

## **CHAPTER 1**

### **MACROECONOMIC SITUATION**

After an impressive growth performance for almost six years, the world economy has entered a period of uncertainty due to a financial turmoil triggered by the subprime mortgage crisis in the United States of America (USA). During 2002 to 2007, the world economic growth averaged 4.5 percent per annum compared to 3 percent in the 1990s. The sudden gloom in world economic prospects has come as a surprise in view of the persistent economic growth and stability. The crisis initially affected advanced economies and then its contagion spread over emerging markets and low-income countries, albeit, in varying degrees. Advanced economies were first hit mainly by the systemic banking crisis in the USA and Europe. Emerging markets with well-developed financial systems were initially affected, in most cases, by cross-border financial linkages through capital flows, stock market investors, and exchange rates. In less-developed countries, the growth and trade experienced major setbacks. The World Economic Outlook of April 2008 projects global growth to slow from 1.5 percent in 2008 to 3.9 percent in 2009 before recovering somewhat in 2010. A year later, April 2009 issue of Outlook forecasts the global growth to contract by 1.3 percent in 2009, lowest ever in last 60 years.

The economy of Bangladesh continue to demonstrate considerable resilience during FY2008-09 despite the twin shocks arising from global recessions and the adverse effects of the consecutive floods and the cyclone-Sidar of the last fiscal year (FY2007-08). The economy is estimated to have grown at a rate of 5.9 percent, slightly below the growth rate (6.2 percent) of FY2007-08. The key feature of the economic performance during FY2008-09 is the strong recovery in agriculture sector coupled with moderate growth in industry and service sector.

The impact of the ongoing global financial crisis on Bangladesh economy has not been as severe as it was anticipated, thanks to its well-managed financial sector. However, some adverse impacts were noted in certain areas. Although growth in key areas of potential impact-remittances and exports remained satisfactory, some weakening in remittance inflows and export earnings was observed in the months towards the end of the fiscal year. Since the beginning of the global economic crisis, the Government has been on high alert and has been monitoring its impact on the economy with the help of a Task Force involving the concerned stakeholders from both the public and private sector. Besides, a Technical Committee has also been formed by the Ministry of Finance to monitor and analyse the macroeconomic impact of the crisis, and to identify necessary short-term macroeconomic and fiscal management responses. After detailed examination in line with the recommendations of the Task Force, the Government declared an incentive package together with fiscal, monetary and policy support.

## **Growth, Savings and Investment**

Amidst the risk of low export earnings and the remittance inflows coupled with the lowering of domestic demand, the economic growth demonstrated strong recovery bolstered by agriculture along with the contributions by industry and services sector. The contributions of the agriculture, industry and services sectors are estimated respectively at 4.6 percent, 5.9 percent and 6.3 percent, indicating strong performance of all the three broad sectors. The share of services in GDP amounted to 49.7 percent followed by industry at 29.7 percent and agriculture by 20.6 percent at constant prices. The dominance of the services sector in terms of its contribution to economic growth is largely attributable to the performance of both agriculture and industry sectors.

The growth in the agriculture sector during FY2008-09 rebounded strongly in crops and horticulture sub-sector from 2.9 percent in FY2007-08 to 4.8 percent in FY2008-09. The growth rate of the large and medium scale manufacturing sector, however, moderated to 5.9 percent from 7.2 percent growth rate of previous year, with an uneven performance of its major subsectors.

On the expenditure side, total consumption as a share of GDP increased slightly to 80.0 percent in FY2008-09 from 79.7 percent in FY2007-08. The investment climate slightly affected during FY2008-09, as indicated by a deceleration in the ratio of total investment to GDP to 24.18 percent from 24.21 percent in FY2007-08. With an upsurge in remittance inflows, gross national savings in FY2008-09 grew to 32.4 percent of GDP. The per capita GDP exceeded US\$ 600 for the first time. The per capita GNI and GDP stood at US\$ 690 and USD 621 respectively during FY2008-09.

## **Inflation**

The rising trend of inflation in FY2007-08 is not only attributable to the higher prices of oil but also to the unprecedented price increase of some essential imported commodities such as rice, lentils, wheat and soybean oil in the international market. There had been supply constraint due to decline in production of rice, lentils and wheat all over the world. The crisis was further aggravated due to use of some agricultural commodities as raw materials for producing fuel by some developed countries in recent times. The inflation rate, therefore, rose to 9.93 percent in FY2007-08 compared to 7.22 percent of the previous year.

To check this upward trend of inflation and also to keep the prices of essentials within the reach of the consumers, several steps were taken by the Government which include, among others, open market sale of the essential commodities, market monitoring, and ban on hoarding. Side by side, the Government pursued an accommodative monetary policy to keep the inflation at the tolerable level.

As a result, on a point-to-point basis, inflation declined from 10.82 percent in July'08 to 2.25 percent in June'09, with an annual average of 6.66 percent in 2008-09, slightly lower than the projection of 7.0 percent in the Medium-Term Macroeconomic Framework.

### **Fiscal Sector**

Fiscal performance was stable in FY2008-09 with a moderate rise in revenues receipts accompanied by a substantial rise in overall expenditure. In the revised budget of FY2008-09, total revenue receipts was projected to rise by 17.3 percent (11.3 percent of GDP) over the previous year's revenue earnings. Total public spending was projected to rise by 15.0 percent over FY2007-08, implying an expenditure-GDP ratio at 15.3 percent, slightly higher (0.4 percent of GDP) than the ratio of FY2007-08. The budget deficit was projected at 4.1 percent of GDP, of which 2.3 percent was to be financed from domestic source and the remaining 1.8 percent from external sources.

NBR tax revenues increased by 10.7 percent over the previous year, with a decline by 2.6 percent in customs duties mainly due to the price fall of imported commodities and the moderate growth in Value Added Tax (VAT) at import level and income tax. NBR direct tax collection recorded a modest growth of 17.4 while the indirect tax collection increased by 8.4 percent in FY2008-09 over the last fiscal year. The revised target for revenues from NBR source was set at Tk.530.00 billion as per against which Tk.525.3 billion was mobilised implying 99.1 percent achievement of the revised target.

Non-NBR sources of tax revenue increased by 14.7 percent amounting Tk. 26.5 billion in FY2008-09 compared to 24.2 percent growth in FY2007-08. The non-tax revenues grew by only 0.90 percent to Tk. 111.2 billion from 110.2 billion in FY2006-07. Overall, the tax-to-GDP ratio and revenue-to-GDP ratio decreased respectively by 0.2 and 0.4 percentage points from 8.8 percent and 10.8 percent in FY2007-08.

On expenditure side, the total expenditure fell by 2.1 percent to Tk. 851.0 billion in FY2008-09, compared to 37.3 percent rise in FY2007-08. As a percentage of GDP, total expenditure fell to 13.8 percent from 15.9 percent of GDP in FY2007-08. The reason for higher expenditure in FY2007-08 was mainly on account of assumption of the liabilities of Bangladesh Petroleum Corporation (BPC) by the Government to the tune of Tk. 75.2 billion.

However, Annual Development Programme (ADP) expenditure increased by 7.2 percent compared to the 4.4 percent decline in FY2007-08. The revised allocation for the ADP was Tk 230.00 billion (3.7 percent of GDP) and the expenditure during the fiscal year was Tk 195.9 billion, which is 85.2 percent of revised allocation.

Due to the underutilization of ADP allocation by 0.5 percent of GDP and the 0.2 percent of Non-Development Budget (Recurrent Budget), budget deficit decreased to 3.4 percent of GDP from the projected deficit of 4.1 percent.

## **Monetary and Financial Sector**

### **Money and Credit**

Bangladesh Bank continued to pursue cautious and accommodative monetary policy stance during FY2008-09. The, year-on-year growth of broad money during FY2008-09 reached 19.2 percent from 17.6 percent in FY2007-08, mainly driven by the increase of net foreign asset of banking system (26.7 percent), while the growth in net domestic assets of banking system was 17.8 percent. Year-on-year growth in domestic credit was 16.0 percent during FY2008-09 which is well below from 20.9 percent during FY2007-08. Private sector credit growth was 14.2 percent in FY2008-09 which is significantly lower than the year-on-year growth of 24.9 percent in previous fiscal year. The reserve money recorded year-on-year increase of 31.5 percent in FY2008-09, both driven by the increase of net foreign assets (31.1 percent) and net domestic assets (32.0 percent) of Bangladesh Bank.

### **Capital Markets**

During FY2008-09, the general share price index and market capitalization of Dhaka Stock Exchange (DSE) showed some volatility. The general index increased by 9.0 percent, while the market capitalization increased by 35.3 percent at the end of June 2009 over July 2008. There is hardly any presence of foreign capital stock as portfolio investment in the capital markets of Bangladesh and as such the possibility of drain-out of capital through this channel is less likely. The volatility in the capital market during the period is mainly due to the investors' behaviour with higher expectation of earnings, market manipulation by some merchant banks and big investors. To overcome the situation, the Securities and Exchange Commission (SEC) has strengthened its supervision and issued license to some commercial banks to operate merchant banking.

The number of securities listed with the Dhaka Stock Exchange (DSE) reached 443 as of June 2009 from 412 as of June 2008. By the end of June 2009, the issued capital of listed securities and debenture stood at Tk. 457.9 billion, which is 23.1 percent higher than Tk. 372.2 billion registered at the end of June 2008.

The number of securities listed with the Chittagong Stock Exchange (CSE) reached 245 as of June 2009 from 231 as of June 2008. The issued capital of listed securities and debenture of this stock exchange stood at Tk. 142.5 billion, which is 39.4 percent higher than Tk. 102.2 billion recorded at the end of June 2008. As of June 2009, market capitalisation of securities reached Tk. 975.0 billion. General share price index of the CSE reached 10,477.7 at the end of June 2009, which was 9,050.6 at the end of June, 2008.

## **External Sector**

### **Exports**

Although the performance of export sector was robust (42.4 percent growth) in the first quarter of FY2008-09, exports declined by 1.6 percent in the second quarter and increased further by 6.0 percent in third quarter. On a cumulative basis however, export growth in FY2008-09 was still satisfactory at 10.3, as against 15.8 percent in the previous fiscal year in the context of the contraction of global trade volume.

Among the exported items, woven garments rose by 14.5 percent and knitwear by 16.2 percent, while raw jute, jute goods, leather and frozen food showed negative growth during the period, partly due to recession and partly due to non-compliance of required international (mainly frozen foods) standards. In the face of the global slowdown, the satisfactory growth in ready-made garments (RMG) is attributable to the fact that Bangladesh being a low-end producer and rising volumes of readymade garment exports, although the deepening of the global recession indicates decline in export earnings in the coming months.

### **Imports**

During the first half of FY2008-09, imports rose by 23.0 percent over the same period of FY2007-08, but declined sharply by 11.1 percent in the second half of the fiscal year posting 4.4 percent growth over the previous fiscal year. The lower growth in imports driven by the sharp decline in food-grains imports and the record fall of oil price after first half of 2008. Based on the settlement of Letter of Credits (LCs) in FY2008-09, import payments of consumer goods declined by 21.7 percent, mainly due to the lower international food prices. Import of intermediate goods and industrial raw materials recorded moderate growth of 20.2 percent and 10.5 percent respectively compared to FY2007-08, while import of capital machinery declined only by 0.8 percent.

### **Remittances**

Total remittance receipts during FY2008-09 grew by 22.4 percent and number of manpower export decreased by 43.4 percent compared to the preceding fiscal year. However, the growth in remittance earnings and manpower exports are slowing as the year progresses. It is to be noted that the trends on both counts have been showing robust growth for the last couple of years, higher than normal trends. In FY2006-07, the remittances from expatriate Bangladeshi workers stood at US\$ 5,978.5 million reflecting 24.5 percent growth over the previous year. In FY2007-08, remittances stood at US\$ 7,914.9 million registering 32.4 percent increase over the previous year. A total of 564 thousand Bangladeshis went abroad for employment in FY2006-07, which is 51 percent higher than the number registered in the previous year. In FY2007-08, the number of manpower export stood at 981 thousand, which is 73.9 percent higher than that of the previous year.

The major share of remittances comes from the Gulf region, where growth prospects have remained largely unchanged in 2008 but are projected to be marginally low in 2009. Most of the Bangladeshi workers are unskilled/semi-skilled and are employed in the construction sector. The current crisis may affect them in the context of fall in oil revenues, prompting a slowdown in the construction sector.

### **Balance of Payments**

The trade deficit reduced by 15.0 percent during FY2008-09 compared to the deficit of 60.2 percent in FY2007-08. Despite the deficits in trade and service payments during the period, the robust growth in remittances caused the current account stood surplus to US\$ 2,536 million from a surplus of US\$ 680 million in FY2007-08. The deficit in the capital and financial accounts, mainly due to decrease in portfolio investment, other capital, trade credits, the overall balance showed a larger surplus of US\$ 2,058.0 million against a surplus of US\$ 331.0 million in the previous fiscal year. Gross foreign exchange reserves rose to USD 7471.0 million at the end of FY2008-09, equivalent to about 3.9 months of import payments.

### **Exchange Rate**

The nominal exchange rate during FY2008-09 remained mostly stable against USD, depreciated only by 0.3 percent, but appreciated against some other currencies like Pound Sterling (23.7 percent), Euro (6.4 percent) and Indian Rupee (15.2). Both the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices appreciated during FY2008-09. Although REER based exchange rate fell in June 2009 compared to July 2008, the nominal exchange rate is still higher than REER based exchange rate indicating that Bangladesh enjoys some export competitiveness.

### **Medium Term Macroeconomic Framework (MTMF)**

Medium Term Macroeconomic Framework is an important policy instrument for effective linking of the resources of the four macroeconomic sectors, viz. real sector, fiscal sector, monetary sector and Balance of Payments (BOP) sector. MTMF has been updated by Finance Division in order to prepare budgets using a Medium Term Budget Framework (MTBF). Some important macroeconomic indicators have been projected for 3-years taking into account the recent macroeconomic trends, future potentials and uncertainties. The trends and projections of key indicators of macroeconomic framework have been shown in Table 1.1:

**Table 1.1: Medium Term Macroeconomic Framework: Key Indicators**

Indicators	Actual		Revised	Projection		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GDP Growth (percent)	6.4	6.2	5.9	5.5	6.0	6.5
GDP Deflator	6.8	8.8	6.4	5.8	5.5	5.0
Average Inflation (CPI)	7.2	9.9	7.0	6.5	6.0	6.0
Gross Investment (As percent of GDP)	24.5	24.2	24.2	23.6	24.3	25.2
Total Revenue (As percent of GDP)	10.2	10.8	11.2	11.6	11.3	11.5
Tax	7.7	8.4	8.6	8.9	8.9	9.1
Non-tax	2.2	2.0	2.2	2.3	2.1	2.1
Total Expenditure	13.4	15.9	15.3	16.3	16.1	16.2
Current Expenditure	9.4	12.6	11.6	12.1	11.6	11.6
Annual Development Programme	4.0	3.3	3.7	4.4	4.6	4.7
Overall Balance	-3.2	-5.1	-4.1	-5.0	-4.8	-4.7
Financing	3.2	5.1	4.1	5.0	4.8	4.7
Domestic Financing	2.1	3.5	2.3	3.0	2.6	2.3
Banking System	1.2	3.0	1.7	2.4	2.0	1.8
Non-bank Borrowing (Net)	0.9	0.5	0.6	0.6	0.5	0.5
Net Foreign Financing	1.0	1.6	1.8	2.0	2.2	2.4
Money and Credit (End of year: Percent change)						
Net domestic Asset	12.6	18.1	18.6	17.5	17.1	17.1
Domestic Credit	14.4	21.8	18.9	19.2	18.8	18.4
Credit in Private Sector	15.0	24.9	17.5	18.3	18.5	18.5
Broad money (M2)	17.1	17.6	17.2	16.3	16.2	16.0
Balance of Payment (In million US dollars)						
Exports (f.o.b)	12.1	13.9	15.6	17.6	20.6	24.5
Imports (f.o.b)	15.5	19.5	22.0	24.9	29.1	33.8
Remittances	6.0	7.9	9.4	10.6	11.6	12.8
Balance of Payments (Percent change)						
Exports (f.o.b)	15.8	15.7	12.0	12.5	17.5	18.5
Imports (f.o.b)	16.6	25.6	13.0	13.0	17.0	16.0
Remittances	24.5	32.4	18.8	12.5	10.0	10.0
Current Account Balance (As percent of GDP)	1.4	0.8	0.6	0.2	-0.1	-0.4
Gross Official Reserves (In million US dollars)	5.1	6.1	6.5	7.5	8.5	9.5
Gross Official Reserves (In months of Import)	3.3	3.2	3.0	3.0	3.0	2.8

Source: BBS, Bangladesh Bank and CGA data system, Finance Division

### Stimulus Packages

To provide support to the private sector in the context of the global financial crisis, the Government of Bangladesh announced a stimulus package on April 19, 2009. The package includes both fiscal and policy supports. Some of the supports were meant to be implemented immediately during the last quarter (April-June) of FY2008-09 while the others were to be implemented in FY2009-10 and thereafter.

The stimulus package for Tk. 34.2 billion covering the period from April-June of FY2008-09 was intended to stimulate export and domestic demand. The allocation was provided for (i) export incentives for jute goods, leather goods and frozen foods; (ii) recapitalization of three commercial banks working on the agriculture credit; (iii) subsidy for electricity; (iv) refinancing the agriculture credit and (v) social safety (food security) programme.

Some of the immediate supports to the exporters include: (i) disbursement of 70 percent of incentives immediately after primary assessment of the claims and the rest 30 percent after audit;

(ii) refinancing the commercial banks for export credit; (iii) raising the Export Development Fund (EDF) to USD 150 million and credit for a single borrower to USD 1.5 million from USD 1.0 million; (iv) expansion of export credit at 7 percent for all the exported commodities and the time limit for repayment to 120 days, up from 90 days at present; (v) withdrawal of fuel surcharge on carrying fruits and vegetable on international route; (vi) introducing rationing system for garments workers to provide rice at subsidized rate; (vii) bringing down the lending rate below 13 percent and allowing rescheduling facility without down payment; (viii) helping the export-oriented industries to get through the economic turmoil on a case-case basis.

## **Reform Programmes**

### **Fiscal Sector**

Within the remit of ongoing financial reforms, 16 ministries/divisions have been brought under the coverage of Medium-Term Budget Framework (MTBF) in FY2008-09. In the FY2009-10, 4 more ministries/divisions would be included. There is a plan to include all ministries/ divisions in the fold of MTBF within next three years. As part of this plan, MTBF approach in budget setting process will be implemented in 12 more ministries in FY2009-10. These 12 ministries/divisions will be brought under the full MTBF process in FY2010-11.

### **Reforms in Banking, Monetary and Credit Policies**

#### **Legal Reforms**

The financial institutions are now taking steps within the ambit of *Artho Rin Adalat Ain*, 2003 (the Money Loan Court Act, 2003) to expedite the settlement of disputes regarding the loan recovery. Side by side, steps have been taken to implement the recommendations of the committee formed by the Government for quick recovery of default loans.

#### **Reforms in the Bangladesh Bank**

To strengthen the role of Bangladesh Bank as the regulatory authority of the monetary and financial sector of the country and also to enhance its authority, a project 'Central Bank Strengthening Project' is being with the support from International Development Agency (IDA). Starting from late 2003, the project is expected to be completed by 2,011. The key focus of the project:

- Restructuring and modernising Bangladesh Bank (structural re-organisation, automation and human resource development);
- Capacity building (strengthening research division; prudential regulation and supervision; accounting and auditing standards); and
- Strengthening the legal structure.



### **Reforms in State-owned Commercial Banks (SCBs)**

Following corporatisation of SCBs, the Government, with a view to create an enabling environment, has taken the following measures for enhancing their institutional capacity and managerial efficiency as well as bringing capital adequacy of these financial institutions:

- A Memorandum of Understanding (MOU) 2009 for the SCBs (Sonali Bank Ltd., Janata Bank Ltd., Agrani Bank Ltd. And Rupali Bank Ltd.) has been signed to review the progress of reforms;
- A transition plan of has been put in place for smooth take over;
- Following the advice from the Finance Division the **Recapitalisation and Progressive Five Year Development Plan** has been revised to minimise the capital deficit..

### **Monetary and Financial Sector Reforms**

- New guidelines has been issued by the Bangladesh Bank for the appointment of directors to the Board of Directors of a bank company from the depositors under sub-clause 15(5) of Bank Company Act, 1991.
- Guidelines for recognition of eligible External Credit Assessment Institutions (ECAIs) has been issued by Bangladesh Bank. Now, under the Standardized Approach of the Risk Based Capital Adequacy framework (Basel II), credit rating is to be determined on the basis of risk profile assessed by the External Credit Assessment Institutions (ECAIs) duly recognized by Bangladesh Bank. All scheduled banks will be required to nominate recognized ECAI for their own as well as their counterpart credit rating.
- To comply with the international best practices and to make the bank's capital more risk-sensitive as well as to build the banking industry more resilient and stable, a revised regulatory capital framework titled 'Risk Based Capital Adequacy for Banks' in line with Basel II has been devised and sent to the banks for implementation from January 2009. Along with the existing capital adequacy rules and reporting to Bangladesh Bank, banks will start quarterly reporting as per reporting format enclosed in the Guidelines.
- A new anti-money laundering law titled Money Laundering Prevention Act, 2009 is in place by amending Money Laundering Prevention Act, 2002 was enacted on February 24, 2009. This law was made effective from April 15, 2008, as there was Money Laundering Prevention Ordinance, 2008 from the date.
- The Government, for the first time, promulgated anti- terrorism law (Anti- Terrorism Act, 2009) which included a stipulation that financing of terrorism is a punishable offence. This law was given effect from June 11, 2008, as there was Anti Terrorism Ordinance, 2008 from the date.

## **Agriculture**

‘Food for all’ is the prime commitment of the present Government and therefore the Government has given top priority on agriculture sector to achieve self sufficiency in food again by 2013 through increased production. The overall contribution of the broad agriculture sector at constant price is projected at 20.60 percent of GDP in FY 2008-09. The contribution of this sector was 20.83 percent in FY 2007-08. Within the broad agriculture sector, the contribution of agriculture & forestry and fisheries are estimated at 16.03 percent and 4.57 percent respectively in FY 2008-09.

According to the final estimate released by BBS, the volume of food grain production in FY 2008-09 stood at 328.96 lakh metric tons of which Aus accounted for 18.95 lakh metric tons, Aman 116.13 lakh metric tons, Boro 178.09 lakh metric tons and wheat 8.44 lakh metric tons.

The target of domestic food grains procurement for FY 2008-09 was 13.35 lakh metric tons (Rice: 13 lakh metric tons and Wheat: 0.35 lakh metric tons). The actual quantity of rice procured under the domestic procurement programme in this year was 14.49 lakh metric tons as on June 2009 (Boro rice: 12.87 lakh metric tons and Aman rice: 1.62 lakh metric tons). Price of Aman paddy procurement was fixed at Tk. 16 /Kg while Aman rice at Tk 26 /Kg. Price for Boro paddy procurement was fixed at Tk.14 /Kg and rice 22 Tk/Kg respectively. The budget provision of food grain imports using Government’s own resources for FY 2008-09 was 7.90 lakh metric tons (Rice: 4.0 lakh metric tons and Wheat: 3.90 lakh metric tons). The total quantity of public import of food grains for FY 2008-09 was 6.80 lakh metric tons (rice: 3.86 lakh metric tons and wheat: 2.94 lakh metric tons). In FY 2008-09 private import reached at 22.16 lakh metric tons (rice: 1.87 lakh metric tons and wheat: 20.29 lakh metric tons).

The target of agriculture credit disbursement has been set at Tk.9379.23 crore for FY 2008-09. Out of which, Tk.9284.46 crore has been disbursed which is 99 percent of the target. Different measures such as increase of subsidy on inputs to agriculture, making agriculture inputs more available, more availability of irrigation facility, sufficient steps for preserving the harvest and ensuring fair price of crops and agro-products have been taken with the aim to increase agriculture productivity. Bangladesh Bank has allocated Tk.1183 crore for refinancing agricultural credit with an aim to widen the scope of agricultural credit and simplify the disbursement procedure of agricultural credit. An allocation of Tk.1500 crore has been provided in the revised budget for the recapitalization of Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnoyon Bank (RAKUB) and Karmashanthan Bank in order to revamp the rural economy by increasing access to credit, thereby supporting self-employment.

## **Industry**

According to provisional estimate, the contribution of the manufacturing sector to GDP is 17.78 percent in FY2008-09, which is marginally higher than that of the previous year. In FY2008-09, the growth rate in the manufacturing sector is estimated at 5.92 percent, which as a cosequence of the global economic crisis stands 1.29 percent lower than that of the previous fiscal year.,

The government has taken up programmes to provide financial assistance to expand SMEs through commercial banks. Alongside the disbursement of loans, Bangladesh Bank has widened its' refinancing scheme of Tk.100 crore with an enhanced allocation of Tk.600 crore. Up to June 2009, Tk.716.44 crore has been disbursed among different scheduled banks and financial institutions for refinancing potential entrepreneurs. In addition, IDA has provided US\$10 million and the Government has provided Tk.112.32 crore through 'Enterprises Growth and Bank Modernisation Project (EGBMP)'. ADB has also provided an additional US\$30 million to the Bangladesh Bank.

The disbursement and recovery of the industrial loan was Tk.65001 crore and Tk.52,900 crore respectively in FY2008-09 which is 8.13 percent and 24.55 percent higher respectively than those of the previous fiscal year. This slower growth in disbursement of industrial loan is attributable to the current global economic crisis.

There are eight EPZs in which total investment stood at US\$1,582.47 million up to June 2009. In FY2008-09, total investment in the EPZs was US\$ 148.03 million. BEPZA's export proceeds stood at US\$ 2.58 billion, as against the target of US\$2.83 billion set for the fiscal year.

EPZs have already employed about 2,34,693 Bangladeshi nationals in their attempt to contribute to the national poverty alleviation efforts. Among them 64per cent are female. It is to be noted that by the end of FY2008-09, a total of 33 countries have invested in these EPZ's. In FY2008-09, goods worth of US\$ 2,581.71 million have been exported from the EPZs which account for 17per cent of total export. In addition to FDI promotion, export development and employment generation, Bangladeshi EPZs have also been making special contribution to the development of backward linkage and supportive industries of the country.

## **State-Owned Enterprises (SOEs)**

State-Owned Enterprises (SOEs) of Bangladesh still make major contribution towards industry, power, gas, transport and communication and service sectors of Bangladesh economy. The contribution of SOEs in GDP, value addition, employment generation and revenue earning is still substantial though privatization of public enterprises is well in progress to develop the private sector. The annual growth rate of total operating revenue of all existing SOEs during FY 2004-05 to FY 2007-08 was 17.96 percent but value addition of production in FY 2004-05 was Tk. 951.00 crore which went up to Tk. 7,612 crore in FY 2007-08. According to provisional accounts, the

net profit of SOEs is estimated at Tk. 2,049.00 crore in FY 2008-09. All the SOEs together contributed Tk.44.38 crore to the public exchequer during FY 2007-08 which is estimated at Tk. 414.45 crore in FY 2008-09. In FY 2007-08, Government provided grant/subsidy amounting to Tk.494.25 crore to 14 public entities which has been estimated at Tk 836.83 crore in FY 2008-09. Up to June 2008, the total DSL outstanding against 56 SOEs stood at Tk.72,694.11 crore and the total borrowing of 30 SOEs from the state-owned commercial banks amounted Tk.14,172.88 crore where classified loan was Tk. 1,425.21 crore. The operating profit on total assets of SOEs was 1.99 percent in 2004-05 but it reached 3.05 percent in FY 2007-08. The net profit on operating revenue was also negative all the years since FY 2003-04 but it stood at 13.95 percent in FY 2007-08. On the other hand, the rate of dividend on equity decreased to 0.97 percent in 2007-08 from 1.10 percent in 2006-07.

### **Human Resource Development**

The cardinal purpose of economic development is human development. Human well-being is therefore at the heart of the UN Millennium Development Goal (MDG). Human resource development is also gaining prominence in the context of meeting the MDGs. As basic tools for human development, the importance of education, training, health and social services is immense. The government is allocating substantial resources to social sector to bring about human development. Realizing the importance of education, primary education has been made compulsory since 1990. To promote female education, a stipend scheme for the girl students has been introduced. An informal education system has been evolved to provide literacy to the aged and illiterate.

Different programmes including teacher's training, revision of curricula, building physical infrastructure have been introduced in order to build quality education. Additional emphasis has been laid on vocational as well as science and technology based education. It has been outlined in the "Literacy Assessment Survey-2008", published by Bangladesh Bureau of Statistics that female literacy rate (49.1) is greater than that of male (48.6). Alongside education, efforts are under way to build an effective and sound health services system to ensure productive health for the people. Health, Nutrition and Population Sector Program (HNPS) has already been started from July 2003. Government is taking a range of measures through the Ministry of Women and Children Affairs for the development of women and children. A wide array of programmes has been adopted at government level to remove gender disparity and to involve women with the mainstream development activities.

A comprehensive programme is being implemented in order to turn the youth into an efficient and productive work force by organizing skilled development training; providing inputs together with loans and grants. A number of programmes have been undertaken for the welfare and socio-economic development of the groups of people who

are landless, distressed, vagabond, orphans, disabled and also other disadvantaged group of people. In both sports and cultural arena development activities at government level are continuing.

### **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 FY2008-09, the total allocation in non-development and development budget together was Tk. 4,278.83 crore for the Ministry of Communication. The contribution of this sector to GDP at constant price in FY 2008-09 is 10.61 percent. A total of 113 development/investment projects including 2 technical assistance projects have been included in the RADP of Roads and Highways Department for FY 2008-09. Tk.1,399.28 crore has been allocated for a total of 115 investment projects, of which GoB component recorded at Tk. 855.63 crore and project aid recorded at Tk. 543.65 crore. There is a network of 20,948 km. roads under the jurisdiction of Roads and Highways Department. RHD has under its control a total number of 4,507 bridges and 13,751 culverts. RHD are currently operating about 153 ferry boats in 60 ferry ghats on its road network throughout the country.

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 FY 2008-09 a total of 1,31,290 km. (64,691 km dirt road and 66,599 km paved roads), upazila road and union road as well as 9,53,295 meter bridge/culverts have been constructed.

The Bangabandhu Bridge is playing a vital role in road transport system. The Bridge has been constructed to establish direct road and rail link between the north-west and eastern zone of the country, which was separated by the mighty river Jamuna. Besides, the road and railway communication facilities, electricity and gas pipelines have also been laid on the Bridge. Revenue from toll collection at the Bangabandhu Bridge during FY 1997-98 was Tk.0.99 crore which stood at Tk. 212.45 crore during FY 2008-09. In order to establish direct transport link between Dhaka and Munshigonj, construction of Mukterpur (6<sup>th</sup> Bangladesh-China Friendship) Bridge over the river Dhaleswari has been completed in February 2008. The total project cost stands at Tk. 197.36 crore which includes Tk. 121.87 crore (US\$ 18.19) as technical and financial assistance from the People's Republic of China. Chittagong Port is the major sea port of Bangladesh. As the dominant seaport of Bangladesh, it handles about 92 percent of country's maritime trade. The growth rate of import-export through Chittagong port is about 10 percent of imports and 80 percent of exports are handled by this port. Mongla is the second largest seaport of Bangladesh. About 13 percent of total export and 8 percent of the imports are handled by this

port. In FY 2008-09, 9.30 lakh metric tons of goods have been imported and 2.08 lakh metric tons of goods have been exported through this port. Bangladesh Inland Water Transport Corporation (BIWTC) is a service-oriented government-owned organisation. It is also the largest inland water transport organisation. Currently, there are 189 vessels in this organisation. To meet up the increasing trend of traffic demand, BIWTC has rehabilitated 4 Ro-Ro ferries and 3 Ro-Ro Pontoons at a cost of Tk. 22.48 crore by using its own resources.

The Civil Aviation Authority of Bangladesh (CAAB) as part of its responsibility is putting in place necessary infrastructural facilities for movement of domestic and international aircrafts. Biman is operating flights to 3 domestic and 18 international destinations. Out of the International destinations, Biman now is operating to cover 4 destinations in the SAARC countries, 3 in South-East-Asia, 1 in Far-East, 8 in Gulf and the Middle East and 2 in Europe.

The Bangladesh Telecommunications Company Limited (BTCL) has taken a series of measures to promote the ICT sector for the overall development of the country. It contributes a considerable amount of revenue to the national exchequer, facilitates rapid flow of information for other sectors of economy. The BTCL has been implementing two development projects under ADP during FY2008-09 having an allocation of TK.140 crore. Besides BTCL is implementing a ILDTS (International Long Distance Telecommunication Services) project from its own fund with an allocation of Tk180.00 crore. In order to ensure development of telecommunication services in Bangladesh and to regulate it, all relevant powers, responsibilities and pertinent matters related to telecommunication regulation has been vested with the Bangladesh Telecommunication Regulatory Commission (BTRC). According to BTRC forecast, telephone subscribers will rise to 5 crore by 2010. The tele- density now stands around 34 percent, which is more than three times than that of predicted density.

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. Currently, software & IT service companies in Bangladesh are exporting software and their services to different countries.

### **Power and Energy**

Power is the key to development. The demand for power as a source of energy is rising in many spheres starting from industries to day-to-day demand of the general public, agriculture and service sector.

Government has given the highest priority to the development of power sector and has committed to make electricity available to all by 2021. For this purpose, the government has initiated reforms in power sector along with various expansion programmes. In FY 2008-09, the total installed generation capacity of electricity was 5719 MW including 3812 MW in public sector and 1907 MW in private sector of which dependable generation capacity is 4162 MW. In order to

complement the government efforts, an enabling environment has been created to attract private investment in this sector. Currently, the public sector accounts for 66.66 percent of the total installed capacity of power generation. The remaining 33.34 percent of power generation is handled by the private sector. On the other hand, 58.49 percent of the net power generation is carried out by the public sector and the private sector accounts for the remaining 41.51 percent. Of the net power generation 88.79 percent is gas based, 1.57 percent is hydraulic and 5.74 percent is oil based. At present power generation per capita is 182 kwh and the number of beneficiaries is about 47 percent.

Bangladesh Power Development Board (PDB) is the main source of electricity generation. At present, PGCB owned by PDB is responsible for entire transmission and maintenance including future expansion. Besides this, REB, DPDC and DESCO have been working for management of distribution system.

Natural gas is an important source of energy that accounts for 75 Percent of the commercial energy of the country. Till date 23 gas fields have been discovered in the country which contains 29.234 trillion cubic foot (tcf) of gas, of which 21.055 tcf is recoverable. As of June 2009, a total of 8.37 tcf has been produced. With a view to explore and expand gas resources at a faster pace, the country has been divided into 23 blocks. So far production sharing contracts have been concluded for 12 gas fields. The private sector is also coming up alongside the public sector to meet the increasing demand of gas resources.

In order to minimize environmental pollution, there is an ongoing process of converting transports into CNG. This is playing a positive role in the economy and is also saving foreign exchange worth Tk.7,500 crore per year required for fuel import. Bangladesh Petroleum Corporation has been working to develop and expand energy system to put at par with the international level.

### **Poverty Alleviation**

Despite there have been remarkable attempts to reduce endemic poverty since independence, people living below the poverty line is still significant and according to the Human Development Report 2009 of UNDP, Bangladesh ranked 112<sup>th</sup> in respect of human poverty.

However, according to the Household Income and Expenditure Survey (HIES) 2005, the incidence of poverty at the national level declined from 48.9 percent in 2000 to 40.0 percent in 2005 in the Cost of Basic Needs (CBN) method. According to DCI (Direct Calorie Intake) method, the incidence of absolute poverty was 44.3 percent in 2000 at the national level which went down to 40.4 percent in 2005. During this period, incidence of absolute poverty also showed the downward trend. In the case of Division wise poverty situation, Barisal Division has the highest incidence of poverty scoring 35.6 percent while the Chittagong Division has the lowest incidence of poverty of 16.1 percent followed by Dhaka and Sylhet Divisions using Head Count

Ratio (HCR) in the lower poverty line. Using the upper poverty line, the incidence of poverty has also significantly gone down at the national level in head count ratio. The incidence of poverty in rural areas of Dhaka Division declined from 55.9 percent in 2000 to 39.0 percent in 2005. The reduction of HCR is also significant in the urban area. It came down to 20.2 percent in 2005 from 28.2 percent in 2000 in the urban area. The incidence of poverty slightly went up in Khulna Division in FY 2005 from FY 2000. In 2005, the estimates of incidence of poverty by ownership of land using the upper poverty line were found to be 46.3 percent for landless households, 56.4 percent for owners of less than 0.05 acre. Examining the monthly household nominal income, expenditure and consumption, it is seen that it had an increasing trend in the previous years. The monthly household nominal income was estimated at Tk.7,203 at the national level, whereas it was estimated at Tk. 6,096 in the rural area and Tk. 10,463 in the urban area. The average monthly household expenditure was estimated at Tk. 6,134 at the national level, whereas it was Tk. 5,319 in the rural area and Tk. 8,533 in the urban area. Per capita nominal expenditure in 2005 at the national level was Tk.5,964 which was Tk. 5,165 in the rural area and Tk. 8,315 in the urban area.

To achieve fully the goals of Millennium Development Goals (MDGs) by 2017, the present government has given top priority to eradicate poverty and disparity (disparity in income and within region). To meet these targets, Poverty Reduction Strategy Paper (PRSP) titled 'Unlocking the Potential: National Strategy for Accelerated Poverty Reduction' (for the period of 2004/2005-2006/2007) was adopted and extended up to June/2008. As a sequel of the first PRSP the second PRSP titled 'Moving Ahead: National Strategy for Accelerated Poverty Reduction' for 2008/09-2010/2011 (NSAPR-II) was approved and at present, revision of this document is under process to align this national document with the development agenda of the present government. Moreover, preparation of Sixth Five Year Plan (SFYP) for 2011-2015 is under way where poverty is an issue of importance.

To attain the annual target as specified in the Poverty Reduction Strategy Paper (PRSP), directly and indirectly about 58 percent of development and non-development budget resources were allocated for poverty reduction activities in FY2008-09. Both the government and non-government organisations have been implementing a number of programmes for employment and income generation for the upliftment of the poor segment such as social safety net programme, cash transfers programme, food security programme, micro-credit programmes. Under old-age allowance programme there are 17 lakh beneficiaries, 9 lakh beneficiaries under the widowed and women deserted by their husbands allowance programme and 1.25 lakh beneficiaries under insolvent freedom fighters' honorarium. These beneficiaries are receiving financial assistance directly. Moreover, under the Abashan Project being implemented at a cost of Tk. 715.98 crore 65 thousand landless, homeless and rootless families are receiving benefits of health and family welfare services and other facilities including employment.



In rural micro-credit sector, PKSf usually provides loan facility such as rural and urban micro-credit, micro-credit for the poorest of the poor, micro-enterprise-credit, agriculture sector micro-finance, programme initiatives for 'Monga' Eradication (PRIME) to manage micro-credit in greater Rangpur district. Till June 2009 PKSf disbursed micro-credit to the tune of Tk. 7,484.46 crore to its 257 partner organisations, while Bangladesh Rural Development Board (BRDB) disbursed Tk.7,530.26 crore among 5,360,408 members. Through Two-Tier Cooperative model (TCCA-KSS), BRDB is working for agricultural development by organizing and providing credit and other agricultural instruments to the small and marginal farmers. During the same period, the scheduled banks disbursed Tk.19,761.51 crore whereas other specialised commercial banks disbursed Tk. 4,520.1 crore. The administrative departments of the Government disbursed credits amounting Tk. 61,139.92 crore up to June 2009.

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### **Private Sector Development**

Private sector's contribution to the total investment in Bangladesh economy is remarkable. Of the total 24.2 percent investment in the provisionally estimated GDP of FY 2008-09, the share of private investment has been computed to be 19.6 percent which was recorded at 13.58 percent of GDP in FY1995-96. Government has brought reforms in the privatisation scheme to strengthen, galvanise and modernise the privatisation process. Government has put in place necessary institutions and infrastructure to create a private sector investment-friendly environment. The government plans to earmark a significant allocation in the next year's budget to facilitate Public Private Partnership (PPP) to in an attempt to take the country to higher trajectory of growth. The government has taken a number of programmes to attract private local-foreign investors to facilitate infrastructure development. In this respect, government intends to go beyond the traditional public-private interrelationships and establish strategic, target-oriented functional relationships which are evident in the recent policy initiatives. The Election Manifesto of the government envisages that GDP growth rate will accelerate to 8 percent in 2013 and to 10 percent by 2017 which will then be maintained till 2021. Preliminary assessment of the required investment to boost growth rate has been prepared.

The number of subscribers of the 6 cellular mobile companies in the country was about 4.7 crore as of June 2009. In 2001, the mobile teledensity recorded 0.58 percent which rose to 34.00 in June 2009. Currently, a total of 43 privately owned general insurance companies and 17 life insurance companies are operating in the country. Premia realised by the state-owned Sadharan Bima and 43 private general insurance companies together stood at Tk.1,404.33 crore in 2007 compared to Tk. 907.17 crore in 2006. As of December 2008, 376 cotton and synthetic spinning mills were in the country of which 352 units belonged to private sector. Moreover, 1,098 weaving units (large, medium & small), 1,48,342 handlooms, 1,200 knitting and knit-dyeing units, 310

woven dyeing-finishing units and about 2000 local hosiery units exist in the country. Majority of the textile industries of the country mainly belongs to the private sector. Only 24 old textile mills are now under public sector (BTMC), some of which have been put into operation by the private entrepreneurs under Service Charge System. At present, there are 88 Jute mills under BJMA (Bangladesh Jute Mills Association) including 38 denationalized and 50 mills established by the members of BJMA. In the private sector, the production and export activities of jute mills are being run by Bangladesh Jute Mills Association (BJMA), at present there 80 mills under BJMA including 38 decentralized and there are 50 mills under Bangladesh Jute Spinners Association (BJSA). Out of 38 denationalized mills, 12 mills are in operation, 15 mills are in partial operation and 11 mills have been closed. Out of 50 mills, 3 mills are closed and the remaining is in operation.

Presently, there are 40 registered private Medical Colleges, 11 private Dental Colleges, 11 private Medical Assistant Training School and 15 private Institute of Health Technology in the country. Moreover, a total of 239 pharmaceutical product manufacturing units are producing 17,433 brands of medicines and raw materials of worth Tk. 5,334.00 crore annually. More than 96 percent of the total domestic's requirements is fulfilled by local production. At present, Bangladesh is exporting 182 brands of medicines to 71 countries manufactured by 27 companies.

### **Environment and Development**

In order to protect environment and also to ensure development, the Government is taking steps having legal compulsions including sensitising people of all strata. The global environment is also facing many threats due to various human activities. With this end in view, a number of policies 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, the Government is implementing the conventions and protocols signed at international and regional levels in order to protect and develop environment.

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; 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 install effluent treatment plants. Besides these, creating reserved area for protecting bio-diversity, 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 to create awareness about the environmental and ecological balance.

Along with the government, a good number of NGOs have been working to face environmental problems and to improve environmental system of the country since 1980s. The NGOs play an important role in motivating people at grass root level to protect environment and to take coordinated efforts in solving environmental problems. Ministry of Agriculture is inspiring farmers a new technique to uses of super/mega granules (guti urea) instead of urea, which have positive impact to protect pollution and misuse of urea fertiliser.

The activities of the forest department and the department of environment that deal with 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 enrichment of depleted forest resources, to ensure supply of raw materials to wood-based industries, to expand eco-tourism for the recreational facilities of the people and to develop environment.