CHAPTER 1

MACROECONOMIC SITUATION

[Despite sluggish global economic recovery and adverse effect emerging from the domestic front, Bangladesh sustained steady economic growth due to prudent fiscal policy and accommodative monetary policy. The GDP growth is provisionally estimated at 6.51 percent in FY 2014-15, significantly up from 6.06 percent in FY 2013-14. The per capita national income reached US$ 1,314 in FY 2014-15, up by US$ 130, from US$1,184 a year earlier. Inflation gradually came down and year-on-year inflation in FY 2014-15 slid down to 6.41 percent from 7.35 percent in FY 2013-14. Exports registered a growth rate of 3.39 percent while import grew 11.26 percent in FY 2014-15. The inflow of remittances rebounded in FY 2014-15 and achieved 7.65 percent growth to US$ 15,317 million. Despite modest growth in remittances inflow, current account balance recorded deficit of US$1,645 million. However, current account deficit was offset by the surpluses of capital and financial accounts. As a result, overall balance of the balance of payments recorded surplus of US$4,373 million leading to build up of large foreign exchange reserve. As on 30 June 2015, foreign exchange reserve stood at US$25,020 million, which is sufficient for about 7 months of import coverage. Exchange rate broadly remained stable during FY 2014-15. Moreover, lending interest rate fell, which is expected to encourage investment in the country.]

Global Economy

The global economic recovery remains moderate, with uneven prospects across the main economies and regions. Growth in advanced economies in the first half of 2015 remained modest. For most emerging market economies, the continued growth slowdown reflects several factors, including lower commodity prices, tighter external financial conditions and downward pressure on currency. Increasing the US policy rates from the zero lower bound is an indication of further tightening of external financial conditions. Rebalancing in China and economic distress related to the geopolitical factors and its cross-border repercussions appeared larger than previously envisaged.

IMF in its World Economic Outlook (WEO) October 2015, projected the global growth at 3.1 percent for 2015, slightly lower than in 2014, and 0.4 percentage point below the projections of the April 2015 WEO. Growth in advanced economies is projected to increase from 1.8 percent to 2.0 percent in 2015, also 0.4 percentage point lower than projected in April of this year. On the other hand, growth in the emerging market economies is projected to 0.3 percentage point in 2015 compared to the April projection. Global activity is projected to gather some pace in 2016 and expected to reach at 3.6 percent.

Growth in the United States was weaker than expected in 2015, despite a strong rebound of second quarter. Lower capital expenditure in the oil sector along with harsh winter weather and port closures caused the setbacks of first quarter growth of the US economy. The recovery in the euro area seems broadly in line with a robust recovery in domestic demand. In Japan, a strong recovery in the first quarter was followed by a drop in activity in the second quarter.

Economic activity in some emerging markets and developing economies in Asia was a bit weaker than expected, due to lower export and also a slowdown in domestic demand. In China, investment growth slowed compared with last year, but consumption growth remained steady. The downturn in Latin America, deeper than expected reflects the adverse impact of lower commodity prices and tighter external financial conditions. The geopolitical factors may distress the economies particularly in the Commonwealth of Independent States and some countries in the Middle East and North Africa. Table 1.1 highlights the global output growth as follows:

Table 1.1: Overview of the World Output Growth

(Percent Change)

	Actual	**Projection**		**Difference from April 2015 WEO**	
	2014	**2015**	**2016**	**2015**	**2016**
World Output	**3.4**	**3.1**	**3.6**	**-0.4**	**-0.2**
Advanced Economies	1.8	2.0	2.2	-0.4	-.02
USA	2.4	2.6	2.8	-0.5	-0.3
Euro Area	0.9	1.5	1.6	0.0	0.0
Japan	-0.1	0.6	1.0	-0.2	-0.1
Emerging Market and Developing Economics	**4.6**	**4.0**	**4.5**	**-0.3**	**-0.2**
Emerging and Developing Asia	6.8	6.5	6.4	-0.5	-0.4
China	7.3	6.8	6.3	0.0	0.0
India	7.3	7.3	7.5	-0.2	-0.2

Source: World Economic Outlook, October 2015, IMF.

The distribution of risks to global growth is more balanced now. However, considerable downside risks still could dent global growth. Lower oil and other commodity prices could provide some upside to demand in commodity importer countries, but complicate the outlook for commodity exporter countries. Some of which already faced strained initial conditions. Emerging markets remain vulnerable in the short term to further decline in commodity prices and sharp appreciation of the US dollar, which could further strain corporate sector of some countries. The main medium-term risks for advanced economies is a further decline of already low growth into near stagnation. In this context, persistently below target inflation could become more entrenched. Increased financial market volatility can pose financial stability challenges in advanced economies with risks of substantial spillover effects onto emerging market leading to tighter financial conditions and a reversal of capital flows.

Macroeconomic Scenario of Bangladesh

Economic Growth

Bangladesh has maintained sustainable economic growth, despite the ongoing crises of global economic recovery and the adverse affect emerged from the domestic front. The economy grew at an average rate of 6.19 percent over the last decade (FY 2005-06 to FY 2014-15). According to the data released by BBS, GDP growth is provisionally estimated at 6.51 percent in FY 2014-15, reasonably higher than the growth of 6.06 percent in FY 2013-14.

Growth in the broad agriculture sector moderated at 3.04 percent in FY 2014-15, from 4.37 percent in FY 2013-14. Within the broad agriculture sector, the growth in crops and horticulture sub-sector decelerated to 1.30 percent in FY 2014-15, compared with the growth of 3.78 percent of previous fiscal year. On the other hand, growth in non-crop agriculture sub-sector (animal farming and forestry) and fishing sector performed well. At constant prices, the contribution of broad agriculture sector is 15.96 percent of GDP in FY 2014-15.

The growth in industry sector increased to 9.60 percent in FY 2014-15, up by 1.44 percentage point compared with the previous fiscal year. Manufacturing sector which accounts for 66.31 percent of industry sector and 20.17 percent of GDP, showed sharp increase from 8.77 percent to 10.32 percent compared with previous fiscal year. The growth in large and medium-scale manufacturing sector accelerated to 10.24 percent from 9.32 percent in FY 2013-14. Likewise, the growth rate of small-scale manufacturing sector accelerated to 10.70 percent from 6.33 percent in FY 2013-14. Moreover, construction sector growth increased by 0.55 percentage point to 8.63 percent in FY 2014-15. Mining and quarrying and electricity, gas and water supply sector of the broad industry sector performed well. The contribution of broad industry sector to GDP in FY 2014-15 is 30.42 percent at constant prices.

Overall service sector growth has been estimated at 5.83 percent, up by 0.21 percentage point from FY 2013-14. Among the broad service sector, except transport, storage and communication sector, all the sectors and sub-sectors performed well compared with previous fiscal year. The service sector share in GDP stood at 53.62 percent in FY2014-15.

According to the provisional estimates of BBS, per capita national income reached at US$ 1,314 in FY 2014-15, which is US$ 130 higher than the previous year. Likewise, per capita GDP reached at US$ 1,235 in FY 2014-15, which was US$ 1,110 a year earlier.

Savings and Investment

During FY 2014-15, domestic savings reached to 22.30 percent of GDP (provisional), marginally up by 0.21 percentage point from previous year. During the same period, national savings stood at 29.01 percent of GDP, marginally decreased by 0.22 percentage point from previous fiscal year. Investment in FY 2014-15 reached to 28.97 percent of GDP, up by 0.39 percentage point in FY 2013-14. The public investment increased from 6.55 percent of GDP in FY 2013-14 to 6.90

percent of GDP in FY 2014-15. On the other hand, private investment increased narrowly from 22.03 percent of GDP to 22.07 percent in FY 2014-15.

Inflation

Year-on-year inflation decreased to 6.41 percent in FY 2014-15 relative to 7.35 percent in FY 2013-14. The downward trend in inflation is largely driven by food-inflation. Food inflation declined in FY 2014-15 to 6.68 percent from 8.56 percent in FY 2013-14, while non-food inflation rose from 5.55 percent to 5.99 percent during the same period. On point-to-point basis, inflation in June 2015 slid down to 6.25 percent from 7.04 percent in June 2014. During the same month, food inflation declined from 7.94 percent to 6.32 percent, while non-food inflation rose from 5.71 percent to 6.15 percent. This is due to decline of crude oil prices and consumer goods particularly the prices of rice in international markets, satisfactory food production in domestic level, stable exchange rate and slowdown in credit. Non-food inflation increased mainly due to increase of transport and communication expenses.

Fiscal Sector

Revenue Mobilisation

The revenue mobilisation performance was broadly stable in FY 2014-15 with a moderate rise in revenues receipts. According to provisional estimates of Integrated Budget and Accounting System (iBAS), total revenue receipt in FY 2014-15 increased by 4.08 percent to Tk.1,45,958 crore over the previous year outturn. Total revenue receipts as percent to GDP reached 9.64 percent down (0.79 percentage point) compared to the preceding year's revenue earnings.

According to iBAS, tax revenues from NBR sources increased by 11.25 percent to Tk.1,23,960 crore in FY 2014-15 from Tk.1,11,422 crore in FY 2013-14. Among the NBR sources of revenue, import duties increased by 13.76 percent, VAT and supplementary duties by 12.58 percent and taxes on income and profit by 9.96 percent. Tax revenues from Non-NBR sources increased by 4.60 percent amounting to Tk.4,821 crore in FY2014-15 compared to 11.82 percent growth in FY 2013-14. Non-tax revenues contracted by 29.04 percent to Tk.17,177 crore from Tk.24,341 crore in FY 2013-14. The revenue received from non-tax sources fall mainly due to the decreased of dividend received from Bangladesh Telecommunication Regulatory Authority (BTRC).

Government Expenditure

In FY 2014-15, the total expenditure rose by 8.42 percent over the previous year outturn. As percent of GDP, Government expenditure reached 13.45 percent, around half percentage point down compared to the preceding year's expenditure. According to provisional estimate of iBAS, the total expenditure under non-development budget increased by 8.31 percent to Tk.1,44,049 crore in FY 2014-15 from Tk.1,32,998 crore in FY 2013-14. Moreover, Annual Development Programme (ADP) expenditure increased by 8.67 percent to Tk.59,571 crore in FY 2014-15, from Tk.54,817 in FY 2013-14.

Budget Balance and Financing

As per provisional estimate, the budget deficit stood at 3.81 percent of GDP (excluding grants) in FY 2014-15, of which 3.38 percent was financed from domestic sources and the remaining 0.43 percent from external sources.

Monetary and Financial Sector

Monetary Policy and Monetary Management

The monetary policy statement (MPS) for the first half of FY 2014-15 was based on certain policy directions to bring average inflation down to 6.5 percent by the end of the fiscal year, while ensuring sufficient credit growth to stimulate the economy. The MPS aimed to contain reserve money growth to 15.5 percent, broad money growth to 16.0 percent and private sector credit growth 16.5 percent (including foreign borrowing by local corporate) as programme targets by December, 2014. The year-on-year reserve money growth (14.79%) in December 2014 remained within the target, despite a surge in Net Foreign Assets (NFA) offset by the declining growth of Net Domestic Assets (NDA) arising from much lower credit demand of the Government from the central bank. Similarly, the broad money growth (13.35%) remained far below the target. However, private sector credit growth (13.50%) did not use up all the space provided in the monetary programme.

In MPS for the second half of FY 2013-14, Bangladesh Bank aimed to contain reserve money growth to 15.9 percent, broad money growth to 16.5 percent and the private sector credit growth to 15.5 percent. However, at the end of June, 2015 reserve money and broad money growth stood at 12.4 percent and 14.3 percent respectively. Growth in broad money declined due mainly to slow growth in net foreign assets (NFA) and substantial decrease in public sector credit, while the private sector credit (13.19%) significantly below the targeted level.

Money and Credit Situation

During FY 2014-15, the year-on-year growth of narrow money (M1) increased by 13.53 percent below from the growth of 14.60 percent in FY 2013-14. The lower growth of M1 was mainly due to significant decrease in demand deposit growth (from 15.50 percent at end June, 2014 to 12.56 percent at end June, 2015), despite a slight increase of currency notes and coins (from 13.85 percent to 14.34 percent) with the public.

Similarly, in FY 2014-15, M2 increased by 12.42 percent, significantly lower than 16.09 percent growth a year earlier. During this period, growth of time deposit increased by 12.13 percent compared to the increased of 16.48 percent mainly attributed to decrease in broad money growth. On the other hand, reserve money increased by 14.33 percent at the end of June, 2015, as compared to 15.46 percent growth in the previous year. The decreasing trend in growth of reserve money was mainly attributable to the lower increase in Net Foreign Assets (NFA) of

Bangladesh Bank by 20.27 percent. However, Net Domestic Assets (NDA) of Bangladesh Bank increased by 64.07 percent from a negative growth of 290.64 percent during this period.

Year-on-year growth in domestic credit was 9.97 percent during FY 2014-15, significantly lower than 11.57 percent during FY 2013-14. Sector-wise analysis of domestic credit indicates that the net credit to the Government sector decreased by 6.18 percent at the end of June 2015 as compared to the growth of 6.72 percent during the previous year. Private sector credit growth was 13.19 percent in FY 2014-15, slightly higher than year-on-year growth of 12.27 percent in FY 2013-14.

Interest Rate

Bangladesh Bank's efforts continued to banks to take initiatives with a view to rationalising the rate of interest through creating competitive environment among the banks. Besides, banks are advised to limit the difference between lending and deposit rates or intermediation spread within lower single digit except high risk consumer credit (including credit card) and SME loans. The weighted average lending rate of commercial banks decreased to 11.67 percent at the end of June 2015 from 13.10 percent of end June 2014. Similarly, the deposit rate decreased to 6.8 percent from 7.79 percent of the same period of previous year. The interest rate spread also decreased slightly to 5.13 percent at the end of June, 2015 from 5.6 percent of June, 2014.

Capital Market

The capital markets remained relatively stable during FY 2014-15. Reforms undertaken by the Government and Securities and Exchange Commission (SEC) to improve the market discipline and strengthen the market monitoring have helped stabilise the capital market. The number of listed securities (including mutual funds and debenture) of Dhaka Stock Exchange (DSE) increased from 536 at the end of FY 2013-14 to 555 at the end of FY 2014-15. The issued capital increased by 5.80 percent from Tk.1,03,207.64 crore to Tk.1,09,195.35 crore during the same period previous fiscal year. The market capitalisation of all shares of the listed securities at the end of FY 2014-15 stood at 21.45 percent of GDP, decreased by 0.45 percentage point at the end of FY 2013-14. The DSE Broad Index (DSEx) increased by 2.29 percent at the end of FY 2014-15.

On the other hand, the number of listed securities (including mutual funds and bonds) of Chittagong Stock Exchange (CSE) increased from 276 in FY 2013-14 to 292 in FY 2014-15. The issued capital increased by 6.49 percent from Tk.47,072.19 core to Tk.50,130.63 during the same period. Market capitalisation of CSE at the end of FY 2014-15 stood at 15.66 percent of GDP, which was 1.36 percentage point of GDP lower compared to market capitalisation at the end of FY 2014-15. The general index increased by 2.40 percent in FY 2014-15 compared to the index at the end of previous fiscal year.

External Sector

Export

Despite the downturn in the global economy and the pace of slow and uneven recovery that has caused reduction in global domestic demand, Bangladesh's export earnings are still maintaining positive growth momentum. The exports registered a growth of 3.39 percent in FY 2014-15 amounting to US$31,208.94 million. Export of woven garments and knitwear products increased by 3.13 percent and 5.00 percent respectively in FY 2014-15 compared to the same period of previous year. Among the other major export items, earnings from leather and leather products (0.56%), pharmaceuticals (4.91%), Jute and Jute goods (5.34%) and engineering products (21.67%) contributed to the overall export growth, although export earnings declined for frozen food (10.99%), agricultural products (4.72%) and petroleum products (52.24%).

County-wise export data shows that USA is the main destination of Bangladesh's export commodities. In FY 2014-15, the export earnings from USA stood at US$ 5,783.4 million, which is 18.5 percent of the total export. The second largest destination of country's export commodities are Germany (15.1%), followed by UK (10.3%) and French (5.6%).

Import

Import payments remained strong in FY 2014-15, increased by 11.30 percent compared to the preceding year. The total import payments (c&f) stood at US$ 45,190.20 million during FY 2014-15, up from US$ 40,616.40 million of the preceding year. The rise in imports of industrial commodities (30.80%) contributed to achieve the growth, despite the deceleration of primary commodities (16.30%). Within the industrial commodity, capital machinery (45.15%), petroleum products (16.54%), fertilizer (30.51%) and yarn (22.91%) contributed significantly to the overall increase of imports.

Remittance

The inflows of remittance rebounded and increased by 7.65 percent in FY 2014-15, amounting to US$15,316.90 million, compared with the negative growth of 1.61 percent a year earlier. The increased of overseas employment, especially in middle-eastern countries, was the main reason for higher remittance inflows. In FY 2014-15, 4,61,829 workers went abroad for jobs, up by 12.95 percent in the previous year. In FY 2014-15, remittance inflows from Saudi Arabia increased by 7.23 percent, UAE by 5.17 percent, USA by 2.45 percent, Qatar by 20.47 percent, Oman by 30.55, Singapore by 3.33 percent, Bahrain by 20.66 percent and Malaysia by 29.75 percent. On the other hand, remittance inflows from Kuwait decreased by 2.63 percent and UK by 9.86 percent.

After long six years, Saudi Arabia has re-opened its labour market for Bangladeshi workers, which indicates future growth prospects for manpower export. 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 labour force to meet the demand of overseas labour markets will continue.

Balance of Payments

The Balance of Payments (BoP) accounts reveal that trade deficit widened significantly from US$6,794 million in FY 2013-14 to US$9,917 million in FY 2014-15. Despite 7.6 percent growth in inward remittances, higher trade deficit along with 12.91 percent increased in service account and 13.66 percent increased in primary income account lowered the current account surplus from US$1,406 million in FY 2013-14 to deficit of US$1,645 million in FY 2014-15. The capital and financial accounts recorded a surplus of US$5,641 million, from US$3,411 million over the same period. The deficit of the current account balance is offset by the capital and financial account surpluses, leading to the overall balance increased to US$4,373 million from US$5,438 million a year earlier. Higher net medium and long term credits, large deficit in net trade credit lead the increase of overall balance of the Balance of Payments.

Foreign Exchange Reserve

Foreign exchange reserves exceeded the US$20 billion mark in April 2014. On 30 June 2014, foreign exchange reserves stood at US$21,508 million. Foreign exchange reserve continued to grow and on 30 June 2015 reserve reached at US$25,020 million, providing about seven months of import coverage.

Exchange Rate

Exchange rate of Taka against US dollar remained almost stable during FY 2014-15, due to central bank active exchange rate management. The weighted average interbank exchange rate stood at Taka 77.67 per US Dollar in FY 2014-15 while it was Taka 77.72 per US$ in FY 2013-14 showing appreciation of about 0.05 percent. But Taka appreciated against Indian rupees by 1.57 percent, UK Pound Sterling by 3.16 percent and EURO by 11.38 percent

Reform Initiatives in Macroeconomic Management

A number of reform initiatives were undertaken to ensure a stable macroeconomic situation in the country during FY 2014-15. Some of these are as follows:

Revenue Mobilisation

- Complication in tax calculation has been reduced and an attempt of attracting more taxpayers to the tax net has been made
- Compliance with the standards and systems introduced by (WCO) has increased
- New Value Added Tax and Supplementary Duty Act, 2012 has been enacted which will be effective from July, 2016
- 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.

Budget Management

- With a view to enhancing efficiency of public expenditure management, various ministries/divisions have prepared budget implementation plans and procurement plans under the Medium Term Budgetary Framework (MTBF).
- In order to bring their achievements of financial and non-financial targets to the notice of the stakeholders, initiatives have been given to prepare Annual Performance Reports of selected ministries/divisions.
- To make public expenditure management more disciplined and transparent, steps have already been taken to revise the existing classification framework to make it consistent with international standard and practices.

Annual Development Programme (ADP) Implementation

- For proper and expeditious implementation of ADP, the progress status of 10 major ministries/divisions is reviewed since FY 2009-10
- Steps have been taken to accelerate the pace of implementation of 50 slow-moving projects, identify projects facing slow foreign aid disbursement problem and scale up disbursement through quarterly tripartite meetings
- Emphasis has been laid on prioritisation of projects, and monitoring their implementation on a regular basis
- 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

- In order to reduce the systematic risk, highly vulnerable institutions are being identified and advance signals are being provided through the review of financial statements of the banks by operating stress-testing programme.
- To develop a method on Domestic Systematically Important Bank (DSIB) recognition for Bangladesh financial system following the international standard and work of special strategy preparation for supervisions of such banks are going on.
- To meet any emergency regarding liquidity crisis in banking sector, to protect or deal probable disaster and to stimulate the central bank as the lender of last resort, compilation of a framework is ongoing. This framework will play an important role to stabilise the financial system in normal situation as well as in time of financial crisis.
- Consistent with international best custom to make capital base of banks risk tolerant and sustainable Bangladesh Bank has issued an amended guidelines on capital adequacy ‘Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for Banks in line with *Basel* III)’ in 2014. These guidelines will be implemented by the

Bangladesh Bank from 1 January, 2015 to till December, 2019 and from 1 January, 2020, *Basel* III Guidelines will be fully implemented.

- National payment switch (NPS) has been implemented bringing epoch making impact in the national payment systems. The private sectors as well as the government sector payments are now being undertaken with the modern technology bringing down the transaction costs significantly and widening the service delivery throughout the country irrespective of location and place.
- To strengthen the money laundering and terrorism financing prevention programme, BFIU has already been got the access to the database of Credit Information Bureau (CIB) of Bangladesh Bank, Bangladesh Automated Clearing House (BACH), and export and import, travel and miscellaneous and inward remittance flows.
- Bank, financial institutions and insurance companies have started to submit online Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) through *goAML* software procured by BFIU. Besides, stock dealer and stock brokerage house, and portfolio manager and merchant bank (subsidiaries of bank and FIs) of capital market, and assets managers are providing required information as desired by the BFIU through *goAML* software.

Capital Market

- Bangladesh Securities and Exchange Commission (BSEC) issued notification on 18 December, 2014 imposing conditions for IPO, right issue and issue of capital.
- BSEC issued directive on 12 January, 2015 regarding maintenance of provision against re-valued unrealised loss of Stock Brokers/ Dealers and Merchant Bankers and their clients portfolio.
- BSEC issued order on 13 May, 2015 about circuit breaker regarding price change limits in the daily transaction of listed securities in the stock exchange.
- BSEC issued notification on 22 June, 2015framing Bangladesh Securities and Exchange Commission (Alternative Investment) Rules, 2015.

Medium Term Prospect of Bangladesh Economy

The Medium-Term Macroeconomic Framework (MTMF), FY 2015-16 to FY 2017-18 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 7.0 percent for FY 2015-16, which will gradually increase to 7.2 percent in FY 2016-17 and 7.4 percent in FY 2017-18. Investment in terms of GDP is expected to increase 30.1 percent in FY 2015-16 from 29.0 percent in FY 2014-15, will scale up to 31.0 percent in FY 2016-17 and 31.8 percent in FY 2017-18.

In order to achieve this growth targets, the Government has been implementing a wide range of reform programmes with a view to reducing infrastructure deficits and accelerating private sector

investment. Besides, the policy schemes that will receive much attention over the medium term encompass enhancing productivity in agriculture and industry, robust growth in remittance, expansion of domestic demand etc. As in the past, growth enhancing sectors will receive priority in the case of public investment. In particular, more resources will be allocated to the development of physical and social infrastructure sectors like power, energy, communication, transportation, port development, education, health, and ICT. For sustainable growth in agriculture sector, Government support will continue in terms of subsidy, flow of agricultural credit, innovation of new variety of salinity tolerant seed and increasing assistance to agro-based industries. The improvement in the external demand and enhanced domestic demand for manufactured goods is expected to underpin sustained expansion of domestic manufacturing base. Adequate investments in physical and social infrastructure: education, health, skill development and digitalization will be critical to underpin higher growth in manufacturing and service sector.

In the MTMF for FY 2015-16, the revenue target is estimated at 12.1 percent of GDP, which will go up to13.1 percent in FY 2017-18. All legal, procedural, structural and administrative reforms have already been taken up for scaling up revenue earnings which will be continued over the next years. Besides, new Value Added Tax (VAT) law, which will be effective from July 1, 2016, 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 17.2 percent of GDP in FY 2015-16 which is expected to be 17.6 percent in FY 2017-18. Therefore, overall budget deficit will stay within 5 percent of GDP during the period. For financing the deficit, Government has planned to reduce borrowing from the banking system. In this regard, priority has been given to foreign assistance which were committed and in pipe line.

Expenditure on ADP is planned to increase 6.0 percent of GDP in FY 2015-16 and expected to reach 6.6 percent of GDP in FY 2017-18. ADP is the key tool for public investment and the foremost challenge is its successful implementation. A taskforce has been formed to monitor ADP implementation of ten big ministries. Side by side, steps have been taken to accelerate the pace of implementation of 50 slow-moving projects, identify projects facing slow foreign aid disbursement problem and scale up disbursement through quarterly tripartite meetings. As a result, the rate of ADP implementation has increased.

The Government has been pursuing a monetary policy stance to maintain macroeconomic stability and to keep inflation in check. The inflation stood at 6.4 percent in FY 2014-15, which was 7.4 percent in FY 2013-14. While setting MTMF targets, it was expected that inflation will be sliding down to around 6.2 percent in FY 2015-16 and will remain at 6.0 percent in the next two fiscal years. Emphasis has also been given on ensuring credit flow to productive and priority sectors including agriculture and SME sectors. Moreover, in order to contain inflation, the Government keeps on taking initiatives such as increasing food production, ensuring uninterrupted food supply and food security.

The remittances from expatriate Bangladeshi workers grew by 7.7 percent in FY 2014-15 which has been estimated to be 10.0 percent in FY 2015-16 and 11.0 percent for next two fiscal years. It is expected that concerted efforts on exploring new labour markets and intensive diplomatic initiatives will increase expatriate employment and contribute towards sustaining the existing trends of remittance of flows. The current account balance (CAB) will decrease but expected to remain within 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 FY 2015-16 to FY 2017-18.

Table 1.2: Medium Term Macroeconomic Framework, FY 2015-16 to FY 2018-19: Key Indicators

Indicators	2012-13	2013-14	2014-15	2014-15	2015-16	2016-17	2017-18
	Actual	Actual	Budget Target	Revised Budget	Projection	Projection	Projection
Real Sector (% change)							
Real GDP	6.0	6.1	7.3	6.5	7.0	7.2	7.4
CPI Inflation	6.8	7.4	6.5	6.5	6.2	6.0	6.0
Investment (% GDP)	28.4	28.6	29.7	29.0	30.1	31.0	31.8
Fiscal Sector (% of GDP)							
Total Revenue	**10.7**	**10.4**	**12.0**	**10.8**	**12.1**	**12.7**	**13.1**
Tax Revenue	9.0	8.6	10.2	9.3	10.6	11.1	11.4
Non-Tax Revenue	1.7	1.8	1.8	1.5	1.5	1.7	1.7
Public Expenditure	**14.7**	**14.0**	**16.4**	**15.8**	**17.2**	**17.4**	**17.6**
Of which ADP	4.1	4.1	5.2	5.0	5.7	5.8	5.9
Overall Balance	**-4.0**	**-3.6**	**-4.4**	**-5.0**	**-5.0**	**-4.7**	**-4.6**
Domestic Financing	2.9	2.8	2.8	3.6	3.3	2.8	2.7
External Financing (net)	1.1	0.7	1.6	1.4	1.8	1.8	1.8
Money and Credit (Year-on-year % change)							
Domestic Credit	11.0	11.6	17.3	17.3	17.9	17.1	16.3
Credit to the Private sector	10.8	12.3	15.5	15.5	16.0	16.0	16.0
Broad Money	16.7	16.0	16.5	16.2	16.5	16.6	16.7
External Sector (% Change)							
Export, f.o.b	10.7	12.0	10.0	5.0	12.0	12.0	12.0
Import, f.o.b	0.8	8.9	10.0	12.0	11.5	11.5	11.0
Remittance	11.6	-1.6	10.0	7.0	11.0	11.0	11.0
Current Account Balance (% GDP)	1.5	0.9	0.5	-1.0	-1.2	-1.2	-1.1
Memorandum Item							
GDP at current market prices (Billion Tk.)	11989	13437	15299	15136	17167	19463	22085

Source: Finance Division, Ministry of Finance