CHAPTER 1

MACROECONOMIC SITUATION

[Bangladesh economy continues to maintain its growth momentum confronting the challenges emerging fromthe slow pace of global recovery and the destabilising factors prevalent in the domestic front during the first half of FY 2013-14. The economy has posted an average growth rate of 6.02 percent in the last five years. GDP growth is provisionally estimated at 6.12 percent in FY 2013-14, slightly up from 6.01 percent in FY 2012-13. The growth is broad-based and well-supported by the three sectors of the economy: agriculture, industry and service. The per capita national income reached US$ 1,190 in FY 2013-14, up by US$ 136, from US$1,054 a year earlier. Inflation gradually came down and on point-to-point basis, inflation in June 2014 slid down to 6.97 percent from 8.06 percent in June 2013. Effective coordination between fiscal and monetary policy helped to maintain the macroeconomic stability.Exports registered a growth rate of 11.69 percentand imports growth rebounded to 19.39 percent in FY 2013-14. Although the inflow of remittances declined 1.61 percent, but remittances inflow rebounded in the second half of FY 2013-14. Despite contraction of remittances inflow, the current account balance maintained surplus of US$1,547 million. As on 30 June 2014, foreign exchange reserve stood at US$21,508 million, which is sufficient for about 6 months of import coverage. Exchange ratebroadly remained stable during FY 2013-14. It is expected that the initiatives taken by the Government on fiscal and monetary fronts will help attain the desired growth targets.]

World Economy

The global economic recovery continues, but the pace of recovery is uneven and more country specific. In advanced economies, the pre-crisis legacies of the economic boomand the subsequent crisis, including high private and public debt still weigh on the recovery.The USeconomy witnessed a surprising decline in activities during the first quarter of 2014. The recovery of Euro area remains fragile. The emerging markets are adjusting to rates of economic growth lower than those reached in the pre-crisis boom and the post-crisis recovery.

The global growth moderated more than expected in the first half of 2014. In October 2014 World Economic Outlook (WEO), International Monetary Fund (IMF) lowered global growth projection for 2014 by 0.4 percentage point to 3.3 percent relative to the projection of April 2014Outlook. In the United States, inventory correction and a harsh winterdampened demandand export declined sharply. However, this weaker growth reflects factors that appear mostly temporary, and the growth rebounded in the second quarter of the year.Japan’s economy is bouncing back from a sharp contraction in the second quarter following a sales tax hike. On the other hand, feeble recovery in the euro area stalled in the second quarter with signs of optimism for a rebound in the coming quarters. On the back of strengthening US economy, global output growth is projected to pick up to 3.8 percent in 2015, slightly lower than the earlier projection of IMF.

In the emerging market and developing economies, growth is now projected to be 4.4 percent in 2014 and then strengthen to 5.0 percent in 2015. In China, targeted policy support measures, including tax relief for small and medium enterprises, accelerated fiscal and infrastructure spending, and targeted cuts in required reserve ratios may help achieve moderate growth of 7.4 percent in 2014. However, next year growth is expected to further moderate to 7.1 percent as the economy transitions to a more sustainable growth path. In a number of major emerging market economies, growth projections for 2014-2015 have been marked down.

In Latin America and the Caribbean, growth rate is projected to decrease around 1.3 percent, due to declining exports as well as domestic constraint. Growth is expected to rebound to around 2.2 percent in 2015. In Sub-Saharan Africa, stronger growth is expected because of supportive external demand and strong investment conditions, although prospects vary across countries. In the Middle East and North Africa, the recovery remains fragile even as growth is expected to start picking up modestly on the back of improving domestic security conditions. Similar considerations underpin modest improvements in activity in Russia and the other economies of the Commonwealth of Independent States. In emerging and developing Asia, growth is likely to remain strong, projected to increase to 6.5 percent in 2014 and 6.6 percent in 2015, due to partly favourable financial conditions and broadly accommodative policies.

However, considerable downside risks-both in the short and medium term could dent global growth. The worsening of geopolitical tensions and their repercussions on the commodity and oil markets, the reversal of volatility in financial markets may cast shadow on the global growth in short-term. Stagnation and low potential growth in advanced economies remain a concern in the medium-term. The lower growth in advanced economies has significant spillovers to emerging markets economies directly through lower external demand which may cause potential growth to decline in emerging markets economies.

Macroeconomic Scenario of Bangladesh

Bangladesh economy continues to maintain its growth momentum confronting the challenges emerging from resurgence of global recession during the first half of FY 2011-12. The economy has posted an average growth rate of 6.02 percent in the last five years (during FY 2008-09 to FY 2012-13, base year: 2005-06). However, negative impacts have been observed in export and import, due to slowdown of developed economies for last two years. Export growth decelerated from 41.49 percent in FY 2010-11 to 5.99 and 11.22 percent in FY 2011-12 and FY 2012-13 respectively. Despite uncertainty and turmoil during the first half of FY 2013-14, export growth stood at 11.69 percent. Likewise, import growth tumbled from 41.79 percent in FY 2010-11 to 5.52 and -4.03 percent in FY 2011-12 and FY 2012-13 respectively. Import rebounded in FY 2013-14, and registered 19.39 percent growth.

The inflow of remittances also maintained steady growth of 10.24 percent and 12.60 percent during FY 2011-12 and FY 2012-13 respectively. However, remittances inflow contracted 1.6 percent in FY 2013-14. Despite the drop in remittances inflow, the current account balance maintained surplus (US$1,346 million). As on 30 June 2014, foreign exchange reserve stood at

US$21508 million, which is sufficient for about 6 months of import coverage. Exchange rate remained broadly stable during FY 2013-14.

Economic Growth

According to the new base year data released by BBS, GDP growth is provisionally estimated at 6.12 percent in FY 2013-14, slightly up from 6.01percent in FY 2012-13. The growth is driven by higher growth in agriculture and service sectors coupled with moderate growth in industry sector. Broad agriculture sectorgrew by 3.35 percent in FY 2013-14, up by 0.89 percentage point from the previous fiscal year. Within the broad agriculture sector, all sectors and sub-sectors performed well.Favoruable weather conditions and continued government support helped agriculture sector to grow. At constant prices, the contribution of broad agriculture sector is 16.33 percent of GDP in FY 2013-14.

However, the growth in industry sector moderated to 8.39 percent, from 9.64 percent in FY 2012-13.Manufacturing sector which accounts for 64.22 percent of industry sector and 19.45 percent of GDP, showed moderate growth compared to the growth rate of pervious year.The growth in large and medium-scale manufacturing sector decelerated to 9.16 percent from 10.65 percent in FY 2012-13. Likewise, the growth rate of small-scale manufacturing decelerated to 6.60 percent from 8.81 percent in FY 2012-13. However, construction sector growth increased by 0.52 percentage point to 8.56 percent in FY 2013-14.

Overall service sectorgrowth has been estimated at 5.83 percent, up by 0.32 percentage point from FY 2012-13. Among the broad service sector, all the sectors and sub-sectors performed well compared with previous fiscal year. The service sector share in GDP stood at 54.05 percent in FY2013-14.

The per capita national income exceeded US$ 1,000 mark in FY 2012-13. According to the provisional estimates of BBS, per capita national income reached US$ 1,190 in FY 2013-14, which is US$ 136 higher than the previous year. Likewise, per capita GDP crossed the US$ 1,000 mark in FY 2013-14, and stood at US$ 1,054, which was US$ 955 a year earlier.

Savings and Investment

During FY 2013-14, domestic savings reached to 23.43 percent of GDP (provisional), up by 1.39 percentage point from previous year. During the same period, national savings stood at 30.54 percent of GDP, almost similar to previous fiscal year.Investment in FY 2013-14,reached to 28.69 percent of GDP, up by 0.3 percentage pointin FY 2012-13. The public investment increased from 6.64 percent of GDP in FY 2012-13 to 7.30 percent of GDP in FY2013-14. On the other hand, private investment decreased from 21.75 percent of GDP to 21.39 percent of GDP due to domestic unrest and weak imports during the first half of the fiscal year. It is expected that, continued programme interventions by the Government in infrastructure sector including power, would helpcreate investment friendly environment and keep investment growing.

Inflation

Year-on-year inflation increased to 7.35 percent in FY 2013-14 relative to 6.78 percent in FY 2012-13. The upward pressure in inflation is largely driven by food-inflation, due to supply disruptions during the first half of the fiscal year. Food inflation rose in FY 2013-14 to 8.56 percent from 5.22 percent in FY 2012-13, while non-food inflation declined from 9.17 percent to 5.55 percent during the same period. Although, the average inflation rose in FY 2013-14, but it gradually came down. On point-to-point basis, inflation in June 2014 slid down to 6.97 percent from 8.06 percent in June 2013. During the same month, food inflation declined from 8.26 percent to 8.00 percent, while non-food inflation declined from 7.76 percent to 5.45 percent. This is due to decline of crude oil prices and consumer goods particularly the prices of rice in international markets, satisfactory food production in domestic level, stable exchange rate and slowdown in credit.

Timely disbursement of agricultural credit with concessional interest rate and simplification of disbursement procedures, improved seed quality, crops diversification and implementation of agricultural and rural credit policy contributed towards successive increase in domestic crop production. At the same time open market sale (OMS) of essential commodities, maintenance of adequate stock of food to ensure food security and effective market monitoring also helped tame food inflation. Besides, monetary policy instruments have also been used to reduce the inflationary pressure arising from excess money supply.

Fiscal Sector

Revenue Mobilisation

The revenue mobilisationperformance was stable in FY 2013-14 with a moderate rise in revenues receipts.According to provisional estimates of Integrated Budget and Accounting System (iBAS), total revenue receipt in FY2013-14increased by 10.52 percent over the previous year outturn. Total revenue receipts as percent to GDP reached 10.48 percent (GDPbase year: 2005-06), slightly down (0.2 percentage point) compared to the preceding year's revenue earnings.

Tax revenues from NBR sources increased by 8.35 percent to Tk.1,11,961crore in FY2013-14 from Tk.1,03,332 crore in FY2012-13. Among the NBR sources of revenue, customs duties increased by 3.92 percent, VAT and supplementary duties by 7.36 percentand taxes on income and profit by 11.52 percent. Tax revenues from Non-NBR sources increased by 11.87 percent amounting to Tk.4,610 crore in FY2013-14 compared to 13.43 percent growth in FY2012-13. Non-tax revenues increased by 21.08 percent to Tk. 25,033crore from Tk.20,676crore in FY2012-13.

Government Expenditure

In FY 2013-14, the total expenditure rose by 11.44 percent over the previous year outturn. As percent of GDP, Government expenditure reached 14.35 percent, slightly down (0.16 percentage point) compared to the preceding year's expenditure. According to provisional estimate of iBAS, the total expenditure under non-development budget increased by 11.65 percent to Tk.1,10,948crore in FY2013-14 from Tk.99,375 crore in FY2012-13. Moreover, Annual Development Programme (ADP) expenditure increased by 11.10 percent to Tk.54,968crore in FY 2013-14, from Tk. 49,474 in FY2012-13.

Budget Balance and Financing

As per provisional estimate, the budget deficit stood at 3.87 percent of GDP (excluding grants) in FY2013-14, of which 3.17 percent was financed from domestic sources and the remaining 0.70 percent from external sources.

Monetary and Financial Sector

Monetary Policy and Monetary Management

The monetary policy statement (MPS) for the first half of FY 2013-14 was based on certain policy directions to bring average inflation down to 7 percent (using the 1995-96 base), while ensuring sufficient credit growthto stimulate the economy. The MPS aimed to contain reserve money growth to 15.5 percent, broad money growth to 17.2 percent and private sector credit growth 15.5 percent as programme targets by December 2013. The reserve money growth (13.30%) remained within the target, despite a surge in Net Foreign Assets (NFA) arising from robust exports and sluggish imports growth. Broad money growth of 15.56 percent in December 2013 was close to the programme target. However, private sector credit growth (10.50%) did not use up all the space provided in the monetary programme.

In MPS for the second half of FY 2013-14, Bangladesh Bank kept the policy rates unchanged due to the risks of inflationary pressure. The MPS also aimed to contain reserve money growth to 16.2 percent, broad money growth to 17.0 percent and the private sector credit growth to 16.5 percent. However, the increased liquidity in the banking system due to significant surge in Net Foreign Assets needed to be sterilisedthrough reverse repo operation.

In this backdrop, it was decided that banks should maintain CRR (Cash Reserve Requirement) separately from SLR (Statutory Liquidity Ratio) from February 01, 2014 in line with the Bank Companies (Amended) Act, 2013 with a view to implementing the monetary policy effectively. The required SLR is 13.00 percent daily for conventional banks and 5.50 percent daily for Islamic Shariah-based banks of their total demand and time liabilities. Hence, in light of persisting inflationary pressures, Bangladesh Bank raised the CRR by 50 basis points to 6.50 percent from June 24, 2014.

Money and Credit Situation

During FY 2013-14, theyear-on-year growth of narrow money (M1)increased by 14.60 percent up from the growth of 12.65 percent in FY 2012-13. The higher growth of M1 was mainly due tosignificant increase in demand deposit growth (from 9.29 percent at end June'13 to 15.50

percent at end June’14), despite a slight decrease of currency notes and coins (from 13.85 percent to 15.64 percent) with the public.

Similarly, M2 increased by 16.09 percent, slightly lower than 16.71 percent growth a year earlier. During this period, time deposit increased by 16.48 percent compare to 17.80 percent mainly attributed to decrease in broad money growth.On the other hand, in FY 2013-14, reserve money increased by 15.46 percent at the end of June 2014, as compared to 15.02 percent growth in the previous year. The growth of reserve money was mainly attributable to the increase in Net Foreign Assets (NFA) of Bangladesh Bank by 42.86 percent. However, Net Domestic Assets (NDA) of Bangladesh Bank decreased by 290.64 percent during this period.

Year-on-year growth in domestic credit was 11.57 percent during FY 2013-14, slightly higher than 11.02 percent during FY 2012-13. Sector-wise analysis of domestic credit indicates that the net credit to the Government sector increased by 6.72 percent at the end of June 2014 as compared to the growth of 20.05 percent during the previous year. Private sector credit growth was 12.27 percent in FY 2013-14, slightly higher than year-on-year growth of 10.85 percent in FY 2012-13.

Interest Rate

With a view to creating competitive environment for the banks, Bangladesh Bank has attempted to rationalise the interest rates. In order to ensure transparency, banks have been asked to inform Bangladesh Bank immediately in case of changing lending and deposit rates which they can change only once in a month. They have also been asked to upload deposit and lending interest rates on their respective websites. Moreover, guidelines have been issued to all banks to follow the housing finance credit-margin ratio 70:30 and rest of the loans (including motor-car loan) credit-margin ratio 30:70 under the consumer financing schemes.

The weighted average rate of interest on commercial lending decreased to 13.10 percent at the end of June 2014, from 13.67 percent at the end of June 2013. Similarly, the weighted average deposit rate decreased to 7.79 percent from 8.54 percent over the same period. Thus, the interest rate spread stood at 5.31 percent at the end of June 2014, slightly widening the spread of 5.13 percent a year earlier.

Capital Market

The capital markets remained relatively stable during FY 2013-14. Reforms undertaken by the Government and Securities and Exchange Commission (SEC) to improve the market discipline and strengthen the market monitoring have helped stabilise the capital market. The number of listed securities of DSE (Dhaka Stock Exchange) increased from525 at the end of FY 2012-13 to 536 at the end of FY 2013-14. The issued capital increased by 4.93 percentfrom Tk. 98,358.97crore to Tk.1,03,207.60croreduring the same period. The market capitalisation of all shares of the listed securities at the end of FY 2013-14 stood at 21.79 percent of GDP, up by 0.68 percentage point at the end of FY 2012-13. The DSE Broad Index (DSEX) increased by 9.16 percent at the end of FY 2013-14.

On the other hand, the number of listed securities of CSE (Chittagong Stock Exchange) increased from 266 in FY 2012-13 to 276 in FY 2013-14. The issued capital increased by9.84 percentfrom Tk. 47,072.19 coreto Tk. 42,856.43 during the same period. Market capitalisation of CSE at the end of FY2013-14 stood at 16.93 percent of GDP, up by 0.91 percentage point of GDP in FY 2012-13. The general index increased by 8.07 percent in FY 2013-14 compared to the index at the end of previous fiscal year.

External Sector

Export

Despite the downturn in the global economy and the pace of slow and uneven recovery that has caused reduction in global domestic demand, Bangladesh's export earnings are still maintaining positive growth momentum. The exports registered a growth of 11.69 percent in FY 2013-14 amounting to US$30,186.62 million. Export of woven garments and knitwear products increased by 12.70 percent and 15.02 percent respectively in FY 2013-14 compared to the same period of previous year. Among the other major export items, earnings from frozen food (16.09%), leather (26.47%) and agricultural products (14.81%) contributed tothe overall export growth, although export earnings declined for jute and jute goods (22.00%), petroleum products (48.59%) and light engineering products (0.23%).

Import

Import payments remained strong in FY 2013-14, increased by 19.39 percent compared to the preceding year. The total import payments (c&f) stood at US$40,692.70 million during FY 2013-14, up from US$34,083.60 million of the preceding year. The rise in imports of primary commodities(31.26%), industrial goods (11.09%), capital machinery (24.69%) and crude petroleum and petroleum products (5.38%) contributed significantly to the overall increase of imports.

Remittance

Although inflows of remittance declined by 8.50 percent in the first half of FY 2013-14, it rose by 5.61 percent in the second half amounting to US$14227.84 million, 1.61 percent lower than a year earlier. The drop of overseas employment, especially in middle-eastern countries, was the main reason for lower remittance inflows. In FY 2013-14, 408,870 workers went abroad for jobs, down from 441,301 in the previous year. In FY 2013-14, remittance inflows from Saudi Arabia decreased by 18.56 percent, UAE by 5.11 percent, Kuwait by 6.74 percent, UK by 9.11 percent, Qatar by 10.25 percent and Singapore by 13.97 percent. On the other hand, remittance inflows from USA increased by 24.92 percent, Oman by 14.92 percent, Bahrain by 27.01 percent and Malaysia by 6.75 percent.

The Government has undertaken a number of initiatives to improve remittance inflows. Steps have been taken to impart training on various trades to create skilled labour force to meet the demand of overseas labour markets. In addition, steps have been taken to make National Skill

Development Council more dynamic by providing financial incentives for exporting manpower, strengthening the activities of 'Expatriate Welfare Bank', the collection and distribution network of remittances through banks etc.

Balance of Payments

The Balance of Payments (BoP) accounts reveal that trade deficit narrowed down marginally from US$7,009 million in FY2012-13 to US$6,806 million in FY 2013-14. Despite lower trade deficit compared to a year earlier, the declined remittances and higher services deficit lowered the current account surplus from US$2,388 million in FY 2012-13 to US$1,346 million in FY 2013-14. The capital and financial accounts recorded a surplus of US$3,719 million, from US$3,399 million over the same period. Despite the lower current accountsurpluses, the overall balance increased to US$5,483 million from US$5,128 million a year earlier. Higher net medium and long term credits, large deficit in net trade credit lead the increase of overall balance of the Balance of Payments.

Foreign Exchange Reserve

Foreign exchange reserves continued to grow as import slowed down, amidst decline in remittance inflows. It exceeded the US$ 15 billion mark in June 2013 and US$20 billion mark in April 2014. On 30 June 2014, foreign exchange reserves stood at US$21.51 billion, providing about six months of import coverage.

Exchange Rate

Exchange rate of Taka against US dollar remained almost stable during FY 2013-14, due to central bank active exchange rate management. The weighted average exchange rate stood at Taka 77.72 per US Dollar in FY2013-14 while it was Taka 79.93 per US$ in FY2012-13 showing appreciation of about 2.76 percent. Despite slight fall in inward remittances and growth of import payments, Taka remained stable due to positive growth in export earnings. In FY2013-14, Bangladesh Bank bought US$ 5,150 million from the scheduled banks to ensure stability in exchange rate keeping in mind the interest of exporters and wage earners. Apart from these, other monetary policy instruments i.e. repo, reverse repo etc. have been used to keep the exchange rate stable.

Reform Initiatives in Macroeconomic Management

A number of reform initiatives were undertaken to ensure a stable macroeconomic situation in the country during FY 2013-14. Some of these are as follows:

Revenue Mobilisation

- A draft of modern direct tax law has been prepared. As part of ongoing revenue reform initiatives, the work is in progress to convert the traditional zonal tax administration structure into functional tax administration structure;
- E-payment system for simplification of tax payment has begun on a limited scale;

- Work on modernisation of tax code is in progress;
- All customs houses have already been brought under automation scheme and activities are underway to bring all customs stations under an online system by using ASYCUDA++ software. Dhaka customs house has already been automated;
- Steps have been taken to automate bond management by using ASYCUDA world software;
- Steps have been taken to rationalise the rates of non-tax revenue to make them consistent withcurrent market prices.

Budget Management

- The Ministry Budget Framework (MBF) has been revised and upgraded and Budget wings/cells in all ministries/divisions have been created;
- Guidelines and forms for analysis of baseline estimates have been developed. Besides, guidelines and forms for Budget Implementation Plan (BIP) have been issued and line Ministries have already submitted their BIP to the Finance Division following the guideline;
- The Medium Term Strategy and Business Plan (MTSBP) has been prepared on a pilot basis for the Ministry of Agriculture. Two more ministries, namely, Local Government Division and Power Division have been selected for preparation of MTSBP;
- Budget Classification Framework consistent with the international standard and best practices has been developed;
- Debt, treasury and cash management has been improved. Bank reconciliation information is now available with the standard iBAS module;

Annual Development Programme (ADP) Implementation

- For proper and expeditious implementation of Annual Development Programmes (ADP), the progress status of 10 major ministries/divisions is reviewed since 2009-10. Besides, overall ADP implementation status is reviewed annually in NEC meeting. Further, the progress report of projects is placed by IMED before the Committee on Government Assurance as required;
- A project titled "Digital ECNEC Project" has been undertaken which will help ease procedural complications in project approval process;
- With a view to institutionalisingon-line government procurements, National Electronic Government Procurement (e-GP) system has been introduced in line with The Public Procurement ACT 2006 and The Public Procurement Rules 2008 under the Public Procurement Reform Project-2 of IMED.

Money, Banking and Financial Sector

- Guidelines on Prevention of Money Laundering and Combating Financing of Terrorism for Designated Non-Financial Businesses and Professions', 'Guidelines on Prevention of Money Laundering and Terrorist Financing for NPO/NGO Sector', and 'Instructions to be followed for compliance of Freezing Accounts of listed Individuals or Institutions and Other Issues under the Sanction List of Different Resolutions of United Nations Security Council' have been promulgated in line with *Money Laundering Prevention Act, 2012* and *Anti-Terrorism (Amendment) Act, 2013*.
- All the reporting agencies have started to submit online reporting of Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) through goAML software procured from United Nations Office on Drugs and Crime (UNODC).
- The Enterprise Resources Planning (ERP) has been implemented with a view to executing integrated accounting and managing financial assets, human resources and other physical assets automatically and accurately.
- Bangladesh Automated Clearing House and Bangladesh Electronic Fund Transfer Network (BEFTN) has brought all banking functionalities including most of the financial transaction of the Government, e.g. government debt management, reserve management, sale/purchase of Government savings instruments and treasury bills/bonds. As a result, all the accounts of the Government are balancedautomatically everyday immediately after the transaction hour.
- A central data repository named Enterprise Data Warehouse (EDW) has been established in Bangladesh Bank containing the required banking and financial data which in turn is providing real-time decision support in key areas of financial sector.
- National Payment Switch of Bangladesh (NPSB) has been established in line with the National Policy on Information and Communication Technology 2009, with a view to facilitating easy and faster payment system.
- With a view to identify the ensuing risks in the financial system and to adopt a global standard advanced risk justification framework, the Financial Projection Model (FPM) has been made compulsory for banks.
- Inter-bank transactions are being analysed and reviewed regularly through the *Interbank Transaction Matrix,* which is prepared for identifying the inter-relations among banks and financial institutions in case of liquidity management and high risks borne due to such relations.
- In order to reduce unwanted credit growth during the period of economic growth acceleration and introduction of effective measures to resist *Pro-cyclicality* in the financial system by utilizing *Counter Cyclical Capital Buffer* credit flow during the economic slump is on the process.
- In order to conduct rating of SME customers, SME Rating Methodology has been issued by modifying the SME Rating related parts following the amended 'Guidelines on Risk

Based Capital Adequacy (RBCA)'. A grade mapping has been done between Bangladesh Bank rating grade and rating Notch of credit rating companies accredited by Bangladesh Bank in accordance with the guidelines.

- Reviewing the risk managements of banks, risk-based inspections are tripping in light of the guidelines issued by Bangladesh Bank in several risk fronts (Asset-Liability Management, Credit Risk Management, Internal Control & Compliance, Information Communication Technology, Small Enterprise Financing and Consumer Financing).

Capital Market

- *'The Exchanges (Demutualisation) Act, 2013* has been enacted.Demutualisation process in Dhaka and Chittagong Stock Exchanges to separate the ownership from management of the stock exchanges has already been done.
- *'Securities and Exchange Commission (Private Placement of Debt Securities) Rules, 2012'* has beenpromulgated to develop the Bond Market.
- *'Securities and Exchange Commission (Mutual Fund) Rules, 2001'*has been amended to strengthen mutual fund sector and attract the investors.
- International standard *surveillance software* has been installed at Bangladesh Securities and Exchange Commission (BSEC) to prevent manipulations and irregularities in the stock markets with a view to strengthening market monitoring and supervision.
- BSEC issued notification on mandatory compliance of CorporateGovernance Guidelines, promulgated *Bangladesh Securities and Exchange Commission (Research Analysis) Rules, 2013*, issued notification on asset valuation guidelines for companies willing to apply for IPO, issued order on conversion of close end mutual fund to open end mutual fund.
- BSEC has introduced 10-year master plan to develop the capital market and protect investor's interest.

Medium Term Prospect of Bangladesh Economy

The Medium-Term Macroeconomic Framework (MTMF), FY 2014-15 to FY2016-17 envisaged the macroeconomic and fiscal indicators for the budget year and projection of two outer fiscal years. Based on the prospects and potential risks in the context of global and domestic economic perspectives, MTMF set the GDP growth target at 7.3 percent for FY2014-15, which will gradually increase to 7.6 percent in FY 2015-16 and 8.0 percent in FY 2016-17.

In order to achieve this growth targets, the Government has been implementing a wide range of reformprogrammeswith a view to reducing infrastructure deficits and accelerating private sector investment. Besides, the policy schemes that will receive much attention over the medium term encompass enhancing productivity in agriculture and industry, robust growth in remittance, expansion of domestic demand etc. Among the priority schemes of Government, agriculture sector has been given more emphasis and this has resulted in a consistent and positive growth in agriculture sector over the last couple of years. For sustainable growth in agriculture sector, Government support will continue in terms of subsidy, flow of agricultural credit, innovation of new variety of salinity tolerant seed and increasing assistance to agro-based industries. The improvement in the external demand and enhanced domestic demand for manufactured goods is expected to underpin sustained expansion of domestic manufacturing base. Adequate investments in physical and social infrastructure: education, health, skill development and digitalization will be critical to underpin higher growth in manufacturing and service sector.

In the MTMF for FY 2014-15, the revenue target is estimated at 13.7 percent of GDP (Base year 1995-96) which will go up to14.6 percent in FY 2016-17. All legal, procedural, structural and administrative reforms have already been taken up for scaling up revenue earnings which will be continued over the next years. Besides, alternative dispute resolution andalignment of existing rates for non-tax revenue with current market prices will continue. Besides, new Value Added Tax (VAT) law, which will be effective from July 1, 2015, is expected to augment revenue mobilisation. The estimated Government expenditure will reach 16.0 percent of GDP in FY 2014-15which is expected to be 19.6 percent in FY2016-17. Expenditure on Annual Development Programme (ADP) is planned to increase 6.0 percent of GDP in FY 2014-15and expected to reach 6.6 percent of GDP in FY 2016-17. Therefore, overall budget deficit will stay within 5 percent of GDP during the period. 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.

Government has been pursuing a monetary policy stance to maintain macroeconomic stability and to keep inflation in check. The inflation stood at 7.03 percent in FY 2013-14, which was 7.7 percent in FY 2012-13.While setting MTMF targets, it was expected that inflation will be sliding down to around 6.5 percent in FY 2014-15. Emphasis has also been given on ensuring credit flow to productive and priority sectors including agriculture and SME sectors. Moreover, in order to contain inflation, the Government keeps on taking initiatives such as increasing food production, ensuring uninterrupted food supply and food security.

The remittances from expatriate Bangladeshi workers grew by 10 percent in FY 2014-15 which has been estimated to be 12 percent for next two fiscal 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) will decrease but expected to remain within positive territory. Pressures on exchange rate and foreign exchange reserve would be offset by pursuing effective fiscal and monetary policy stances.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 1.1 highlights the projection of key macroeconomic indicators during FY 2014-15 to FY 2016-17.

Table 1.1: Medium Term Macroeconomic Framework, FY 2014-15 to FY 2016-17: Key Indicators

Indicators	2011-12	2012-13	2013-14	2013-14	2014-15	2015-16	2016-17
	Actual	**Actual**	**Budget**	**Revised**	**Budget**	**Projection**	**Projection**
Real Sector (% change)							
Real GDP	6.2	6.0	7.2	6.5	7.3	7.6	8.0
CPI Inflation	10.6	7.7	7.0	7.0	6.0	5.8	5.7
Fiscal Sector (% of GDP)							
Revenue	**12.4**	**12.4**	**14.1**	**13.3**	**13.7**	**14.2**	**14.6**
NBR-Tax Revenue	10.0	10.0	11.4	10.6	11.2	11.6	12.0
Non-NBR Tax Revenue	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Non-Tax Revenue	2.0	2.1	2.2	2.2	2.1	2.2	2.2
Public Expenditure	**16.3**	**16.8**	**18.7**	**18.3**	**18.7**	**19.2**	**19.6**
Of which, ADP	4.0	4.7	5.5	5.1	6.0	6.3	6.6
Overall Balance	**-3.9**	**-4.4**	**-4.6**	**-5.0**	**-5.0**	**-5.0**	**-5.0**
Domestic Financing	3.3	3.1	2.9	3.5	3.2	3.2	3.2
External Financing (net)	0.6	1.2	1.8	1.6	1.8	1.8	1.8
Money and Credit (Year-on-year % change)							
Domestic Credit	18.8	11.0	17.9	18.5	17.5	17.1	16.8
Credit to the Private sector	19.7	10.8	16.0	16.5	16.0	16.0	16.0
Broad Money	17.4	16.7	16.0	17.0	16.0	16.0	16.0
External Sector							
Export, f.o.b (% Change)	6.2	10.7	15.0	15.0	15.0	14.5	14.5
Import, f.o.b (% Change)	2.4	0.8	10.0	8.0	15.0	14.5	13.0
Remittance(% Change)	11.6	12.6	15.0	1.0	10.0	12.0	12.0
Current Account Balance (% GDP)	-0.4	1.9	2.5	1.3	0.5	0.0	0.1
Foreign Exchange Reserve (Billion US$)	10.4	15.3	16.4	16.9	17.9	18.3	19.5
Memorandum Item							
GDP at current market prices (Billion Tk.)	9,181	10,380	11,888	11,810	13,395	15,194	17,268

Source: Finance Division