Chapter One

In Pursuit of a Prosperous Bangladesh: Sustaining growth and Stepping Forward

Introduction

1.1 Encountering all known challenges, Bangladesh economy is moving ahead in terms of robust real GDP growth, progress in social and human development indicators and significant decline in poverty. Especially its successful navigation through the global financial crisis reveals inherent resilience and solid macroeconomic foundation of the economy. At the same time, the country is edging gradually closer to middle income status with per capita GNI increased to $1,190 in FY14.

1.2 This year, most of the broad sectors of the economy have been depicting positive movement, albeit in a varying degree. Inflation remained contained. While revenue collection is lagging behind the target and the pace of ADP implementation rate is relatively slow, fiscal discipline has been restored through prudent restraint on expenditure. Financial sector is strengthening gradually and the overall current account position remains satisfactory amid negative growth in remittances. Nevertheless, for this fiscal year (FY14), a lower-than-targeted growth has been estimated at 6.12 percent[1], mainly on account of less-than-expected performance in remittances, private investment, manufacturing and service sector. However, as domestic economic activity normalizes, growth is again gathering momentum. Moving forward, in a supportive global economic environment, GDP growth is expected to accelerate sharply in FY15 and further.

1.3 At this stage of growth trajectory, main task will, therefore, be to attune the macroeconomic policies and stance to ensure that growth is grounded on a solid footing, so as broad policy objectives. On the whole, political continuation of the present government is likely to help continue

[1] Provisional Estimate by Bangladesh Bureau of Statistics (BBS) using base year 2005-06

proven development strategies. In its previous tenure the government primarily focused on investing in socio-economic infrastructure building and maintaining aggregate fiscal discipline to lay down a strong foundation of the economy. While continuing with the ongoing schemes on a priority basis, this time the government is aiming at focusing on consolidation of gains achieved so far, as well as on basic reforms, like, institution building, strengthening of local government, land reforms and ensuring governance. In this journey, overall global and domestic outlooks appear to be favorable except few areas of concern.

National Strategic Objectives

1.4 The national strategic objectives include among others building a safe, vibrant and prosperous Bangladesh for its citizen while ensuring a sustained level of development, greater equality in access to opportunities and better quality of life. These strategic objectives have been translated into plans and are under the process of implementation (chart 1).

Chart 1: National Policy Environment

The Perspective Plan:

1.5 'The Perspective Plan of Bangladesh 2010-21: Making Vision 2021: a Reality' is the strategic articulation of the development vision, mission and goals of the Government. This is the first ever long term strategic development plan in the history of Bangladesh. The plan envisions Bangladesh as a middle income country by 2021. It also provides the road map for accelerated growth and lays down broad approaches for eradication of poverty, inequality, and human deprivation. The plan targeted GDP growth rate to rise to 8.0 percent by 2015, and further to 10 percent by 2021 and head count poverty dropping to 13.5 percent of population by 2021. Altogether nine areas have been prioritized for formulating appropriate policies and tasks in helping secure the key goals and objectives of the Perspective Plan (Planning Commission, Bangladesh, 2012).

Box 1.1 Development Priorities of Perspective Plan

- Ensuring broad-based growth and food security
- Addressing globalization and regional co-operation
- Providing energy security for development and welfare
- Establishing a knowledge-based society
- Building sound infrastructure
- Ensuring effective governance
- Mitigating the impact of climate change
- Creating a caring society
- Promoting innovation under a digital Bangladesh

1.6 The Specific strategies and the tasks of implementation have been planned to be articulated through the two five-year plans: namely, Sixth Five Year Plan (2011-2015) and the Seventh Five Year Plan (2016-2020).

Sixth Five Year Plan (SFYP):

1.7 SFYP has been formulated as a living document to be monitored for results and modified for taking the changing global and domestic environment into account. To evaluate the results, a result framework (RF) containing quantitative benchmarks has been included in the SFYP. Accordingly, the first implementation review of the plan using that RF was carried out in July, 2012 to check whether the plan was on course. By this time, three years of the plan period have passed. Recently a Mid-Term Implementation Review (MTIR) of the plan has been completed (*Policy Research Institute of Bangladesh, 2014)*.

Achievement against target

1.8 The results of the MTIR suggests that the overall progress during the first three years, especially in terms of achieving major development goals, like, GDP growth, poverty reduction, employment generation is generally positive. Macroeconomic management has been broadly prudent. In particular, tax to GDP ratio, fiscal deficit, export growth, export to GDP ratio, current account balance, reserve build up and external debt management are broadly on track in line with the SFYP targets. Inflation rate was off-track in the first two years. Persuasion of prudent fiscal policy and moderately restrained monetary stance subsequently helped contain inflation. Also, as envisioned in SFYP the country has been undergoing a gradual structural transformation. During this period the manufacturing sector grew much faster than agriculture. Services sector grew at around the same rate as GDP. Impetus for the expansion of manufacturing sector basically came from the resilient export performance. The implementation review also suggests that the most impressive performance has been exceeding the electricity generation capacity target.

Table 1.1: Sector Share in GDP Growth*

Broad Sectors	FY10	FY11	FY12	FY13	FY14
Agriculture	18.4	18.0	17.4	16.8	16.3
Industry	26.8	27.4	28.1	29.0	29.6
Service	54.8	54.6	54.5	54.2	54.1

Sources: BBS; Note: * at constant 2005-06 price

1.9 As per as social indicators are concerned, the review suggests that many of the quantitative targets in education and in the Health Population and Nutrition (HPN) sector are likely to be achieved by 2015. Progress in women empowerment, especially in terms of gender parity in education is noteworthy. On the other hand, nutrition, family planning and internal efficiency of education may fall short of the target. Allocation of resources against various social protection programmes, adoption of legislations and preparation of National Social Protection Strategy (NSPS) has been instrumental to realization of social inclusion targets. As a whole, it is projected that realizing poverty reduction target will hinge upon the prospective GDP growth.

1.9 Although there is a large unfinished agenda regarding environmental management and climate change progress, performance in the area of disaster management has been well. Progress in areas relating to e-governance, the Right to Information (RIT), elected local governments, Medium Term Budget Framework (MTBF) all are indicators of the government's adherence to good governance.

Major areas of Concern for Policy Intervention

1.10 Based upon the implementation record during the first three years, MTIR identified following areas which need to be addressed. In these areas policies need more attention to help minimize the shortfall in GDP and poverty reduction targets.

a. ***Employment creation:*** Shortfall in domestic employment generation compared to SFYP target has been so far offset by better-than-expected performance in overseas employment. But recent slowdown in the pace of expansion of overseas employment calls for employment generation in domestic manufacturing and service sectors.

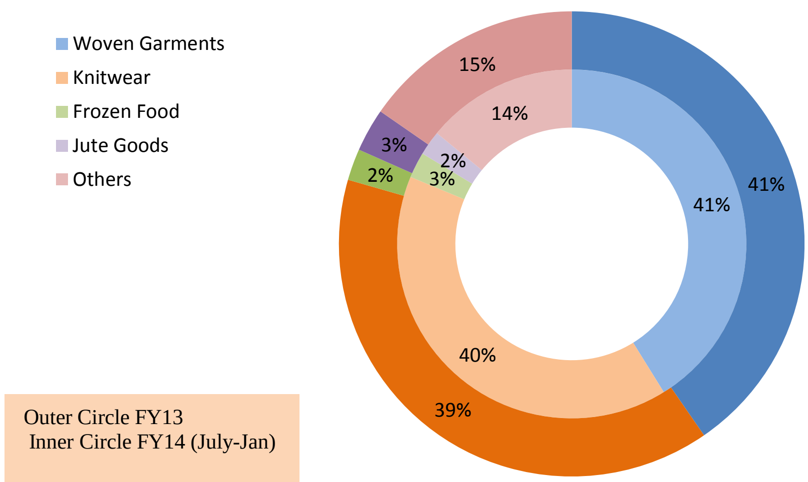
b. ***Investment:*** Investment climate remained constrained by factors, like, complications in land procurement, power and gas shortages, regulations, contract enforcement etc. Also, inadequate institutional capacity and difficulty in the bidding and contracting process have been limiting the prospective gains from the public-private investment partnership.

c. ***Agriculture:*** agriculture sector growth fell short of target even with the existence of normal weather which necessitates revisiting the agriculture policy.

d. ***Labour skill and training***: upgrading of skills for the workforce needed renewed attention, like, reexamination of budgetary priorities to allocate greater resources for health and education or implementation of targeted programmes for skill development.

e. ***Export:*** Export remains concentrated on RMG sector. Careful review and assessment of incentive structure in manufacturing sector is needed to get rid of bias against non-RMG sector.

Figure 1.1Category-wise Breakdown of Exports



Sources: Bangladesh Bank

f. ***Electricity generation***: Much of the additional private electricity supply has come from the rental plants at a higher unit cost compared to other sources. Huge increase in the marginal cost of generating electricity creates concern about the sustainability of achievement in the power sector. Moreover, failure in meeting the target of diversifying sources of primary fuel by boosting domestic production of gas and coal also remained an area of concern.

g. ***Governance and institutional development:*** Strengthening of the judicial process and local government institutions as well as improving the management, governance capacity and the quality of services at various sectors require particular attention.

h. ***Infrastructure:*** While a number of significant projects in the transport and communication side have been completed, performance is lagging in some areas, especially in the construction of the Padma Bridge and some public-private partnership schemes.

i. ***Fiscal Policy Implementation:*** On the fiscal front, slowing economy amidst political hostilities and slower-than-expected pace in the implementation of tax modernization plan created concern. Because, in such a situation maintaining fiscal discipline may require fiscal consolidation at the cost of cutbacks in spending in areas of high priority.

The Seventh Five Year Plan (2016-2020):

1.11 The country has begun the preparation for the Seventh Five Year Plan. It is now in the process of revisiting its goals and strategies basing upon the experience of sixth five year plan and changing global and national circumstances. The core theme of the Seventh Plan is proposed to be "Accelerating Growth with Equity" (General Economic Division, Planning Commission, Bangladesh, 2013). Therefore, utmost attention will be given to acceleration of GDP growth rate from the levels achieved in the Sixth Plan and on significant improvement in income distribution. It is also expected that higher GDP growth and better income distribution will ensure a faster pace of poverty reduction. Moreover, there will be emphasis on improvement of the growth drivers, appropriate policy formulation, institution building and implementation of programs supportive to ensuring income equality.

Box 1.1 Sixth Five year Plan: Implementation status at a Glance

1. GDP Growth, employment and poverty

Performance Indicators	Base year 2010	Implementation Year						Target Year
		2011		2012		2013		(2015
		Target	Actual	Target	Actual	Target	Actual	Target
GDP growth rate (%)*	6.1	6.7	6.7	7.0	6.3	7.2	6.0	8.0
CPI Inflation (%)	7.3	8.0	8.8	7.5	10.6	7.0	7.7	6.0
Additional Employment (million)	2.76	3.23	-	3.57	-	3.98	-	5.24
Head Count Poverty	31.5	30.1	30.3	28.8	28.9	27.4	27.6	25.3

*Base Year 2005-06

2. GDP Sect oral Growth*

Performance Indicators	Base year 2010	Implementation Year						Target Year
		2011		2012		2013		(2015
		Target	Actual	Target	Actual	Target	Actual	Target
Agriculture	5.2	4.9	5.1	4.5	3.1	4.4	2.1	4.3
Industry	6.5	9.2	8.2	9.6	8.9	9.9	9.9	11.5
Service	6.4	6.6	6.2	6.8	5.9	7.1	5.7	7.8

*Base Year 2005-06

4. Fiscal performance

Performance Indicators	Base year 2010	Implementation Year						Target Year
		2011		2012		2013		(2015
		Target	Actual	Target	Actual	Target	Actual	Target
Total Revenue (as % of GDP)	10.9	12.1	11.8	13.2	12.4	13.4	12.4	14.6
Total Expenditure (as % of GDP)	14.6	16.5	16.2	18.2	16.4	18.4	16.8	19.6
Overall Balance (As % of GDP)	-3.7	-4.4	-4.5	-5.0	-4.0	-5.0	-4.4	-5.0
Total Financing (As % of GDP)	3.7	4.4	4.5	5.0	4.0	5.0	4.4	5.0
Total External Debt (As % of GDP)	20.3	19.2	20.3	18.3	19.4	18.0	19.0	16.8

Box 1.1 Sixth Five year Plan: Implementation status at a Glance

Performance Indicators	Base year 2010	Implementation Year						Target Year
		2011		2012		2013		(2015
		Target	Actual	Target	Actual	Target	Actual	Target
Total Domestic Debt (As % of GDP)	19.7	20.5	22.0	21.0	24.4	21.4	13.2	22.1
Export to GDP Ratio	16.2	20.3	20.6	21.2	21.0	22.1	20.2	23.9
CAP (% of GDP)	3.7	-0.3	0.8	-0.3	0.4	-0.2	1.9	-0.4
Tax to GDP ratio (%)	9.0	10.0	10.2	10.6	10.8	11.2	11.0	12.4

5. Social Indicators

Performance Indicators	Base year 2010	Implementation Year						Target Year
		2011		2012		2013		(2015
		Target	Actual	Target	Actual	Target	Actual	Target
Net enrollment at primary school	91	..	..	..	98.7	..	..	100
Total fertility Rate	2.7	..	2.3	..	2.20	..	..	2.2
Maternal Mortality Ratio (per 100000 live births)	194	-	-	-	-	-	-	143
Ratio of girls to boys in tertiary education (%)	32	..	69.03	..	..	..	70	100
Ratio of literate females to males (% of ages 20-24)	85	..	..	..	..	..	86	100

Sources:

1. Medium Term Implementation Review of the Sixth Five Year Plan of Bangladesh
2. World Development Indicator, World Bank
3. Bangladesh Bureau of Statistics

Medium term Macroeconomic Policy Statement (MTMPS)

1.12 MTMPS reaffirms commitment to giving effect to the policy priorities outlined in national documents. In addition, some adjustments to the macroeconomic framework to account for the deviation of actual from the planned performances are incorporated in MTMPS. It also sets out the government's view of the fiscal and economic scenario and proposed government spending framework for the upcoming three fiscal years including the budget year. Besides, it outlines the global and domestic economic context in which the forthcoming budget is formulated and explains the fiscal policy in that context.

Macroeconomic Overview

1.13 In an open economy environment, growth prospect is shaped by a confluence of global and domestic factors. The open nature of Bangladesh economy, therefore, exposes it to the changing global growth dynamics and risks.

Developments in Global Economy:

1.14 Since September, 2008 the state of the global economy has been the most decisive factor impacting the fortunes of every developing country *(MInistry of Finance, India, 2014, p. 1*). Although Bangladesh has navigated the adversities of global financial crisis successfully, it is not an exception to that.

Advanced, Emerging and Developing Economies

1.15 World economy is settling down gradually. Global Economic activity strengthened in the 2nd half of 2013. At the same time, global trade and industrial production picked up substantially. However, economic growth is not evenly robust across the globe (Table 1.1). Basically advanced economies account for much of the pickup. Growth in these economies rebounded by 1.3 percentage point. In contrast, growth in emerging and developing economies was somewhat modest, with an increase from 4.6 percent in the first half of 2013 to 5.2 percent in the second half. Nevertheless, the emerging and developing economies continue to contribute much (more than two third) of global growth.

Table 1.2: World Growth Outlook

	Actual			Forecast	
	2011	2012	2013	2014	2015
World	3.9	3.2	3.0	3.6	3.9
Advanced Economies	1.7	1.4	1.3	2.2	2.3
Emerging markets and Developing Economies	6.3	5.0	4.7	4.9	5.3

Source: IMF World Economic Outlook, April 2014

1.16 Looking ahead, global growth prospects appear to have improved. Economic activities in the advanced economies such as USA, euro area and Japan is picking up though at varying degree. Advanced economies are projected to grow by 2.2 and 2.3 percent in 2014 and 2015 respectively (table 1.1). It is expected that likely growth stimulus in advanced economies will be reduction in fiscal tightening (except in Japan) and accommodative monetary stance *(International Monetary Fund, April 2014a*).

1.17 Given the favorable outlook for advanced economies, growth in emerging market and developing economies will be supported by stronger external demand. But there remains concern as well. As growth in the US gains footing, their monetary policy has begun to normalize. So the positive impact might be partly offset by the likely dampening impact of tighter financial conditions resultant from the said normalization of monetary policy in the US. However, emerging market economies are addressing these macroeconomic vulnerabilities amid less favorable external financial environment and financial sector in these economies are becoming more sustainable (International Monetary Fund, April 2014c). The net effect will be a modest pickup in growth. As a whole, growth in these economies is projected to increase from 4.7 percent in 2013 to about 4.9 percent in 2014 and 5.3 percent in 2015*(International Monetary Fund, April 2014a)*

Asian Growth Outlook:

1.18 Asia also experienced pickup in growth in the 2nd half of 2013 on the back of accelerated export to advanced economies and robust domestic demand. Among the major economies, GDP growth in Japan slowed in second half of 2013 and projected to slow further. In China, growth has slowed from 9.3 percent in 2011 to 7.7 percent in 2013. Even slower growth amounting to 7.5 and 7.3 percent is forecasted for 2014 and 2015 respectively. In India, an accelerated growth rate of 5.5 and 6.0 percent is expected for 2014 and 2015 respectively, compared with 4.9 percent in 2013(Ministry of Finance, India, 2014).

1.19 South Asia's growth remained below potential, although increased marginally to 4.8 percent in 2013 from 4.7 in 2012. Growth here is forecasted to improve to 5.3 percent in 2014 and 5.8 percent in 2015 (Asian Development Bank, 2014). As forecasted in April 2014 IMF *World Economic Outlook,* Asia, as whole, will grow by 5.4 percent in 2014 and 5.6 percent in 2015 compared to5.2 percent growth in 2013.

Table 1.3: Growth outlook in Major Asian Countries

	Actual			Forecast	
	2011	2012	2013	2014	2015
Asia			5.2	5.4	5.6
China	9.3	7.7	7.7	7.5	7.3
Japan	0.7	2.2	2.1	1.3	0.5
India	6.6	4.7	4.4	5.4	6.4
Bangladesh	6.46	6.52	6.01	6.12	7.3*

Source: April 2014 *IMF World Economic outlook, BBS, *Finance Division, Ministry of Finance, Bangladesh*

Growth Outlook for Trading Partner

1.21 As far as our major trading partners are concerned, US economy has recovered from a long recession and grown at a faster-than-anticipated rate in the 2nd half of 2013. Overall growth rate was 1.9 percent in 2013. Growth is expected to increase at an above-potential-rate this year and further. Euro zone as a whole reported a growth of 0.2 percent in 2013.Growth is projected to be stronger in the core economies while it will be and weaker in countries with high debt and financial fragmentation. Overall growth is projected to be positive and reach to 1.2 percent in 2014 and 1.5 percent in 2015 (Table 1.4). Combined GDP growth in US, euro area and Japan is expected to almost double to 1.9 percent in 2014 from 1.0 percent in 2013. Growth in these economies will strengthen more to 2.2 percent in 2015 *(Asian Development Bank, 2014)*.

Table 1.4: Growth Outlook of Trading Partners

	Actual			Forecast	
	2011	2012	2013	2014	2015
USA	1.8	2.8	1.9	2.8	3.0
Canada	2.4	2.3	1.4	1.8	2.1
Euro Area	1.6	-0.7	-0.5	1.2	1.5

Source: April 2014 *IMF World Economic outlook*

Overall Global Growth Outlook

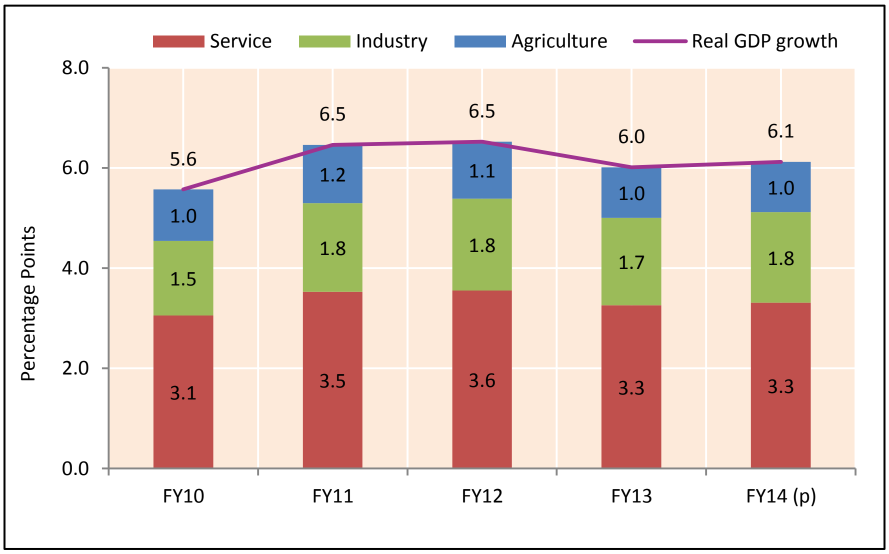
1.21 Taking together, in the medium term growth prospects look better for advanced economies than that of emerging markets and developing economies. Accordingly, it is anticipated that, unlike pre-crisis period, main impetus of growth will come from advanced economies. In the latest *IMF World Economic Outlook*, overall global growth is projected to accelerate from 3 percent in 2013 to 3.6 percent in 2014 and 3.9 percent in 2015 (Table 1.2). In response to this modest growth environment, policy makers around the world, are more likely to continue to maintain accommodative Monetary and Fiscal Policy with some committed to maintaining stimulus policies, until there is an evidence of sustained growth *(Office of the Prime Minister, St. Vincent and the Grenadines, 2014*).

Domestic Development

Recent Economic Performance

1.22 In FY13, growth remained robust at 6.01 percent, though lower than 6.5 percent recorded in FY12. Viewing from the supply side, main impetus came from manufacturing sector. In contrast, agriculture and service sector's growth was rather slow compared with previous trend. On the demand side, investment, more specifically private investment remained subdued and rose only marginally to 28.39 percent of GDP from 28.26 percent in FY12. Growth was basically attributable to net export and domestic demand fueled by healthy remittance flow. Inflation pressure eased up substantially and declined to 7.7 percent (twelve month average) from 10.6 percent in FY12.

Figure 1.2: Supply Side Contributions to Growth



Sources: BBS; p denotes provisional

1.23 On the fiscal front, tax revenue registered 14.1 percent growth leading to a collection of total revenue equivalent to 12.4 percent of GDP against targeted 13.9 percent. Government spending was controlled and recorded slight increase in growth rate to 16.9 percent compared with 16.6 percent in FY12. As a whole, fiscal deficit (4.5 percent of GDP)was kept within the target of 5.0 percent of GDP. Regarding monetary sector, all the major aggregates except net foreign assets (NFA) remained within the programmed level of MPS of Bangladesh Bank. Despite efforts to stimulate, private sector credit growth was sluggish and declined noticeably to 10.9 percent from 19.7 percent in June 2012.On the whole, financial sector position was steady except abrupt price movement in the stock market and few incidences of scam in the banking sector. Finally, with robust performance in export, slower import and higher remittances external sector performance stayed buoyant in FY13. Current account balance turned to a surplus of $2.5 billion from a deficit of $0.45 billion in 2012. This, along with financial account strengthened by higher disbursement of medium and long term loans led to a BOP surplus of $5.1 billion, much higher than $0.49 billion in FY12. At end of June 2013 foreign exchange reserve stood at $15.3 billion compared with $10.4 billion on the same date of previous fiscal.

1.24 In FY14, the country went through prolonged period of political unrest in the run up to the parliamentary election. Consequent disruptions in business and economic activity affected all the major sectors of economy. Industrial growth slowed down due to work stoppage and supply disruption. Sluggish industrial growth had a knock on effect on the service sector growth. However, as the situation stabilizes subsequent to the national election, GDP growth again gathered momentum.

Table 1.5: GDP Growth by Sector*

Sectors	FY10	FY11	FY12	FY13	FY14(p)	FY15**
Agriculture	6.15	4.46	3.01	2.46	3.35	4.3
Industry	7.03	9.02	9.44	9.64	8.39	9.3
Of which, Manufacturing	6.65	10.01	9.96	10.31	8.68	10.0
Service	5.53	6.22	6.58	5.51	5.83	7.3

Sources: BBS; *at constant 2005-06 price; ** projection; p denotes provisional

1.25 BBS in their provisional estimate recorded 6.12 percent real GDP growth for FY14. A good harvest, supported by favorable climate and government incentives, raised agricultural growth to 3.35 percent from 2.46 percent in FY13. Manufacturing sector decreased by 1.7 percent to 8.68 percent while service sector recorded slight improvement (Table 1.5).

1.26 From demand side perspective, although government consumption expanded marginally, private consumption reduced owing to a sharp decline in remittances which accounts for about 15 percent of private consumption (Asian Development Bank, 2014, p. 160). Public investment increased in the face of decreased private investment. Inflation remains on a declining trend and was 7.4 percent (point to point) in April, 2014.

Table 1.6: GDP from the Demand Side*

Categories (% of GDP)	FY10	FY11	FY12	FY13	FY14(p)
Consumption	79.14	79.30	78.78	77.96	76.57
Private	74.06	74.21	73.74	72.85	71.38
Public	5.07	5.09	5.04	5.12	5.20
Investment	26.23	27.39	28.26	28.39	28.69
Private	21.56	22.14	22.50	21.75	21.39
Public	4.67	5.25	5.76	6.64	7.30

Sources: BBS; *at constant 2005-06 price; p denotes provisional

1.27 As far as fiscal performance is concerned, revenue mobilization, especially tax revenue collection was impaired by subdued economic activity in the first half of FY14. Also import related tax collection was negatively affected due to weak growth of imports. As a whole, during the first nine months of FY14 tax revenue registered only 8.4 percent growth l. Only 56.9 percent of annual target has been achieved. At the same time political unrest led to delays in the implementation of Annual Development Program (ADP). However, the government was quick to address revenue shortfall and made necessary revision in the expenditure arrangement, while upholding growth and social inclusion imperatives. As a result, overall fiscal balance remains fairly on track against target. Apart from weakened remittance growth, external sector position remains strong with stable export and reasonable import growth. Exchange rate remains mostly stable along with a foreign exchange reserve buildup of about $20.0 billion.

Future Prospects

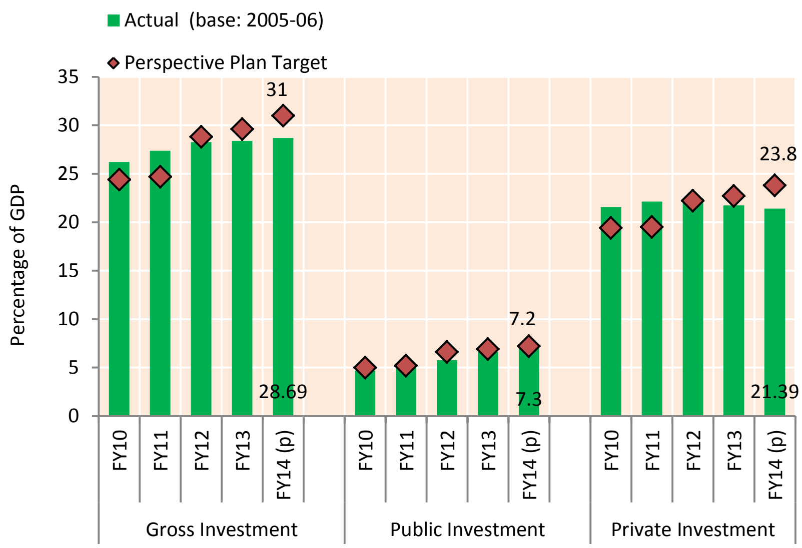
1.28 With the normalization of economic activity in the domestic front and positive global outlook, especially for major trading partners, a significant uplift in the real GDP growth is expected for the medium term. Positive indications are there. Private sector credit growth, export and import growth, LC opening and settlement of capital machinery and raw materials are depicting a positive outlook since January 2014. Growth will be aided by expected recovery in remittances and export growth following continued economic recovery in USA and Euro area. At the same time, consumers and investors' confidence has been restored which will stimulate domestic demand. Favorable climate conditions and government's policy support are expected to help retain agricultural growth. Resilient domestic demand, vibrant rural economy and rebound in global growth will ensure service sector's growth dynamism. Stable political environment and continuation of growth supportive fiscal and monetary stance are likely to boost private investment. Ongoing structural and institutional reforms in fiscal, monetary and financial sectors will help retain business confidence and enhance FDI. Shortfall in revenue is expected to unwind gradually with various reforms pursued by the government in a bid to expedite revenue mobilization. After months of negative growth, remittance is expected to return back to its trend value supported by government's effort to restore existing markets and explore alternative destination. In April 2014, ADB *outlook,* It is expected that remittance will grow by 7.0 percent in FY15.

Prospective Growth Drivers

Boosting Investment

1.29 The crucial role of investment in accelerating growth has been well recognized by the government in its policies and strategies including actual work plan. As a result, public investment increased steadily over the years. Whereas, despite relentless government effort to stimulate it through enabling environment and supportive monetary policy, private sector investment has remained at around 21%-22% percent of GDP for the last few years (Fig-1.3).

Figure 1.3: Actual Investment against Perspective Plan's Target



Sources: BBS; Perspective Plan

1.30 According to a provisional estimate of BBS, investment as percent of GDP stood at 28.69 in FY14, increased marginally by 0.30 percentage points from 28.39 percent in FY13. Public investment rose by 0.66 percentage points to 7.3 percent of GDP while private investment declined by 0.36 percent and stood at 21.39 percent of GDP (table:1.6). Bangladesh needs to boost investment in infrastructure and skill development to raise economy's productive capacity as well as total factor productivity (TFP)to shift GDP growth on a 8 percent trajectory by FY17. As share of private investment is higher in the total stock of investment a major boost in the private sector investment is needed. On the other hand, despite all favorable conditions, Bangladesh has failed to become an attractive destination for FDI. Bangladesh's ability to attract investment have been hampered by- (i) want of land; (ii) high transaction costs, especially in trade; (iii) insufficient power and transport structure; (iv) limited promotion of country's advantages *(World Bank, 2012)*.

1.31 On the public sector, the government has given a big push to infrastructure and capacity addition in infrastructure building for removing obstacles on the path of investment as well as on skilled development. Now, the challenge is to increase efficiency in project implementation by enhancing public sector capacity in this regard.

Domestic Demand

1.32 Domestic demand will continue to be supported by remittance flow, government expenditure, vibrant private sector and rural economy and keep the economy afloat.

Export

1.33 It is expected that improved outlook for advanced economies, particularly for trading partners will help sustain impressive export performance and improve further. Although, sustaining export performance may necessitate meeting the demand for internationally accepted safety and labour standard. However, the government is providing short term incentives in terms of reduced export tax rate to relieve the sector form the adverse impact of recent political unrest and ongoing restructuring costs.

Macroeconomic management

1.34 Much of Bangladesh's impressive growth performance is attributable to sound macroeconomic management, which is a kind of hallmark for Bangladesh. In fact, solid progress in macroeconomic management both at the monetary and fiscal side has helped the country to overcome the global financial crisis successfully. Moreover, this ingrained capability enables the economy to encounter the adversities of slowdown in economic activity amidst political unrest before parliamentary election, and rebounded from almost a standstill point.

1.35 Government planned revenue mobilization efforts and prudent expenditure management will expand fiscal space and free up resources that could be allocated for infrastructure and human resource development. Presently, BB is implementing various reforms to set up a formal framework and adequate legal backing with a view to strengthening the resilience of the financial sector. Ongoing capital market reforms are expected to enhance market stability and governance. Moreover, performance and financial soundness of State Owned Commercial Banks (SOCBs)are likely to be improved following the adoption of risk management and control and credit growth ceiling measures taken by BB. On the whole, prudent macroeconomic management expected to further enhance the resilience of the economy as before and help growth gain solid footing.

Medium Term Macroeconomic Policies

Real Sector

1.36 Public investment will be enhanced. Top priority will be given to high quality projects with a strong impact on growth, particularly in power, energy, ports and transport infrastructure and establishment of special economic zone. The government is committed to maintaining adequate power supply despite relatively high cost of providing it. At the same time, large coal fired and nuclear power plants are being established to gradually replace high-cost temporary measures with long-term and cost effective solution. Power generation capacity is planned to be raised by 11,497 megawatt in 2018.

1.37 While enhancing public investment, government's policy will continue to be directed toward creation of an 'enabling environment' for private sector development as well as partnering with them under Public private partnership (PPP) arrangements

1.38 Input incentives and other policy support will be continued to help sustain agricultural growth. Moreover, there will be emphasis on building more diversified and commercially viable agriculture sector. Financial support will also be provided to export and jute good sectors. At the same time efforts will be there to further increase the share of manufacturing in

GDP. Particularly labour intensive export-oriented manufacturing sector will be encouraged. Effective steps will be taken to remove barriers to attract adequate foreign direct invest (FDI) from foreigners as well as from Bangladeshi migrants.

1.39 The Human development issues will be addressed by ensuring improved access to quality healthcare and education, addressing productivity and employment needs. At the same time, special program will be undertaken to skill millions of young men and women

1.40 Digitization will be spread to all spheres of the economy aiming at improved service delivery and governance

1.41 Integrated approach to environmental degradation and climate change and continuing emphasis on disaster preparedness will also be there

1.42 As growth initiatives are usually accompanied by inflation risk, a cautious policy mix will be pursued to ensure optimal combination of growth and inflation.

Fiscal Policy

1.43 Implementation of growth and social inclusion agenda requires strengthening revenue mobilization and expenditure management efforts. Moreover, fiscal space needs to be created so that more resources can be allocated for infrastructure and human resource development. In this regard, the government will continue to pursue prudent fiscal policy, anchored by a budget deficit (excluding grants) target not exceeding the level of 5.0 percent of GDP. On the revenue side, government's stance will be to-

- undertake revenue-enhancing tax policy measures in FY15 and beyond
- improve tax compliance through administrative measures
- Strengthen implementation of the new value added tax (VAT) law
- rationalize corporate income tax collection while broadening the base

- Modernize tax administration system

1.44 On the expenditure side, priority fiscal spending will be increased maintaining fiscal discipline. Broadly expenditure management efforts will be guided by following principles-

- To accelerate growth and development, the government will continue to realign the budget to national priorities
- Much emphasis will be given on increasing efficiency in ADP implementation and of spending. Additional efforts will be given to utilize more foreign resources awaiting in the pipeline
- Subsidies that are absolutely necessary will be chosen and channeled to absolutely deserving sector and persons
- Energy subsidy will be contained through price adjustment as and when needed with ultimate objective of gradual shifting to automatic price adjustment for energy and utility prices
- Subsidy policies will be made transparent through regular budgetary transfers
- Priority social spending will be safeguarded; there will be specific programs for bringing the marginalized into the mainstream of opportunities and activities by means of employment generation and targeted safety net programs. At the same time Spending on social protection programs will also be prioritize.

Debt management

1.45 Fiscal policy will be used to ensure debt sustainability through improved revenue mobilization and rationalizing and enhancing the efficiency of public expenditure as well as reviewing financing methods. Bank borrowing will be kept within a sustainable level, whereas constant efforts will be there to attract grants and concessional loans. With the apprehension of diminishing sources of grants and concessional financing as the country approaching gradually towards middle income country (MIC) status, the government is now at the final stage of preparing a Medium Term Debt Management Strategy (MTDS). Main objective is to work out more cost effective access to international and domestic sources to safeguard priority development spending. Non-concessional external loans will be taken only for critical sectors having high returns, like projects in power, transportation, telecommunications, and other infrastructures to help meet crucial development needs. Moreover, for effective public finance and debt management a number of noteworthy steps like cash flow forecasting, limiting government borrowing through overdraft (OD) facility and Ways and Means Advances (WMA), adopting guidelines for the approval and issuance of loan guarantees provided by the government have been undertaken.

Monetary and Financial Sector

1.46 Monetary policy will be anchored on a reserve money target aimed at containing inflation while allowing adequate expansion of private sector credit growth. BB will continue to intervene in foreign exchange market to preserve reserve adequacy. However BB revises their monetary policy stance on half-yearly basis accommodating changed circumstances. While formulating MP, BB strikes a balance between price stability and growth and creating condition necessary for stable financial system in place. BB has been continuing to implement provisions under amended Bank Company Act (BCA). Financial sector strategies also include strengthening of the governance, credit risks management, and balance sheet of State-owned commercial Banks (SOCBs) and automation of their financial reporting. Moreover, policy and administrative reforms are ongoing in the capital market to enhance market stability and governance.

External Sector

External sector's policies include:

- ❖ Adopting internationally accepted safety and compliance standards in the garment sector to safeguard this major source of export earnings, employment generation and inclusive growth
- ❖ Granting a temporary reduction in export tax rates[2] effective from April 23, 2014 through 2015 to help relieve the export sector from

[2] From 0.8 percent to 0.3 percent for ready-made garments (RMG) exports, and from 0.8 percent to 0.6 percent for all other exports.

the impact of recent political unrest and ongoing restructuring costs

- Rationalizing import tariff structures over the medium term, to make it business friendly and supportive to manufacturing growth
- Diversifying exports to get rid of bias against non-garment exports.
- Taking diplomatic initiatives to explore overseas employment opportunities in existing markets and in new destinations.