

CHAPTER 1

MACROECONOMIC SITUATION

The Bangladesh economy once again showed its resilience as it emerged stronger than expected notwithstanding the combined adverse effects of confrontational politics, unexpected price hike of oil and essential imported commodities, stiff global price competition for exports and dwindling foreign aid. The government has been able to achieve macroeconomic stability and to maintain the trend of development over the last couple of years. Actual GDP growth in FY 2004-05 exceeded the projected growth of 5.38 percent to 6 percent due to higher growth in agriculture, industry and service sectors. The GDP growth in FY 2005-06 has been projected at 6.71 percent, which is one of the highest growth in the last three decades. During the current fiscal year a double-digit growth in the manufacturing sector is expected. Sustained GDP growth coupled with commendable growth in exports and remittance in the current fiscal year led to the marked improvement in the fiscal and balance of payments position that resulted in commendable improvement of the economic fundamentals, necessary for macroeconomic stability. The rise in the inflation rate and widening income inequality however, tempered the direct impact of growth on the quality of life. In social indicators, Bangladesh's success has surpassed the achievements of many low income countries. In reduction of infant and child mortality rate, higher contraceptive prevalence rate and declining birth and death rate, the success of Bangladesh has surpassed the achievements of the countries having the same level of income. Considering the positive trend of socio-economic development of Bangladesh, the New York based investment banking organization 'Goldman Sachs' has rated Bangladesh as one of the Next Eleven potential countries after Brazil, Russia, India and China (BRIC), who will influence the world economy. The World Bank has identified Bangladesh as one of the most rapidly growing economy among 31 large developing countries in the recent times.

Growth

The growth performance of Bangladesh economy had been relatively strong during the 1990's showing considerable improvement over the previous two decades. During the 1990's growth performance had been around 5.3 percent per year with an impressive 3.3 percent growth of per capita GDP. GDP growth has further accelerated and reached to 5.7 percent per year over the last 6 years with 4.2 percent growth of per capita GDP.

The impressive growth in industry sector, the significant growth in agriculture sector and the continuous trend of growth in service sector raised the GDP growth rate to 6.71 percent in FY 2005-06 according to the provisional estimate. The industry sector, particularly in the large and medium scale manufacturing sector will register the highest growth. The overall growth rate of the agriculture sector for FY 2005-06 is provisionally estimated at 4.67 percent, which was 2.21 percent in FY 2004-05. The estimated growth rate of industry and service sector are 9.56 percent and 6.47 percent respectively, which was 8.28 percent and 6.36 percent respectively in the last fiscal year. Due to higher growth rate in the industry sector, the share of the industry sector in

GDP has increased and reached at 29.01 percent. In the current fiscal year, per capita GDP and GNI stand at US\$ 456 and US\$ 482 respectively. Stable macroeconomic management, reforms programmes of government, expansion of export-oriented manufacturing industries and virtually no impact of quota phase-out in the RMG sector are the major causes for the overall development of macroeconomic situation of the country.

Savings and Investment

Savings and investment register a gradual rise along with the economic growth. According to provisional estimates, the rates of domestic and national savings will stand at 20.26 and 26.61 percent of GDP in FY 2005-06. The rate of national investment will pick up to 24.97 percent in FY 2005-06, where the shares of public and private sector contribution are estimated to be 6.30 and 18.67 percent respectively. The contribution of public sector in total investment is on the decline while the contribution of private sector investment is consistently increasing. The share of private investment in total investment accounts for 75 percent in the current fiscal year. Bangladesh is increasingly becoming an attractive and competitive destination of Foreign Direct Investment (FDI) due to introduction and implementation of pro-industrialization and investment-friendly economic policies and strategies by the government. Along with the significant growth in local investment, foreign and joint venture investment has also been registering growth. In FY 2005-06, the growth in the registration of private investment project in the Board of Investment (BOI) has reached 164 percent. In the calendar year of 2005, there has been an inflow more than US\$ 845 million worth FDI in the country recording 84 percent growth. Besides, the trend of significant growth has been observed for importation of capital machineries and industrial raw materials. During the last consecutive two years Bangladesh occupied second position among the South Asian countries in terms of FDI growth.

Inflation

The economy experienced an upward trend of inflation mainly due to the abnormal price hike of oil and other essential imported commodities in international market. In FY 2004-05, the average rate of inflation at national level was 6.48, which reached 7.17 percent in FY 2005-06. However, the rate of inflation which stood at 7.68 percent in July'05 decreased to 7.54 percent in June'06.

Fiscal Sector

The budget deficit in the current fiscal year has remained broadly manageable like previous fiscal years due to strengthening of revenue collection programmes through the reforms of revenue collection management and the policies adopted to encourage outlays on productive expenditure and the control of unproductive outlays of public expenditure. To finance budget deficit, the government has been giving emphasis on concessionary foreign loans instead of mobilising loans domestically. This prudent step is allowing the private sector to have access to loans from domestic sources. On revenue front, it appears that in FY 2005-06, the National Board of Revenue (NBR) collected revenues to the tune of Tk.33,986.81 crore against the revised target of Tk.34,456 crore which is 13.65 percent higher than the revenue collection of the previous fiscal year. On the

other hand, the revenue-GDP ratio was 10.6 percent in FY 2004-05, which stood at 11.0 percent in FY 2005-06. On expenditure side, expenditure-GDP ratio in FY 2005-06 stood at 15.0 percent, which was 14.6 percent in FY 2004-05.

External Sector

The growth of the principal merchandise export RMG still remains at satisfactory level after quota phase-out. Export data for FY 2005-06 reveals that, export of knitwear and oven garments registered a growth of 35.38 percent and 13.50 percent respectively. Exports increased by 21.63 percent to US\$ 10,526.16 million compared to US\$ 8654.52 million in FY 2005-06. During the current fiscal year, the growth of import has come down at a satisfactory level due to the decrease of import as the price hike of consumer products in the international markets and for adaptation of prudent and contractionary monetary policy by the government. Import payments during the current fiscal year, increased by 12.17 percent to US\$ 14,746.40 million compared to US\$ 13,146.70 million of the previous fiscal year. Due to the higher growth of export, the trade balance recorded a smaller deficit of US\$ 2,879 million in FY 2005-06 compared to the deficit of US\$ 3,297 million in FY 2004-05. During the same fiscal year, current account balance recorded a surplus of US\$ 572 million against the deficit of US\$ 557 million of the previous year. Higher remittances inflow still continues in FY 2005-06, and stood at US\$ 4,801.88 million, which is 24.78 percent higher than the previous fiscal year. Due to the combined effect of higher export earnings and remittance flows there has been a secular rise of foreign exchange reserve, which stood at US\$ 3,483.78 million as on 30 June 2006.

Money, Credit and Capital Market

During the current fiscal year, broad money (M2) growth rose to 19.51 percent compared to 16.81 percent growth during the previous fiscal year. On the other hand, in FY 2005-06 net credits to government from the banking system registered a growth of 21.95 percent. Credit to private sector grew by 18.27 percent.

Government encouraged banks and financial institutions to increase credit flows to productive sectors by fixing rational interest rate. Currently, the power for fixing interest rate has been given to the bank's authority except interest rate of credit on export. During FY 2005-06, against the disbursement target of agricultural credit of Tk. 5,542 crore by the 4 nationalised banks, 3 specialised banks and BRDB, Tk. 5,798.71 crore has been disbursed, which is 16.80 percent higher than the credit disbursement of previous fiscal year. Credit disbursement to industry sector during the current fiscal year stood at Tk. 9419.03 crore, which is 8.21 percent higher than the last fiscal year. It appears from the review of capital market situation that at end June 2006 the market capitalisation of all securities of Dhaka Stock Exchange stood at Tk. 22,530 crore, which is 0.31 percent higher than the securities capitalisation of Tk. 22,461 crore at end June 2005. During the same period the market capitalisation of Chittagong Stock Exchange decreased by 2.87 percent. The price indices of shares at end June 2006 in Dhaka and Chittagong Stock Exchange stood at 1310.6 and 3347.1, which were 1318.9 and 2329.5 at end June 2005 respectively.

Revenue Sector Reforms

In order to enhance revenue-GDP ratio, the Government in addition to strengthening the revenue mobilisation efforts, has taken reforms initiative in the revenue administration. Amendments of the existing tax laws and their proper enforcement is underway to modernise tax system. Meanwhile, a Strategic Development Plan has been prepared. As part of this plan, modernization and automation programmes of the revenue administration has been taken. With a view to ensuring improved management and collection of VAT, providing better service to the taxpayers and to operate the activities of Large Taxpayer's Unit (LTU) smoothly some changes in the Value Added Tax Act and the rules have been made. A number of initiatives has also been taken in the current fiscal year to expand tax base, to simplify the collection and payments procedure of tax and to harmonise tax rates.

Public Expenditure Management

- Introduce new procedures for formulation of development projects by way of reforming the existing process to bring in speed and efficiency in this important area. This will allow gearing of project objectives towards the goal of economic growth and poverty reduction.
- As part of the process of budget decentralisation, steps have been taken to formulate budget within the three-year indicative resource ceiling using Medium-Term Budget Framework (MTBF). Within the new framework, revenue and development budget will be merged into a single document. As part of this initiative, ten ministries have prepared their budgets within their medium-term resource-ceilings.
- Guidelines have been prepared on how to make pro-poor and gender-focused budget and the implementation of the guidelines is under way.
- Preparation of relevant guidelines is at the final stage to further improve public expenditure management and to establish internal control and internal audit in all ministries.
- The process of making of 'The Public Procurement Guidelines' into a law is at the final stage. This will ensure further transparency and accountability in public procurement.

Banking Sector Reforms

- With the aim to prepare and implement the sound monetary policy, to enhance the supervising capability of financial institutions with more responsibilities, to introduce international banking rules and regulations and to enhance the operational capability of Bangladesh Bank by introducing computerisation, a project titled 'Central Bank Strengthening' are under implementation. Under the project, a programme titled 'Partnership for Excellence in Research and Policy Analysis at Bangladesh Bank' has been taken with the joint effort of Bangladesh Bank and World Bank Institute to enhance the capability of research and policy analysis and to prepare analytical policy and recommendations. As part of the process, a Policy Analysis Unit (PAU) has been set up at Bangladesh Bank to conduct high level research in all areas of macroeconomics including monetary policy and central banking.
- A Memorandum of Understanding (MoU) has been signed between the 4 NCBs and Bangladesh Bank to monitor the overall activities of the banks. Four audit firms, having

international affiliation, have been appointed and in the mean time these firms have completed their assignments.

- An Informative Memorandum and the conditions for 'fit and proper test' of eligible investors have been finalised by the assistance of the financial consulting firm engaged in the process of privatising Rupali Bank. As part of this process, the Privatisation Commission has already published notice inviting Expression of Interest (EOI) from prospective investors.
- As part of the process of restructuring and modernizing the other three nationalized banks (Sonali, Janata and Agrani), meanwhile, a management team with Chief Executive has been appointed to improve overall management and financial condition of Agrani Bank. To bring dynamism in bank management and to establish efficiency in Sonali and Janata bank, a management facilitator team has been appointed in these two banks.

Money and Financial Market Reforms

- To fulfill the objective of monetary policy, Cash Reserve Requirement (CRR) of the scheduled banks have been enhanced from 4.5 percent to 5 percent of their total demand and term liabilities. Statutory Liquidity Requirement (SLR) has also refixed at 18 percent from 16 percent effective from October 2005.
- From 14 February 2006, the borrowers whose credit facility has been rescheduled will get new loan facility subject to the fulfillment of certain conditions. The decision has been taken considering the issue of restricting new loan facilities to the borrowers within one year after their loans have been rescheduled or the entire loan has been repaid (whichever occurs earlier).
- In order to protect the interest of the clients, ensure security in IT setup as well as in IT operation for protection of transformation, disclosure and destruction of information, Bangladesh Bank has issued IT guideline of 'minimum' security standards for scheduled banks.
- To strengthen discipline in providing loans and to improve loan classification guidelines to international standards, Bangladesh Bank has introduced Special Mention Account (SMA) and decided to make a provision of 5 percent of the outstanding interest on those loans kept under Special Mention Account.
- With the aim to fully implement a Risk Grading System, an Integrated Credit Risk Grading Manual has been developed and forwarded to the banks. Banks are advised to implement Credit Risk Grading as described in the manual and also under Risk Grading Matrix provided in the Manual. Banks may adopt and adapt more sophisticated risk grades in line with the size and complexity of their business.
- To make the existing Money Laundering Prevention Act 2002, more effective and time befitting, the draft Money Laundering Prevention Act 2006 has been prepared which will be finalised soon.

Non-bank Financial Institutions

- Bangladesh Bank has taken up a project giving emphasis on effective risk management system for the non-bank financial institutions. Steps have been taken to segregate the risks

of the financial institutions into 4 major categories viz. credit risk, wealth and liabilities/balance sheet risks, internal control and compliance risk, and information technology security risk.

Capital Market

- **Issuance of IPO:** The financial institutions having capital and reserve of Tk.25 crore on December 31, 2005 but not yet issued IPO (Initial Public Offering) have been asked to issue IPO of at least Tk.5 crore by June 30, 2006.
- **Issuance of Corporate Governance Guidelines:** A Corporate Governance Guidelines has been issued primarily to establish institutional good governance of the companies. The guidelines incorporate various issues including formation of audit committee and provision for appointing independent director.
- **Establishment of Financial Reporting Council:** Initiative has been taken to establish a regulatory institution namely Financial Reporting Council with the assistance from World Bank to ensure appropriate reflection of the wealth and liabilities in the audited financial reports of issuer companies. Formulation of laws has been underway to establish this body.

Preparation of Full-blown Poverty Reduction Strategy Paper (PRSP)

Consistent with the UN Millennium Development Goals adopted with an aim to ensure economic growth and to reduce the scale of poverty, the government finalised the draft full-PRSP titled "Unlocking the Potential: National Strategy for Accelerated Poverty Reduction" in January 2005 through broad-based consultative process. The Strategy Paper has been approved by the government in October 2005. Four strategic blocks and four supporting strategies have been identified in the full-blown PRSP document to translate the vision into reality. Four strategic blocks are:

- Macroeconomic environment for pro-poor economic growth;
- Critical sectors for pro-poor economic growth;
- Effective social safety nets and targeted programmes; and
- Human development.

In order to support these four strategic blocks, the following four supporting strategies are being implemented:

- Ensuring participation, social inclusion and empowerment;
- Promoting good governance;
- Service delivery; and
- Caring for the environment and sustainable development.

The Medium Term Macroeconomic Framework (MTMF)

A Medium term macroeconomic framework (MTMF) included in the PRSP has set out a coherent macro framework which brings consistency among savings, investment, external and monetary balances to promote economic growth and employment. The key indicators of medium term macroeconomic framework (actual and projection) have been shown in table 1.1. This framework will roll forward annually in order to maintain the three-year forward planning perspective.

Table 1.1: The Medium Term Macroeconomic Framework: Key Indicators

Indicators	Actual			Projection			
	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Real GDP Growth (percent)	5.3	6.3	5.5	6.5	6.8	7.0	7.0
GDP deflator	4.4	4.1	5.1	5.7	6.0	5.0	4.5
CPI Inflation (average)	4.4	5.8	6.5	6.5	6.0	5.0	4.5
Gross domestic investment (in percent of GDP)	23.4	24.0	24.4	25.0	25.5	26.0	26.0
Total revenue	10.3	10.2	10.4	11.0	11.3	11.6	12.0
Tax	8.3	8.2	8.4	9.0	9.3	9.5	9.8
Non-tax	2.0	2.0	2.0	2.0	2.0	2.1	2.2
Total expenditure	13.7	13.4	13.9	15.5	15.7	16.0	16.4
Current expenditure	8.1	7.8	8.4	8.6	8.8	9.0	9.2
Of which: interest payments	1.9	1.6	1.8	1.7	1.7	1.7	1.7
Annual Development Programme	5.4	5.0	5.0	5.9	6.2	6.4	6.6
Other expenditure (residual)	0.2	0.6	0.5	1.0	0.7	0.6	0.6
Overall balance	-3.4	-3.2	-3.5	-4.5	-4.4	-4.4	-4.4
Primary balance	-1.5	-1.5	-1.7	-2.4	-2.4	-2.4	-2.4
Financing (net)	3.4	3.2	3.5	4.5	4.4	4.4	4.4
Domestic financing	1.3	2.1	1.9	2.0	1.9	1.8	1.8
Banking System	-0.4	0.7	1.0	0.9	0.8	0.8	0.8
Non-bank	1.6	1.4	0.9	1.1	1.1	1.0	1.0
Foreign financing	2.1	1.1	1.6	2.5	2.5	2.6	2.6
Money and credit (end of year; percent change)							
Private sector credit	12.6	12.0	17.0	14.0	13.0	12.5	12.5
Broad money (M2)	15.6	13.8	16.8	13.5	13.0	12.5	12.5
Balance of Payments (percent change)							
Exports, f.o.b.	9.5	15.9	14.0	14.0	12.0	12.0	12.0
Imports, f.o.b.	13.0	13.0	20.6	15.0	13.5	12.5	11.5
Remittances	22.4	10.1	14.2	13.0	12.0	11.0	11.0
External current account balance (in % of GDP)	0.3	0.3	-0.9	-1.7	-2.0	-2.1	-2.0
Balance of Payments (in millions of U.S. dollars)							
Exports, f.o.b.	6492	7521	8579	9773	10946	12260	13731
Imports, f.o.b.	8707	9840	11870	13651	15493	17130	19434
Gross official reserves (in million US dollars)	2470	2705	3024	3250	3655	4100	4400
In months of imports of goods and services	2.9	2.8	2.6	2.5	2.5	2.5	2.5

Sources: PRSP document, Planning Commission.

Sectoral Development

Agriculture

In FY 2005-06, the combined contribution of all sub-sectors of agriculture (crop, livestock, forestry and fisheries) to GDP is 21.77 percent. Of this, the contribution of fisheries sector was 4.86 percent. The crop sub-sector alone is projected to contribute 12.19 percent to GDP. The growth of the agriculture sector was 1.80 percent in the last fiscal year. According to provisional estimates, in FY 2005-06 the growth of agriculture and fisheries sectors would be 4.67 and 3.89 percent respectively. According to the final estimates, the volume of food grains production in 2004-05 was 261.33 lakh metric tons of which Aus accounted for 15 lakh metric ton, Aman 98.2 lakh metric ton, Boro 138.37 lakh metric tons and Wheat 9.76 lakh metric tons. Food grains production target for FY 2005-06 has been estimated at 314.39 lakh metric tons. In FY 2005-06 the internal procurement of food grains was 9.45 lakh metric tons. In FY 2005-06, Bangladesh received 1.94 lakh metric tons of foodgrains as food aid. During this fiscal year, the quantity of food grains import by private sector was 22.65 lakh metric tons. The total foodgrains import by private sector in FY 2005-06 was 25.62 lakh metric tons. During FY 2004-05, disbursement of agricultural credit stood at Tk. 4956.78 crore against the target of Tk 5537.91 crore. The target of credit disbursement through Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, Nationalised Commercial Banks, Bangladesh Rural Development Board and Bangladesh Samobay Bank has been fixed at Tk.5542.21 crore for FY 2005-06. In FY 2005-06, Tk.5789.71 crore has been disbursed which is 104.47 percent of the target. In FY2005-06, a total of Tk.600.66 crore has been spent which is 95 percent of the RADP allocation. Seventy five development projects have been implemented under RADP and twenty-seven development programmes have been implemented under the non-development budget in FY 2005-06. Total production of fish in 2005-06 was projected at about 24.00 lakh metric tons. In 2004-05, the total fish production was 22.16 lakh metric tons and the earning amounted to Tk.2363.47 crore from the export of 54,141 metric tons of fish and fish products. The Department of Livestock Services (DLS) has now extended its artificial insemination activities through 22 Districts A.I. Centres and 433 Upazila A.I. Centres. Semen of upgraded bulls are being collected and processed at Savar A.I. Laboratory and 22 Districts A.I. Centres and distributed as 'liquid semen' and 'frozen semen' through 1624 A.I. centres, sub-centres, and A.I points to cattle farmers.

Industry

The contribution of the industry sector to Bangladesh economy has been on the increase. In FY 2005-06, the contribution of the industry sector to GDP is 29.01% while it was 17.31% in FY 1980-81, 21.04% in FY 1990-91, 17.31% in FY 2000-01. In FY 2005-06, the growth of the manufacturing subsector reached double-digit level. It is expected that this upward growth trend of the industrial sector will help to reach the national growth rate at 7 percent level. According to provisional estimate, in FY 2005-06 the contribution of the manufacturing sector to GDP is 17.05 percent, which is 0.54 percent higher than that of the previous year. In FY 2005-06, the growth

rate in the manufacturing sector is estimated at 10.45 percent, which is 2.26 percent higher than that of the previous financial year. This trend of growth in manufacturing sector has added further momentum to the process of economic development. The driving force that worked behind achieving this growth is ready made garments and knitwear industry. To meet the challenges of free market economy and globalisation, the Government has been pursuing a policy of establishing industries under private sector initiative and divesting in phases the state-owned enterprises. The Government has also taken up appropriate rehabilitation programmes by providing training and loans to the retrenched employees.

The Quantum Index of Production (QIP) (1988-89=100), representing medium to large-scale industries, rose to 327.09 in FY 2005-06 from 204.17 in FY 1998-99. The Government has declared encouraging policies in respect of establishing industries under private investment and exporting produced commodities. The Government has identified the SMEs as priority sector to accelerate the process of industrialisation. In order to provide strategic support to establishing SMEs across the country, the Government has taken initiatives to formulate a separate SME Policy. In the present industrial policy, due emphasis has been laid on creating women entrepreneurs and ensuring participation of women entrepreneurs in the process of industrialisation. For rapid expansion of SMEs, the Government, with the assistance of World Bank and ADB, has financed through Bangladesh Bank a total of Tk.226.69 crore under refinance scheme. This amount has been distributed among 3281 SMEs through 8 banks and 10 financial institutions. It is expected that this would result in much faster growth of SMEs. Besides, the disbursement and recovery of the industrial loan stood at Tk 37972.77 crore and Tk. 30118.26 crore respectively during 2005-06 which is 22.97% and 12.65% higher than those of previous fiscal year.

The robust economic growth achieved in Bangladesh has resulted from investment-friendly policy and improved investment climate. Moreover, Bangladesh is increasingly becoming an attractive, competitive and profitable destination for foreign direct investment (FDI). In 2005, the growth in FDI increased by 84% to US\$ 845 million. The growth is the second highest in entire South Asia. Besides, substantial growths in investment registration, import of capital machinery and industrial raw materials and export have been achieved. In FY1991-92, about 258 private investment projects with proposed investment of Tk. 660 crore were registered with BOI that reached to 1,889 Projects in FY2005-06 with proposed investment of Tk. 43,356 crore.

The recent years have witnessed tremendous interests of foreign investors to invest in diversified sectors in Bangladesh. In FY 2005-06, major foreign investors include Dhahi Group of United Arab Emirates, Singtel of Singapore, Orascom of Malaysia, YKK of Japan and Microsoft of USA. Besides, a number of large investment proposals worth about US\$ 10.5 billion are at negotiation and / or approval stages. These include investment proposals from Tata Group of India, Toray of Japan, Indorama Group of Thailand, Luxon Global of South Korea, Delta Pacific Mining of United Kingdom, Dawood Group of Pakistan, Kingdom Group of Saudi Arabia and other

proposals from China, Malaysia, India, Taiwan, UK, USA, Australia, Singapore, Thailand, Saudi Arabia, UAE and Kuwait.

Upto June 2006, 242 industrial units were operational in the seven export processing zones (Dhaka, Chittagong, Comilla, Mongla, Uttara, Iswardi and Adamzee EPZ) with a total investment cost of US\$ 979.46 million. A total of 177,809 manpower has been employed in these industries. Besides, a total of 133 industrial units (32 in Chittagong EPZ, 26 in Dhaka EPZ, 22 in Comilla EPZ, 14 in Iswardi EPZ, 18 in Mongla EPZ, 6 in Uttara EPZ, 9 in Adamzee EPZ and 6 in Karnaphuli EPZ) are under implementation. According to the project proposal, as many as 66,007 employment slots will be created, once those industrial units are operationalized.

During FY 2005-06, commodities worth US\$ 1830.18 million have been exported from the EPZ industrial enterprises. Given the current level of development continues, the contribution of industrial sector to GDP in the coming decade will be 30-35 percent and the sector will absorb 30 percent of total labour force. In order to achieve this estimated growth in the industrial sector, the industrial policy lays emphasis on strengthening establishment of agro-based and agricultural product processing industries, taking appropriate measures to meet the adverse situation by the export-oriented garment industries, adopting SMEs and cottage industries as the prime movers of industrialisation, establishing economic and export processing zones in different parts of the country, enhancing quality of products and providing support for marketing. This would result in planned expansion of industrialisation, which in turn would help achieving continued and sustained development in industrial sector. All these together will accelerate overall economic growth by reducing poverty, generating employment and improving the quality of life.

State Owned Enterprises (SOEs)

Following wide-ranging reforms in SoEs in the scenario of changed world order, while the overall SoE loss has reduced substantially, their contribution to national output, value addition, employment generation and augmentation of revenues have increased. Concomitantly, the operating revenues and the growth of value addition of these enterprises have also increased. In FY2003-04, the growth revenues of these entities were 9.72 percent. According to the production cost, the amount of value addition in FY 2001-02 was at Tk. 3450 crore which is significantly reduced to Tk. 951 crore during FY 2004-05 resulted in a decline in growth rate of value addition by 34.92 percent. All the SOEs together contributed Tk. 568.67 crore to the public exchequer during FY 2004-05 which is estimated to an amount of Tk. 764.40 in FY 2005-06. In FY 2004-05, government provided grant/ subsidy amounting to Tk. 421.69 crore to 14 public entities which is estimated at Tk 514.98 crore in FY 2005-06. The total debt service liabilities outstanding from 44 SOEs are Tk. 1641.71 crore up to FY 2004-05. Out of which, the recovery of DSL from 44 SOEs during FY 2004-05 amounted to Tk. 971.91 crore, which is 59 percent of total DSL outstanding for that year. Up to June 2006, outstanding bank loan against 44 SOEs stood at Tk. 16,959.85 crore. Out of this, the default loan accounts for Tk. 4107.37 crore (24 percent). Return on Assets

of SOEs was negative in 2001-02 but it is significantly negative for the year 2004-05. This indicates the huge loss in the SOE sector of Bangladesh.

Power and Energy

Power: Currently, only 42 percent of the total population has access to electricity and per capita electricity generation is only 165 kWh which is very low compared with other countries. Alongside the public sector, Government has, therefore, involved private sector with power generation so that it can reach electricity to the doorstep of every household by 2020 in fulfillment of its declared vision. In FY 2005-06, the total installed generation capacity of electricity was 5208 MW including 3918 MW in public sector and 1290 MW in private sector. In the public sector, a good number of generation units have become very old and are being operated at a much reduced capacity. As a result for the last few years, actual demand could not be met due to shortage of available generation capacity. In FY 2005-06, maximum power generation was recorded as 3812 MW of which the PDB was 2591 and that of IPP stood at 1221 MW. In FY 2005-06 out of the total power generation, 88.56 % was gas-based, 7.08 % was oil-based and the rest 4.36 % was hydro and coal-based. Although the organisations like PDB, REB, DESA and DESCO are meeting the electricity demand of the country, the Power Grid Company of Bangladesh (PGCB) is being developed as the sole transmission network entity, which would take over responsibilities like power transmission, use, operation and maintenance including future expansion. Under BPDB system, 33 kV, 11 kV and 0.4 kV electricity is distributed across the country. The power distribution line installed in 1991-92 stood at 32,780 kilometers, which was extended to 46,644 kilometers in FY 2005-06. Besides, the number of subscribers also grew from 9,03,001 to 15,18,891 in the same period. While in 1995-96 the system loss (on net generation) was 17.0 percent, it gradually declined to 8.76 percent in FY 2005-06. Accounts receivable of BPDB is Taka 4500.94 crore in FY 2005-06 while accounts payable to BPDB is Tk. 6319.91 crore in the same year. A total of Tk. 3397.12 crore has been allocated in the RADP of 2005-06 for implementation of 63 development projects under BPDB while the financial achievement is 93.04 percent or Tk. 3160.55 crore.

Energy: Although Bangladesh is not rich in mineral resources; her high quality gas is meeting the demand of 73 percent of commercial fuel use. In 22 gas fields across the country, there is a gas deposit of 28.41 TCF. Of which, the extractable deposit stands at 20.51 TCF. Up to June 2006, total 6.557 TCF gas has been produced leaving 13.951 TCF recoverable. Gas is being produced from 67 wells of 16 gas fields in the country. Besides, the whole country has been divided into 23 blocks for rapid exploration of gas. In these blocks, as a consequence of allowing foreign investment under production sharing contract (PSC), 10 PSCs have been signed for 12 blocks up to June 2006, of which, with the termination of 2 PSCs currently 8 PSCs are in force. In order to control pollution arising from the use of fuel oil in the vehicles, the process of converting all vehicles into CNG is being encouraged. So far, 122 CNG filling stations have been established. The task of establishing 26 filling stations under ADB financed “Dhaka Cleaning Fuel Project” has been taken up.

Under this project, there is a provision to import 10,000 conversion kits in order to convert the petrol-driven vehicles of Government, semi-government and autonomous bodies. Besides, a programme has been taken up to set up a CNG conversion workshop and a CNG repair workshop and to lay 100- kilometre gas distribution pipeline in order to ensure gas supply. In the mineral sector, Baropukuria Coal Mine has produced about 3.00 lakh metric tons in FY 2005-06 against the targeted capacity of 10.00 lakh metric tons per year. Out of this targeted production 7 lakh metric tons coal per year will be used for Barapukuria thermal power plant and the remaining 3 lakh metric tons will be marketed for meeting domestic demand. Bangladesh Petroleum Corporation (BPC) is now engaged in developing and expanding fuel stock system in different places across the country. It is also entrusted with the task of installing original distillation column in the Eastern Refinery, the lone refinery of international standard in the country. Bangladesh Geological Survey Directorate is engaged in mineral exploration, discovery, assessment and research. This has resulted in the discovery of coals at Barapukuria, Digharpara in Dinajpur district and Khalaspir in Rangpur district.

Transport and Communication

In the current context of globalisation and market economy, there is a critical need for evolving a developed and well-knit transport and communication system that should be able to integrate Bangladesh with the international transport and communication network. The transport and communication network in Bangladesh has evolved around road, rail and air transport system including post, telecommunication and information technology. In FY 2005-06 total allocations in revenue and ADP was TK.5823.99 crore against Communication Ministry. The contribution of this sector to GDP at constant price in FY 2005-06 is 10.10 percent. A total number of 196 development/investment projects and 3 technical assistant projects have been included in the RADP of R & HD for FY 2005-06. An amount of Taka 2739.69 crore was allocated for a total of 196 investment projects, of this GoB component was Taka 2062.45 crore and project aid was Taka 667.24 crore. There is a network of 21,571 km. roads under the administration of Roads and Highway Department.

For infrastructure development of urban and rural areas, LGED is implementing a series of programmes with foreign and local funding. During FY 1991-92 to 2005-06 a total of 10,750 km. (64,649 km Katcha road and 42,852 km paved road) upazila road and union road and 5,32,351 meter bridge/culverts have been constructed.

The Jamuna Bridge is playing a vital role in road transport system. The bridge has made the communication between eastern and northern region of the country much easier, and is inducing enhanced production, besides, with the establishment of industries economic activities in the north-west zone augmented manifold. Revenue from toll collection at the Jamuna Bridge during FY 1997-98 was Tk. 99.69 and which stood at Tk. 156.08 during FY2005-06. The government has taken up the project for construction of a bridge over the Padma. The total cost of the 5.58 km. long bridge has been estimated at Tk. 8,587.77 crore. Subject to the availability of funds from the

development partner, the actual construction of the bridge is expected to commence on 2008-09 and it will take about five years to complete the project. To keep pace with the rest of the world in this age of free flow of information Bangladesh Telegraph and Telephone Board (BTTB) has been launching a series of initiatives for modernisation, improvement and extension of a telecommunication system of the country. In FY 2005-06 Tk. 899.63 crore has been allocated in the ADB for implementing 11 projects of BTTB. Bangladesh has been connected with high speed submarine cable consortium called SEA-ME-WE-4 to facilitate economical modern telecommunication and low-price ICT services. Laying SEA-ME-WE-4 submarine cable has been completed in December 2005 and its commercial operation started at May 2006. According to BTRC's database up to June 2006 the total number of subscribers of five cell phone operator companies is 1.42 crore. Combined with fixed phone subscribers, the total subscriber number is 10,00,483 crore and tele density is 10.00. The Government within its limited resources has already taken initiatives to introduce e-governance in the country. Major Ministries, Divisions and Departments have already launched their websites. At present software & IT service companies in Bangladesh have been exporting software and their services to different countries which includes USA, UK, Australia, Canada, Denmark, KSA, Japan, Sweden, UAE, Germany, Italy, Netherlands, Norway, Switzerland, France, Nepal etc. Several users of Bangladeshi software include Nokia, JAPAN Airlines, World Bank, HP, US Postal Department, US Department of Agriculture etc.

Human Development

The prime objective of all development efforts is to ensure continued improvement of the quality of life of the people. The UN Millennium Development Goals (MDGs) therefore lays special emphasis on human welfare. Consistent with MDGs, Bangladesh Government also laid, special emphasis has been given in the medium-term PRSP for human development. To bring about human development, priority has been attached to education, in particular primary education, poverty reduction, health services and social welfare activities. In order to ensure human development, the government is pursuing pro-poor growth strategy and increasingly allocating more resources to social sectors. In FY 2005-06, government has allocated 24 percent of total public spending to the social sectors of different ministries. In order to bring about further improvement in health sector by sustaining the successes already achieved in this sector, government, for the first time, has started implementing an integrated Health, Nutrition and Population Sector Programme (HNPSP-2003-2010).

Following the strengthened activities in health sector, already maternal and child mortality rate has reduced remarkably and the average life expectancy is on the increase. As a vital ingredient for human development, top most importance has been attached to education especially primary education. A scheme for awarding stipends to the female students up to higher secondary level has been introduced for the spread of female education. As a consequence, the ratio of male-female students at the primary level has now risen to 50:50. With the introduction of new recruitment rules provisioning 60 percent quota for female teachers, the proportion of female teachers has now gone up to 44 percent from 21 percent in 1991. Besides, with a view to enhance the quality of

education, a comprehensive programme has been taken up to stop adopting unfair means and to augment infrastructural facilities. An elaborate programme has been taken up with the initiative of different ministries including the Ministry of Women and Children Affairs to remove gender disparity and to bring the women into the mainstream of developmental activities. Programmes are underway to provide vocational training and credit to the unemployed youth to turn them into an efficient and productive force. Besides, a range of programmes has been taken up to ameliorate the lot of insolvent freedom fighters and the unprivileged segment of the society including the tribal people. There has been strengthening of activities directed at enhancing the quality in the sphere of sports and culture. These measures resulted in significant progress in human resource development and Bangladesh, according to UNDP Human Development Reports, could occupy the rank of medium level human development category of countries like India and Sri Lanka for four consecutive years from 2003.

Poverty Alleviation

Since independence, the Government and the NGO's have been putting joint endeavours to improve the quality of life of the people through planned development efforts. The Household Income and Expenditure Survey (HIES) 2005 report of the Bangladesh Bureau of Statistics (BBS) shows downward trend in income poverty. According to the Cost of Basic Needs (CBN) method used in the survey, the incidence of poverty at the national level declined from 48.9 percent in 2000 to 40.0 percent in 2005. It would be observed from this survey that in the case of Division wise poverty situation, at the national level, using the lower poverty line, Barisal Division has also the highest incidence of poverty scoring 35.6 percent while the Chittagong Division has the lowest incidence of poverty of 16.1 percent. Using the upper poverty line, Barisal Division has the highest incidence of poverty scoring 52 percent while the Sylhet Division has the lowest incidence of poverty of 33.8 percent. According to family size, at the national level, using the lower poverty line, the families having the size of 1-2 members have the lowest incidence of poverty (8.8 percent) while families consisting of 9-10 members have the highest incidence of poverty (31.4 percent). Using the upper poverty line, the families having the size of 1-2 members have the lowest incidence of poverty scoring 19.1 percent while the families having the size of 7-8 members have the highest incidence of poverty of 46.6 percent. In the case of monthly household nominal income, in 2000 monthly household nominal income, at the national level was Tk. 5842, which grew to Tk. 7203 in 2005. Both the government and non-government organisations have been implementing a number of programmes for employment and income generation and the upliftment of the poor. About 54 percent of development and non-development budget has been allocated for direct and indirect poverty reduction activities. These programmes continue to enhance the entitlement of the poor and at the same time their empowerment and awareness building. Besides, Food for Works Programme, VGD Programme, construction and maintenance of rural infrastructure etc. are also generating employment for the poor. On the other hand, education expansion programmes like food for education, special stipend and financial assistance, free primary education are directly reducing the burden of educational expenses as well as playing an

important role in human resource development. The government has significantly increased the amount and number of beneficiaries of Old-Age Allowance Programme, Allowances Programme for Widowed, Deserted and Destitute Women and Honorarium Programme for Insolvent Freedom Fighters. While continuing with the on-going safety-net programmes, the Government has also adopted new programmes that would contribute to the welfare of the poor and also the underprivileged community like allowance for the physically handicapped and seasonal unemployment reduction allowance. Side by side, the government has also revitalised the micro-credit programmes to further expand the social safety-net programmes for poverty reduction. In addition to ADP, Tk. 4600 crore was allocated from the non-development budget for the fiscal year 2005-06 for targeted poverty reduction and employment generation. Under these programmes, a large number of beneficiaries receiving direct financial assistance. Among them, in the case old-age allowance programme, the number of beneficiaries is 15 lakh, in the case of widowed and women deserted by their husbands allowance programme the beneficiary coverage is 6 lakh 25 thousand and in the case of honorarium for insolvent freedom fighters the number of beneficiaries is 70 thousand. Besides these, under the beneficiary coverage of primary stipend programme, over 55 lakh poor children are receiving benefits. Under the rural maintenance programme, the number of women beneficiaries stood at 42 thousand. Under the Abashan Project, 65 thousand landless, homeless and rootless families are receiving the benefits of health and family welfare services and other facilities including income-generating activities. Till June 2006 nine major NGOs of the country disbursed micro-credit to the tune of 40,354.47 crore. Up to June 2006 Grameen Bank, PKSf and BRDB disbursed credit amounting Tk. 28095.47 crore, Tk.22071.89 crore and 5130.28 crore respectively. During the same period, the scheduled banks disbursed Tk. 11,511.61 crore while other specialised commercial banks disbursed Tk. 1661.07 crore. The administrative Departments of the Government disbursed credits amounting Tk. 8120.32 crore up to June 2006.

Private Sector Development

Private sector's contribution to the total investment in Bangladesh economy is remarkable. Of the total 25 percent investment in the provisionally estimated GDP of FY 2005-06, the share of private investment has been computed to be 18.67 percent. Currently 75 percent of total investment in the national economy is coming from the private sector. Government has brought reforms in the privatisation guidelines to strengthen, galvanise and modernise the privatisation process. Government has put in place necessary institutions and infrastructure to create a private investment-friendly environment. Government has formulated Bangladesh Private Sector Infrastructure Guidelines to foster private sector participation in the projects for the development of infrastructure of the country. Detailed description of procedures for undertaking infrastructure projects in various sub-sectors on private initiative has been provided in the guidelines. The number of subscribers of the 5 cellular mobile companies in the country was about 14.2 million as of June 2006. The number of subscribers of the mobile operators is expected to exceed 20 million in the next year. In 2001, the mobile tele-density was 0.58 which rose to 10.0 in 2006 (June,

2006). Currently, a total of 43 privately owned general insurance companies and 17 life insurance companies are operating in the country. Premiums realised by the state-owned Sadharan Bima and 43 private general insurance companies together stood at Tk.684.50 crore in 2004 compared to Tk. 594.47 crore in 2003. Participation of private sector in health services continues to rise. Now there are 26 registered private medical colleges, 7 private dental colleges, and 1,160 private hospitals and 1,454 clinics with a total of 17265 beds in the country. Along with these, many modern diagnostic centres and specialised hospitals like National Heart Foundation, Cancer Hospital, etc. are making remarkable contribution to the health sector. NGOs are also playing a significant role in healthcare services. NGOs are closely involved in health, nutrition and HIV/AIDS programme activities of the population sector. The major share of the textile sector is in private hands. Currently, there are 222 spinning mills in the country of which 198 are privately owned. Besides these, there are 1422 weaving, 148342 handlooms, 700 knitting and knit dyeing, 300 woven dyeing -finishing and about 2000 local hosiery units in the country. Knitting and knit dyeing units serve 80 percent textile of export oriented garment industry. Majority of the textile mills of the country mainly belongs to the private sector. There are now 63 privatised jute mills under BJMA.

Environment and Development

In order to protect environment and also to ensure development, Government is taking steps having legal compulsions including sensitising people of all strata. With this end in view, a number of policies and similar other instruments like national land use policy, national water policy, national environmental policy, national environment law and rules, national forest policy and national agriculture policy have been formulated. Side by side with these, Government, in order to protect and develop environment, is implementing the conventions and protocols signed at international and regional levels.

The Government has been implementing a range of programmes, which are playing a critical role in protecting and developing environment. Included among them are: making compulsory the use of catalytic converter, oxidation catalyst and diesel particulate filter in the petrol, diesel and gas driven vehicles; encouraging introduction of environment-friendly block bricks; making compulsory the use of installing chimney of 120 feet high in traditional brick fields; taking action against illegal cutting of hills; issuing certificates in favour of the industrial enterprises giving assurance that the level of pollution from these industries remains within the reasonable limit; issuing certificates in favour of the industrial enterprises that create severe pollution after the installation of effluent treatment plant. Besides these, creating reserved area for protecting biodiversity, taking actions leading to drawing up national strategy to face the climatic change, taking initiative to frame laws to manage biomedical waste, introducing training for managing clinical waste, inclusion of environment education in the course curriculum of primary and secondary level etc are contributing towards creating environmental and ecological balance.

Bangladesh Forest Department at the beginning of the new century has initiated 'Nishorgo Shahayata Prokalpo' to save the nature and natural forests through 'Community management'

system. In this system people living in and around natural forests and the department work together for protection of natural forests and nature. In order to bring about overall development of forest resources a master plan of 20 years (1995-2015) have been prepared. By forming Social Forestry Rules-2004, the legal base of social forestry has been strengthened and the social forestry activities have been brought under institutional structure. The Ministry of Food and Disaster Management has formulated a draft tsunami work plan for early warning system.

Besides, it is mandatory to mention environmental impact at the project documents before taking the project. The activities of the Forest Department and the Department of Environment that include environment pollution, forest management, afforestation, preservation of wildlife, management of reserved areas, establishment of eco-parks etc. are contributing towards preservation of bio-diversity and development of environment.

