

Executive Summary

Global Economy

Global growth for 2018-19 is projected to remain steady at its 2017 level of 3.7 percent. However, its pace is less vigorous than projected in last April and it has become less balanced.

The downward revision reflects surprises that suppressed activity in early 2018 in some major advanced economies, the negative effects of the trade measures implemented or approved between April and mid-September. It also indicates a weaker outlook for some key emerging market and developing economies arising from country-specific factors, tighter financial conditions, geopolitical tensions and higher oil import bills.

Among advanced economies, growth disappointed shows in the euro area and the United Kingdom. Slower export growth after a strong surge in the final quarter of 2017 contributed notably to the euro area slowdown. Higher energy prices helped dampen demand in energy importers, while some countries were also affected by political uncertainty or industrial actions.

Aggregate growth in the emerging market and developing economy group stabilised in the first half of 2018. Emerging Asia continued to register strong growth, supported by a domestic demand-led pickup in the Indian economy from a four-year-low pace of expansion in 2017.

Higher energy prices have lifted headline year-over-year inflation rates in advanced and emerging market and developing economies over the past six months. Core inflation that is, excluding food and energy-

remains below central banks' targets in most advanced economies. Among emerging market and developing economies, excluding Venezuela's hyperinflation, core inflation remains below the average of recent years but has inched up in recent months.

Macroeconomic Scenario: Bangladesh Context

The Bangladesh economy has been able to maintain sustained economic growth. The economy grew at a rate of 7.86 percent in FY2017-18, satisfactorily up from 7.28 percent growth in FY2016-17. The per capita national income reached US\$1,751 in FY2017-18, up by US\$141 a year earlier.

During the period broad agriculture sector registered a growth of 4.19 percent, up by 1.22 percentage points compared to the previous year due to the better performance of most of its sectors and sub-sectors. Crop and horticulture sector grew by 3.06 percent, 2.10 percentage point higher than the previous year. Broad industry sector grew by 12.06 percent, higher than the growth of 10.22 percent in the previous year. Of the manufacturing sector, large and medium-scale manufacturing sector grew at a pace of 14.26 percent compared to the growth of 11.20 percent in the preceding year. Growth of broad service sector slightly decreased to 6.39 percent in FY2017-18 from 6.69 percent in FY2016-17.

In demand side, the consumption expenditure stood at 77.17 percent in FY2017-18. Gross domestic savings slightly decreased to 22.83 percent of GDP in FY2017-18, from 25.33 percent a year earlier. However, national

savings as percent of GDP reduced to 27.42 percent in FY2017-18 from 29.64 percent in FY2016-17. On the other hand, investment-GDP ratio increased to 31.23 percent in FY2017-18, from 30.51 percent in previous fiscal year.

The Consumer Price Index (CPI) inflation rate in FY2017-18 was 5.78 percent at national level, which was 5.44 percent in FY2016-17. Satisfactory domestic production, favorable domestic environment, low budget deficit and prudent monetary policy coupled with low fuel and commodity prices in the international markets contributed to subdue inflation level.

In FY2017-18 satisfactory growth has been achieved in revenue receipts. During this period, revised target for revenue receipt was set at Tk.2,59,454 crore (11.53% of GDP), of which tax revenue from NBR sources was marked at Tk.2,25,000 crore (10.00% of GDP), tax revenue from non-NBR sources at Tk.7,500 crore (0.33% of GDP) and non-tax revenue at Tk.26,953 crore (1.21% of GDP). Against these targets as per the provisional estimates of Integrated Budget and Accounting System (*iBAS++*), tax revenues received during the concerned year amounted to Tk.2,01,596 crore, up by 17.45 percent from the previous year. Non-tax revenues reduced by 4.15 percent to Tk.22,326 crore from Tk.22,994 crore during the same period. Attaining 89.35 percent of the revised target, total revenue receipt in FY2017-18 increased by 14.38 percent to Tk.2,31,829 crore over the previous year outturn.

During FY2017-18 tax revenue receipts from NBR sources amounted to Tk.2,01,596 crore which was 17.29 percent higher than the

previous year's receipt. Among the NBR sources of revenue, taxes on income and profit increased by 15.50 percent, Value Added Tax (VAT) reached at 17.77, supplementary duties by 20.42 percent and import duties by 18.10 percent.

The government expenditure as percentage of GDP has been increased gradually. Government expenditure increased to 14.27 percent in FY2017-18 from 13.60 percent in FY2016-17. The utilisation of ADP allocation was 95 percent in FY2017-18. Currently, the larger portion of ADP is financed from domestic sources. A slight reduction has been occurred in Aid flow in FY2017-18 compared to the previous fiscal year.

The monetary policy strategy for FY2017-18 was targeted to maintain an annual average inflation rate below 6.0 percent. To keep inflation within desired level the Monetary Policy Statement (MPS) for FY2017-18 set targets for broad money and reserve money growth at 13.3 percent and 12.0 percent respectively. However, at the end of June 2018 broad money and reserve money growth stood at 9.24 percent and 4.04 percent against 10.88 percent and 16.28 percent increase in FY2016-17 respectively. On the other hand, though lending rate and deposit rate both have slightly increased from June 2017 to June 2018, the intermediation spreads lid down to 4.45 percent at the end of June 2018 from 4.72 percent at the end of the previous fiscal year.

Although, in case of Dhaka Stock Exchange, the price index slightly decreased, market capitalisation slightly increased from June 2017 to June 2018. On the other hand, both

the price index and market capitalisation of Chattogram Stock Exchange stirred in upward direction in FY2017-18. For ensuring stable and smooth operation of the capital market and restoring the confidence of general investors several restructuring activities were carried out during this period.

Country's export earnings stood at US\$ 36,668 million in FY2017-18, which is 5.81 percent higher than the export earnings (US\$ 34,656 million) in FY2016-17. On the other hand, import payments (c&f) stood at US\$58,865 million in FY2017-18, which is 25.23 percent higher than the import payments of US\$47,005 million in the preceding year.

Trade Deficit has increased significantly at US\$18,258 million in the FY2017-18 compared to US\$9,472 million in FY2016-17 because of high import payments. However, remittances inflows registered a growth of 17.32 percent to US\$14,981.69 million.

During FY2017-18, the current account of balance of payment shows a deficit for high growth of imports. Import expenditures have boosted up massively because of increasing private investment and implementation of mega projects. However, the increase in foreign direct investment, medium and long term loans inflow of the capital and financial accounts contributed to ease the effect. As a result, foreign exchange reserve remained stable and reached at US\$32.9 billion at the end of FY2017-18, which allowed slight depreciation of the exchange rate against US dollar.

The GDP under the Medium Term Macroeconomic Framework (MTMF) has been projected to grow at the rate of 7.8

percent in FY2018-19 which is expected to be achieved through the implementation of prudent fiscal management, effective application of cautious monetary policy, appropriate management of expenditure, sound implementation of the reform activities.

Agriculture

Over the last few years, there has been an increasing trend in food production. According to the BBS, in FY2017-18, food grains production stood at around 413.25 lakh metric tons (MT). In the same fiscal year, the total internal procurement of food grains was 16.7 lakh MT, total import of food grains through public and private sectors was 83.8 lakh MT. In addition, an amount of Tk.20,400 crore was targeted to be disbursed as agricultural credit against that Tk.21,393 crore was disbursed till June 2018, which was 104.87 percent of the target.

In order to scale up productivity, subsidy in agricultural inputs was increased, as well as enhanced coverage and increased availability of agricultural credit was ensured. Programmes have been launched to popularise the use of organic and balanced fertiliser to maintain soil fertility and productivity. Considering the importance of increased productivity of agricultural products, an amount of Tk.6,000 crore was allocated in the revised budget of FY2017-18 to provide subsidy on fertiliser and other agricultural inputs.

Industry

In FY2017-18, the contribution of the manufacturing sector in real GDP is 22.85 percent which was 21.74 percent in FY2016-

17. In fact the government is persistently taking comprehensive measures for developing and flourishing of all industrial sectors of the country. In order to accelerate the pace of industrialisation of the country the government announced the 'National Industrial Policy-2016'. The important and underlying objectives of the 'Industrial Policy-2016' include sustainable and inclusive industrial growth through generation of productive employment creating new entrepreneurs, mainstreaming women in the industrialisation process and international market linkage. The government is continuing its efforts to achieve this goal by providing loans and other ancillary supports through banks and other financial institutions. As a result the volume of both distribution and recovery of industrial loan are on the increase. The EPZs are playing special role in the process of promoting rapid industrialisation and attracting foreign direct investment

State-owned Enterprises (SOEs)

Likewise the last three consecutive years, the state-owned enterprises earned a net profit of Tk.9,308.94 crore (after tax) in FY2016-17 and contributed Tk.2,003.35 crore to the national exchequer in FY2017-18. The total Debt Service Liabilities (DSL) against 116 SOEs stood at Tk.2,13,015.63 crore in FY2016-17. In the same year the operating profit on assets decreased to 2.87 percent from 3.46 percent, net profit on operating revenue to 6.21 percent from 7.97 percent. The rate of dividend on equity increased to 4.13 percent in FY2017-18 from 2.68 percent in FY2016-17.

Power and Energy

At present, 90 percent people of the country are under electricity coverage. During FY2017-18 the total installed electricity generation capacity stood at 15,953 MW of which the highest generation was 10,958 MW. In FY2016-17, the net electricity production (including renewable energy) was 57,276 million kWh which increased to 62,678 million kWh in FY2017-18. The total system loss in transmission and distribution of electricity reduced substantially to 11.87 percent in FY2017-18 from 15.73 percent in FY2009-10.

Around 71 percent of the country's total commercial consumption of energy is met by natural gas. A total of 27 gas fields have been discovered till June 2018 from which about 15.70 trillion cubic feet of gas has been produced cumulatively leaving recoverable net at 12.11 trillion cubic feet. In addition, the country has a reserve of about 13.21 MT fuel oil. In order to secure energy supply of the country in long term, the highest emphasis is given on the diversification of energy sources, particularly on the efficient and best use of energy.

Transport and Communication

Lots of projects/programmes are being implemented on priority basis in order to develop a well-knit and efficient transport and communication system that would synchronise with international and regional transport, information and other communication networks. The activities to construct/reconstruct roads, bridges and culverts are continuing. In addition, several major projects such as *Padma* Bridge, Metro-rail, Dhaka Elevated Express Way are being

implemented in this regard. To sustain the role of rail as a dependable, affordable, environment-friendly and compatible mass-transport system, a wide range of development activities are carried on. Bangladesh Railway has implemented 64 projects at a cost of Tk.14091.16 crore since 2009. A number of programmes are also being implemented for dredging of dying river ways, development and maintenance of navigability of different river routes, ensuring safe movement of water crafts. Development of inland river ports and establishment of infrastructure facilities to carry container goods in inland waterways are also going on. Biman Bangladesh Airlines Limited is conducting international and national flights in different routes with limited resources. In FY2017-18, Biman has carried 25.88 lakh passengers and 33,542 tonnes of cargo. To modernise and improve the information and communication technology sector conforming to SDGs and the 7th Five Year Plan a wide range of initiatives have been undertaken. Up to May 2018, total number of mobile phone subscriber is 15.072 crore. Bangladesh launched its first satellite ‘Bangabondhu Sattelite-1’ to the Space successfully on 12 May 2018. Various development projects and programmes are in progress to ensure the use and application of information and communication technology by increasing digital literacy at all walks of life. The government also provides public service through IT-based activities. The final target of the government is to build a modern and developed Bangladesh through the introduction of e-governance and e-commerce.

Human Resources Development

Two-third of our total population is currently active. The government is implementing different types of development programmes to accumulate demographic dividend by utilising the huge number of working age people. The government has allocated around 24 percent of the annual budget to the HRD related sectors. Various programmes including the adoption of the ‘Education Policy, 2010’ have been undertaken to create skilled and competent Human Resources for the country. For this reason, the government enhances the quality of education and increases accessibility to Secondary and Higher Secondary, Technical and all tiers of higher education. As a result of the government’s policy for recruiting 60 percent female teachers in the government primary schools, the number of female teachers has increased from 21 percent in 1991 to 63 percent in FY2017-18. Bangladesh has fulfilled health sector’s related Millennium Development Goal prior to the stipulated period because of taking many priority based programmes to health, nutrition and population sector. In this regard, Bangladesh has won ‘UN South South Award’ twice. Both fertility and mortality rates have come down. Remarkable progress has been made in reducing child and maternal mortality and in increasing average life expectancy. Malnutrition has also been reduced significantly. Currently, Bangladesh is working hard for achieving health sector related goal and targets of Sustainable Development Goals (SDGs). In order to ensure the desired development of women and to ensure their participation in the national development activities the

government has legislated ‘National Women Development Policy-2011’. Furthermore, ‘Domestic Violence (Prevention and Protection) Act-2010, has been enacted to prevent violence against women and children. Apart from, the government has formulated ‘National Child Policy-2011’ and ‘Child Marriage Prevention Act-2017’. As a result of implementation of various development programmes, Bangladesh is gradually improving in the Human Development Index (HDI). According to the Human Development Report, 2017 the position of Bangladesh has been improved to 136 which was 138 in 2016.

Poverty Alleviation

Bangladesh has achieved remarkable development in poverty alleviation during last few years. Not only the rate of poverty is decreased, but also the incidence and depth of poverty has been reducing regularly. Because of effective implementation of different government and non-government development programmes, poverty rate declined 15.7 percentage points within a decade (40% in 2005 reduced to 24.3% in 2016). According to the 7th Five Years Plan (2016-2020), it has been targeted to reduce poverty rate at 18.6 percent by 2020. With a view to achieving the desired target of poverty alleviation, the government gives special importance in social safety net programmes. For this reason, the scope and allocation of social safety net programme is being extended every year. In order to bring efficiency and effectiveness of social safety net programmes, Bangladesh follows the life cycle approach of social safety net. For this purpose, Bangladesh has already formulated ‘National Social Security Strategy (NSSS)’.

In FY2017-18 an amount of Tk.48,524 crore has been allocated against social safety net programmes. The allocation is 13.06 percent of the budget and 2.17 percent of GDP of the same fiscal year. Presently, the Government is working to achieve poverty and hunger related targets to the Sustainable Development Goals (SDGs). The Government has fixed up the target to deduce poverty rate at 9.7 percent and malnutrition rate less than 10 percent by 2030.

According to the Labour Force Survey (LFS) 2016-17, the number of economically active population (above 15 years) in the country is 6.35crore (male 4.35 crore and female 2 crore), out of which, 6.08 crore is engaged in a number of professions. According to the survey, total labour force employed in agriculture stood at 40.60 percent which is 2.10 percentage points less compared to the previous LFS-2015-16.

Private sector Development

With a view to attaining sustainable development, it is very necessary to invest in economic sector especially in industry and production sectors. The government is working for the overall development of investment scenario for the purpose of increasing domestic and foreign investment which relates to development activities. Now, the government is implementing different development projects under Public-Private Partnership (PPP) model. In FY2016-17 a total of 1,745 private projects were registered in Bangladesh Investment Development Authority (BIDA) with recommended amount of Tk.18,52,618 million, which stood at Tk.20,72,925 million in FY2017-18 for 1,643 projects. In 2017, a

total amount of US\$2,151.6 million flowed as Foreign Direct Investment (FDI) in the country which was US\$2,333 million in 2016. In FY2017-18, a total of 62,678 million kilowatt-hours of electricity was produced, out of which 50 percent had been generated by private sectors. Bangladesh has achieved stable credit rating by Moody's (Ba3) and S&P (BB-) for the ninth consecutive time.

Environmental, Climate Change and Development

Environmental development is a great challenge for Bangladesh. The government of Bangladesh is working relentlessly to create a pollution free and eco-friendly country by adopting and implementing various environment-friendly plans, policies and programmes. The government is implementing 'Vision 2021' incorporating the environmental development as one of the most important goals. Already, Bangladesh has formulated a detailed work plan to ensure implementation of environmental targets of SDG's. 'Bangladesh Climate Change Strategy and Action Plan, 2009 (BCCSAP

2009)' is being implemented to address the impact of climate change where both adaptation and mitigation activities have been considered. 'Bangladesh Climate Change Trust Fund (BCCTF)' has been formed with national resources for implementation of BCCSAP 2009. In addition, government has enacted 'Climate Change Trust Fund Act, 2010' and 'Climate Change Trust Fund Guidelines' for better management of BCCTF. Furthermore, 'Bangladesh Climate Change Resilience Fund (BCCRF)' has also been formed with the assistance of Development Partners. The Ministry of Environment, Forest and Climate Change has also undertaken many awareness programmes and reform activities for environment conservation including Ozone Layer Protection and Pollution Control. 'National Bio safety Framework' and 'National Biodiversity Strategy and Action Plan' are being implemented. The Ministry of Disaster Management and Relief is implementing various programmes in order to tackle eventualities emanating from natural disasters.