

EXECUTIVE SUMMARY

Global Economy

The global economic growth in 2023 remains highly uncertain due to the impact of the COVID-19 pandemic over the past three years and the growing adverse effects of the ongoing Russia's war in Ukraine. In the World Economic Outlook (WEO) April 2023, International Monetary Fund (IMF) has expected the global economy to slow down from 3.4 percent in 2022 to 2.8 percent in 2023 and rebound to 3.0 percent in 2024. This projection is 0.1 percentage point lower than in the January 2023 WEO update. The slowdown of economic activity is observed due to spikes in commodity prices and supply chain disruption driven by the effects of war. Sluggish growth rates between advanced economies and emerging market and developing economies will be divergent. Growth in advanced economies is expected to decline from 2.7 percent in 2022 to 1.3 percent in 2023 and rebound 1.4 percent in 2024. In emerging market and developing economies, however, growth is expected to drop from 4.0 percent in 2022 to 3.9 percent in 2023 and rebound to 4.2 percent in 2024.

Global Inflation

At the beginning of 2021, global inflation reached its highest level in the last few decades. The inflation rates in the United States and some emerging and developing economies continue to rise. In most cases, inflation in these countries is extreme due to demand-supply mismatch and increase in commodity prices during the period of pandemic. The Russia-Ukraine war has fueled global inflation. Central bank policies in many countries around the world, including the US Federal Reserve (Fed), have increased interest rates several times to control inflation. This move by the Fed caused the US dollar to appreciate. As a result, the negative impact on the current

account balance of various countries continues to increase causing in the increase of the inflationary pressures in import-dependent economies. The global inflation rates have been declining since mid-2022. Commodity prices including energy are decreasing. Central banks initiative on increasing interest rate has contributed to lower inflation. Global inflation is estimated at 8.8 percent in 2022 (annual average), which will decrease to 6.6 percent in 2023 and 4.5 percent in 2024. However, this rate of inflation is higher than the pre-pandemic inflation rate.

Macroeconomic Situation: Bangladesh Perspective

Bangladesh's economy has recovered from the economic damage caused by the impact of COVID-19 and the ongoing Russia-Ukraine crisis, although the recent slowdown in the global economy has adversely affected the country's economic growth. Bangladesh's economic growth in the pre-COVID-19 fiscal year (FY 2018-19) was 7.88 percent. During the COVID-19 period, this growth rate declined to 3.45 percent in FY 2019-20, which increased to 6.94 percent in FY 2020-21 and 7.10 percent in FY 2021-22. According to the provisional estimates of Bangladesh Bureau of Statistics (BBS), the GDP growth stood at 6.03 percent in FY 2022-23.

As per provisional estimate of BBS, per capita GDP and per capita national income stood at US\$ 2,657 and US\$ 2,765 respectively in FY 2022-23 compared to US\$ 2,687 and US\$ 2,793 respectively in the previous fiscal year. The per capita national income in dollar terms has declined slightly in FY 2022-23 due to the appreciation of US dollar. However, the per capita national income in terms of Taka increased by about 30 thousand and stood at Tk. 2,70,414.

Provisionally, the consumption expenditure as a percentage of GDP in FY 2022-23 decreased to 73.98 percent from 74.78 percent of the previous fiscal year. At the same time, total investment reached to 31.25 percent of GDP, with public investment and private investment accounting for 7.61 percent and 23.64 percent of GDP, respectively. The Medium Term Macroeconomic Framework (MTMF) envisaged the GDP growth to pick up to 8.0 percent in FY 2025-26.

While economic recovery efforts have been strong in response to the impact of COVID-19, there has been a mismatch between global demand and supply due to supply chain issues. As a result, since the beginning of 2021, an increase in the prices of all types of products, including energy have been observed in the world market and it has accelerated due to the ongoing Russia-Ukraine war. As a result, like other countries of the world, the upward trend of the price level is being observed in Bangladesh. The average inflation rate in FY 2021-22 stood at 6.15 percent, which is 0.59 percentage point higher than in FY 2020-21. Of this, food inflation is 6.05 percent and non-food inflation is 6.31 percent. On a point-to-point basis, inflation stood at 9.24 percent in April 2023, as against 6.29 percent in April 2022. In order to keep inflation at a tolerable level, the government has taken various measures under fiscal and monetary policy. The coverage of the OMS has increased and 'Family Cards' have been issued to nearly 1 crore poor people so that they can buy essential commodities at low cost. Besides, reduction of duty on import of essential goods and increase of central bank policy interest rate etc. are significant.

The revised revenue mobilisation target was set at Tk. 4,33,000 crore in FY 2022-23, which is 9.68 percent of GDP. Of them, revenue receipt from NBR sources was marked at Tk. 3,70,000 crore (8.27% of GDP), tax revenue from non-NBR sources at Tk. 18,000 crore (0.40% of

GDP) and non-tax revenue at Tk. 45,000 crore (1.00% of GDP). As per provisional data from *iBAS++*, total revenue mobilisation up to February 2023 stood at Tk. 2,36,035 crore, up by 0.92 percent of the same period of previous fiscal year, achieving 55.49 percent of the target. During this period, NBR collected revenue of Tk. 1,96,039.95 crore, which is 52.98 percent of the target and 8.92 percent higher than the previous fiscal year.

According to the revised budget, the total expenditure target for FY 2022-23 has been set at Tk. 6,60,507 crore (14.76% of GDP), which is 11.38 percent higher compared to FY 2021-22. The volume of the revised ADP in FY 2022-23 stood at Tk. 2,27,564 crore (excluding autonomous bodies/corporations own funding), which is 8.79 per cent higher than the previous fiscal year. The Government is highly concerned in maintaining the budget deficit within 5 percent of GDP by increasing efficiency in revenue management. However, due to the increase in government expenditure for COVID-19 pandemic, target was set at 5.1 percent of current fiscal year. The actual budget deficit for FY 2021-22 stood at 4.6 percent of GDP.

The FY 2022-23 monetary policy has been formulated in order to discourage unproductive financial flows to tame the demand-side pressures without circumventing the required flow of funds to the productive sectors easing supply-side conditions and supporting the country's long-term growth aspirations. Thus, the formulation of a contractionary cautious monetary and credit programme for FY 2022-23 is expected to support the economic recovery process in the coming days as well as mitigate inflationary and exchange rate pressures. The last monetary and credit programmes were designed in line with the targeted real GDP growth and CPI inflation as outlined in the national budget for FY 2022-23. As per the policy stance, the broad money growth is pegged at 11.50 percent

and domestic credit growth at 18.5 percent at the end of FY 2022-23. The actual growth in broad money and domestic credit stood at 8.77 percent and 15.58 percent in February 2023, as against 9.45 percent and 13.23 percent in the same month of the previous fiscal year. At the end of February 2023, the credit growth in the public and private sectors stood at 33.87 percent and 12.41 percent respectively, while the actual credit growth at the end of February 2022 was 28.94 percent and 10.87 percent, respectively.

The recent trends in weighted average lending and deposit rates show upward movement. The weighted average lending rate showed some constancy and reached to 7.09 percent at the end of June 2022 from 7.10 percent of end February 2022. After that it increased consistently and stood at 7.27 percent at the end of February 2023. At the same time, the weighted average deposit rate although declined a little and stood at 3.97 percent of end June 2022 from 4.02 percent of end February 2022, later it increased much and reached to 4.31 percent at end of February 2023. In enhancement of the market-based interest rate, increasing the policy rate several times by Bangladesh Bank and reduction of excess liquidity in the banking system have played significant role.

In FY 2022-23, both stock markets, Dhaka Stock Exchange Limited (DSE) and Chittagong Stock Exchange (CSE), noticed some volatility. However, the market capitalisation of all securities increased significantly in both the markets. Compared to June 30, 2022, the market capitalisation of DSE and CSE increased by 47.36 percent and 67.15 percent respectively compared to the end of trading on February 28, 2023. During the same period, the DSE Broad Index (DSEX) and CSE Overall Price Index decreased slightly by 2.51 percent and 2.14 percent respectively.

The IMF's World Economic Outlook January 2023 has projected that the world trade volume of

goods and services to slow down from 5.4 percent in 2022 to 2.4 percent in 2023 before rising to 3.4 percent in 2024. However, Bangladesh's export growth is on a positive trend. It is noteworthy that exports increased by 8.07 percent to US\$ 41,721.62 million during July-March FY 2022-23 compared to the same period of previous fiscal years. On the other hand, import payments (c&f) stood at US\$ 52,713.10 million in July-February of FY 2022-23 which was significantly (10.31%) lower than the import payments of the same period of the preceding year. The growth of exports and imports during FY 2021-22 were 34.38 percent and 35.93 percent respectively compared to the previous fiscal year. Besides, total receipts of remittances increased by 2.37 percent to US\$ 17,718.55 million during July-April of FY 2022-23 against the decrease of 16.24 percent during July-April of FY 2021-22.

The negative growth of import might be the outcome of a number of initiatives taken by the government as well as the central bank. The deficit of trade balance narrowed and stood at US\$ 13,828 million in FY 2022-23 (July-February) which was US\$ 22,431 million in FY 2021-22 (July-February). In addition, remittances increased by 4.79 percent during July-February, 2023. During the time, current account balance deficit decreased to US\$ 4,387 million due to decrease in trade deficit and expansion of remittances. At the same time, the capital and financial account experienced a deficit balance. The net outcome of all these made the overall balance a deficit of US\$ 7,949 million in FY 2022-23 (July-February) compared to US\$ 2,222 million deficit in the same period of previous fiscal year. As a result, foreign exchange reserves declined to around US\$ 32 billion at the end of February 2022. Foreign exchange reserves stood at US\$ 31 billion as on 2 May 2023. As at the end of February 2023 compared to the end of June of FY 2021-22, the Taka has depreciated by 11.47 percent against the US dollar. The inflow

of foreign grants and loans received during FY 2021-22 was US\$ 10,969.29 million, which is 37.97 percent higher than the previous fiscal year. The inflow of foreign grants and loans received during the first eight months of the current FY 2022-23 (up to February 2023) is US\$ 4,876.52 million, which is 17.33 percent lower than the same period of the previous fiscal year. The foreign deposit position at the end of February 2023 is US\$, 59,213.81 million, which is 13.4 percent of GDP.

Sector-wise Economic Progress

In response to the effects of the global COVID-19, and the ongoing Russia-Ukraine war, the Government has adopted short, medium, and long-term action plans to maintain food security for the people of the country by continuing the expansion in agricultural productivity.

The target of food production in FY 2022-23, is 484.98 lakh metric tonne (MT). In FY 2021-22 total food production was 458.96 lakh MT. In FY 2021-22, the amount of food grains distributed to the public sector was 30.77 lakh MT. In the current FY 2022-23, till February 2023, the quantity of food grains distribution was 19.36 lakh MT. The amount of subsidy in agriculture has increased to Tk. 16,000 crore. Up to February 2023, Tk. 12,660.78 crore has released to provide subsidy on fertiliser and other agricultural activities. The disbursement of agricultural credit is gradually increasing. In FY 2021-22, the amount of credit disbursed to the agricultural sector was 28,834.21 crore. In the current FY 2022-23, the target of disbursement of credit to the agricultural sector is Tk. 30,911.00 crore. Of this, Tk. 21,066.51 crore has been disbursed up to February 2023, which is 68.15 percent of the target. The production of fish in FY 2021-22 stood at 47.59 lakh MT. In the previous fiscal year, fish production was 46.21 lakh MT. In the current fiscal year FY 2022-23, the target of fish production has been set at 47.81 lakh MT.

According to the Quantum Index of Industrial Production of BBS, the production index of large and medium manufacturing industries increased by 7.42 percent in the first quarter of FY 2022-23 (July-September, 2022) compared to the index of the same period of the previous fiscal year. Banks and NBFIs have disbursed a total loan of Tk. 2,20,489.37 crore to 11,24,193 SME entrepreneurs in the country's small and medium industries i.e. SME sector till December, 2022. During the same period, 1,47,102 SME women entrepreneurs have disbursed a loan of Tk. 10,355.80 crore for financing and the development of SMEs sector. In the past years, with the aim of encouraging the expansion of medium and small industries in addition to large industries, the amount of industrial loans distributed in the country is continuously increasing as a result of the continuous efforts of the government to distribute industrial loans and other cooperation through banks and financial institutions. In the first two quarters of FY 2022-23 (July-December, 2022), the disbursement of industrial loans stood at Tk. 2,80,935.39 crore.

The installed capacity of power generation of the country reached to 26,700 megawatts, including captive and renewable energy (up to January 2023). The maximum generation so far was 14,782 MW on 16 April, 2022. Per capita generation including captive and renewable energy has reached to 609 kWh in FY 2021-22. Construction of *Rooppur* nuclear power plant with 2400 MW capacity in 2 units is in progress to meet the growing electricity demand of the country. The target is to complete construction of the 1st (1,200 MW) and 2nd (1,200 MW) units by 2024 and 2025 respectively. On the other hand, total number of transmission lines has been increased to 14,547 circuit kilometers in total till January 2023. The Government has taken a number of steps to improve the distribution system. As a result, the power distribution line has now been stood at 6,29,000 km and the

number of subscribers has been increased to 44.5 million up to January 2023.

Natural gas met almost 59 percent of the country's total commercial use of energy. Up to December, 2022, 28 gas fields have been discovered in the country. According to the latest estimate, total Gas Initial in Place (GIIP) is 40.23 trillion cubic feet (TCF), out of which 28.62 TCF is recoverable (proven and probable). From 1960 to December 2022, total 19.94 TCF gas was produced leaving 8.68 TCF recoverable. At present, the fuel oil storage capacity of the country is about 13.69 lakh metric tonnes. The government has set up two floating LNG terminals in the Bay of Bengal near *Maheshkhali* in Cox's Bazar to import liquefied natural gas (LNG) to meet the growing energy demand of the country.

With the aim of building a smooth and integrated communication system with the southern part of the country, the 6.15 km long Padma bridge built with the own funding of the Bangladesh government. The Honourable Prime Minister inaugurated the bridge on 25 June 2022 and the bridge was open to traffic from 26 June 2022. Besides, the Honourable Prime Minister inaugurated the Metrorail on 28 December, 2022 and since 29 December, 2022 Metrorail is operating regularly on the *Uttara-Agargaon* section.

The development efforts to build a developed and integrated communication and transport infrastructure are going on. The total length of highways in the country is 22,476 km as of February 2023. Parallel to the roads, development projects like bus rapid transit (BRT), Dhaka Elevated Express way, *Bangabandhu Tunnel at Karnaphuli* and some other mega-projects are being implemented which are contributing to GDP growth of the country. At present, about 3101 km long network of railway lines connects almost all of the important places including 43 districts of the

country. Several measures have already been undertaken for the development and maintenance of navigability of different river routes, ensuring safe movement of watercrafts, development of inland river ports, creating infrastructure facilities to carry container goods in inland waterways etc. As the national flagship carrier, *Biman* Bangladesh Airlines Limited is operating 7 national and 21 international flights in different routes. The total number of mobile phone subscribers and internet users exceed 18.15 crore and 12.28 crore in February 2023 respectively.

The recently published Human Development Report, 2022/2023 by UNDP, Bangladesh ranked 129th out of 191 countries. In the previous HDI report of 2020, Bangladesh ranked 133rd out of 189 countries. Bangladesh moved four notches up in the 2022/2023. In FY 2022-23, about 23.88 percent of the total budget has been allocated for the sectors related to human resource development such as education and technology, health and family welfare, women and children, social welfare, youth and sports development, culture, labour and employment. At present (2021), net enrollment rate in primary schools is 97.42 percent. In order to improve the quality of primary education, the Fourth Primary Education Development Programme is being implemented with a view to increasing the enrollment and attendance rate of eligible students in schools, preventing the dropout of admitted students, increasing school connection hours and above all improving the quality of education. In addition, to meet the challenges of the Fourth Industrial Revolution, technical education has been given utmost importance with a view to develop skilled manpower. Beside, remarkable progress has been made in reducing child and maternal mortality and in increasing average life expectancy.

It is worth mentioning that according to Household Income and Expenditure Survey (HIES) 2016, poverty rate declined to 24.3 percent in 2016, which was 40.0 percent in 2005.

The recently published HIES-2023, showed a decline in the poverty rate to 18.7 percent in 2022. The extreme poverty rate decreased from 12.9 percent in 2016 to 5.6 percent in 2022. Several poverty alleviation programmes in Bangladesh meant to address poverty alleviation directly or indirectly have been launched by the government. Apart from these, different government along with non-government institutions, autonomous bodies carried out various activities involving introducing microcredit in order to expedite the government's efforts of poverty reduction. In FY 2022-23, the budget allocation for the social security sector is Tk 1,13,576 crore which is 16.75 percent of the total budget and 2.55 percent of the GDP.

Various policies and initiatives are being implemented to encourage private sector expansion and investment in this sector. These include the establishment of Special Economic Zones, incentive packages for investors and creation of special authorities for investment facilitation. Bangladesh Investment Development Authority (BIDA) launched online one stop service portal on 24th February 2019 with the aim of providing more than 150 services of various service providers through one stop service portal. At present BIDA has signed Memorandum of Understanding (MoU) with 43 companies under which 63 services are being provided by 23 companies. During January-September in 2022, the amount of FDI was US\$ 2,659.29 million. A total 763 projects were registered in FY 2022-23 (July-February period) under joint venture investment (local and foreign) and the amount involved with the proposal was Tk. 7,56,836 million. Total 452 business institutions are ongoing with production in the existing 8 EPZs of the country. Additional 93 industries are in to the process of As of February 2023, the amount of cumulative investment in the EPZs is US\$ 6,296.24 million. In the first 8 months of FY 2022-23, the amount of actual investment stands at US\$ 255.81 million

achieving 77.52 percent of the annual target (US\$ 330). As of February 2023, 4,86,304 Bangladeshis have been employed in the industrial establishments of EPZs under BEPZA. This is mentionable that 66 percent of Bangladeshi citizens working in EPZ are women, which is playing an important role in women's empowerment. By this time, the location and the land for 97 economic zones have been approved, 68 will be public and 29 will be private. Under public-private partnership modality, 78 projects are approved in principle covering 10 sectors.

The Government of Bangladesh has formulated the Bangladesh Climate Change Strategy and Action Plan (BCCSAP), 2009, which is currently being updated, emphasizing national capacity to address climate change risks. An updated BCCSAP has already been drafted which will be finalized soon. Moreover, the government has submitted the National Adaptation Plan of Bangladesh 2023-2050 or National Adaptation Plan of Bangladesh (NAP) 2023-2050 to the UNFCCC Secretariat on October 31, 2022, with the aim of implementing adaptation activities related to climate change under the UNFCCC. The vision of the National Adaptation Plan 2023-2050 is to build a climate resilient nation by implementing effective adaptation policies capable of spurring sustainable economic growth while building strong societies that support ecosystem conservation. From FY 2009-10 to FY 2021-22, a total allocation of Tk. 3,919 crore has been provided to Climate Change Trust Fund. So far 851 (government-790, private-61) projects have been undertaken to deal with climate change risks. Out of this, 527 projects were completed. Although these projects have been implemented in pilot form in the initial stage, the local people are enjoying the benefits socially.