CHAPTER 1
MACROECONOMIC SITUATION

[Despite the reemergence of global economic crisis and prevailing context of negative growth in world trade in FY 2011-12, Bangladesh economy only slowed down slightly from 6.7 percent in FY 2010-11 to 6.32 percent and witnessed an average growth of 6 percent in the last three years. High base effect induced by more than 5 percent growth in agriculture sector during the last two years and substantial growth in industry and service sector has contributed to this growth performance. During this period, growth in revenue mobilization was on track. In the second half of the current fiscal year, the economy faced challenges arising from the pressure of high subsidy in budget, increasing demand of fuel and fuel price hike in global market and slower growth in export due to sovereign credit crisis in eurozone. However, in the latter half, buttressed by the increased food production to a satisfactory level, supply of essential commodities including demand management through Open Market Sale (OMS) of the essential commodities and sufficient stock of food grains, the food inflation receded. Further, actions like discouraging credit to the unproductive sectors and providing adequate credit support to the productive and priority sectors including agriculture and SME and adopting cautious and effective monetary policy helped ease inflationary pressure. Although export of manpower slowed down in the first half of FY 2010-11 under the impact of global recession, remittance from Bangladeshi workers abroad in FY 2011-12 was 10.24 percent higher than that of the previous fiscal year. In order to boost up remittance, the Government has undertaken several initiatives to explore new markets for manpower export. Moreover, huge investment in infrastructure including power sector and lowering the cost of doing business have created investment- friendly environment in the economy. Expected GDP growth coupled with the inflation target for ensuring macroeconomic stability would be achieved if the future domestic and external shocks could be tackled properly.]

Global Economic Scenario

Immediately after the recovery from economic crisis in 2010, the global economy is again facing challenges as the recession re-emerged in the first half of FY 2011-12 due to sovereign debt crisis in several euro-zone economies and economic instability in the USA. However, steps taken to reinvigorate the USA economy and joint efforts to protect euro economies from further effect of recession have slightly watered down the effect in the second half of 2011. Despite some deceleration in the growth of the developed economies and slight slowdown in economic growth of emerging and developing countries compared to the growth momentum in 2011, economic growth of emerging and developing countries remains fairly strong.

According to 'World Economic Outlook (WEO), October 2012' of IMF, despite that the world economic growth slowed to 3.3 in 2012 from 3.8 in 2011, it is projected to rise to 3.6 percent in

2013. Growth of high income countries would deteriorate further from 1.6 percent in 2011 to 1.3 percent in 2012 but is expected to rise to 1.5 percent in 2013. It has been forecasted for eurozone to have sluggish growth of -0.4 in 2012 which was 1.4 percent in 2011 and is expected to grow to 0.2 percent in 2013. On the other hand, the growth of emerging and developing countries declined to 5.7 in 2012 from 6.2 in 2011 which is expected to be 6.0 percent in 2013. In 2012, fiscal policy became more contractionary in the advanced economies. However, it was much less contractionary in the emerging markets and developing economies.

On the other hand, according to Asian Development Outlook, October 2012, the dimming global growth prospects and soft domestic demand in the region's two largest economies are slowing the pace of developing Asia's expansion. Growth was estimated to slide from 7.2 percent in 2011 to 6.1 percent in 2012, which was expected to bounce back to register 6.7 percent growth in 2013.The possibility of a shock emanating from the unsolved euro area sovereign debt crisis or a sharp fiscal contraction in the United States posed the biggest downside risks to the economy. Weakening growth momentum will temper price pressures, pushing inflation in the region down from 5.9 percent in 2011 to 4.2 percent in both 2012 and 2013. Developing Asia's service sectors played a growing role as economies that graduated from agriculture to industry evolved further into service economies.

Macroeconomic Scenario of Bangladesh

Economic Growth

Although the growth of Bangladesh economy slowed down in the context of negative growth in world trade at the beginning of the global financial crisis in FY 2008-09, next year this growth bounced back and average growth remained above 6 percent in the last three years. According to BBS, GDP grew to 6.71 in FY 2010-11 and the estimated GDP growth rate for FY 2011-12 is 6.32 percent. However, because of high base effect induced by more than 5 percent growth in agriculture sector during the last two years, the growth of FY 2011-12 dipped a little which is still satisfactory. Alongside, substantial growth in industry and service sector has contributed to overall GDP growth. In FY2011-12, growth in agriculture, industry and service sectors has been estimated to 2.53 percent, 9.47 percent and 6.06 percent respectively. This year GDP and GNI per capita stood at US$ 772 and US$ 848 which were US$ 748 and US$ 816 respectively in the last fiscal year.

Savings and Investment

Estimated domestic savings slightly increased from 19.3 percent of GDP in FY 2010-11 to 19.4 percent of GDP in FY 2011-12. Investment in FY 2011-12 also showed similar feature with a slight increase and stood at 25.4 percent of GDP in FY 2011-12 from 25.2 percent of GDP in FY2010-11. Of which the share of private investment stood at 19.1 percent of GDP while that of public investment was 6.3 percent in FY 2011-12. In FY 2010-11, the private and the public

sector investments were 19.5 and 5.6 percent of GDP respectively. Major initiatives of the Government implemented in infrastructure sector including power and reduction in cost of doing business helped create investment-friendly environment. In addition to this, because of satisfactory growth of remittances, national savings in FY 2011-12 upturned to 29.4 percent of GDP from 28.8 percent of GDP in the previous year.

Inflation

The 12 month average inflation rate reached to 10.62 percent in FY 2011-12 which was 8.80 percent in FY2010-11. Oil and food inflation in global market and excessive credit flows to unproductive sectors were mainly responsible for this upturn. Inflation on point to point basis in June 2012 stood at 8.56 percent. From the trend analysis of inflation in Bangladesh, it is clear that in the first half of FY 2011- 2012 general inflation went up because of food inflation. However, at the end of FY2011-12, non-food inflation was the key factor in pushing general inflation upward. At this point in time, food inflation receded to 7.08 (monthly rate, point to point basis) percent from about 13 percent in the same month of FY2010-11. Satisfactory food production and supply of essential commodities including demand management through Open Market Sale (OMS) of the essential commodities and sufficient stock of food grains contributed to the efforts of pulling down food inflation. On the other hand, there was a non-food inflationary pressure due to price hike in international market, depreciation in exchange rate and adjustment of oil price. In order to contain inflation, the Government has undertaken necessary steps by forging better coordination between fiscal and monetary policies. Although there was a pressure of oil price adjustment on food price, it was transitory. It is expected that actions like discouraging credit flows to unproductive sector alongside adopting restrained and effective monetary policy will reduce the inflationary pressure.

Fiscal Situation

Revenue

A target for revenue receipt was set at Tk.1, 18,385 crore (12.94 percent of GDP) in FY 2011-12 of which NBR tax revenue accounted for Tk. 9,1870.00 crore (10.0 percent of GDP), non-NBR revenue, Tk. 3,915 crore (0.4 percent of GDP) and non-tax revenue Tk. 22,600 crore (2.47 percent of GDP). Against these targets, tax revenue from NBR sources stood at Tk. 91,597 crore while revenue receipts from non-NBR source and non-tax revenue receipts were Tk. 3,633 crore and Tk. 18,550 core respectively in FY 2011-12. Total revenue receipts increased by 19.53 percent from Tk. 95,188 crore in FY 2010-11 to Tk. 1,13,781 crore in FY 2011-12.The growth of tax revenues from NBR sources was 17.47 percent in FY 2011-12 which was 20.95 percent in FY 2010-11. During this period, VAT at import level registered a remarkable growth of 16.06 percent and VAT at local level 17.48 percent and income tax 24.68 percent.

Government Expenditure

In FY 2011-12, the total expenditure was raised by 15.59 percent from Tk. 1,30,011 crore (15.79 percent of GDP) in FY 2010-11 to Tk. 1,50,286 crore (16.43 percent of GDP) in FY 2011-12. Of this, the total expenditure under non-development budget increased to Tk.1,03,339 crore in FY 2011-12 which was 24.23 percent higher than Tk. 83,177 crore in FY 2010-11. Annual Development Programme (ADP) expenditure increased by only 9.7 percent in FY 2011-12 against 30.25 percent growth in FY 2010-11.

Budget Balance and Financing

Overall budget deficit stood at Tk.36,505 crore which was 4 percent of GDP this year. The deficit was financed by an amount of Tk. 5,980 crore (3.43 percent) from external sources and Tk. 30,940 crore (0.57) from domestic sources.

Monetary and Financial Sector

Following the global financial crisis, monetary policy stance was accommodative in FY2010-11 which has been adjusted in FY 2011-12 consistent with the changes in the global and domestic economic scenario. The monetary policy of FY 2011-12 was formulated to maintain a restrained money supply and credit growth to manage the pressure arising from a number of factors including the lagged effect of high domestic credit growth in the previous year, high inflation transmitted through global price hike of essential commodities including food items and huge borrowing from banking system to meet government expenditure. The restrained monetary policy was adopted to ensure continued support for adequate credit flows to the productive and priority sectors including agriculture and SME, while controlling money supply and credit to unproductive sectors.

Money and Credit

During FY 2011-12, year on year growth in broad money (M2) and reserve money (RM) decreased by 17.39 percent and 8.99 percent respectively which was much lower than 21.34 percent and 21.09 percent growth in FY 2010-11. There was a deceleration in narrow money (M1) growth which was largely due to the sharp decrease in growth of both currency notes and coins with the public and demand deposit. Time deposit growth slightly decreased to 20.74 percent compared to the increase of 22.68 percent in the previous year. On the other hand, demand deposit decreased by 6.21 percent in FY2011-12 from 15.48 percent in FY 2010-11.The supply of broad money increased from Tk. 4,40,520.00 crore in FY 2010-11 to Tk. 5,17,109.50 crore in FY 2011-12.

Similarly, the growth of domestic credit on year-on-year basis was19.53 percent during FY 2011-12, much lower than 27.43 percent during FY 2010-11. Sector-wise analysis of domestic credit indicates that the net credit to the government sector increased by 25.15 percent at the end of June 2012 compared to the growth of 35.01 percent during the previous year. The private sector credit growth was 19.72 percent in FY 2011-12, much lower than year-on-year growth of 25.84 percent of the previous fiscal year.

Reserve money increased by 8.99 percent at the end of June 2012, as compared to 21.03 percent growth in the previous year. Due to an increase of 12.53 percent in net foreign assets (NFA) of Bangladesh Bank, the growth of reserve money was observed. However, net domestic assets (NDA) of Bangladesh Bank increased by only 1.17 percent during the period. Bangladesh Bank's claims on other public sector, claims on government sector (net), deposit money banks (DMBs), and non-bank depository corporations (NBDCs) increased by 39.26 percent, 18.70 percent, 21.60 and 14.47 percent respectively which eventually pushed upward the growth of reserve money. On the other hand, net other assets also increased by 39.21 percent. Money multiplier increased to 5.29 in FY2012 as compared to 4.90 at the end of June 2011. This increase was attributable to the decline in reserve-deposit ratio and currency-deposit ratio.

Interest Rate

Bangladesh Bank conducted its liquidity management with an aim to contain inflation and support attaining inclusive growth. To this end, repo and reverse repo rates were raised twice by a total of 100 basis points to 7.75 and 5.75 percent respectively during FY 2011-12. There was a maximum cap of 7 percent interest rate on export credit fixed since January 10, 2004 to facilitate export earnings. Recently, the cap on interest rate on lending in all sectors other than pre-shipment export credit and agricultural loans has been withdrawn. This has brought competitiveness among banks in fixing rate of interest on lending in a rational manner. Banks are allowed to differentiate interest rate up to a maximum of 3 percent considering comparative risk elements involved among borrowers in the same lending category. With progressive deregulation of interest rates, banks have been advised to announce the mid-rate of the limit (if any) for different sectors and they may change interest 1.5 percent more or less than the announced mid-rate on the basis of the comparative credit risk.

The weighted average rate of interest on commercial lending increased to 13.75 percent at the end of June 2012, from 12.42 percent at the end of June 2011. On the other hand, the deposit rate increased to 8.15 percent from 7.27 percent over the same period. As a result, the interest rate spread widened to 5.60 percent at the end of June 2012 from 5.15 percent at the end of June 2011.

External Sector

Export

In the wake of the recovery from global financial recession, the export trade of Bangladesh made a turnaround. However, sovereign credit crisis in eurozone which is one of Bangladesh's main export destinations is having its impact on export trade. The export earnings of Bangladesh stood at US $ 24,288 million in FY 2011-12, which was 5.9 percent higher than the export earnings (US $ 22,928 million) of FY 2010-11. Export earnings in FY 2011-12 by major categories increased mainly for footwear (30.1 percent), engineering products (21.1 percent), woven garments (13.9 percent) and leather (10.8 percent). On the other hand, export earnings dipped in respect of raw jute (25.4 percent), ceramic product (10.2 percent) and jute goods (7.5 percent). Some of the facilities under the incentive package declared by the Government are still continuing. Assistance for the entrepreneurs tiled 'New Market Exploration Assistance' announced under the incentive package is also being extended this year for diversification of goods and exploration of new export market. In the meantime, export markets have been created in Japan, Korea, South Africa and Turkey. Besides, due to reduction of duties by India, Bangladeshi commodities are having gainful access to India.

Import

The total import payments (C&F) stood at US $35,516 million during FY 2011-12, which was 5.5 percent higher than the import payments of US $33,657 million of the preceding year. Although import payments increased at the beginning of this fiscal year due to price hike of fuel in the global market and higher demand of fuel for electricity generation , it slowed down towards the end of the year as import of unimportant goods were discouraged. Analyzing the category of imported goods, it is observed that, import payments for industrial raw materials, petroleum and petroleum products increased by 22.75 percent, 11.15 percent and 21.76 percent respectively, while import of capital machinery and primary commodities decreased by 13.73 percent and 25.79 percent respectively.

Overseas Employment and Remittances

Although export of manpower slowed down in the first half of FY 2010-11 because of the impact of global recession, particularly on the real estate markets in the Middle East, and on industrial labour demand in some South East Asian economies such as Malaysia, it began to increase from January, 2011. The amount of remittances increased by 6.03 percent to US $ 11,650.32 million in FY 2010-11 compared to that of the previous year. Bangladesh earned remittances of US$ 12,843.40 million in FY 2011-12 which was 10.24 percent higher than the amount of the previous year. The Government has undertaken several initiatives including diplomatic approaches to explore new markets. As a result, the rate of manpower export has started moving upward. As many as 6.91 lakh workers went abroad in quest of jobs in FY 2011-12, which was 57.40 percent higher than the number stood at in the previous year. In the recent past, there is an

upward trend in both the number of manpower export and the amount of inward remittances to Bangladesh. The remittance sent by the Bangladeshi expatriates substantially increased to 11.11 percent of GDP which was again 52.92 percent of the total export earnings in FY 2011-12. During FY 2011-12, the highest amount of remittance (28.69 percent) came from Saudi Arabia keeping the trend as usual followed by the United Arab Emirates (18.72 percent), Kuwait (9.27 percent) and Malaysia (6.60 percent). Among the western and European countries, the United States of America secured the first position (11.67 percent), followed by the United Kingdom (7.69 percent). To begin manpower export in full swing to Africa, East Europe and Latin America, a number of diplomatic initiatives have been undertaken alongside establishing new labour wings in several countries. There is also an attempt to impart training on various trades to create skilled labour force to meet the demand of labour markets abroad.

Balance of Payments

Trade balance recorded a rise in deficit by 3.2 percent to US$ 7,995 million in the FY 2011-12 as compared to the deficit of US$ 7,744 million during FY 2010-11. During this period, the current account balance recorded a surplus of US$ 1,630 million as compared to the surplus of US$ 885 million of FY 2010-11. In spite of increase in the deficit by 3.7 percent recorded in the income account, increase of deficit by 8.3 percent in service accounts, current transfer account increased substantially by 10 percent in FY 2011-12. The deficit recorded in the overall balance of payment stood at US$ 494 million in FY 2011-12, which was US$ 656 million in FY 2010-11.

Foreign Exchange Reserve

Foreign exchange reserve remained stable as import slowed down and remittance flow went up at the end of FY 2011-12. The gross reserve stood at US$ 10,364.43 million at the end of FY 2011-12 which was 5.02 percent lower than the amount of US$ 10,912 million in FY 2010-11. In order to strengthen the country's reserve position and diversify the external asset portfolio, BB invested in sovereign/supranational/ highly reputed corporate bonds, treasury bills of US Government and in short term deposit with highly reputed commercial banks.

Exchange Rate

In the first half of FY 2011-12, the exchange rate remained unstable in the wake of the growth of remittances, export earnings and fuel price hike in global market. Overall, Bangladesh depreciated its currency by 9.28 percent against US dollar in FY 2011-12 due to higher import demand for enhanced domestic investment activities (caused huge foreign exchange demand for import of capital goods) and increased fuel price. In the second quarter of FY 2011-12, Bangladesh experienced 8.16 percent depreciation of Taka against US dollar, but in the third and the fourth quarter, Taka regained its strength and appreciated following prudent monetary policy actions and it remained more or less stable at the end of June 2012. Strong remittance inflows (10.24 percent) and flow of foreign aid with rationalization of import payment and moderate

growth of export (5.9 percent) helped to keep Bangladesh Taka competitive in this fiscal year. The weighted average interbank rate stood at Tk. 81.87 per US dollar in June, 2012 against Tk. 74.23 as on 30 June 2011.

Reform Initiatives in Macroeconomic Management

During FY 2011-12, a number of reform initiatives were undertaken to put the macroeconomic management on a firmer footing. These are enumerated as follows:

Budget Management

- To bring policy and performance dimensions to the budget setting process, all the ministries/divisions including the constitutional outfits have been brought under the coverage of Medium-term Budget Framework (MTBF) which is designed to link the budget with the policies and resource allocation with performance. This agenda is being implemented under an ongoing project called Deepening MTBF and Strengthening Financial Accountability of the Finance Division.

Annual Development Programme (ADP) Implementation

- In order to expedite the implementation of ADP, the progress status of two Ministries/Divisions is reviewed in each ECNEC meeting. Besides, the Taskforce constituted for monitoring the ADP implementation of ten major Ministries/Divisions is reviewing the progress on quarterly basis where priority is given to those projects which have slower progress than set target. Some times, the Taskforce meets monthly if necessary. The progress of these ten ministries is also reviewed by the Assurance Committee of the National Parliament.

Revenue Mobilization

- Legal, procedural and structural reforms which were undertaken in the previous fiscal year are also continuing in the year under review.
- 'Draft VAT Act 2011' has been approved by the Cabinet Division.
- Implementation of Alternative Dispute Resolution arrangements intended to resolve tax litigation has begun.
- For simplification of tax payment, e-payment system has been put into operation.
- All customs houses have already brought under an automation scheme and actions are underway to bring all customs stations under an online system and collect custom duties by using ASYCUDA++ software.
- Steps have been taken to rationalise the rates of non-tax revenue to make them consistent with the current market price.

Banking Sector

- To make the bank's capital more secured as well as to turn the banking industry more risk sensitive, shock absorbent and stable, implementation of Basel-II capital adequacy framework as regulatory requirement for banks is underway.
- All the scheduled banks have maintained minimum required Capital Adequacy Ratio (CAR) and Minimum Capital Requirement (MCR) for banks at 8 percent up to June 2010, 9 percent up to June 2011 and 10 percent from July 2011 and onward.
- Necessary actions have been taken to ensure public disclosure of information of banks' capital structure through market disclosure in addition to ensuring adequate capital through supervisory review process (SRP).
- It has been decided to issue Subordinated Debt which is as an element of Hybrid capital of commercial banks and 8 banks have already got permission in this regard.
- There has been credit growth due to expansion of financial activities and it stood at 18.75 percent at the end of June 2012. At the same time, the idle liquidity has increased by 8.04 percent which was 6.73 percent at the end of June 2011
- In order to evaluate Supervisory Review Process of Banks, all banks have been directed to issue Guidelines on Supervisory Review Process (SREP). At the same time, setting link between risk management and capital maintenance under pillar-II of Basel-II each bank has also been directed to prepare its own Supervisory Review Process document.
- To expedite the settlement of disputes regarding loan recovery of banks and financial institutions, *Artha Rin Adalat Ain, 2003* has been made effective. In order to strengthen the process of recovering defaulted loans, banks, under this law are now empowered to sell the collaterals without prior approval of the court.
- Money Laundering Prevention Act, 2012 has been promulgated repealing the Money Laundering Prevention Act, 2009 and the Anti-Terrorism (Amendment) Act, 2012 has been passed by Parliament amending the Anti-Terrorism Act, 2009 to meet the international standards and to make a robust Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) regime in Bangladesh.

Capital Market

Although stock market was strong enough during the global financial crisis, massive price corrections took place afterwards. The general index at the end of FY2012 stands at 4572.88 compared to that of 5257.61 at the end of June 2011. Total market capitalisation of all shares and debentures of the listed securities at the end of FY 2011-2012 also stands at Tk. 2, 49,161 crore, implying 4.71 percent less than what stood at Tk. 2,61,673.00 in FY 2010-2011

Among various initiatives undertaken by the Government, the following steps are important:

- In order to ensure transparency and accountability of listed companies of Stock Exchange, Corporate Governance Guideline has been issued

- Book building process has been modernised
- A new rule has been formulated to increase the capital of private limited and public limited companies through new private placement
- Merchandise Banker's Portfolio Manager Rules have been revised to bring further transparency and accountability in merchandise banks and to give them impetus
- The process of demutualisation in Dhaka and Chittagong Stock Exchanges has begun to separate the ownership and management of the stock exchanges,

Medium Term Prospect of Bangladesh Economy

In the current context of domestic and global economic scenario, a Medium-Term Macroeconomic Framework (MTMF) for FY 2012-2016 has been worked out based on some fundamental assumptions. It sets out the economic and fiscal indicators for the next five fiscal years. Just after the recovery of the world economy from yearlong global recession during 2008-09, devastating tsunami and destruction of nuclear power plant in Japan, the ongoing sovereign debt crisis in several eurozone economies and continuing economic instability and high unemployment in the USA, have slowed the pace of the world economic growth significantly. However, afterwards, an integrated policy and strategies to overcome the eurozone crisis, rebouncing of US economic growth and sustaining the domestic demand in emerging and developing economies, it was expected that global output would increase. But according to WEO, October 2012 world economic growth would slow to 3.3 in 2012 from 3.8 in 2011. Yet the world economic growth is projected to rise to 3.6 percent in 2013. Different macroeconomic indicators for the next fiscal year and over the medium term have been updated in view of continued satisfactory performance in revenue collection, growth in agriculture sector, investment in infrastructure including power, exchange rate stability and containment of inflationary pressure.

In the Medium Term Macroeconomic Framework, real GDP growth has been estimated at 7.2 percent for FY 2012-13, 7.6 percent for FY 2013-14, 8 percent for FY 2014-15 and 9.1 percent for FY2015-16 respectively. It is expected that investment will increase from 25.4 percent of GDP in FY 2011-12 to 33.7 percent in FY 2016-17 where private and public investment will stand at 25.2 percent and 8.5 percent respectively. On the other hand, domestic savings is expected to increase to 22.4 percent from 19.6 percent and national savings will go up from 29.4 percent to 32.8percent in the medium term.

Development of agriculture sector including that of power, energy and communication sectors is crucial for achieving the desired growth of GDP. Undertaking initiatives as envisaged in the roadmap for power, exploring new gas deposits to meet existing energy demand and utilising renewable energy will ensure investment-friendly environment in power and energy sector. It is also expected that infrastructure deficit will be removed by reinvigorating public-Private Partnership (PPP) initiatives in the development of communication sector and efficient and timely implementation of Annual Development Program. In order to ensure proper

implementation of projects to be taken up under PPP, a scheme has been worked out and a set of policies and guidelines have been approved by the Government.

In agriculture sector, there was a consistent and positive growth over the last three years. Huge government support such as subsidy, power supply for irrigation, flow of agricultural credit, innovation of new variety of salinity tolerant seed and weather, and increasing assistance to agro-based industries contributed significantly in achieving sustainable growth in agriculture sector. All these activities will continue which is expected to support sustainable agricultural growth.

In the MTMF for FY 2011-12, the revenue target is estimated at 12.4 percent of GDP which will go up to 16.4 percent by FY 2016-17. All legal, procedural, structural and administrative reforms taken up this year for scaling up revenue earnings also need to be continued over the next year. Besides, alternative dispute resolution and alignment of existing rates for non-tax revenue with current market price will continue. Further, adjustment of fuel price has reduced the pressure of subsidy on the budget and thus has created fiscal space. As an outcome of implementing these reform initiatives, target set in fiscal sector for FY 2011-12 has been achieved.

The estimated government expenditure stood at 16.5 percent of GDP in FY 2011-12 which is expected to be 18.4 percent in FY2012-13. The target for FY 2016-17 has been set at 20.6 percent of GDP. Against this, expenditure on Annual Development Programme is planned to be increased from 3.9 percent of GDP in FY 2011-12 to 7.0 percent of GDP in FY 2016-17.Overall budget deficit in FY 2011-12 was 4 percent of GDP and in the medium term it will stay within 5 percent of GDP.

For financing the deficit, Government has planned to reduce borrowing from the banking system. In this regard, priority has been given to foreign assistance which were committed and in pipe line. Standard and Poor's (S &P) and Moody's retained the same sovereign credit rating for Bangladesh. In their respective lists rating for Bangladesh is BB- and Ba3. According to this rating, in terms of creditworthiness, Bangladesh is at par with the Philippines, Indonesia and Vietnam. Such rating will help attracting more foreign investment. Moreover, in order to scale up non-bank borrowing, the Government has planned to rebrand and repackage the existing diaspora bonds. It is expected that increased investment in these bonds will ultimately reduce the dependence of the Government on bank borrowing. While working out the MTMF, the shocks from price hike of fuel in the international market has been factored into. In order to keep the budget deficit within targeted limit, effective measures will be taken to adjust energy price and power tariff according to plan.

Containing inflation is a big challenge for macroeconomic stability. In FY 20111-2012, the rate of inflation stood at 10.6 percent against the target of 7.5 percent. While setting the MTMF targets, it was expected that inflation will be brought down to around 5 percent in FY2017-18. It was expected that the steps taken to increase food production, uninterrupted food supply and enhance food security would also be helpful in reining on inflation. Bangladesh Bank in its monetary policy statement has laid emphasis on limiting money supply and discouraging credit

flow to the unproductive sectors. Side by side, emphasis is also given to ensure credit flow to productive and priority sectors including agriculture and SME sectors. It is to be noted that in order to meet the growth and inflation targets, the broad money supply be limited to 15 to 16 percent of GDP.

Financial recession in eurozone economies, one of the major export markets of Bangladesh, has affected its export sector slowing it down to 6.2 percent in FY 2011-12. However, it has been possible to tackle the crisis through integrated efforts of euro countries. Besides, initiatives on exploring new markets and diversification of export goods have already contributed to our economy, though to a limited extent. Considering all these, growth in export for FY 2017-18 has been set at 13.5 percent. Despite there has been high growth in import last year which also prevails in the first half of FY 2011-12, growth in import has slowed down to 5.5 percent this year from 41.8 percent in the last year. Growth in import sector is expected to be 15 percent next year and 14 percent in the medium term.

The remittances from expatriate Bangladeshi workers grew by 10.24 percent-during this year which has been estimated to be 12 percent for next years. It is expected that concerted efforts on exploring new labour markets and intensive diplomatic initiatives will increase expatriate employment and contribute towards sustaining the existing trends of remittance of flows. The current account balance (CAB) decreased but was brought back to a positive territory. In the MTMF, the CAB is estimated to be negative. Pressures on exchange rate and foreign exchange reserve have been offset due to adoption of effective fiscal and monetary policy stances. Both the exchange rate and reserve situation remained stable at the end of FY 2011-12. The goal of maintaining macroeconomic stability together with expected GDP growth and target of inflation will be achieved if the future shocks from domestic as well as external sectors could be tackled properly. Table 1.2 highlights the projection of key macroeconomic indicators during FY 2012-13 to FY 2016-17.

Table 1.1: Medium Term Macroeconomic Framework, 2013-2017: Key Indicators

Indicator	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	Actual	Actual	Actual		Estimated		Projection		
Real Sector									
Nominal GDP Growth (percent)	12.6	12.9	14.7	14.8	13.8	14.0	14.2	14.5	14.5
Real GDP Growth (percent)	**5.7**	**6.1**	**6.7**	**6.3**	**7.2**	**7.6**	**8.0**	**8.2**	**8.7**
CPI Inflation (percent)	**6.7**	**7.3**	**8.8**	**10.6**	**7.5**	**6.5**	**6.0**	**5.8**	**5.7**
Gross Investment (percent GDP)	**24.4**	**24.4**	**25.2**	**25.4**	**26.6**	**28.1**	**29.6**	**30.7**	**32.2**
Private	19.7	19.4	19.5	19.1	20.2	21.3	22.4	23.1	24.1
Public	4.7	5.0	5.6	6.3	6.4	6.8	7.2	7.6	8.1
Domestic savings	20.1	20.1	19.3	19.4	20.9	21.1	21.2	21.1	21.8
National Savings	29.6	30.0	28.8	29.4	27.9	28.8	29.8	30.3	31.5
Fiscal Sector (percent of GDP)									
Total Revenue	**10.4**	**10.9**	**11.7**	**12.4**	**13.4**	**14.0**	**14.6**	**15.2**	**15.8**
Tax Revenue	8.6	9.0	10.0	10.6	11.2	11.8	12.4	13.0	13.6
NBR-Tax Revenue	8.2	8.6	9.6	10.2	10.8	11.4	12.0	12.6	13.2
Non-NBR Tax Revenue	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Non-Tax Revenue	1.8	1.9	1.7	2.0	2.2	2.2	2.2	2.2	
Total Expenditure	**14.3**	**14.6**	**16.1**	**16.5**	**18.4**	**18.8**	**19.6**	**19.7**	**20.1**
Revenue Expenditure	11.2	11.0	11.9	12.5	13.1	13.3	13.4	13.4	13.5
Annual Development Prog.	3.2	3.7	4.2	3.9	5.3	5.5	5.9	6.3	6.6
Overall Balance	**-3.9**	**-3.7**	**-4.4**	**-4.0**	**-5.0**	**-4.7**	**-4.6**	**-4.5**	**-4.3**
Financing									
Domestic Financing	**3.1**	**2.3**	**3.8**	**3.4**	**3.2**	**2.9**	**2.8**	**2.7**	**2.5**
Banking System	2.2	-0.3	3.2	3.0	2.2	2.0	1.9	1.8	1.6
Non-Bank	0.9	2.6	0.6	0.4	1.0	0.9	0.9	0.9	0.9
External Financing (net)	**0.8**	**1.3**	**0.6**	**0.7**	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**
Money and Credit (Year-on-year percent change									
Net Domestic Assets	17.8	18.8	25.0	18.5	16.3	15.0	15.6	16.5	16.7
Domestic Credit	15.9	20.7	27.4	19.5	19.3	17.4	17.0	16.5	16.2

Credit to the Private sector	14.6	24.2	25.8	19.7	18.0	16.0	16.0	16.0	16.0
Broad Money	19.2	22.5	21.3	17.4	16.5	15.5	15.5	15.5	15.5
External Sector									
Export, f.o.b (percent Change)	10.1	4.2	39.2	6.5	16.7	15.0	15.0	14.0	13.5
Import, f.o.b (percent Change)	4.2	5.4	41.8	5.2	15.0	15.0	15.0	14.5	14.0
Remittance (billion US$)	10.8	10.9	10.4	12.4	11.4	11.7	11.8	11.9	12.0
Current account Balance (percent GDP)	2.7	3.7	0.8	1.5	1.3	0.7	0.2	0.4	0.7
Foreign Exchange Reserve (billion US$)	7.5	10.7	10.9	10.4	12.0	13.5	14.6	15.4	16.1
Reserve in Month of Import	3.8	5.1	3.7	3.3	3.4	3.2	3.0	2.8	2.6

Source: Finance Division.