CHAPTER 1

MACROECONOMIC SITUATION

[*The economy of Bangladesh has successfully tackled the contagion effect of global economic crisis and managed to maintain a sustained growth. According to a provisional estimate, the economy has posted a growth of 6.66 percent in FY2010-11 against that of 6.07 percent in FY2009-10. This performance is mainly attributable to the sustained growth in agriculture sector coupled with recovery of growth in industry sector and the satisfactory performance of service sector. During this period, higher growth in revenue mobilisation and prudent budget management helped maintain macroeconomic stability and discipline in fiscal front. Furthermore, the increasing global demand for goods and services after recovery has helped achieving higher growth in foreign trade, while soaring global food and non-food prices has created inflationary pressure in the country. Alongside adopting various administrative and structural measures, monetary policy instruments have also been used to reduce the inflationary pressure. Moreover, slower growth in remittance inflows and higher import demand due to massive investment in infrastructure sector including the power sector, the current account balance and exchange rate was under pressure during the last quarter of FY2010-11. However, this situation did not emerge as a big challenge to the macroeconomic stability. The foreign exchange reserve remained steady at above US$ 10 billion during this period. Overseas job replacement and remittance inflows rebounded since January 2011. It is expected that, improved infrastructure and streamlined power sector would be conducive to domestic and foreign investment, which will lead the country to the higher growth trajectory.****]***

Global Economic Scenario

The world has come out of the recession of 2007-2009 stronger than anticipated. However, the recovery is marked by different speeds in different regions of the world. The consolidation of the global recovery continues in two paces. In advanced economies, the recovery has been less than expected coupled with huge fiscal imbalances, mounting public debt and increased unemployment. In addition, the sovereign debt crisis in the periphery of euro area has created downside risks in the process of recovery. While the emerging and developing economies have recouped from the slowdown during global downturn, there has been inflationary pressure in these economies, and there were some signs of overheating driven in part by strong capital inflows. Against this backdrop, the World Economic Outlook, October 2011, showed a downward revision of global output in 2011 and 2012 around half a percentage point to 4 percent from April 2011 Outlook. After the 3.1 percent rebound in 2010, the output in advanced economies was expected to grow by 1.6 percent and 1.9 percent in 2011 and 2012 respectively, lower by 0.7 to 0.8 percentage point compared to April 2011 projection. The output growth in emerging and developing economies was expected to grow by 6.4 percent in 2011 and 6.1 percent in 2012, slightly lower than earlier projection. The developing Asia's economies proved their resilience in the face of a tremendous external shock and are expected to grow in the neighbourhood of 8 percent in 2011 and 2012.

Despite global recovery, the inflationary pressure remained subdued in advanced economies due to low levels of capacity utilisation, while inflationary pressure was more intense in the emerging and developing economies. Again the recent surges in global oil and food prices were adding further

inflationary pressures. Inflation in advanced economies was 1.6 percent in 2010, which was expected to pick up to 2.6 percent in 2011. On the other hand, inflation in emerging and developing economies was 6.10 percent in 2010, which was expected to pick up to 7.5 percent in 2011 due to domestic demand and induced foreign capital inflows alongside the price-hike of commodities like oil and food.

World trade volume of goods and services, which rebounded by a staggering 12.8 percent in 2010, was expected to slip by 7.5 percent in 2011. Exports from the advanced economies grew by 12.3 percent in 2010, while imports also grew by 11.7 percent, which were expected to slip by 6.2 percent and 5.9 percent respectively in 2011. Emerging and developing economies showed relatively higher growth in trade volume of goods and services in 2010 and achieved 13.6 percent and 14.9 percent growth respectively in 2010. Moreover, the volume of exports and imports would experience less deceleration in 2011 and is expected to grow by 9.4 percent and 11.1 percent respectively in 2011.

There are still several substantial downside risks in the global economy. Downside risks arose from the possibility of tensions of sovereign debt crisis in the peripheral countries of the euro area spreading to the core of Europe, the continued weakness of the U.S. real estate market, high commodity prices, the tensions in the Middle East pushing oil prices up, overheating emerging market economies and rapid rising of inflationary pressure.

The Global Economic Recession and Bangladesh

The impact of the global financial crisis on Bangladesh economy was not observed at the beginning of the crisis. However, some weakening in export and import was observed in the third quarter of FY2008-09, which continued through the second quarter of FY2009-10. During these two fiscal years, exports grew by 10.31 percent and 4.11 percent respectively, while imports grew by 4.06 percent and 5.53 percent respectively. In the context of negative growth in world trade, these growth rates were satisfactory. With the rebound in global trade, Bangladesh's trade sector is growing significantly. The exports and imports registered a growth over 40 percent in the last fiscal year. The Government provided two incentive packages that included policy support and cash incentives for export sector which helped quick turnaround from the recessionary shocks. The slowdown in the growth of remittance reflected the impact of global recession, particularly on the real estate markets in the Middle East, and on industrial labour demand in some South East Asian economies such as Malaysia. However, remittance performance was at satisfactory level registering a growth rate of 22.42 percent in FY2008-09 and 13.40 percent in FY2009-10. This growth further decelerated in FY2010-11 to 6.03 percent. It is however to be noted that both remittance and overseas job replacement rebounded since January 2011.

Economic Growth

The economy had experienced modest fall of GDP growth during the recessionary period. Despite continuous growth in agriculture sector, the sluggish growth in industry sector particularly in the manufacturing sector compared to pre-recession period was responsible for slower GDP growth. However, in the wake of global recovery the economy rebounded and has posted a growth of 6.66 in FY2010-11 as compared to 6.07 percent and 5.74 percent growth in FY2009-10 and FY2008-09 respectively. This performance is mainly attributable to the sustained growth in agriculture sector coupled

with recovery of growth in industry sector and the satisfactory performance of service sector. Agriculture recorded sustained growth for the last three consecutive fiscal years responding to favourable weather conditions, continued government support for agriculture inputs and greater access to credit. Industry sector rebounded from the sluggish growth during recession and recorded a robust growth of 8.16 percent, up from 6.49 percent of previous year. Massive initiatives taken by the government in the overall infrastructure sectors including the power helped to improve industrial production. Service sector has maintained satisfactory growth path and recorded 6.63 percent growth, slightly higher than the growth of previous year (6.47 percent). In FY2010-11, per capita GNI and per capita GDP stood at US$ 818 and US$ 755 respectively, up from US$ 751 and US$ 687 respectively a year earlier.

Savings and Investment

According to a provisional estimate, domestic savings decelerated from 20.10 percent of GDP in FY2009-10 to 19.59 percent of GDP in FY2010-11 mainly for increasing consumption expenditure. While due to slower growth in remittance inflow, national savings decelerated from 30.02 percent of GDP in FY2009-10 to 28.40 percent of GDP in FY2010-11. Moreover, due to higher investment in Annual Development Programme, investment-GDP ratio stood at 24.73 percent of GDP in FY2010-11, up from 24.41 percent of GDP a year earlier.

Inflation

With the recovery of global economy, domestic demand is on the increase in many countries. This has resulted in unexpected upward pressures on both food and non-food inflation. Moreover, there were production short-falls in many food producing countries due to inclement weather condition. Rapid economic growth also pushed up the global demand for food. Some of the countries put ban on food export to ensure internal food security. The IMF Overall Commodity Price index increased by 32 percent in June 2011 compared to January 2010. Oil price had gone up and remained volatile by the ongoing crisis in the North Africa and Middle East. As a result crude oil prices increased from US$ 95 per barrel in January 2011 to US$120 in April 2011. However, the prices fell in May 2011 and then stabilised at around US$110.

As a consequence, inflation was on an upward trajectory during FY2010-11. The year-on-year inflation reached 10.17 percent in June 2011 from 8.70 percent in June 2010. The average inflation rate, therefore, rose to 8.80 percent in FY2010-11 compared to 7.31 percent in the previous year. Food inflation rose to 12.51 percent in June 2011 from 10.88 percent in June 2010, contributing mainly to the rise in overall inflation, while non-food inflation increased moderately to 5.73 percent from 5.24 percent in June 2010. During FY2010-11, urban inflation (7.30 percent) showed slightly downward trend compared to rural inflation (9.40 percent), mainly due to the price hike of food items.

To contain inflation, several steps have been taken by the Government which includes, among others, ensuring uninterrupted supply of food grains, open market sale of the essential commodities, maintaining adequate stock of food to ensure food security, finalising legal structure for effective market monitoring, providing credit and subsidies to farmers and distribution of fair price cards to the ultra poor. Monetary policy instruments have also been used to reduce the inflationary pressure arising from excess money supply.

Fiscal Situation

Fiscal performance was stable in FY2010-11 with a satisfactory rise in revenue receipts accompanied by a substantial rise in overall expenditure. According to provisional estimate, total revenue receipts in FY2010-11 increased by 22.25 percent over the previous year outturn. Total revenue receipts as percent to GDP reached 11.78 percent in FY2010-11, up by 0.85 percentage point of GDP compared to the preceding year's revenue earnings.

Tax revenues from NBR sources increased by 27.48 percent to Tk. 79,092.20 crore in FY2010-11 from Tk. 62,042.16 crore in FY2009-10. This growth was mainly driven by the growth in customs duties (28.44 percent), VAT at import level (16.19 percent) and VAT at local level (28.99 percent) and income tax (33.25 percent). Non-NBR sources of tax revenue increased by 17.77 percent to Tk. 3,230 crore in FY2010-11 compared to 3.38 percent growth in FY2009-10. Non-tax revenues decreased by 1.33 percent to Tk. 13,242 crore from Tk.13,420 crore in FY2009-10.

Likewise, total public expenditure increased by 22.36 percent over the previous year outturn. As percent of GDP, public expenditure reached 15.79 percent in FY2010-11, up by 1.15 percent of GDP compared to that of the previous year. According to provisional data, the total expenditure under non-development budget increased by 20.09 percent to Tk.91,330 crore in FY2010-11 from Tk.70,522 crore in FY2009-10. Moreover, Annual Development Programme (ADP) expenditure increased by 26.67 percent against 31.79 percent increase in FY2009-10.

Finally, as per provisional estimate, the budget deficit stood at 4.00 percent of GDP, of which 3.43 percent was financed from domestic sources and the remaining 0.57 percent from external sources.

Money and Credit

The broad money increased by 21.34 percent during FY2010-11, which was slightly lower than 22.44 percent growth a year earlier. During this period, year-on-year growth of currency notes and coins with the public increased by 18.71 percent compared to the increase of 28.04 percent a year earlier. While demand deposit increased by 15.48 percent from 37.70 percent and the time deposit recorded an increase by 22.68 percent from 19.55 percent a year earlier.

Year-on-year growth in domestic credit was 27.40 percent during FY2010-11, up from 17.90 percent during FY2009-10. Sector-wise analysis of domestic credit indicates that the net credit to the government sector increased by 34.89 percent at the end of June 2011 due to lower than estimated financing from external and non-bank sources. The net credit to the government sector was declined by 6.52 percent during the previous year. Private sector credit growth was 25.84 percent in FY2010-11, slightly higher than year-on-year growth of 24.24 percent of previous fiscal year. Private sector credit increased mainly due to providing higher subsidy/cash incentives under the 2nd stimulus package declared by the Government to promote export trade, increased quantum of credit to agriculture sector including small and medium scale enterprises, and term loan to generate economic activities.

In FY2010-11, reserve money increased by 21.09 percent at the end of June 2011, up from 16.03 percent in the previous year. The growth of reserve money was mainly attributable to the increase in net domestic assets (NDA) of Bangladesh Bank by 87.42 percent. However, net foreign assets (NFA) of Bangladesh

Bank increased by only 0.17 percent during the period. Bangladesh Bank's claims on deposit money banks (DMBs), government sector (net) and non-bank depository corporations (NBDCs) increased by 204.74 percent, 43.28 percent and 17.42 percent respectively which eventually contributed to reserve money growth. Money multiplier increased slightly to 4.52 at the end of June 2011 from 4.51 at the end of June 2010. This outcome was mainly because of increased reserve-deposit ratio to 0.111 from 0.108 in FY2009-10. Currency-deposit ratio, on the other hand, declined to 0.142 from 0.146 in FY2009-10.

Interest Rate

To contain inflationary pressure, the repo and reverse repo rates were increased by 100 basis points in August 2010 and stood at 5.50 percent and 3.50 percent respectively. This has resulted in slightly reduced liquidity. The weighted average call money rate increased to 6.36 percent from 3.33 percent in July 2011. Moreover, in the context of upward inflationary trend, the repo and reverse repo rates were increased by 50 basis points in March 2011, which were further increased by 25 basis points in April 2011 and stood at 6.75 percent and 4.75 respectively.

Interest rate caps on bank lending introduced earlier in the backdrop of global slowdown became untenable in the changed context of high and rising credit demand as economic activities speeded up in FY2010-11. In March 2011 Bangladesh Bank initiated phasing out these caps, beginning with loans other than industrial term loans and loans for export, agriculture and essential imports. Liquidity management, credit-deposit ratios and asset- liability maturity mismatches in banks came under Bangladesh Bank's close supervision in last quarter of the fiscal year. Moreover, Bangladesh Bank continues moral suasion on banks to keep the interest rate on working capital to industries below 15 percent.

The weighted average rate of interest on commercial lending increased to 12.39 percent in June 2011, from 12.37 percent in June 2010 and the deposit rate increased to 8.85 percent from 7.40 percent over the same period. Thus the interest rate spread narrowed to 4.54 percent in June 2011 from 4.97 percent in June 2010.

Capital Markets

The capital markets became volatile from the second half of FY2010-11. During the period, the DSE general index increased by 98.43 percent from 3,010.26 to 6,153.68 indicating keen interests showed by the investors in the capital market. By the end of June 2010, the number of BO (Beneficiary Owner) accounts has increased to 25.64 lakh from 14.15 lakh at the end of June 2009. At the beginning of FY2010-11, the capital market showed buoyant. The DSE general index stood at 8,290.41 in December 2010, up by 34.72 percent compared to that of June 2010. Similarly, market capitalisation stood at 44.1 percent of GDP at that time. However, the overheated capital markets collapsed in January 2011 and were in process of recovery and stabilisation during the last quarter of FY2010-11. Market capitalisation and general index of DSE stood at 36.24 percent of GDP and 5,093.19 at the end of FY2010-11.

Following this, the Government commissioned comprehensive investigation by a committee into the causes behind overblowing of prices of stocks in the market leading to eventual collapse of price bubble, with a view to bringing about necessary reforms in regulatory authority and market structure based on

findings of the investigation. As per the recommendations of the committee, the Securities and Exchange Commission (SEC) has been restructured to make it capable of establishing control over the stock markets and to regain investors' confidence. In order to separate the ownership, management and trading of stock exchange, the process of demutualisation in Dhaka and Chittagong Stock Exchanges has begun. To regain investors' confidence in the capital market by providing adequate liquidity, a Tk. 5,000 crore open-end mutual fund known as Bangladesh Fund, has been established. In addition, there was an initiative to frame Financial Reporting Act to maintain stability in capital market. Side by side, the Government has been considering a plan to establish a Financial Reporting Council to oversee the audit and accounting standards and their transparency.

External Sector

Export

With the recovery of global economy from recession, Bangladesh's export trade has been performing better. Export recorded a robust growth of 41.47 percent in FY2010-11, as against 4.11 percent during the previous fiscal year. Such growth was contributed mainly by the growth of export of raw jute (82.14 percent), knitwear (46.26 percent), agriculture products (42.39 percent), frozen food (40.45 percent), jute goods (40.37 percent), woven garments (40.23 percent) and leather (31.86 percent).

The Government continued the incentives provided by the two stimulus packages declared earlier for supporting export sector. With the aim of promoting export diversification, additional incentives have been provided to the exporters under 'The New Markets Exploration Assistance Programme'. In the mean time, Japan, Korea, South Africa and Turkey have emerged as a new destination of Bangladeshi apparels. Besides, incentive has also been provided to the ship building industry, as a potential sector. Furthermore, the relaxation of the Rules of Origin by EU since January, 2011 has created opportunities for further expansion of RMG exports in the EU region.

Import

In FY2010-11, imports picked up and grew by 41.79 percent, as against 5.53 percent during the previous fiscal year as the global economy started to recover and international commodity price increased. In addition, higher-than-expected import of food grains, imports of machinery for newly established power plants and demand for petroleum for running the plants contributed to the sharp rise in import. Based on the settlement of Letters of Credit (LCs) in FY2010-11, import payments of food grains stood a record high at US $1993.60 million during FY2010-11, up by 133.3 percent as compared to US $854.51 million in the previous year. The import of industrial raw materials increased by 46.63 percent, while that of capital machinery and machinery for miscellaneous industries increased by 40.21 percent and 36.19 percent respectively during the period. The import of petroleum and petroleum products rose by 38.73 percent during the period.

Expatriate Employment and Remittances

The slowdown in the growth of remittance reflected the impact of global recession, particularly on the real estate markets in the Middle East, and on industrial labour demand in some South East Asian economies such as Malaysia. Despite the recovery, the recent political turmoil in North Africa and Middle East negatively affect the expatriate employment. However, the overseas employment rebounded since January, 2011. The number of overseas workers during FY2010-11 was 4.39 lakh, up marginally by 2.8 percent compared to that of the previous year. Against this backdrop, the Government has been taken several initiatives to further improve the situation. Moreover, there are potential demands for Bangladeshi workforces in Eastern Europe, South Africa and North American Countries. The Government is also trying to encourage more workers to go to these destinations. In tandem with these, National Skill Development Council would be strengthened to develop skilled labour force to sutain overseas labour market.

In FY2009-10, the remittance inflows crossed US$ 10 billion for the first time. During the period, the total remittance earnings reached US$ 10,987.40 million, which was 13.40 percent higher than that of the previous year. Despite negative growth in remittance inflows during the first half of FY2010-11, remittances rebounded from the second half of the fiscal year. Finally, in FY2010-11 remittance reached US$ 11,560 million, which was 6.06 percent higher than that of the previous year. Despite the slower growth in remittance inflows, the ranking of Bangladesh as the highest remittance earners has improved. According to the World Bank report of 'Migration and Remittance Trends 2009', Bangladesh's position among the highest remittance earner countries was 12 in 2008. Bangladesh has lifted its position to 8th in 2009. Moreover, according to the report of 'Migration and Remittances Factbook 2011 of World Bank, Bangladesh's position as a remittance earner further improved to 7th.

Balance of Payments

Trade balance recorded a deficit of US$ 7,328 million in FY2010-11 as compared to the deficit of US$ 5,155 million in FY2009-10. It should be mentioned here that the Government has taken a range of steps to boost up investment in infrastructure sector including the power sector. Consequent upon the import of machinery for new power plants and oil price hike coupled with increased import of oil for power plants, the current account surplus was under pressure. The service account also experienced higher deficit (US$ 2398 million) as a consequence of increased cost of transportation, particularly freight, and travel payments. The income account also recorded deficit (US$1354 million) on account of payments in the form of profits and dividend repatriation. Weak remittance inflows (6.06 percent growth) and widening gap of service (net) has been putting downward pressure on the current account balance. However, the current account recorded a surplus of US$ 995 million (0.9 percent of GDP) in FY2010-11.

The deficit in the capital and financial accounts (US$984 million) was attributable to the decrease in foreign direct investments, medium and long term loan, and trade credits. However, the overall balance of payment (BoP) was in the negative territory in FY2010-11 after a long period. The deficit recorded in the overall balance of payment stood at US$ 635 million during FY2010-11 as compared to surplus balance of US$ 2865 million in the previous year.

Foreign Exchange Reserve

Due to decline in current account surplus and the deficit in the capital and financial accounts, there was a deficit in the overall balance. The gross official foreign exchange reserves was almost pleatued over the period and stood at US$ 10,912.00 million as on June 30, 2011, which was 1.51 percent higher than the amount as on June 30, 2010. As on June 30, 2011, the reserve was equivalent to the import payments for about 3.89 months.

Exchange Rate

Despite hefty growth in exports (41.47 percent) and a slight growth in wage earners' remittances (6.03 percent), Bangladesh Taka witnessed 6.11 percent depreciation against US dollar in FY2010-11 mainly because of higher import demand. The overall growth in imports stood at 41.79 percent as compared to that of the previous year due mainly to acceleration in domestic investment activities which resulted in huge foreign exchange demand for import of capital machineries, industrial raw materials, petroleum products etc. On the other hand, import of food items has widened the trade gap (-42.15 percent) and caused depreciation of Taka against USD. The weighted average inter-bank rate stood at Taka 74.23 per USD as of 30 June, 2011 against 69.43 as on 30 June 2010. However, Bangladesh Bank played its role in the foreign exchange market in line with its monetary policy goal to ensure stability in the market. Both the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices appreciated during FY2010-11. Although REER-based exchange rate increased in June 2011 compared to June 2010, nominal exchange rate is still higher than REER-based exchange rate, indicating that Bangladesh enjoys some export competitiveness.

Reforms Initiatives in Macroeconomic Management

The Government implemented several reforms in macroeconomic management during FY 2010-11. These are briefly enumerated below:

Budget Management

- To maintain macroeconomic stability and to ensure transparency and accountability in the budget preparation process, quarterly reports on budget implementation status, trends of revenues and expenditures along with the analysis of macroeconomic situation of the country has been placed before Parliament as per the provision of the 'Public Money and Budget Management Act 2009'.
- All the ministries/divisions have been brought under the coverage of Medium-term Budget Framework (MTBF) which is designed to link the budget with the development policy and resource allocation with performance.

ADP Implementation

- The review of progress status of ADP implementation of two Ministries/Divisions in each ECNEC meeting is continuing

- Activities of the taskforce constituted for monitoring the ADP implementation of ten major Ministries/Divisions is in progress
- Progress of implementation of fifty largest foreign aided projects is being reviewed

Revenue Mobilisation

- Preparation of the draft Income Tax Act 2011 and VAT Act 2011 have been completed and posted to the web site for public comments
- Four dedicated benches in the High Court Division of Supreme Court for speedy settlement of tax disputes have been set up
- Finalisation of Alternative Dispute Resolution Act intended to resolve tax litigation is at the final stage
- For widening tax base and tax net, several steps which include inter alia, the awareness programmes on tax related issues in print and electronic media, holding tax fare, observance of National Tax Day, road show have been taken.
- All customs houses have already brought under automation scheme and actions are underway to bring all customs stations online and conducting custom duties by using ASYCUDA++ software.

Banking Sector

- To comply with international best practices and to make the bank's capital more secured as well as to build the banking industry more risk sensitive, shock absorbent and stable, implementation of Basel-II Capital Adequacy Framework from January 2010 as regulatory requirement for banks is underway. All the schedule banks has maintained minimum required Capital Adequacy Ratio (CAR) and Minimum Capital Requirement (MCR) for banks at 8 percent up to June 2010, 9 percent up to June 2011 and 10 percent from July 2011 and onward. It is pertinent that the banks will have to have paid up capital and reserves of at least Tk. 400 crore (at least Tk. 200.00 crore as paid up capital) by 11 August 2011.
- Considering the investment risk of banks in capital market, the general provision has been enhanced from 1 percent to 2 percent against the unclassified portion of loan disbursed by them for their own/separate subsidiary companies and any other companies/enterprise/individual.
- A decision has been taken to the effect that directs loan facilities disbursed by any bank company to the individuals or institutions or joint-institutions should not be above 15 percent of their total capital.
- Bangladesh Bank has started taking necessary corrective and preventive steps against lending discipline lapses in banks leading to loan diversion into unauthorised uses.
- With a view to ensuring compliance surveillance on permitted ceiling of holding of capital market assets by banks with reporting instructions and supervisory arrangements, the general provisioning requirement on bank loans against stock and shares has increased doubled to two percent from October, 2010.

Capital Market

- Steps have been taken to amend Securities and Exchange Commission (Public Issue) Rules, 2006 to avoid misuse of book building method.
- In order to separate the ownership, management and trading of stock exchange, the process of demutualisation in Dhaka and Chittagong Stock Exchanges has begun.

Reforms in Insurance Sector

- A law titled 'Insurance Development and Regulatory Authority Act 2010' has been enacted by the Parliament to synchronise the functions of the existing Insurance Department with the spirit of Insurance Act, 2010 and to ensure proper control and supervision of the sector and protect the interests of policy holders and beneficiaries under the insurance policies.

Sovereign Credit Rating

In 2010, Bangladesh earned credit ratings BB- and Ba3 from internationally reputed agencies namely, Standards and Poor's (S&P) and Moody's respectively. According to these ratings, Bangladesh, in terms of capacity to service debts, stood at par with the Philippines, Indonesia and Vietnam. Bangladesh was able to retain the same ratings this year as well.

Cost of Doing Business

In order to facilitate expansion of trade, the Government has undertaken several reform initiatives to reduce the cost of doing business. These include: (i) modernisation and automation of land registration system on a pilot basis; (ii) digitalisation of land survey, record and preservation and registration process; (iii) settlement of trade related disputes and establishment of dedicated benches in the High Court to dispose of the pending cases of National Board of Revenue; (iv) use of modern technology in every unit of customs department to initiate automated estimation of duties and levies for advance declaration and cargo clearance; (v) introduction of automation in the judiciary; (vi) establishment of One-stop Service Centre to facilitate issuance of different clearance certificates from one place for construction activities; and (vii) collection of all sorts of government receipts through mobile phones and introduction of online system instead of collection of receipts through treasury chalans. It is expected that implementation of these reforms will make the business process much easier and reduce substantially the cost of doing business.

Special Economic Zones

Besides, the Government has taken an initiative to create Special Economic Zones for triggering the development of backward regions as well as the growth of industry and agriculture in the industrially potential areas. Meanwhile, a law titled 'Bangladesh Economic Zone Act, 2010' has been enacted.

Development Plans

Perspective Plan (2010-2021)

The Government has formulated the first-ever long-term **Perspective Plan 2010-2021** consistent with the Vision 2021 articulating its commitment to build a happy and prosperous Bangladesh. The overarching goal of the Perspective Plan is to accelerate national development process that embodies a shared view of all citizens and a dream supported by will and action to transform it into reality. The fundamental objective of the Plan is poverty eradication through attainment of higher growth rates as well as achieving middle income country status in real terms by 2021, the Golden Jubilee Year of national independence. It envisioned equitable and inclusive growth process where poverty will be at its lowest level and regional disparities in development will be removed.

Sixth Five Year (2011-15) Plan

In order to implement the Vision 2021 and the associated goals and targets of Perspective Plan, the Government has prepared the Five Year Plan as the bridge between the short-term Second PRSP (FY2009-11) and the long-term Perspective Plan. This five year plan is the sixth in the series of development plans in Bangladesh started in 1973. The sixth five-year plan which is being implemented during the period 2011-15, has projected macroeconomic and sectoral indicators as well as set macro and sectoral policies, goals and targets for FY 2015 in the context of the Perspective Plan targets. It has also provided alternative macro and sectoral investment scenarios based on resource availability and explore alternative strategies to attain the goals and targets reflecting the government's development philosophy.

Social Sector Development

Bangladesh has made remarkable progress in the area of social development. It has already achieved two targets of Millennium Development Goals (MDGs) namely 'net enrollment in the primary schools' and 'gender equality in primary and secondary education'. Besides, Bangladesh is moving ahead with the targets of 'eliminating extreme poverty and hunger', 'achieving universal primary education' and 'reducing under-five mortality rate' as set out in MDGs. Moreover, Bangladesh is also taking forward with the agenda of achieving the goals related to 'reducing HIV/AIDS, malaria and other contagious disease' and 'ensuring sustainable environment'. Table 1.1 highlights Bangladesh's progress in terms of certain social and human development indices.

Table: 1.1: Social and Human Development Incices: Bangladesh's Progress

Index	Base Year 1990/1991	Current Status (Year)	MDG Target, 2015
Proportion of population below poverty line (%)	58.8	31.5 (2010)	29.0
Net enrolment in primary education (%)	60.5	91.9 (2008)	100
Ratio of boys and girls in			
Primary Education	100:83	100:101 (2008)	100:100
Secondary Education	100:52	100:120 (2008)	100:100
Tertiary Education	100:37	100:32 (2006)	100:100
Under-five mortality rate (per 100 live births)	146	53.8 (2008)	48
Infant mortality rate (per 100 live births)	92	41.3 (2008)	31
Maternal mortality rate (per 100,000 live births)	574	348 (2008)	144
Proportion of population using an improved	78	86 (2009)	100
drinking water sources			

Source: The Millenium Development Goals, Bangladesh Progress Report 2009, GED, Planning Commission, BBS

Action Plan in Power and Energy Sector

The government has taken up an integrated action plan in the power and energy sector to find an acceptable short, medium and long term solutions to the problems in power sector. Under the new action plan, steps have been taken to build coal, diesel and furnace oil, duel fuel and renewable energy based power plants to reduce the power deficit. As per plan, additional 11,698 MW electricity will be added to the national grid by the public and private sector during 2011 - 2015.

Digital Bangladesh

As part of the agenda of building digital Bangladesh, considerable progress has been made in terms of connecting Bangladesh with the second submarine cable. Through the dial-up internet, 475 upazilas have already brought under internet facilities. At the same time, building of necessary infrastructure for providing broadband internet is at the final stage. The work for installation of 1,450 kilometer of optical fiber is in progress across the country. As of June 2011, installation of 470 kilometer of optical fiber has been completed. The establishment of ICT incubator is under way. Steps have been taken for establishing technology parks in divisional cities including Dhaka. Besides, the High-Tech Park Authority has started functioning. Steps have been taken to develop the site for Kaliakoir Hi-Tech Park. Special incentive packages for the potential investors for this Park have already been announced. With a view to starting e-Commerce by 2012, formulation of necessary legal and regulatory framework has been completed.

Public-Private Partnership (PPP)

As part of the process of strengthening the Public Private Partnership (PPP) initiatives, a policy and strategy for Public-Private Partnership has been formulated. In the mean time, PPP office has been set up and a number of officials have been posted to this office for smooth running of its functions. Besides, Bangladesh Infrastructure Investment Fund (BIIF), which was created for attracting investment from local and foreign investors, has been transformed into a company which will start its operation during FY2011-12.

Combating Climate Change

With a view to mitigating the effects of disasters and natural calamities through capacity building, the Bangladesh Climate Change Fund (BCCTF) has been created through government financing. A total of Tk. 1,400 crore has been allocated for this fund over the last two fiscal years. A total of 60 projects at a cost of Tk. 719.61 crore has been undertaken with the support from this fund. In order to utilise the resources of BCCTF in an effective and suitable manner, the Climate Change Trust Act, 2010 has already been passed. Besides, another fund titled 'Bangladesh Climate Change Resilience Fund (BCCRF) has been created with an amount of US$113.5 million with financial support from different development partners.

Near and Medium Term Outlook of Bangladesh Economy

The Medium-Term Macroeconomic Framework (MTMF) for FY2012-2016 sets out the economic and fiscal indicators for the next five fiscal years. Considering the prospects and potentials risks in the context of global and domestic economic scenario, real GDP growth has been estimated at 7 percent for FY2011-12. The GDP growth is targeted to be 8 percent in FY2014-15 based on the assumptions of further improvement in the global and domestic economic situation and taking into account the expected impacts of reforms initiated in various sectors.

Achieving this level of growth hinges on the development of agriculture sector as well as the development of power, energy and communication sectors. Efforts are continuing to sustain the achieved growth already achieved in the agriculture sector by increasing productivity through crop intensity and crop diversification. As is envisaged in the revised roadmap for power and energy sector, an additional 2,157 megawatt of electricity will be generated by December 2012. In the next five years another 9,647 megawatt of electricity will be added to national grid. Besides drilling new wells, LNG import, coal production and import and use of renewable energy sources will help mitigate the energy crisis. Combined development in the power and energy sector, and the implementation of various big projects undertaken by the Government and private sector will pave way for attracting huge investment leading to the achievement of growth at the desired level.

In the medium term, revenue mobilisation will go up from about 12 percent to 15 percent of GDP as an outcome of legal, procedural, structural and manpower reforms taken up this year in the revenue sector and to be implemented over the next two years. The planned rise in development expenditures and supporting revenue expenditures will expand total public expenditures reaching 20 percent of GDP in the medium term. A budget deficit of 5 percent of GDP is targeted to be maintained throughout the medium-term.

A tolerable tariff adjustment in the power and energy sector has been carried out in medium- term so that it does not adversely affect the poor segment of population due to inflation. However, in order to maintain budgetary discipline, the Government will take effective measures towards tariff adjustment in case of unexpected price hike of fossil fuel.

With the rebound in global trade, Bangladesh's trade sector is growing significantly. The exports and imports registered a growth over 40 percent in the last fiscal year. However, it was assumed that both export and import growth would remain within the normal trend in the coming years. In the MTMF, it was expected that, export and import will grow 14-16 percent and 14-17 percent respectively during FY2012-FY2016. It was also assumed that, the sovereign debt crises in the periphery of euro area will not spread in core euro zones. Although, the growth in remittance inflows fell in previous fiscal year, it has now rebounded. It should be mentioned here that the government has taken a range of steps to boost up investment in infrastructure sector including the power sector. Consequent upon the import of machinery for new power plants and oil price hike coupled with increased import of oil for power plants, the current account surplus is under pressure. However, this situation did not emerge as a big challenge to the macroeconomic stability. However, the current account might experience deficit to some extent for the next couple of years.

The Government has already taken effort series of steps to rein on inflation within a tolerable limit. It was expected that the steps taken to ensure food security would also be helpful in maintaining price at a reasonable level while overcoming domestic and international shocks, and bringing down inflation at 7.5 percent in FY2011-12 and close to 5 percent in the medium term. In addition, steps taken towards taming inflation in the monetary sector will be continuing in the medium and long term. Side by side, by effecting coordination between fiscal and monetary policy, deficit financing from the banking sector has been kept at a level so that the private sector is not crowded out. However, the growth in the private sector credit appeared to be insignificantly higher compared to growth targets. Therefore, more emphasis will be given on securing productive use of credit in the private sector. Moreover, various steps have already been taken to augment domestic and national savings and channel national savings into investment. It is expected that given the initiatives at work, Bangladesh economy will be able to achieve 7 percent growth in FY2011-12, which will gradually increase to 8 percent in FY2014-15. Table 1.2 highlights the projection of key macroeconomic indicators during FY2011-12 to FY2015-16.

Table 1.2: Medium Term Macroeconomic Framework, 2012-2016: Key Indicators

Indicator	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Actual	Actual	Estimated			Projection		
Real Sector								
Nominal GDP Growth (%)	12.6	12.6	14.2	13.8	13.8	14.0	14.2	14.1
Real GDP Growth (%)	5.7	5.8	6.7	7.0	7.2	7.6	8.0	8.2
CPI Inflation (%)	6.7	7.3	8.0	7.5	7.0	6.8	6.5	6.2
Gross Investment (% GDP)	**24.4**	**25.0**	**26.5**	**28.8**	**29.6**	**31.0**	**32.5**	**33.3**
Private	19.7	20.2	21.1	22.2	22.7	23.8	25.0	25.5
Public	4.7	4.8	5.3	6.6	6.9	7.2	7.5	7.8
Domestic savings	20.1	19.0	18.8	20.7	21.5	22.4	24.1	25.2
National Savings	29.6	28.8	28.3	29.8	30.4	31.1	32.8	33.8
Fiscal Sector (% of GDP)								
Total Revenue	**10.4**	**10.9**	**12.0**	**13.2**	**13.4**	**14.0**	**14.6**	**15.2**
Tax Revenue	8.6	9.0	10.0	10.6	11.2	11.8	12.4	13.0
NBR-Tax Revenue	8.2	8.6	9.6	10.2	10.8	11.4	12.0	12.6
Non-NBR Tax Revenue	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Non-Tax Revenue	1.8	1.9	2.0	2.5	2.2	2.2	2.2	2.2
Total Expenditure	**14.3**	**14.6**	**16.3**	**18.2**	**18.4**	**19.0**	**19.6**	**20.2**
Revenue Expenditure	11.2	10.9	11.9	13.1	13.1	13.3	13.5	13.7
Annual Development Prog.	3.2	3.7	4.4	5.1	5.3	5.7	6.1	6.5
Overall Balance	**-3.9**	**-3.7**	**-4.3**	**-5.0**	**-5.0**	**-5.0**	**-5.0**	**-5.0**
Financing								
Domestic Financing	3.1	2.2	3.0	3.0	3.0	3.0	3.0	3.0
Banking System	2.2	-0.3	2.2	2.2	2.2	2.2	2.2	2.2
Non-Bank	0.9	2.5	0.8	0.8	0.8	0.8	0.8	0.8
External Financing (net)	**0.8**	**1.4**	**1.2**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
Money and Credit (Year-on-year % change								
Net Domestic Assets	17.8	18.8	20.7	17.3	16.1	16.0	16.0	15.2
Domestic Credit	15.9	17.6	17.7	19.2	19.5	19.5	19.2	18.9
Credit to the Private sector	14.6	24.2	18.0	18.0	18.0	18.5	18.5	18.5
Broad Money	19.2	22.4	16.0	15.8	15.8	15.7	15.5	15.5
External Sector								
Export, f.o.b (% Change)	10.1	4.2	30.0	16.0	16.0	16.5	16.5	17.0
Import, f.o.b (% Change)	4.2	5.4	45.0	14.0	14.0	14.5	14.5	15.0
Remittance (billion US$)	9.7	11.0	11.5	12.4	13.6	15.1	17.0	19.0
Current account Balance (% GDP)	2.7	3.7	-0.7	-0.8	-0.6	-0.4	-0.2	0.1
Foreign Exchange Reserve (billion US$)	7.5	10.7	10.0	10.6	11.8	13.2	14.5	16.7
Reserve in Month of Import	3.8	5.1	3.4	3.2	3.1	3.1	3.0	3.0

Source: Finance Division