CHAPTER 1

MACROECONOMIC SITUATION

[The Bangladesh economy has emerged as one of the most sustained growth economy in the world. The economy grew at an average rate of 6.20 percent over the last decade (FY2005-06 to FY2014-15). The GDP growth is estimated at 7.11 percent in FY2015-16, significantly up from 6.55 percent in FY2014-15. The per capita national income reached US$1,465 in FY2015-16, up by US$149 a year earlier. The macroeconomic stability has remained stable with the continuance of fiscal prudence, lower inflation, surplus current account balance and robust foreign exchange reverses. Inflation gradually came down and year-on-year inflation in FY2015-16 slid down to 5.92 percent from 6.41 percent in FY2014-15. Exports recorded a growth rate of 9.77 percent while import grew 5.45 percent in FY2015-16. Despite slightly contraction of remittances inflow, the decrease in the deficit of trade, service and primary income account, the current account balance recorded a surplus of US$3,706 million. Aided by the increase in foreign direct investment and medium and long term loans in capital and financial accounts, the foreign exchange reserve crossed the US$30 billion mark. Exchange rate broadly remained stable during FY2015-16. Moreover, lending interest rate fell, which is expected to encourage investment further in the country.]

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. This uncertainty is expected to take toll on confidence and investment through repercussions on financial conditions and market sentiments.

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. Growth in advanced economies is projected to increase 1.6 percent in 2016, also 0.3 percentage point lower than April 2016 projection. On the other hand, growth in the emerging market and developing economies is projected to increase 4.2 percent in 2016, 0.1 percentage point higher than April, 2016 projection. Global economy is projected to gather some pace in 2017 and expected to grow at 3.4 percent.

In the United States, growth in the first half of the year was weaker than expected, triggering a downward revision of 0.8 percentage points for the 2016. Despite signs of weakening growth, labour market indicators continued to improve. In addition, some indicators point to a pick up in the second half of 2016. In the euro area, growth was higher than expected in the first quarter of 2016, reflecting strong domestic demand and some rebound in investment. However, in light of the potential impact of increased uncertainty of the UK referendum, 2017 growth was revised down by 0.1 percentage points relative to April Outlook, while 2016 growth is still projected to be slightly higher, given the outcome of the first half of the year. In Japan, the first two quarters activities slightly better than expected despite the momentum of domestic demand remains weak and inflation has dropped. However, further appreciation of the yen in recent months is expected to take toll on growth in both 2016 and 2017.

Output growth in the first half of 2016 was somewhat better-than-expected in the emerging market and developing economies. The real economic activities of China were somewhat stronger, reflecting policy support of the government. Benchmark lending rates were cut five times in 2015, fiscal policy turned expansionary in the second half of 2016, infrastructure spending picked up and credit growth accelerated. In India, economic activity remains buoyant, but the growth forecast for 2016-2017 was trimmed slightly, reflecting a more sluggish investment recovery. The economy of Russia shows stability following the rebound in oil prices. Brazil's economy shows some tentative signs of moderation from deep downturn. The downturn in sub-Saharan Africa, reflecting challenging macroeconomic conditions in its largest economies, which are adjusting to lower commodity revenues. In the Middle East, oil exporters are benefiting from the recent modest recovery in oil prices while continuing fiscal consolidation in response to structurally lower oil revenues. Table 1.1 highlights the global output growth as follows:

Table 1.1: Overview of the World Output Growth Projections

(Percent Change)

	Actual	**Projection**		**Difference from April 2016 WEO**	
	2015	**2016**	**2017**	**2016**	**2017**
World Output	**3.2**	**3.1**	**3.4**	**-0.1**	**-0.1**
Advanced Economies	2.1	1.6	1.8	-0.3	-0.2
USA	2.6	1.6	2.2	-0.8	-0.3
Euro Area	2.0	1.7	1.5	0.2	-0.1
Japan	0.5	0.5	0.6	0.0	0.7
Emerging Market and Developing Economics	**4.0**	**4.2**	**4.6**	**0.1**	**0.0**
Emerging and Developing Asia	6.6	6.5	6.3	0.1	0.0
China	6.9	6.6	6.2	0.1	0.0
India	7.6	7.6	7.6	0.1	0.1

Source: World Economic Outlook, October 2016, IMF.

The outcome of the *Brexit* vote surprised global financial markets, implies the materialisation of an important downside risk for the global economy. In its immediate aftermath, equity prices declined worldwide. However, these prices have rebounded, but still unfolding its potential impact. Other risks have become more salient. Many commodity exporters still confront the need for sizeable fiscal adjustment and emerging market economies more broadly need to be alert to financial stability risks. Geopolitical tensions are also taking a heavy toll on the outlook of several economies, especially in the Middle Eastern countries. Other ongoing concerns including climate related factors (e.g., drought in East and Southern Africa, diseases such as *Zika* virus in the Latin America and the Caribbean regions) may affect the global economic prospects.

Macroeconomic Scenario of Bangladesh

Economic Growth

The Bangladesh economy performed well in FY2015-16. The GDP growth picked up around half percentage point to 7.11 percent from 6.55 percent of previous fiscal year. This is the first time that, growth has exceeded 7 percent mark after persistent growth of around 6 percent.

Agriculture growth decelerated to 2.79 percent in FY2015-16 from 3.33 percent in the year before, caused by the decline in crop and horticulture growth from 1.83 percent in FY2014-15 to 0.88 percent in FY2015-16. Within agriculture, animal farming increased slightly to 3.19 percent in FY2015-16, from 3.08 percent in the previous year. Forest and related services grew by 5.12 percent, slightly higher than 5.08 percent in FY2014-15. Fishing sector moderated at 6.11 percent in FY2015-16 from 6.38 percent in FY2014-15. At constant prices, the contribution of broad agriculture sector is estimated at 15.35 percent of GDP in FY2015-16.

The growth in industry sector expended to 11.09 percent in FY2015-16, up by 1.42 percentage points compared with the previous fiscal year. The growth in manufacturing sector, accounts for 66.62 percent of industry sector output and 21.01 percent of GDP, accelerated by 1.38 percentage points to 11.69 in FY2015-16 percent compared with previous fiscal year. The growth in large and medium-scale manufacturing sector accelerated to 12.26 percent from 10.70 percent in FY2014-15. Similarly, the growth rate of small-scale manufacturing sector accelerated to 9.06 percent from 8.54 percent in FY2014-15. Mining and quarrying and electricity, gas and water supply sectors of the broad industry sector performed robust. However, construction sector growth decelerated marginally to 8.54 percent in FY2015-16 compared to the growth rate of previous fiscal year. The contribution of broad industry sector to GDP in FY2015-16 reached at 31.54 percent at constant prices.

Overall service sector growth has been estimated at 6.25 percent, up by 0.45 percentage point from FY2014-15. Among the broad service sector, except financial intermediation sector, all the sectors performed well compared with previous fiscal year. The share of service sector in GDP stood at 53.12 percent in FY2015-16.

According to the final estimates of BBS, per capita national income reached at US$1,465 in FY2015-16, up by US$149, from US$1,316 of previous year. Likewise, per capita GDP reached at US$1,385 in FY 2015-16, from US$ 1,236 a year earlier.

Savings and Investment

During FY2015-16, domestic savings reached 24.98 percent of GDP, significantly up by 2.82 percentage points from previous year. During the same period, national savings stood at 30.77 percent of GDP, also increased considerably by 1.75 percentage points from previous fiscal year. Investment in FY2015-16 reached 29.65 percent of GDP, up by 0.76 percentage point in FY2014-15. The public investment decreased from 6.82 percent of GDP in FY2014-15 to 6.66 percent of GDP in FY2015-16. On the other hand, private investment increased from 22.07 percent of GDP in FY2014-15 to 22.99 percent in FY2015-16.

Inflation

Year-on-year inflation decreased to 5.92 percent in FY2015-16 relative to 6.41 percent in FY2014-15. The downward trend in inflation is largely driven by food-inflation. Food inflation declined in FY2015-16 to 4.90 percent from 6.68 percent in FY2014-15, while non-food inflation rose from 5.99 percent to 7.43 percent during the same period. On point-to-point basis, inflation in June 2016 slid down to 5.53 percent from 6.25 percent in June 2015. During the same month, food inflation declined from 6.32 percent to 4.23 percent, while non-food inflation rose from 6.15 percent to 7.50 percent. Inflation has declined mainly due to reduction of commodity prices, including fuel in the international markets, satisfactory agricultural production in domestic level, normal flow in supply of goods and prudent macroeconomic management. Non-food inflation increased mainly due to increase in domestic demand, as well as increased in the flow of private sector credit.

Fiscal Sector

Revenue Mobilisation

Fiscal policy continued to focus on maintaining macroeconomic stability. 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 receipt in FY2015-16 increased by 17.42 percent to Tk.1,71,386 crore over the previous year outturn. Total revenue receipts as percent to GDP reached 9.89 percent, up by 0.26 percentage point compared to the preceding year's revenue earnings.

According to *iBAS++* preliminary data, the tax revenues from NBR sources increased by 17.94 percent to Tk.1,51,856 crore in FY2015-16 from Tk.1,23,977 crore in FY2014-15. Among the NBR sources of revenue, taxes on income and profit increased by 10.71 percent, import duties by 19.49 percent, Value Added Tax (VAT) by 20.27 percent and supplementary duties by 23.97 percent. Tax revenues from Non-NBR sources increased by 17.07 percent amounting to Tk.5,644 crore in FY2015-16 compared to 11.82 percent growth in FY2014-15. Non-tax revenues increased by 13.71 percent to Tk.19,521 crore from Tk.17,167 crore in FY2014-15.

Government Expenditure

In FY2015-16, the total expenditure rose by 11.54 percent over the previous year outturn (preliminary data of *iBAS++)*. As percent of GDP, Government expenditure reached at 13.16 percent, 0.33 percentage point down compared to the preceding year's expenditure. The total expenditure under non-development budget increased by 11.77 percent to Tk.1,60,951 crore in FY2015-16 from Tk.1,44,003 crore in FY2014-15. Moreover, the Annual Development Programme (ADP) expenditure (excluding self finance project) increased by 10.99 percent to Tk.67,010 crore in FY2015-16, from Tk.60,377 in FY2014-15.

Budget Balance and Financing

As per preliminary data of *iBAS++*, the budget deficit stood at 3.26 percent of GDP (excluding grants) in FY2015-16, of which 2.75 percent was financed from domestic sources and the remaining 0.51 percent from external sources.

Monetary and Financial Sector

Monetary Policy and Monetary Management

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 the recent years. The MPS aimed to contain reserve money growth to 16.5 percent, broad money growth to 15.0 percent and private sector credit growth 14.3 percent as programme targets by December, 2015. The year-on-year reserve money growth (15.1%) in December 2015 remained within the target, despite a surge in net foreign assets (NFA) of Bangladesh Bank (BB), offset by the net domestic assets (NDA) by (-)Tk.19478.40 crore, arising from much lower credit demand of the Government from BB. Similarly, the broad money growth (13.1%) remained far below the target. However, private sector credit growth (14.2%) well used up the space provided in the monetary programme.

In the MPS for the second half of FY2015-16, Bangladesh Bank aimed to contain reserve money growth to 14.3 percent, broad money growth to 15.0 percent and the private sector credit growth to 14.8 percent. However, at the end of June, 2016 reserve money growth was unprecedentedly higher than the target due to Bangladesh Bank's absorption of excessive flow of foreign currency from the banking system. Likewise, the broad money growth exceeded by 1.35 percentage points from the programme targets. However, private sector credit growth exceeded by 1.98 percent points from the monetary programme target entailed improvement of investment climate.

Money and Credit Situation

During FY2015-16, the year-on-year growth of narrow money (M1)increased by 32.10 percent up from the growth of 15.53 percent in FY2014-15. The higher growth of M1 was mainly due to significant increase both in currency notes and coins (from 14.34 percent at the end of June, 2015 to 38.81 percent at the end of June, 2016) with the public and demand deposit growth (from 12.57 percent to 23.99 percent).

Similarly, in FY2015-16, M2 increased by 16.43 percent, significantly higher than 12.42 percent growth a year earlier. During this period, growth of time deposit increased by 12.41 percent compared to increase of 12.13 percent mainly attributable to increase in broad money growth. On the other hand, reserve money increased by 30.12 percent at the end of June, 2016, as compared to 14.33 percent growth in the previous year. The increasing trend in growth of reserve money was mainly attributable to the higher growth in net foreign assets (NFA) of Bangladesh Bank by 23.16 percent. However, net domestic assets (NDA) of Bangladesh Bank plunge significantly at the end of June 2016.

Year-on-year growth in domestic credit was 14.04 percent during FY2015-16, significantly higher than 9.97 percent during FY2014-15. The net credit to the Government sector increased by 3.59 percent at the end of June 2016 as compared to the negative growth of 6.19 percent during the previous year. Private sector credit growth was 16.56 percent in FY2015-16, significantly higher than year-on-year growth of 13.19 percent in FY2014-15.

Interest Rate

The policy interest rate- repo and reverse repo rates have been kept unchanged at 7.25 percent and 5.25 percent respectively since October, 2011. Based on commendable macroeconomic stability and fall in deposit and lending interest rates, Bangladesh Bank has lowered both repo and reverse repo rates by 50 basis points to 6.75 percent and 4.75 percent respectively in January, 2016.

The weighted average interbank call money rate declined to 3.70 percent at the end of June 16, from 5.79 percent corresponding to the same month of previous year indicating required liquidity position in the banking system. The weighted average lending rate of commercial banks decreased to 10.39 percent at the end of June 2016 from 11.67 percent of end June 2015. Similarly, the deposit rate decreased to 5.54 percent from 6.78 percent of the same period of previous year. The interest rate spread also decreased slightly to 4.85 percent at the end of June, 2016 from 4.87 percent of June, 2015.

Capital Market

Despite the subdued trend exhibited in major stocks indicators during FY2015-16, however, both the capital markets did not experience sharp fall in stock prices. The number of listed securities (including mutual funds and debenture) of Dhaka Stock Exchange (DSE) increased from 555 at the end of FY2014-15 to 559 at the end of FY2015-16. The market capitalisation of all shares of the listed securities at the end of FY2015-16 stood at 18.38 percent of GDP, decreased by 3.04 percentage points at the end of FY2014-15. The DSE Broad Index (DSEx) decreased by1.65 percentage points at the end of FY2015-16 compared to the end of FY2014-15.

On the other hand, the number of listed securities (including mutual funds and bonds) of Chittagong Stock Exchange (CSE) increased from 292 in FY2014-15 to 298 in FY2015-16. Market capitalisation of CSE at the end of FY2015-16 stood at 14.41 percent of GDP, which was 1.23 percentage points of GDP lower compared to market capitalisation at the end of FY2014-15. The general index decreased by 3.36 percent in FY2015-16 compared to the index at the end of previous fiscal year.

External Sector

Export

Exports recorded a growth of 9.77 percent in FY2015-16, significantly up from 3.39 percent in the previous fiscal year. Export earnings during the period exceeded the annual target (US$33,500 million) by 2.21 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 same period of previous year. Among the other major export items, earnings from leather and leather products (2.69%), pharmaceuticals (13.04%), petroleum products (282.99%), Jute and Jute goods (5.88%), agricultural products (1.71%) and engineering products (14.10%) contributed to the overall export growth, although export earnings declined by the frozen and live fish (5.68%) home textile (6.38%) and plastic products (11.50%).

The USA is the main destination of Bangladesh's export commodities. In FY2015-16, the export earnings from USA stood at US$6,220.65 million, which is 18.16 percent of the total export. The second largest destination of country's export commodities are Germany (14.56%), followed by UK (11.13%) and French (5.41%).

Import

Import growth accelerated at 5.45 percent in FY2015-16, from 0.07 percent growth compared to the preceding year. The total value 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. Food grains (rice and wheat) import decreased by 29.11 percent in FY2015-16 compared to the previous fiscal year. However, consumer goods import increased by 14.30 percent during the same period. Intermediate goods import increased by 3.24 percent in FY2015-16. Within the intermediate goods, crude petroleum (21.49%) oil seeds (42.27%), chemicals (7.05%), pharmaceutical products (72.53%) and yarn (5.84%) contributed significantly to the overall increase of imports. In addition, capital goods import increased by 6.41 percent during same period. Within the capital goods, capital machinery import increased by 2.35 percent and other capital (including EPZ) increased by 7.24 percent. Moreover, import of fertiliser (16.95%), clinker (10.50%) and cotton (2.74%) declined compared to the earlier year.

China is the main source of import for Bangladesh. In FY2015-16, Bangladesh imported US$12,691 million (29.57% of total imports) worth of commodities from China. The second largest source of import in Bangladesh is India (13.77%), followed by Singapore (5.25%) and Japan (4.84%).

Remittance

The inflows of remittances declined by 2.52 percent in FY2015-16, amounting to US$14,931.14 million, compared to the growth of 7.65 percent a year earlier. The slowdown in investment and construction works 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 went abroad for jobs, up by 48.27 percent compared to previous year. The ongoing initiatives to expand employment opportunities in the traditional markets, diplomatic efforts to explore new destination, provision of cheap credit to the expatriate workers and measures to improve skills of labour force to meet the demand of overseas labour markets will continue.

Balance of Payments

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 the service and primary income account, induced to achieve the higher current account surplus 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, from US$2,421 million over the same period. The surpluses in the current account balance along with the surpluses of capital and financial account, led to the overall balance increase amounting to US$5,036 million from US$4,373 million a year earlier. Higher FDI inflows, net medium and long term credits, large deficit in net trade credit led to the increase of overall balance of the Balance of Payments.

Foreign Exchange Reserve

Foreign exchange reserves exceeded the US$30 billion mark in June 2016. On 30 June 2015, foreign exchange reserves stood at US$25,020 million. Foreign exchange reserve continued to grow due to continued increase in the surpluses of overall balance of BOP. On 30 June 2016 reserve reached US$30,176 million, providing for 8 months of import coverage.

Exchange Rate

Exchange rate of Taka against US dollar remained almost stable during FY2015-16. 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. But Taka appreciated against Euro by 6.97 percent, Indian Rupees by 5.60 percent, UK Pound Sterling by 5.13 percent. Moreover, based on 10 currency basket, the Real Effective Exchange Rate (REER) index appreciated by 5.61 percent in FY2015-16.

Reform Initiatives in Macroeconomic Management

A number of reform initiatives were undertaken to ensure a stable macroeconomic situation in the country during FY2014-15. Some of these are as follows:

Revenue Mobilisation

- The ongoing reforms on simplification and rationalisation of taxation system have been continuing.
- New Value Added Tax and Supplementary Duty Act, 2012 has been enacted which will be effective from July, 2017.
- A draft Direct Tax Code has been posted on the website and steps will be taken to get it passed by the Parliament by next year.
- Compliance with the standards and systems introduced by (WCO) has increased.
- Installation of Automated System for Customs Data (ASYCUDA) developed by United Nations Conference on Trade and Development (UNCTAD) has been completed in all custom houses and important custom stations to further simply customs data processing.

Budget Management

- To ensure optimum utilisation of public resources, all the ministries/divisions have been preparing budget implementation plans and procurement plans under the Medium Term Budgetary Framework (MTBF).
- 'Public Expenditure and Financial Accountability (PEFA) 2015' assessment has been completed to have a clear understanding of the state of public financial management system in terms of international standards.
- Implementation of the Integrated Budgeting and Accounting System *(iBAS++)* and Budget Account Classification Structure (BACS) is going on with a view to developing the public expenditure management system. Budget preparation of FY2016-17 is completed under *iBAS++*, which is an internet-based centralised system.
- A software was developed in order to prepare a database for government staff and pensioners and fixed new salary online. It is now mandatory to carry out all the activities related to fixing salary, pension, promotion and new appointment by using this software.

Annual Development Programme (ADP) Implementation

- For proper and expeditious implementation of ADP, the digitalization of project monitoring system is at the final stage.
- A project titled 'Digital ECNEC Project' has been undertaken which will help ease procedural complications in project approval process.

Money, Banking and Financial Sector Reforms

- To reinforce the monitoring of liquidity measurement and management of the banks, two liquidity coverage measurement namely 'Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)' have been introduced.
- To make risk management system of the banks more resilient and updated, a new reporting format namely 'Comprehensive Risk Management Reporting (CRMR)' has been introduced. Besides, to monitor the risk management activities more closely, banks have been instructed to submit Risk Management Report and meeting minutes of Risk Management Committee to Bangladesh Bank on monthly basis instead of quarterly basis.
- To reinforce the importance of risk management activities and to establish a sound Risk Management culture in the banks, it has been decided to consider the high and critical score in comprehensive risk management rating as negative indicator, along with others, while giving approval/NOC to banks for branch expansion, AD license, dividend declaration, etc.
- 12 Core Financial Soundness Indicators (FSI) and 9 Encouraged FSIs as on December, 2015 have been prepared and the uploading process of these on IMF recommended website is in process. By compiling data according to the IMF prepared template, the present position of financial indicators of the banking sector will be known.
- National Strategy for Preventing Money Laundering and Combating Financing of Terrorism 2015-2017 has been formulated on the basis of Money Laundering and Terrorist Financing Risk and Vulnerabilities Assessment Report. The strategy document identifies the particular action plans for all the Ministries, Divisions and Agencies to develop an effective anti money laundering and combating financing of terrorism regime in Bangladesh
- The Money Laundering Prevention (Amendment) Act, 2015 has been promulgated on 26 November, 2015 to further strengthen the legal structure of anti money laundering and combating financing of terrorism regime in Bangladesh. BFIU has been mandated as the national central agency in Bangladesh to prevent money laundering and terrorist financing.

Capital Market

- Bangladesh Securities and Exchange Commission (BSEC) issued directives on conversion of close-end mutual fund to open-end mutual fund.
- The Commission published notification regarding promulgation of Dhaka Stock Exchange (Listing) Regulation, 2015 and Chittagong Stock Exchange (Listing) Regulation, 2015.
- BSEC published notification regarding amendment of BSEC (Private Placement of Debt Securities) Rules, 2012.
- BSEC published notification regarding promulgation of BSEC (Public Issue) Rules 2015.

- BSEC issued order regarding supply of issuer companies' price sensitive information.
- BSEC issued a guideline for financial derivatives on 20 June 2016.

Medium Term Prospect of Bangladesh Economy

The Medium-Term Macroeconomic Framework (MTMF), FY2016-17 to FY2018-19 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 7.2 percent for FY2016-17, which will gradually increase to 7.4 percent in FY2017-18 and 7.6percent in FY 2018-19. Investment in terms of GDP is expected to increase 31.0 percent in FY2016-17 from 29.4 percent in FY2015-16, will scale up to 31.8 percent in FY2017-18 and 32.7 percent in FY2018-19. The targeted investment of private and public sectors is likely to be 24.7 percent and 8.0 percent of GDP in FY2018-19.

The growth targets setup in the MTMF will depend on the successful implementation of certain reform programmes initiated by the Government for debottlenecking the infrastructure constraints and accelerating private sector investment. Besides, the policy initiatives that will receive much attention over the medium term encompasses education, health and information and commutation technology (ICT), enhancing productivity and developing the physical infrastructure sectors like power, energy, communication, transportation and port development. 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, provide uninterrupted power supply for irrigation and increase assistance to agro-based industries.

The Government has been relentlessly trying to remove infrastructure deficit. Responding on the increasing demand for electricity, the generation capacity of electricity will be upgraded to 20,500 MW to ensure uninterrupted power supply by FY2018-19. Besides, initiatives has also be taken to augment gas exploration and import of Liquid Natural Gas (NLG). Construction of NLG terminal is in progress. For further development of transport and communication sectors, integrated development of road, rail and water ways will continue. Establishment of 100 economic zones by the next 15 years are in progress with a view to bringing out rapid economic development as well as industrialisation, production and employment. Up to June 2016, 46 economic zones have been approved. In addition, implementation of growth enhancing ten transformational projects at a fast pace. These are: *Padma* Bridge project, *Padma* Bridge Rail-link project, *Cox's Bazar-Dohazari-Rumu-Ghumdhum* Rail Line project, Mass Rapid Transit (MRT) Development project, *Payra* Sea Port project, *Sonadia* Deep Sea Port project, *Matarbari* Power Plant project, *Rampal* Coal-based Power Plant project, LNG Terminal project and *Rooppur* Nuclear Power Plant project.

In the MTMF for FY2016-17, the revenue target is estimated at 12.4percent of GDP, which will go up to12.7 percent in FY2017-18 and 13.1 percent in FY2018-19. All legal, procedural, structural and administrative reforms have already been taken up for scaling up revenue earnings which is expected to continue over the medium term. Alongside, the implementation of the new Value Added Tax (VAT) law and supplementary duty act is expected to augment revenue mobilisation. Moreover, alternative dispute resolution and alignment of existing rates for non-tax revenue with current market prices will continue.

The estimated Government expenditure will reach 15.3percent of GDP in FY2015-16 which is expected to be 17.3percent in FY2016-17, 17.6 percent in FY2017-18 and 18.0 percent in FY2018-19. Expenditure on ADP expected to increased 5.3 percent of GDP in FY2015-16 to 6.1 percent of GDP in FY2018-19. ADP is the key tool for public investment and the foremost challenge is its successful implementation. Initiatives to bring in some structural changes in project formulation and implementation stages are underway. Included among are: preparing project implementation guidelines; arranging specialised training for project personnel; and formulating 'specialised administrative unit' for formulation, processing and implementation of large projects.

The overall budget deficit will remain 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.

The Government has been pursuing a monetary policy stance to maintain macroeconomic stability and to keep inflation in check. The year-on-year inflation in FY2014-15 dipped to 6.41 percent from 7.35 percent in FY2013-14.While setting MTMF targets, it was expected that inflation will be sliding down to 6.2 percent in FY2015-16, and gradually come down to 5.8 percent in FY2016-17 and likely to close around 5.5 percent in the next two fiscal years. Moreover, in order to contain inflation, the Government keeps on taking initiatives such as increasing food production, ensuring uninterrupted food supply and food security. Based on growth targets and expected inflation, MTMF likely to set up the year-on-year growth of broad money within 15-15.5 percent, while keeping the private sector credit growth around 15 percent. Emphasis has also been given on ensuring credit flow to productive and priority sectors including agriculture and SME sectors.

The remittances from expatriate Bangladeshi workers was targeted to 3.0 percent in FY2015-16 as the sluggish growth of oversees employment in previous fiscal year. However, in recent months, overseas employment rebounded, which is expected to retain remittance growth. Alongside, the 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. In FY2016-17, remittance inflows have been estimated to be 10.0 percent in FY2016-17 and 11.0 percent for next two fiscal years. The current account balance (CAB) will decrease but expected to remain within manageable level. Appreciation pressures on exchange rate and heaping up the 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 1.2 highlights the projection of key macroeconomic indicators during FY2016-17 to FY2018-19.

Table 1.2: Medium Term Macroeconomic Framework, FY2016-17 to FY2018-19: Key Indicators

Indicators	2013-14 Actual	2014-15 Actual	2015-16 Budget Target	2015-16 Revised Budget	2016-17 Projection	2017-18 Projection	2018-19 Projection
Real Sector (% change)							
Real GDP	**6.1**	**6.6**	**7.0**	**7.1**	**7.2**	**7.4**	**7.6**
CPI Inflation	7.4	6.4	6.2	6.2	5.8	5.6	5.5
Investment (% GDP)	28.6	28.9	30.1	29.4	31.0	31.8	32.7
Private	22.0	22.1	22.8	21.8	23.3	24.0	24.7
Public	6.5	6.8	7.3	7.6	7.7	7.8	8.0
Fiscal Sector (% of GDP)							
Total Revenue	**10.4**	**9.6**	**12.1**	**10.3**	**12.4**	**12.7**	**13.1**
Tax Revenue	8.6	8.5	10.6	9.0	10.7	11.0	11.3
Non-Tax Revenue	1.8	1.1	1.5	1.3	1.6	1.7	1.8
Public Expenditure	**14**	**13.4**	**17.2**	**15.3**	**17.3**	**17.6**	**18.0**
Of which ADP	4.1	3.9	5.7	5.3	5.6	5.9	6.1
Overall Balance	**-3.6**	**-3.8**	**-5.0**	**-5.0**	**-5.0**	**-4.9**	**-4.9**
Domestic Financing	2.8	3.4	3.3	3.6	3.4	3.4	3.4
External Financing (net)	0.7	0.4	1.8	1.5	1.7	1.7	1.7
Money and Credit (Year-on-year % change)							
Domestic Credit	11.6	10.0	17.9	15.5	15.6	16.1	16.1
Credit to the Private sector	12.3	13.2	16.0	14.8	15.0	15.0	15.0
Broad Money	16.1	12.4	16.5	15	15.6	15.6	15.7
External Sector (% Change)							
Export, f.o.b	12.1	3.3	12.0	10.0	10.0	11.0	12.0
Import, f.o.b	8.9	4.5	11.5	9.0	11.0	12.0	12.0
Remittance	-1.5	7.5	10.0	3.0	10.0	11.0	11.0
Current Account Balance (% GDP)	0.8	0.4	-1.2	0.3	-0.2	-0.4	-0.6
Gross Foreign Exchange Reserves (Billion US$)	21.5	25.0	23.0	28.0	31.3	35.3	40.0
Forex. Reserve in Month of Import	5.9	6.5	5.0	6.7	6.8	6.8	6.9
Memorandum Item							
GDP at current market prices (Billion Tk.)	13437	15158	17167	17296	19610	22231	25198

Source: Finance Division, Ministry of Finance
Note: Updated on 22 May, 2016