Chapter Two

Macroeconomic Performances and Medium Term Outlook

Introduction

The Bangladesh economy has continued its impressive growth despite external and domestic shocks. Well-diversified economic drivers ensured the growth sustainability. It has achieved an average annual growth rate of 6.1 per cent in the last five years. Bangladesh Government has drawn up a Vision-2021 program aimed to raise growth rates to a higher rate by 2021 in line with the objective to elevate the country to the status of a middle-income country. In the meantime, there has been a marked improvement in competitiveness led by outperformance in socio-economic pillars such as health, poverty reduction and primary education. To continue the progress, the government has set priorities over the medium-term such as taking advantage of the demographic window through skill development, reduce critical supply constraints, modernize revenue administration system and implement new tax laws, improve trade and investment climate to increase trade and foreign direct investment, and exploit favorable external demand from gradual global recovery process leading to high export and remittance inflows.

2.2 This chapter describes recent developments in the global economy, macroeconomic performance of the Bangladesh economy and the Medium-Term Outlook. This chapter first focuses on the recent development in the global economy, then the trends of the different sectors of the domestic economy are discussed. Later, it brings up sectoral outlook of the domestic economy over the medium term in the backdrop of the recent advancement and projected path of world growth, inflation, trade, and capital flow. Together, the policy settings and strategies are discussed.

Recent Development in the Global Economy

2.3 The global recovery is off to a stronger start than anticipated earlier but proceeding at different speeds in the various regions. Global economic activity is strengthened during second half of 2013. The Euro area, moving from recession to recovery that reflects on the overall global GDP which increased by 3.0 percent growth in 2013, is expected to grow by 3.6 percent this year. In advanced economies, fiscal consolidation is slowing, and investors are less worried about debt sustainability. Banks are gradually becoming stronger. These dynamics imply a changing environment for emerging market and developing economies as, stronger growth in advanced economies implies increased demand for their exports. Global inflation is on a declining trend on account of low inflation in major economies (Table- 2.1).

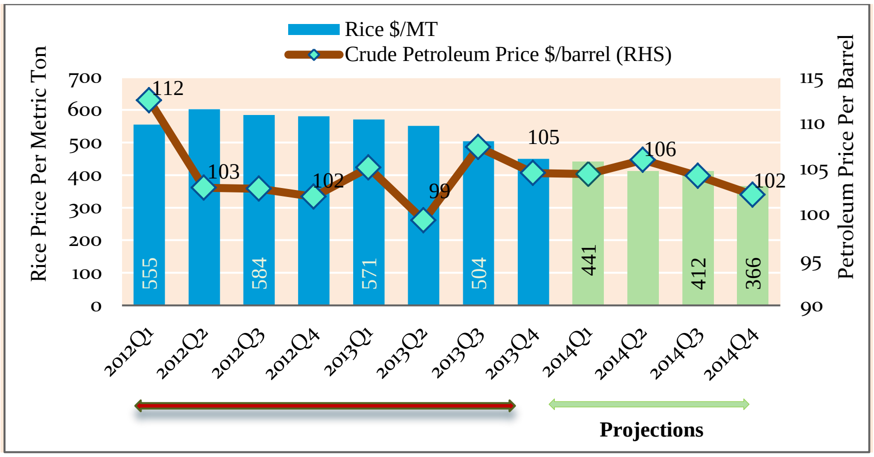
Table-2.1: World Economy: Growth and Inflation Scenario

Country/Region	Inflation				GDP Growth			
	Actual		**Projection**		**Actual**		**Projection**	
	2012	2013	2014	2015	2012	2013	2014	2015
Advanced Economies	2.0	1.4	1.5	1.6	1.4	1.3	2.2	2.3
USA	2.1	1.5	1.4	1.6	2.8	1.9	2.8	3.0
Euro Area	2.5	1.3	0.9	1.2	-0.7	-0.5	1.2	1.5
Emerging and Developing Asia	4.6	4.5	4.5	4.3	6.7	6.5	6.7	6.8
China	2.6	2.6	3.0	3.0	7.7	7.7	7.5	7.3
India	10.2	9.5	8.0	7.5	4.7	4.4	5.4	6.4
Bangladesh	10.6	7.7	7.0	6.0	6.5	6.2	6.5	7.3

Sources: IMF World Economic Outlook, April, 2014, Finance Division and Bangladesh Bureau of Statistics

2.4 Declines in the prices of commodities, especially fuels and food have been a common force behind recent decreases in headline inflation across the globe. Latest projections for petroleum and rice prices indicate modest decline in 2014 (Figure-2.1). In emerging and developing economies, inflation is expected to decline from about 6 percent currently to about 5.2 percent by 2015.

Figure-2.1: Global Crude Petroleum and Rice prices



Source: World Bank

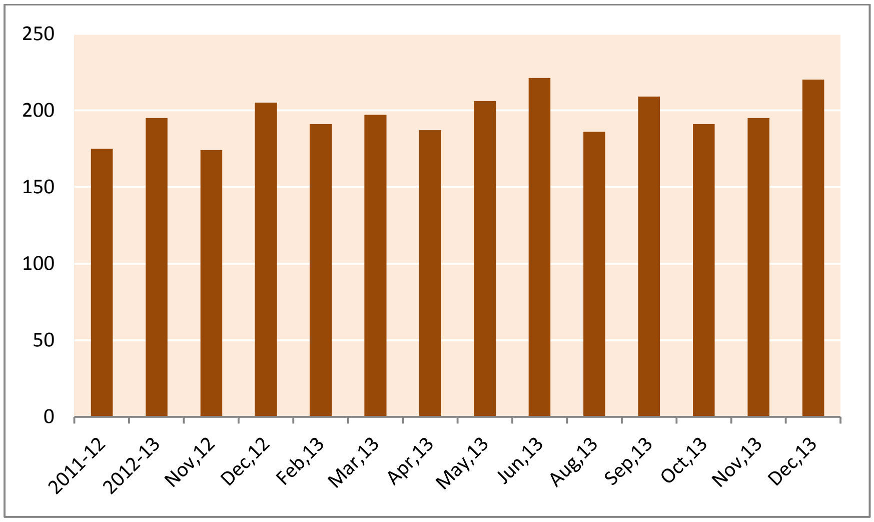
Recent Macro-Economic Performance in Bangladesh

Real Sector

GDP: Overall and Sectoral Growth

2.5 The Bangladesh economy continues to register robust growth. In FY13, 6.2 percent real GDP growth was achieved. The resilient growth was supported by private consumption as well as government consumption, investment and impressive remittance inflows. Moreover, ongoing initiatives to reduce supply bottlenecks in power, energy and communication sectors have helped impressive growth in manufacturing that led to real economic growth. However, sectoral performance till date underpins probable lower growth than the target in FY14. In the agriculture sector, the latest data from the BBS shows estimated total production of Aus, Aman and Boro is estimated to be 342.6 lakh metric tons in FY14 against 338.3 lakh metric tons (table-2.2) in FY13, which is fairly satisfactory. Quantum index of manufacturing output depicted slight improvement in December, 2013 compared to December, 2012 (Figure-2.2). Moreover, recent pick up of export and import growth suggests its likely improvement in the near term.

Figure-2.2: Industrial Production Index (Base 2005-06)



Source: Bangladesh Bureau of Statistics

Table-2.2: Production of Major Agricultural Crops (Lac metric ton)

Items	2012-13	2013-14*	% Change
Total Rice	338.33	342.65	1.28
Aus	21.58	23.26	7.78
Aman	128.97	130.23	0.98
Boro	187.78	189.16	0.73
Wheat	12.54	12.81	2.15
Maize	21.78	22.36	2.66
Total Cereals	372.65	377.82	1.39

Source: Ministry of Agriculture,* Provisional

2.6 On the demand side, growth in government consumption and investment has increased but remains below the target. Private sector demand for consumption and investment appears to be as previous year as credit to the private sector grew only by 7.6 per cent during July-March of FY14 against 7.0 per cent growth in the same period of FY13 (table-2.3). The recent pick up of exports and imports, remittances inflows and private investment suggests likely upturn in following quarters. In the mean time, Bangladesh Bureau of Statistics (BBS) has made a preliminary estimate of real GDP growth in FY14 at 6.12 percent.

Table 2.3: Recent Sectoral Performance Underpinning Real GDP Growth in FY14

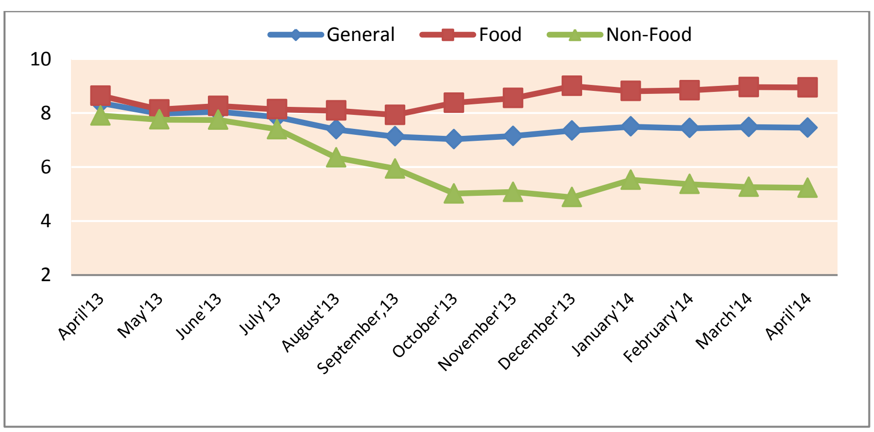
Indicators	July-March FY13	July-March FY14
Government Consumption, in billion taka (growth in %)	970 (3.1)	1152 (18.8)
ADP Expenditure, in billion Tk. (% of total allocation)	272 (49)	284 (43)
Project Aid, in billion Tk. (% of total allocation)	91 (42)	99 (40)
Credit to Private Sector, (growth in %)	7.0	7.6
Export, in billion US$ (growth in %)	19.7 (10.2)	22.2 (12.8)
Import C&F, in billion US$ (growth in %)	25.3 (-5.9)	29.7 (17.5)
Remittances, in billion US$ (growth in %) (Jul-Apr)	12.3(17.1)	11.7(-4.7)

Sources: Bangladesh Bank, Finance Division, Export Promotion Bureau, Implementation, Monitoring and Evaluation Division of Planning Commission

Inflation

2.7 Supply disruptions due to continuous *hartals* and blockades pushed up food as well as general inflation in the beginning of the current fiscal year. However, with the restoration of political stability following the national election, they started to come down. In addition, declining food and oil prices in the international market has contributed to some extent. Eventually, point to point headline inflation decelerated to about 7.4 percent in April 2014 and non-food inflation came down to 5.2per cent in April 2014 (Figure-2.3).

Figure-2.3: Inflation trend (Point to point, base 2005-06)



Source: Bangladesh Bureau of Statistics

Fiscal Sector

Government Revenue, Expenditure and Deficit Financing

Revenue

2.8 Reforms and policy measures in the revenue administration together with strong revenue collection efforts paved the way for consecutive remarkable growths in tax revenues, particularly in the NBR revenues during FY09 to FY12. However, revenue collection was disrupted due to domestic unrests in the second half of the FY13. Weak imports also contributed to lower import duty. Hence, total revenue grew only 13.2 percent in FY13 whereas NBR revenue rose by 12.8 percent. The continuation of domestic unrests in the run up to the national election also hindered economic activity as well as adversely affected revenue collection. Against this background, total NBR revenue target has been reset from Tk. 1, 36,000 crore to Tk. 1, 25,000 crore (10.6 percent of GDP). Till March of the current fiscal year 61.8 per cent of the revised target has been realized. On the other hand, Non Tax Revenue (NTR) collection has been adequate during the same period. Overall, total revenue receipts are projected to rise to 13.3 percent of GDP in FY14 against 12.4 percent in FY13.

Expenditure

2.9 Till March of the current fiscal year, current expense remains on track whereas domestic unrests led to delays in the implementation of the Annual Development Program (ADP). Considering slow progress in the implementation of ADP in the nine months of the current fiscal year, its revised target has been set at Tk. 60,000 crore (5.1 percent of GDP). Total government expenditure, comprising of current and ADP expenditure, increased by 18.8 percent in the first nine months (July-March) of current fiscal year compared to the same period of previous fiscal year.

Deficit Financing

2.10 In FY13, the overall budget deficit (excluding grants) was 4.4 per cent of GDP. According to the revised estimation overall budget deficit (excluding grants) will stand at around 5.0 per cent of GDP in FY14, of which 3.4 per cent of GDP would be financed from domestic sources and the remaining 1.6 per cent from external sources. In FY12 and FY13 budgets deficit was also mainly financed by domestic bank borrowings.

Monetary Sector

Money and Credit Situation

2.11 Broad money recorded an increase of 16.7 per cent, of which domestic credit grew by 13.5 per cent in FY13 (table-2.4). Moreover, credit to the private sector increased by 11.0 per cent. Money supply rose by 10.6 per cent (year over year) at the end of March 2014. On the other hand, net domestic credit growth increased by 7.3 percent which is below to the target of the latest Monetary Policy Statement (MPS). Indeed, credit to the private sector grew 7.6 per cent annually at the end of March 2014 (Figure 2.4).

Table-2.4: Monetary and Credit Developments

Items	July-March 2012-13	FY 2012-13	July-March 2013-14	March 2014	Targets in the latest MPS (Jan-June, 2014)
Net Domestic credit	7.1	13.5	7.3	11.3	17.8
Private Sector	7.0	11.0	7.6	11.5	16.5
Broad Money	12.0	16.7	10.6	15.3	17.0
Reserve Money	10.6	15.0	8.2	12.5	16.2

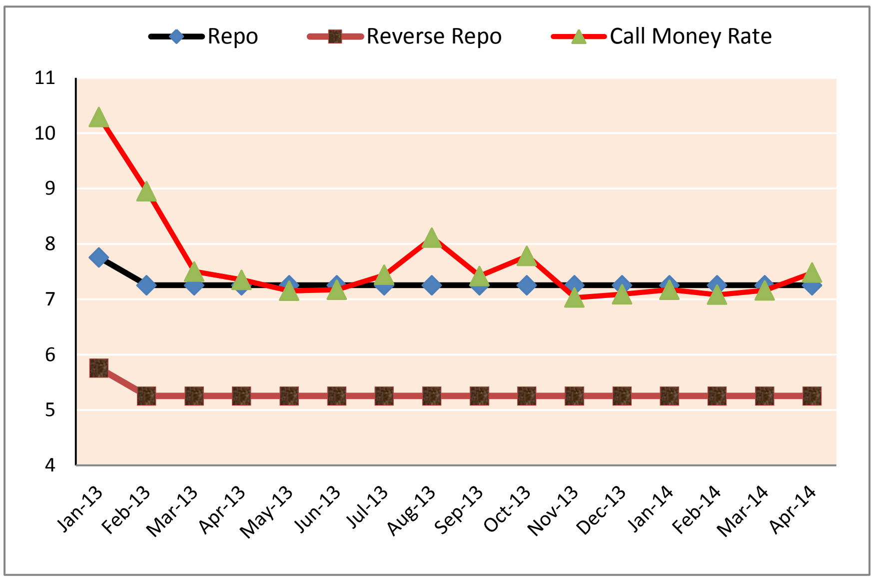
Source: Bangladesh Bank

2.12 Reserve money (RM) grew only by 15.0 per cent in FY13. In the first nine months of current fiscal year, reserve money growth increased by 8.2 percent which is below to the target of the latest Monetary Policy Statement (MPS).

Repo, Reverse Repo and Interest Rates

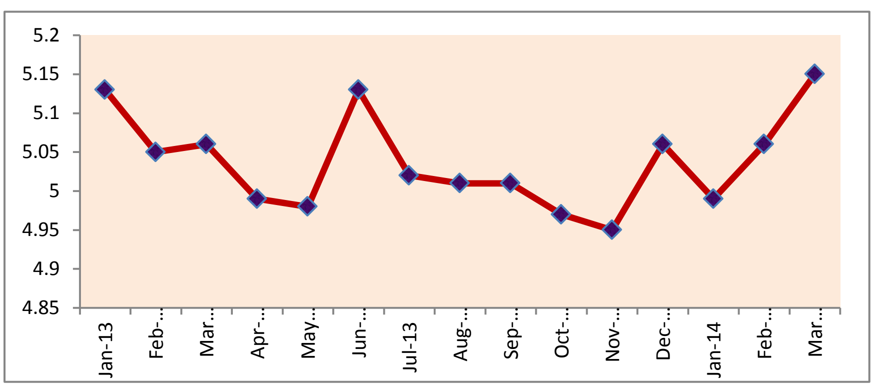
2.13 With a reduction in repo and reverse repo rates by 50 basis points, effective from February 01, 2013, interest rates further eased. Since then repo and reverse repo rates have been kept unchanged. The weighted average call money rate in the inter-bank market plunged to 7.5 per cent in April 2014 (figure-2.4) following excess demand of liquidity in the money market. Moreover, the spread between lending and deposit rates increased to 5.15 percent in March 2014 which was below 5 percent in January 2014.(Figure-2.5).

Figure-2.4: Trend of Repo, Reverse Repo and Call Money Rate



Source: Bangladesh Bank

Figure-2.5: Spread of Lending and Deposit Rate



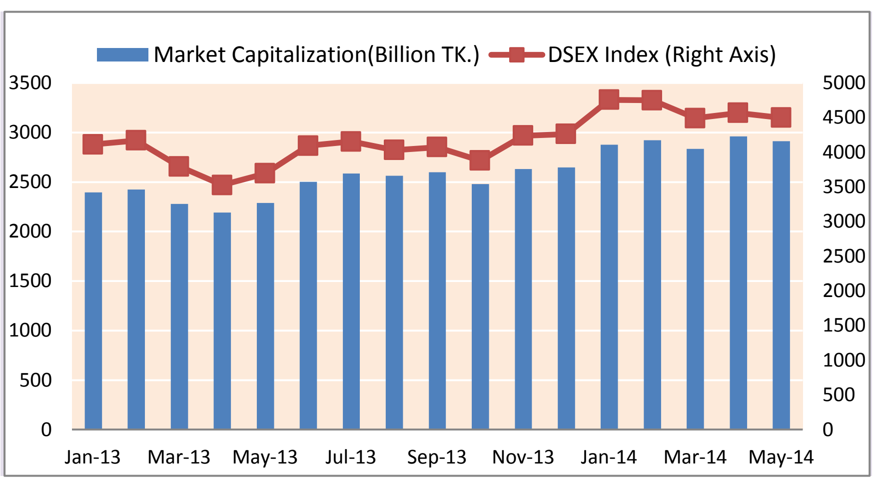
Source: Bangladesh Bank

Financial Sector Developments

2.14 The financial position of the four state-owned commercial banks (SOCBs), which account for a quarter of banking system assets deteriorated in 2012 but appeared to stabilize between March and June 2013. At the same time, performance at the state-owned specialized banks has also deteriorated. In order to strengthen the banking system and improve its governance, the government has already under taken necessary legal reforms to enhance supervisory mandate for Bangladesh Bank (BB) and strengthen governance at commercial banks by bringing necessary amendments to the Bank Companies Act (BCA). Besides, given the recent financial conditions of the SOCBs, BB is keeping eyes on improving their operations, credit policy, internal control and compliance.

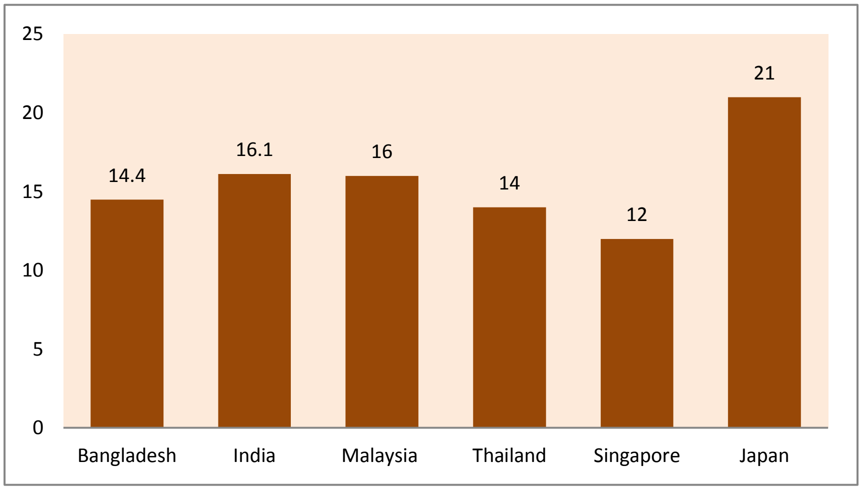
2.15 Although, in 2013, the DSE price index and market capitalization were relatively stable without experiencing steep rise or fall, over the past few months, stock market performance and turnover have been subdued as political uncertainties have dampened investor appetite. The DSE general index stood at 4567 in April, 2014 which was 4,113 in early January 2013(Figure 2.6). The market capitalization in late January 2013 was around Tk. 2400 billion which stood at Tk.2954 billion in April 2014. At the same time, the average price earnings ratio of DSE in 2013 was 14.4 which is almost similar to neighboring countries (figure-2.7).

Figure-2.6: Market Capitalization and General Index of Dhaka Stock Exchanges



Source: Dhaka Stock Exchange

Figure-2.7: Price Earnings Ratio of Bangladesh and Selected Asian Markets



Source: Securities and Exchanges Commission of Bangladesh

2.16 The government has taken various steps to increase transparency of the stock exchanges. In particular, the Demutualization Act has already been enacted and immediate steps has to be taken in line with the 'Exchanges (Demutualization) Act', 2013 for separation of capital market ownership from management in order to consolidate investors' confidence and protection of their interest. Further, steps are being taken to improve supervisory and enforcement capacity of BB and SEC, limit banks' exposure to equity markets to contain risks, and carry out subsequent phases of demutualization. Moreover, Tk. 900 crore has already been allocated to Bangladesh Security and Exchange Commission (BSEC) for the refinance scheme to implement the compensation package for the small-scale investors affected by the stock market crash in 2010.

External Sector

Export

2.17 The export of Bangladesh is dominated by Ready Made Garments (RMG) (80 percent of total exports) and frozen food (mainly shrimp), leather and jute products. Bangladesh is a country with a cheap labor force and constantly improving manufacturing techniques and tools. This gives the country an edge over many developing countries to become a well-known exporting country especially in the garments sector. Economists have described exports as an engine of growth, in that sense RMG sector is playing an important role in our overall economic growth. Garment exports from Bangladesh to different destinations have grown in the past few decades and shows resilience. Shipments rose over 16 percent in the last one year despite industrial disasters like Rana Plaza collapse.

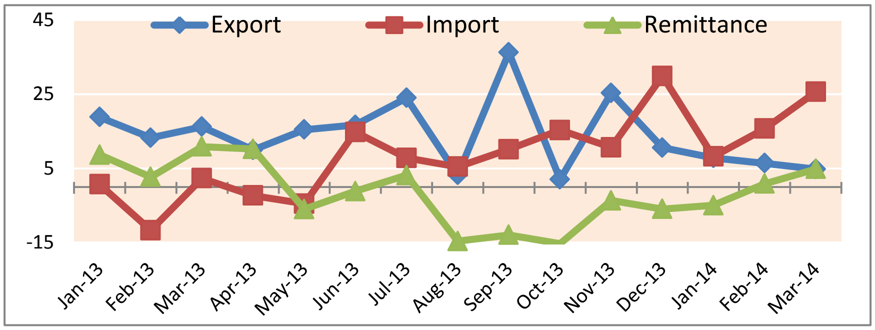
2.18 Bangladesh is now the second largest garment exporter after China. According to BGMEA, the country has around 4,000 active garment factories, employing nearly 3.6 million people directly and 80 percent of whom are women. According to Export Promotion Bureau (EPB) of Bangladesh, garment exports accounted for 79.6 percent ($21.5 billion) of the country's total overseas sales of $27 billion in FY13. Due to expansion of RMG sector, exports have been rising significantly over a decade, accounting for a significant part of Bangladesh’s dynamic performance.

2.19 Export earnings rose by 11.2 percent during the fiscal year 2012-13. Though the country registered around 13.2 percent export growth in the first ten months of the current fiscal year 2013-14, the rate could have been more than 20 percent had the building collapse (Rana Plaza) not occurred.

Import

2.20 Import payments registered average annual increases of about 17 per cent over the last decade with the exception of FY13 (negative 4.36 percent). In Bangladesh, import financing have been largely for intermediate raw materials and capital machineries. In the current fiscal year, import improved notably due to export growth. Import LC opening during July-March of FY14 increased by 11.5 per cent compared to 2.3 per cent decline in the same period of FY13.

Figure-2.8: Trends of Export, Import and Remittances



Source: Bangladesh Bank and Export promotion Bureau of Bangladesh

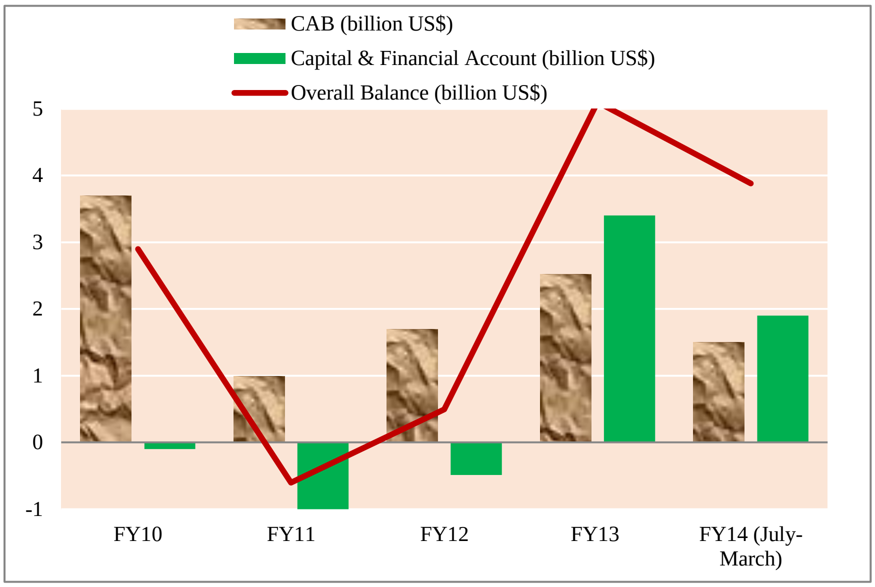
Remittance

2.21 Remittances play an important role in the economic development, specifically in the rural community of Bangladesh. Remittance income increased from US$ 24 million in 1976 to US$ 14.5 billion in FY13 and which is equivalent to about 12.2 per cent of GDP of the country. Remittance growth turned negative in August 2013 and it declined by 4.7 percent during July-April of FY14 as the outflow of workers declined. The expatriate workers also spent a major portion of their income to legalize expired passports and visas. Moreover, some of the Middle Eastern countries adopted new employment policy to create opportunity for their own people. However, remittance growth from February 2014 has returned to positive territory and is expected to grow by 1 percent this FY14. During July–April 2013-14, a total of 3.34 lakh people left Bangladesh for overseas employment against 3.72 lakh during the same period of last fiscal year. Overseas employment declined mainly due to lower worker outflows to the Middle East countries arising from visa restrictions introduced in 2012.

Balance of Payments Situation

2.22 Country's trade balance recorded deficit of USD 4.9 billion in the first nine months of FY14 compared to the deficit of USD 4.8 billion in the same period of FY13. Although, net other investment declined, increased foreign direct investment and portfolio investment contributed to financial account surplus of USD 1.43 billion during the same period. Current account together with errors and omissions surpluses resulted in a surplus of USD 3.8 billion in overall balances during July-March, FY14 against a surplus of USD 3.9 billion during July-March of FY13.

Figure-2.9: Trends of Balance of Payments Components

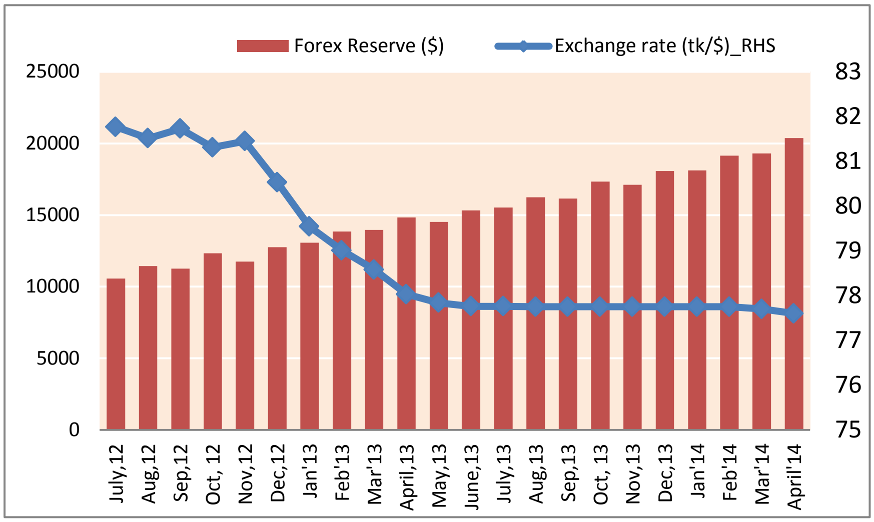


Source: Bangladesh Bank

Foreign Exchange Reserve and Exchange Rate

2.23 Foreign exchange reserves of the country seem to be in a good position and crossed US$20 billion mark in 10th April 2014 mainly due to surpluses in both current and capital account. On the other hand, domestic currency remains mostly stable and market based. At the end of March 2014, Taka has appreciated very marginally (0.11 percent) from its level at the end of June 2013 showing stability in the foreign exchange market (figure 2.10).

Figure 2.10: Trends of Foreign Exchanges Reserve and Exchange Rate



Source: Bangladesh Bank

Medium-Term Outlook

Global growth, trade and downside risks

2.24 According to the IMF, growth in advanced economies is projected to strengthen moderately in 2014 and 2015, building up momentum from the gains in 2013. Growth in the United States will remain above trend, in the core euro area economies will likely be close to trend and growth in Japan is expected to moderate. Among emerging market economies, growth is projected to remain robust in emerging and developing Asia and to recover somewhat in Latin America and the Caribbean. A major impulse to global growth has come from the United States, whose economy grew at 3.2 percent in the second half of 2013, which is stronger than expected. The upside surprise was due to strong export growth and temporary increases in inventory demand. The strengthening activity will be mirrored in global trade and industrial production both in emerging end developing economies.

2.25 The growth in world trade volumes is projected to be increased by 4.3 and 5.3 percent in 2014 and 2015 respectively. Given these positive developments, world output growth is forecast to grow 3.6 per cent in 2014 and 3.9 per cent in 2015 on an annual average basis. In the major advanced economies, economic activities are likely to accelerate positively. Despite tight fiscal policy, improved financial conditions, accommodating monetary policies, and recovering confidence among firms and households will support an acceleration of economic activity in the United States and the euro area. In emerging and developing Asia, output growth is forecast to rise 6.7 per cent in 2014 and 6.8 per cent in 2015. The main drivers of the high growth forecasts will be easy macroeconomic conditions and recovering external demand. On the other hand, inflation pressure is projected to remain contained in both advanced and emerging economies supported by minimal or no excess demand pressure, lower food, and energy prices.

2.26 In the short term, uncertainties surrounding Russia-Crimea-Ukraine and Middle East issue may create volatility in oil prices. Apart from that, downside risks relate to stagnation in Euro area, weak domestic demand in emerging markets, possible deflation in the advanced economies, and capital flows volatility to some emerging markets. In the medium term, inadequate institutional financial reforms, high fiscal deficits and debt in the periphery countries of the euro area and in the United States might impede recovery process. For the emerging and developing economies, inadequate prudential measures to restraint excesses in financial sector and inappropriate management of capital inflows may hinder growth prospects.

Bangladesh: Growth Outlook and Challenges

2.27 The growth outlook envisaged in the Medium-Term Macroeconomic Framework (MTMF) for FY15 is 7.3 percent, which will gradually increase to a higher rate by FY21. In the domestic front the underlying factors for the growth trajectory are broad-based and well-supported by the three broad sectors such as agriculture, industry and service of the economy. The agriculture, industry and service sectors are expected to grow by 4-5, 9-10, and 7-8 percent respectively in the medium-term. Increasing crop intensity and diversifying crop production are the main focus for higher agricultural productivity. Broad government support includes: providing adequate financial incentives, ensuring uninterrupted power supply for irrigation, increasing flow of agricultural credit, inventing new varieties suitable for saline and flood prone area, promoting agro-based processing industries, increasing productivity of fisheries and livestock sector etc. The improvement in the external demand and enhanced domestic demand for manufactured goods is expected to underpin sustained expansion of the domestic manufacturing base. Structural change in demography, skill development, and higher women-participation rate would lead to higher per capita income and this, in turn, would expand demand for services in tourism, healthcare, education, information technology, and financial sectors in the medium term. Adequate investments in physical and social infrastructure-education, health, skill development, and digitalization will be critical to underpin higher growth in manufacturing and services sector and create productive employments for new entrants in the labor market. Assuming a continued sound policy framework and a gradual easing of supply constraints, inflation should decline to below 6 percent. In the external front, stronger growth in advanced economies implies increased demand. This may sustain high growth rates in exports through exploitation of new market opportunities and export product diversification.

2.28 The recent growth slowdown and currency market volatility in India is expected to have relatively modest spillovers to Bangladesh in the near term as the export exposure to India is very low and financial linkages are limited. However, if the volatility continues in the long run, this may trigger unhealthy effects on Bangladesh economic activities. Moreover, according to the IMF, next few years, the Bangladesh economy will face challenges about RMG. Over a longer horizon, Bangladesh will need to manage a transition in the flagship ready-made garment (RMG) industry. Minimum wages are being increased, and following a string of accidents (notably two factory fires and a building collapse), as well as the withdrawal of the Generalized System of Preferences (GSP) by the United States, the Bangladesh government, business and workers organizations, and international stakeholders have put in place several initiatives to improve working conditions and factory safety standards in the RMG industry. As a result of these changes, the RMG industry will face higher operating costs. It may also face some moderate displacement of external demand as some buyers shift in response to the industrial accidents. Risks from the external environment could stem from a growth downturn in Europe. A loss of market access would have significant downsides for the external position and inclusive growth, potentially stalling important gains in poverty reduction

Revenue, Expenditure and Deficit Financing

2.29 In FY14, total revenue receipt is projected to rise by 21.4 percent (13.3 percent of GDP) over the previous year's actual revenue earnings. Total public spending is projected to rise by 21.2 percent over FY14, resulting in expenditure-GDP ratio at 18.3 percent, fairly higher (1.5 percentage points of GDP) than the expenditure of FY13. The budget deficit is projected to be 5.0 percent of GDP, with 3.4 percent financed domestically by financial institutions and other sources, while the rest 1.6 percent by foreign sources.

2.30 The revenue outlook is optimistic over the medium term considering new tax regime and other structural changes in revenue administration. The government has planned to increase revenue by about 0.4-0.5 percent of GDP every year for providing adequate budgetary resources for social and physical infrastructures. It is expected that the positive impacts of on-going reforms in modernizing revenue administration, broadening the tax base; higher tax compliance and procedural improvements will help generate additional revenue receipts in outer years. Surely, much of the revenue growth would come from the NBR tax sources. On the other hand, the planned rise in development expenditures and supporting revenue expenditures may expand total public expenditures to 19.6 per cent of GDP by FY17. The government is committed to expand public investment (including PPPs) so that the ADP expenditures will rise to 6.6 per cent of GDP by FY17. The budget deficit is targeted to be in the sustainable range of below 5 per cent of GDP in the medium-term. (Further discussions on revenue and expenditure are included in Chapter 3 and 4).

2.31 A Medium Term Debt Strategy (MTDS) will be finalized by June 2014, with a view to reduce the costs and risks of borrowing and maintaining prudent levels of domestic borrowing. A Standing Committee for Non Concessional Borrowing (SCNB) was formed in 30 June 2013, to facilitate monitoring and coordination of non-concessional borrowing by ERD and FD. Moreover, installation of Debt Management and Financial Analysis System (DMFAS) 6 version completed and presently fully operative that will provide uniform platform for recording, monitoring, analyzing and reporting domestic and external debts by FD, ERD, BB and CGA. Further, measures will be taken to keep yields on treasury bills and bonds responsive to market conditions and strengthen operations of the National Savings Directorate (NSD) and their yields of NSC to market developments to ensure adequate domestic financing. In addition to that, steps will be taken up to market foreign currency savings instruments to attract foreign inflows.

Monetary and Exchange Rate

2.32 Since Bangladesh Bank is committed to attain its objective to contain price stability together with higher growth, it will contain reserve money growth target in line with its goals while allowing adequate expansion of private sector credit growth. Accordingly, broad money growth is expected to be in the neighborhood of 16 percent in near future. Exchange rates are anticipated to be flexible and competitive through effective demand management of the monetary authority and for resilience in the external account.

Financial Sector

2.33 In the medium term, the Government will continue to undertake policy and institutional reforms to ensure sustainable development of the financial sector. The medium term measures include: developing and enforcing a transparent regulatory framework by the Securities Exchange Commission (SEC); enhancing coordination between the SEC and Bangladesh Bank (BB) for effective surveillance and monitoring; steps will continue in line with the 'Exchanges (Demutualization) Act', 2013 and ensuring strengthening of the supervisory role of BB regarding bank subsidiaries. Apart from that, the introduction of new loan classification/ provisioning guidelines in line with international best practices, new electronic dashboard for real-time information on key trade-financing transactions, recent appointment of a fraud-detection advisor who is building BB and bank capacity in this area, recent use of 'anonymous consumer surveys' to cross-check banking information and follow-on action by BB, and released quarterly performance reports of SCBs in the web, issue of Agricultural and Rural Credit Policies and Programs every year, promoting and exploring the scope of financial inclusion in Micro insurance sector being implemented by different agencies on pilot basis will helps achieve the medium term goals and strengthen the financial sector.

External Sector

Export

2.34 In the medium term, export receipts are projected to grow at an annual average rate of 14-15 per cent during FY15 to FY17. There is a number of underlying assumptions for the export projections. The projection is based on both external and domestic factors. On the external front, the first conjecture is that the economic activity of developed economics and our major trading partners will increase. Moreover, the recent gains in the penetration of new export markets (Table 2.5) have opened up opportunities for reducing market concentration and related risks.

2.35 Government's policy support for product diversification and market exploration is expected to facilitate further product and geographical diversification over the medium-term. Second, government's efforts to speedily augment power generation and reduce other supply bottlenecks such as energy, port capacity, and transport infrastructures will enable investors/exporters to exploit their production capacity, reduce their lead time, and create a more conducive environment for further expanding of production capacity and finally, along with RMG sector, incentives will be provided to the pharmaceuticals, ship building, leather and IT sectors to promote economic activities in those areas.

Table 2.5: Market Diversification (Share of Total Export Receipts) during FY09-14

Region	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (July-April)
African Region	0.7	0.9	0.9	0.8	0.8	0.6
ASEAN Countries	1.3	1.6	1.1	1.4	1.5	1.4
Asian Region	6.7	8.3	8.2	9.3	9.8	9.8
BIMSTEC	2	2	2.3	2.4	2.3	1.5
D-8 Countries	3	4.1	3.9	3	3.2	3.6
East & Other European Region	2.2	2.9	3.1	2.5	2.8	3.5
Middle East	1.4	1.6	1.6	1.7	1.9	1.7
Oceania Region	0.6	0.7	1.1	1.4	1.6	1.6
OIC Countries	4.4	5.6	5.5	4.7	5.1	5.4
SAARC	2.2	2.2	2.5	2.5	2.2	1.5
America	28.1	25.6	24	23.3	22.3	20.8
European Region	46.9	43.8	45.2	46.1	45.2	47.7
Others	0.7	0.7	0.8	0.8	1.2	1.0

Source: Export Promotion Bureau (EPB), Bangladesh

2.36 The challenges for Bangladesh on the trade front are many in achieving the export growth target. Some are due to current global situation and some are institutional and long term in nature. Dependence on limited export markets and products, supply shortages, international price volatility of textile raw materials, political unrest and uncertainties represent potential risks in achieving sustained high levels of export growth. In addition, rebuilding the damaged image of the readymade garment sector is another challenge.

Import

2.37 With negative import growth in FY13, payments for imported goods and services are showing sign of picking up in the current fiscal year. Till March of the current fiscal year, it grew by 17.5 percent over the same period of the last year. While L/C settlements of food grains rose significantly (140 percent), capital machinery and industrial raw materials grew by 19.7 and 10.7 percent, respectively. In this consideration, import payments are forecast to grow at an annual average rate of 14-15 per cent over the medium term. This level of import growth will result from different sources. On the domestic side, the private sector will require higher import financing for the garments, textile, light engineering, and ship-building industries to meet larger imports needs for capital equipment and industrial raw materials. In the public sector, with its focus on increased investment in physical and social infrastructures demand for import payments will increase in the near term. Petroleum products imports will also increase to support operations of diesel and oil-fired power plants.

Remittances

2.38 Growth in remittances to the South Asian region has slowed, rising by a modest 2.3 percent in 2013, compared with an average annual increase of more than 13 percent during the previous three years. The slowdown was driven by a marginal increase in India of 1.7 percent in 2013, and a decline in Bangladesh of 2.4 percent. In Bangladesh, the fall in remittances stems from a combination of factors, including fewer migrants finding jobs in the GCC countries, more migrants returning from GCC countries due to departures and deportations, and marginal appreciation of the Bangladeshi taka against the US dollar. Nevertheless, some rebound is projected in the coming years, with remittances across the South Asian region forecast to grow to $136 billion in 2016. According to a World Bank report, remittance flows to developing countries will grow by 7.8 percent in 2014 over last year.

2.39 Together with positive outlook in the global economy, government's continuous efforts to expand existing markets and explore new destination will help remittance growth to return to its trend value. In this consideration, remittance inflow in FY15 is projected to grow by 10 percent. A number of risks involve with the remittance inflows in Bangladesh. First, unexpected exchange rate movements may affect the level/growth of remittances, at least temporarily. Second, potential political unrest in the gulf have risks to reduce remittance inflows, given high dependence on this labor market.

Balance of Payments

2.40 Over the next few years, the RMG industry as well as its exports is expected to consolidate. Remittances are expected to normalize from FY15, as demand for migrant labor improves, driven by expected infrastructure investments in the Gulf countries. International reserves are forecasted to continue to rise, albeit at a more moderate pace than that have been seen over the past two years. Foreign Direct Investment (FDI) inflows are likely to increase due to ongoing initiatives for removing critical supply constraints in power, energy and infrastructure sectors. Apart from that, constant release of concessional financial support from the International Monetary Fund (IMF) under a Three-Year Extended Credit Facility (ECF) will assist the balance of payments position. Further, concessional supports from Developing Partners (DPs) and continuous steps in releasing committed funds in the pipeline by improving aid coordination and effectiveness will upkeep financial account of the balance of payments.

2.41 On the basis of the above discussion, medium term forecasts/targets of major macroeconomic indicators are shown in the Table 2.6.

Table 2.6: Medium Term Macroeconomic Framework (2013-14 to 2016-17)

Sectors	Indicators	Real	Budget	Revised	Budget	Projection	
		FY13	FY14	FY14	FY15	FY16	FY17
Real	GDP growth (%)	6.03	7.2	6.5	7.3	7.6	8.0
	CPI inflation (%)	7.7	7.0	7.0	6.0	5.8	5.7
	(% of GDP)						
Fiscal	**Revenue**	12.4	14.1	13.3	13.7	14.2	14.6
	NBR Revenue	10	11.4	10.6	11.2	11.6	12.0
	Non-NBR Revenue	0.4	0.4	0.4	0.4	0.4	0.4
	NTR	2.1	2.2	2.2	2.1	2.2	2.2
	Expenditure	16.8	18.7	18.3	18.7	19.2	19.6
	of which, ADP	4.7	5.5	5.1	6.0	6.3	6.6
	Budget Deficit	-4.4	-4.6	-5.0	-5.0	-5.0	-5.0
	Domestic Financing	3.1	2.9	3.5	3.2	3.2	3.2
	Foreign Financing	1.2	1.8	1.6	1.8	1.8	1.8
Monetary	(yearly percentage change)						
	Money Supply (M2)	16.7	16.0	17.0	16.0	16.0	16.0
	Domestic Credit	11.0	17.9	18.5	17.5	17.1	16.8
	Private Sector Credit	10.8	16.0	16.5	16.0	16.0	16.0
External	Export (growth in %)	10.7	15.0	15.0	15.0	14.5	14.5
	Import (growth in %)	0.8	10.0	8.0	15.0	14.5	13.0
	Remittances (growth in %)	12.6	15.0	1.0	10.0	12.0	12.0
	CAB (% GDP)	1.9	2.5	1.3	0.5	0	0.1
	Forex reserve, in billion $	15.3	16.4	16.9	17.9	18.3	19.5
Memo item	GDP (market price) in billion taka	10,380	11,888	11,810	13,395	15,194	17,268

Source: Finance Division