

## EXECUTIVE SUMMARY

### Global Economy

The global economic recovery has weakened further amidst increasing financial turbulence. Major macroeconomic realignments are affecting prospects differentially across countries and regions. These include the slowdown and rebalancing in China; a further decline in commodity prices including oil; a related slowdown in the investment and trade; and declining capital flows to emerging markets and developing economies. The outcome of *Brexit* is still unfolding. A list of noneconomic factors together with geopolitical tensions are generating substantial uncertainty in global growth. IMF in its World Economic Outlook (WEO), October 2016, projected the global growth at 3.1 percent for 2016, 0.1 percentage point lower than projection of the April 2016 WEO. Global economy is projected to gather some pace in 2017 and expected to grow at 3.4 percent.

### Macroeconomic Scenario of Bangladesh

The Bangladesh economy has emerged as one of the resilient developing economies in the world. The economy grew at an average rate of 6.20 percent over the last decade (FY2005-06 to FY2014-15). According to the final estimate of BBS, the economy grew by 7.11 percent, a 0.56 percentage point pick up from 6.55 percent of previous fiscal year. The per capita national income reached US\$1,465 in FY2015-16, up by US\$149, from US\$1,316 of previous year. Likewise, per capita GDP reached US\$1,385 in FY2015-16, from US\$ 1,236 a year earlier.

Year-on-year inflation decreased to 5.92 percent in FY2015-16 compared to 6.41 percent in FY2014-15. The downward trend is largely driven by food-inflation, which declined to 4.90 percent in FY2015-16 from 6.68 percent in FY2014-15. Non-food inflation rose from 5.99 percent to 7.43 percent during the same period.

The revenue mobilisation performance was broadly stable in FY2015-16 with a significant rise in revenue receipts. According to the preliminary data of Integrated Budget and Accounting System (*iBAS++*), total revenue receipts in FY2015-16 increased by 17.42 percent to Tk.1,71,386 crore (9.89 percent of GDP) over the previous year outturn. The total expenditure rose by 11.54 percent to Tk.2,27,961 crore (13.16 percent of GDP) in FY2015-16 over the previous year outturn (preliminary data of *iBAS++*). The budget deficit stood at 3.26 percent of GDP (excluding grants) during FY2015-16.

The monetary policy statement (MPS) for the first half of FY2015-16 was drawn up in the backdrop of sustained spell of CPI inflation moderation and growth supportive stance of monetary and financial policies pursued in recent years. In the MPS for the second half of FY2015-16, Bangladesh Bank set targets to contain reserve money growth to 14.3 percent, broad money growth to 15.0 percent and private sector credit growth to 14.8 percent. However, at the end of June 2016, reserve money grew unprecedentedly and exceeded the target due to Bangladesh Bank's absorption of excessive flow of foreign currency from the banking system. Likewise, broad money growth exceeded the programme target by 1.35

percentage points. Private sector credit growth exceeding the monetary programme target by 1.98 percentage points, however, displays signs of improved investment climate. Despite subdued trends exhibited in major stocks indicators during FY2015-16, the capital markets did not experience sharp fall in stock prices.

Exports recorded a growth of 9.77 percent in FY2015-16, significantly up from 3.39 percent growth in the previous fiscal year. Export earnings during the period exceeded the annual target (US\$33,500 million) by 2.26 percent to US\$34,257 million. Export of woven garments and knitwear products increased by 12.81 percent and 7.47 percent respectively in FY2015-16 compared to the previous year. Import growth accelerated at 5.45 percent in FY2015-16, from 0.07 percent growth compared to the preceding year. The total import (c&f) stood provisionally at US\$42,290.80 million during FY2015-16, up from US\$40,703.70 million (based on custom records) of the preceding year.

The remittance inflows declined by 2.52 percent in FY2015-16, amounting to US\$14,931.14 million against 7.65 percent growth a year earlier. The slowdown in investment and construction work in the Middle East countries due to low oil prices is mainly responsible for the deceleration in remittance inflows. However, the overseas employment increased substantially in recent times. In FY2015-16, 6.85 lakh Bangladeshi went abroad for jobs, up by 48.27 percent from the previous year.

The trade deficit narrowed from US\$6,965 million in FY2014-15 to US\$6,274 million in FY2015-16. Despite 2.25 percent decline in inward remittances, lower trade deficit along with lower deficit in service and primary income account, induced surpluses in current account balance which increased from US\$2,875 million in FY2014-15 to US\$3,706 million in FY2015-16. The capital and financial accounts recorded a surplus of US\$2,088 million against US\$2,421 million over the same period of previous fiscal year. Foreign exchange reserves continued to grow and exceeded the US\$30 billion mark in June 2016. The weighted average interbank exchange rate stood at Taka 78.26 per US dollar in FY2015-16 while it was Taka 77.67 per US\$ in FY2014-15 showing depreciation of about 0.67 percent.

The Medium-Term Macroeconomic Framework (MTMF) FY2016-17 to FY2018-19, adopted by the Finance Division includes forecast on macroeconomic and fiscal indicators for the current year and two outer fiscal years. Building on the prospects and potential risks in the context of global and domestic economic perspectives, MTMF sets the GDP growth target at 7.2 percent for FY2016-17, with gradual increase to 7.4 percent in FY2017-18 and 7.6 percent in FY2018-19.

## **Agriculture**

Over the last few years, food production has been consistently on the rise. According to the Bangladesh Bureau of Statistics (BBS), food grains production stood at around 386.93 lakh MT in FY2015-16,. During the period, total internal procurement of food grains was 12.30 lakh MT. Besides, total import of food grains through public and private sectors was 46.23 lakh MT (rice 2.57 lakh MT and wheat 43.66 lakh MT).

Different programmes have been launched to popularise the use of organic and balanced fertiliser in order to maintain soil fertility and productivity. Considering the importance of

increasing agricultural productivity, an amount of Tk.7,000.00 crore was allocated in the revised budget of FY2015-16 to provide subsidy on fertiliser and other agricultural inputs. In addition, an amount of Tk.16,400.00 crore was targeted to be disbursed as agricultural credit against which Tk.17,646.46 crore was disbursed till June 2016, which was 107.60 percent of the target.

In FY 2015-16, fishing sector contributed 3.65 percent to the GDP and 23.81 percent to the country's total agricultural products. The total fish production in FY2014-15 was 37.03 lakh MT, which increased to 38.55 lakh MT in FY2015-16. It is mentionable that, Bangladesh has been ranked 4<sup>th</sup> in inland capture fisheries and 5<sup>th</sup> in aquaculture production in the world.

## **Industry**

The Government has undertaken initiatives to accelerate environment-friendly sustainable industrial growth in the country. In order to accelerate the pace of industrialisation, formulation of National Industrial Policy 2016 is under process. Some of the underlying objectives of the proposed Industrial Policy 2016 include sustainable and inclusive industrial growth through generation of productive employment to create new entrepreneurs, mainstreaming women in the industrialisation process and creation of international market linkage.

The Government is continuing its efforts to achieve this goal by providing loans and other ancillary supports through banks and other financial institutions. The Export Processing Zones (EPZs) are playing special role in the process of promoting rapid industrialisation and attracting Foreign Direct Investment (FDI). Both investment and exports in the EPZs are increasing gradually. However, in the FY2015-16, the total amount of investment in EPZs stood at US\$404.36 million, which is 0.49 percent lower than the investment made in the previous fiscal year.

## **State-owned Enterprises**

During FY2014-15, the total operating revenue of all existing SOEs was Tk.1,40,059.76 crore which increased by 2.78 percent from Tk.1,36,282.60 in FY2013-14. The value addition of these SOEs stood at Tk.13,046.00 crore during FY2014-15, which was Tk.11,344.00 crore in the previous fiscal year. The net profit of SOEs stood at Tk.4,283.63 crore in FY2014-15. According to revised estimate, net profit stood at Tk.11,716.05 crore in FY2015-16.

Moreover, the SOEs contributed Tk.1,240.00 crore to the public exchequer in FY2013-14. According to revised estimation, the contribution of SOEs to the public exchequer was Tk.6,359.29 crore in FY2015-16. Moreover in FY2014-15, the Government provided grant/subsidy amounting to Tk.1,328.78 crore to 11 public entities which stood at Tk.1,824.53 crore as per revised estimate in FY2015-16. In FY2013-14, the total Debt Service Liabilities (DSL) against 112 SOEs stood at Tk.29,110.00 crore.

## **Power and Energy**

Currently, 76 percent of the total population of the country has access to electricity (including renewable energy). The total installed generation capacity stood at 14,565 MW in

FY2015-16. The highest generation was 9,036 MW in FY2015-16. Furthermore, 45,850 million kilowatt-hours of electricity was produced in FY2014-15, which stood at 52,193 million kilowatt-hours in FY2015-16. In addition, system loss of transmission and distribution of electricity stood at 13.54 percent and 13.10 percent respectively in FY2014-15 and FY2015-16 against 27.97 percent of FY2001-02.

On the other hand, natural gas met almost 72 percent of the country's total commercial use of energy. A total of 26 gas fields have been discovered till now and the cumulative actual gas production is about 13.90 trillion cubic feet and recoverable net reserves are 13.22 trillion cubic feet. In addition, the country has about 10.91 million metric tonnes reserve of fuel oil.

According to Power System Master Plan, the government has set a target to increase installed electricity generation capacity to 24,000 MW by 2021 and 40,000 MW by 2031. It is expected that, after successful completion of the ongoing projects, daily gas production capacity will stand at 4,800 million cubic feet.

### **Transport and Communication**

The Government has been implementing different projects with a view to building a well-knit and dependable transport and communication system in the country. The construction of two mega projects: *Metro Rail Project* and *Padma Bridge Project* are being implemented. The 20.1 kilometre MRT Line-6 (*Metro Rail*) would significantly reduce traffic jam in the mega city, Dhaka. The construction of 6.15 kilometre long *Padma Bridge*, along with railway provision, is going on merely by the Bangladesh government's money. It is expected that the bridge will be functional by 2018. Moreover, feasibility study and preliminary design works of 22.4 kilometer Bus Rapid Transit (BRT) Line-3, a bus based mass transit implementation programme, have been completed.

Since 2009 Bangladesh Railway has newly constructed 232 km rail line, 67 station buildings, 179 bridges and converted 248 km railway track into Dual gauge track. Besides, 1,052 km railway track, 597 bridges, 160 station buildings, 288 passenger coaches, 277 wagons have been rehabilitated. To address the shortage of rolling stocks 20 MG locomotives, 26 BG locomotives, 119 passenger carriages and 20 sets DEMU, 165 BG and 81 MG tank wagons, 270 flat wagons and 30 brake vans have been procured.

In addition, to ensure efficient environment-friendly and secure use of waterways, the Ministry of Shipping has taken up various initiatives for development of internal water transport infrastructure including its maintenance, operation and control. Moreover, several measures have already been undertaken for capital dredging of dying river ways, development and maintenance of navigability of different river routes and ensuring safe movement of water crafts. Furthermore, initiatives for developing inland river ports, making circular waterways around Dhaka city operational, creating infrastructure facilities to carry container goods in inland waterways and preparing hydrographic charts using digital system are being implemented by the government.

A wide range of initiatives have been undertaken for the modernisation of telecommunication system as well as development and expansion of this sector. The number of mobile subscribers have increased beyond prediction totalling more than 13 crore in June

2016. *Kaliakoir* Hi-tech Park to be set up on 232 acres of land at *Kaliakoir upazila* in *Gazipur* district under ICT division is now under construction. Some 70,000 jobs will be created once the park is established.

### **Human Resource Development**

The Government has included Human Resource Development (HRD) as one of the main goals of its development agenda. In order to achieve this goal, the Government has allocated nearly 20 percent of its budget to the HRD related sectors, such as: Education and Technology, Health and Family Welfare, Women and Children, Social Welfare, Youth and Sports development, Culture, Labour and Employment.

Various programmes have been undertaken including the adoption of the *Education Policy, 2010* to create skilled and competent Human Resource by enhancing the quality of education while increasing accessibility to the secondary, higher secondary, technical and tertiary education. As a result of the Government's policy for recruiting 60 percent female teachers in the government primary schools, the number of female teachers increased from 21 percent in 1991 to 66.4 percent in 2016.

Remarkable progress has been achieved in health sector due to priority attached by the Government to the Health, Nutrition and Population Sector concerns flagged under the Millennium Development Goals. As a result, both fertility and mortality rates have come down. Remarkable progress has also been made in reducing child and maternal mortality rates and in increasing average life expectancy. Malnutrition has decreased remarkably. Moreover, Bangladesh's position in the Human development Index (HDI) is gradually improving as a result of implementation of various development programmes.

### **Poverty Alleviation**

The rate and depth of poverty has been significantly decreased during the last few years, by the government's relentless efforts to improve the socio-economic status of the poor. For a densely populated country like Bangladesh tackling poverty with limited resources is a huge challenge. Bangladesh, however has achieved remarkable success in poverty reduction. According to the MDG Bangladesh Progress Report- 2015, incidence of poverty dropped on an average by 1.74 percentage points during the period of 2000-2010, against the MDG target of 1.20 percentage points. In addition, the rate of poverty was reduced to 24.4 percent in 2015; which was 31.5 percent in 2010. According to the BBS, the incidence of poverty has been estimated to fall below 23.2 percent in April-June, 2016.

The government has planned to deliver a sustainable Social Safety Net Programme for the hard core poor. For this reason, a total of Tk.35,975.00 crore was allocated to implement a good number of programmes under Social Safety Net Programme in the FY2015-16. This allocation is equivalent to 13.60 percent of the country's annual budget and 2.08 percent of GDP for FY2015-16. Implementation of all these development activities have enabled Bangladesh to meet one of the indicators of target-1 of MDG-1 by reducing the poverty gap ratio to 6.5 against the target of 8.0 by 2015.

Different banks and NGOs are also implementing development programmes undertaken by the Government with a view to eradicating poverty. Four commercial banks and a specialised

bank disbursed a total amount of Tk.32,822.17 crore as cumulative microcredit up to June, 2016. At the same time, the total recovered amount of these institutes was Tk.34,843.43 crore. In addition, an amount of Tk.1,57,643.41 crore was disbursed as microcredit through different ministries/divisions/agencies during FY2015-16. The credit recovered during the same period was Tk.1,45,845.33 crore. Various ministries/divisions/agencies including the Finance Division are implementing microcredit and other programmes to reduce poverty in the country.

### **Private Sector Development**

Private sector plays an important role in economic development of Bangladesh through direct contribution to consumption, investment and net export income. Investment, especially in the industrial and productive sectors facilitates the country achieve long-term development goals. The Government is implementing investment-friendly policies along with reforming rules and regulations to improve the overall investment scenario to attract local and foreign investors. At present, a number of development and technical projects are being implemented and thereby through private sector. In addition, Government has adopted the strategy of implementing infrastructure development projects on the basis of Public Private Partnership (PPP). In FY2014-15, a total of 1,429 private projects were registered in BOI with recommended amount of Tk.9,93,349 crore. In calendar year 2015, a total amount of US\$ 2,235 million entered the economy as Foreign Direct Investment (FDI) which was US\$ 1,527 million in 2014.

### **Environment and Development**

Bangladesh has made significant progress towards achieving the target of ‘safe drinking water supply and sanitation for all’ as envisaged in the 7<sup>th</sup> goal of the MDGs. With a view to mitigating the risks arising from climate change, *Bangladesh Climate Change Strategy and Action Plan 2009 (BCCSAP, 2009)* has been adopted. To promote implementation of BCCSAP, the Government has constituted the *Bangladesh Climate Change Trust Fund 2009 (BCCFT, 2009)* and enacted *the Climate Change Trust Act 2010*. The Government allocated a total of Tk.3.100 crore for this fund up to the FY2015-16. Moreover, a multi-donor trust fund called ‘*Bangladesh Climate Change Resilience Fund (BCCRF)*’ has been constituted in 2011 in order to facilitate the projects which deal with climate change adaptation. The Finance Division has undertaken a Technical Assistance Project titled Inclusive Budgeting and Financing for Climate Resilience (IBFCR) funded by UNDP at an estimated cost of Tk.185.20 million.

The Ministry of Environment and Forest has undertaken a number of programmes for building mass awareness about protection of the Ozone Layer from depletion, the impending challenges of climate change and the necessity of working together with the government. The Ministry of Disaster Management and Relief is implementing various programmes in order to tackle eventual damages from natural disasters. *The National Work Plan-2020* has been adopted considering the impotence of bio-diversity in maintaining ecological balance.