.2 percent of GDP) will come from the banking sector as credit and the rest (2.4 percent of GDP) will be collected from non-banking sources, particularly from selling of savings certificates. Gradually dependence on savings certificates for deficit financing is planned to be reduced. In the succeeding 3 years budget deficit is expected to stay around 5.0 percent of GDP and financial supports from non-banking sources as percent of GDP is projected to shrink to 1.5 percent, 1.1 percent and 0.9 percent respectively. Overall, deficit financing from the domestic and external sources is targeted to be kept within 2.7-3.4 percent and 1.5-2.5 percent of GDP respectively over the medium term. In recent years the role of banking sector in financing budget deficit has been weakened owing to the high revenue receipt from the sale of savings certificates due to their high interest rate. However, in order to facilitate the private investment the Government has taken endeavours to rationalise interest rate which is likely to make it possible to meet the budget deficits as per the targets set in MTMF.

The Government has been pursuing cautious monetary policy stances to maintain macroeconomic stability and to keep inflation in check. The year-on-year inflation in FY2015-16 dipped to 5.90 percent from 6.40 percent in FY2014-15.While setting MTMF targets, it has been anticipated that inflation will slide down to 5.5 percent in FY2016-17 and will stay around there over the subsequent fiscal years. Moreover, it is expected that through consistent increase in food production, uninterrupted supply of essential commodities, adequate monitoring of the market system and ensuring food security the Government will be able to keep food inflation under control.

Considering the growth targets and expected inflation in medium term, MTMF has projected the year-on-year growth of broad money within 15-16 percent, while keeping the private sector credit growth around 16.5 percent. GDP growth is expected to be achieved if the flow of loan continues as above.

In recent years, the growths in export earnings and remittance inflows have shown some declining trends. Export growth in FY2016-17 has been estimated at 7.0 percent and in the medium term has been projected to be within 11-12 percent. On the other hand, remittances from expatriate Bangladeshi workers have been projected to squeeze by 5.0 percent in FY2016-17 but to grow by 5.0 percent in FY2017-18 and 11.0 percent in the next two fiscal years. To set these targets it has been predicted that both exports and remittances will regain their firm position. Despite the falling trend of these two indices in the short term, the pace of the economy is not likely to be interrupted due to the existence of domestic demand.

The concerted efforts on exploring new labour markets and intensive diplomatic initiatives to increase expatriate employment and various initiatives of the Government including providing training to create skilled manpower are expected to contribute to the upscaling of remittance and exports.

In FY2016-17 expenditure on imports was also estimated to increase. Around 70 to 75 percent of imports of Bangladesh are essential goods (industrial raw materials, capital equipment and fuel oil etc.). In medium term, import expenditure has been projected to increase by 12 percent.

In medium term, Current Account Balance (CAB) has been projected to be in deficit and by the end of FY2019-20 it has been estimated to reach 2.0 percent of GDP. Due to the rises in foreign direct investment as well as in medium and long term (MLT) credit inflows a surplus in capital and financial accounts is expected. As a result, overall balance will be in surplus which will maintain the stability of exchange rate and keep the foreign exchange reserve at satisfactory level.

The goal of maintaining macroeconomic stability together with attaining targeted GDP growth rate and inflation will be realised if the implementation of prudent fiscal management, application of cautious and effective monetary policy, appropriate management of expenditure, sound implementation of the reform activities can be done properly. Table 1.3 highlights the projection of key macroeconomic indicators during FY2017-18 to FY2019-20.

Table 1.3: **Medium Term Macroeconomic Framework, FY2017-18 to FY2019-20: Key Indicators**

Indicators	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
	Actual				**Budget**	**Revised Budget**	**Projection**		
Real Sector									
Real GDP growth (%)	**6.0**	**6.1**	**6.6**	**7.1**	**7.2**	**7.2**	**7.4**	**7.6**	**8.0**
CPI Inflation (%)	6.8	7.4	6.4	5.9	5.8	5.5	5.5	5.5	5.4
Investment (% GDP)	28.4	28.6	28.9	29.7	31.0	30.3	31.9	32.8	34.5
Private	21.8	22.0	22.1	23.0	23.4	23.0	23.2	23.9	25.4
Public	6.6	6.6	6.8	6.7	7.6	7.3	8.7	8.9	9.0
Fiscal Sector (% of GDP)									
Total Revenue	**10.7**	**10.5**	**9.6**	**10.0**	**12.4**	**11.2**	**13.0**	**13.5**	**14.1**
Tax Revenue	9.0	8.6	8.5	8.8	10.7	9.8	11.5	12.2	12.8
Of which NBR Tax Revenue	8.6	8.3	8.2	8.4	10.4	9.5	11.2	11.7	12.1
Non-Tax Revenue	1.7	1.8	1.1	1.2	1.7	1.4	1.5	1.3	1.3
Public Expenditure	**14.6**	**14.0**	**13.5**	**13.5**	**17.4**	**16.2**	**18.0**	**18.4**	**19.1**
Of which ADP	4.1	4.1	4.0	4.4	5.7	5.7	6.9	7.0	7.1
Overall Balance	**-3.9**	**-3.6**	**-3.8**	**-3.6**	**-5.0**	**-5.0**	**-5.0**	**-5.0**	**-5.0**
Financing	**3.9**	**3.6**	**3.8**	**3.6**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Domestic Financing	2.8	2.8	3.4	2.9	3.1	3.6	2.7	3.4	3.4
External Financing (net)	1.1	0.7	0.5	0.7	1.7	1.5	2.4	1.5	1.6
Money and Credit (Year-on-year % change)									
Domestic Credit	11.0	11.6	10.0	14.2	15.0	16.4	16.5	17.2	17.4
Credit to the Private sector	10.9	12.3	13.2	16.8	15.0	16.5	16.5	16.8	17.0
Broad Money	16.7	16.1	12.4	16.4	15.4	15.5	15.6	15.8	16.1
External Sector (% Change)									
Export, f.o.b	10.8	12.1	3.1	8.9	10.0	7.0	11.0	12.0	12.0
Import, f.o.b	0.8	8.9	3.0	5.5	11.0	10.6	12.0	12.0	12.0
Remittance	11.6	-1.6	8.5	-2.5	10.0	-5.0	5.0	11.0	11.0
Current Account Balance (% GDP)	1.6	0.8	1.5	1.7	-0.2	-1.5	-2.1	-2.1	-2.0
Gross Foreign Exchange Reserves (Billion US$)	15.3	21.5	25.8	30.4	32.0	32.0	33.2	33.8	35.1
Forex. Reserve in the month of Import	4.6	5.9	7.0	7.9	6.9	6.5	6.0	5.5	5.1
Memorandum Item									
GDP at current market prices (Billion Tk.)	11989	13437	15158	17329	19610	19561	22173	25154	28589

Source: Finance Division, Ministry of Finance.