

State of the Bangladesh  
Economy in FY2006-07

Chapter I

## 1. INTRODUCTION

2006-07 has been an unusual year in the economic history of Bangladesh. Its duration spanned over three consecutive governments – the immediate past political government, the first caretaker government (CTG) and the second (and the ongoing) caretaker government. The three regimes were characterised by their own distinct pattern of governance, as well as vision and objectives. The outgoing political government was leaving with an impression of high debt - high expenditure, a regular practice in Bangladesh whenever a regime approached the end of its term. Tension was building within the political system as regards the nature of transition to the next elected government. The first caretaker government took oath in a situation fraught with widespread violence, trying desperately to avoid chaos and go along with the constricted objective of a CTG - creating an environment for a free and fair election, following a “go slow” policy in terms with the arena of economic management.

The takeover of the second caretaker government coincided with declaration of a State of Emergency in Bangladesh. Unlike other CTGs, the tenure of this government remained by and large undecided. The CTG subsequently confirmed this situation to be in place till the end of 2008. In terms of scope, the new CTG decided to go beyond the limited task of preparing for the election. Important reform initiatives were undertaken that were thought to be crucial for holding a free and fair election. The CTG also set itself the task of addressing short and medium term issues of economic development and good governance. Massive drive against corruption was taken risking short term negative impacts through disruption of supply chain and overall market, alongside investors’ confidence with a view to benefits reaping in the long run.

Inspite of the environment of creeping political

tension during the first half of the fiscal year, the economy persisted to work out its escape route and continued to register some progress. This economic progress was largely pushed by impressive performance of the large informal sector and the exporting sector, which during the first half of the fiscal year demonstrated a high degree of persistence and resilience in the face of uncertainties and formidable challenges. Both these sectors had limited relevance in the context of formal domestic policy making and had acquired autonomy of its own in respective spheres. Thus the negative impact of instability in the domestic political scene was somewhat neutralized by these positive forces, which in turn had left their footprints on macroeconomic performance during a period of extraordinary developments.

A fiscal year spanning over three successive governments governing under distinct circumstances obviously created a plan vacuum. It is in this critical context that the third reading of the Centre for Policy Dialogue’s (CPD’s) Independent Review of Bangladesh’s Development (IRBD) was released in June 2007, just prior to the placement of National Budget for FY2008. The purpose of that CPD contribution was to invoke policy debate and discussion with regard to assessment of outcomes of FY2007 and the outlook for FY2008. The present chapter of this particular IRBD volume, the final reading of IRBD 2007, is an update of this earlier version which has been enriched through access to more recent data and information.

This chapter of the IRBD first highlights the unique features of FY2007 and then takes a closer look at public finance, monetary sector, real economy and external sector. Finally, the paper seeks to articulate the outlook for FY2008 and anticipate some of the challenges for the caretaker government in the coming months.

## 2. BENCHMARK SITUATION IN FY2007

### 2.1 Macroeconomic Benchmark at the Beginning of FY2007

Fiscal year 2005-06 (FY2006) concluded with a respectable growth rate of 6.71 per cent (this provisional figure was later revised to 6.62).

However, the fiscal balance remained fragile, underpinned by perennial factors such as poor revenue mobilization, high growth of revenue expenditure, weak implementation of public investment programmes and low foreign aid disbursement. Macroeconomic correlates were

further strained, owing to moderate credit expansion in manufacturing and agriculture sectors. The balance of payments situation came under some pressure, particularly balance of trade, as imports continued to surpass exports, nonetheless, buoyant remittance flow emerged as the savior which provided a much needed cushion and ensured an overall positive overall balance in the current account. While a shortfall in foodgrain production remained a concern, respectable growth in manufacturing sector was a welcome development. On the flip side, FY2006 experienced sustained inflationary trend with rural population being the worst victim. Frequent power outages were a reality, which affected not only trade and investment, but also disrupted normalcy in public life. Capital market failed to attract increased liquidity from the domestic sources, while policy decisions on some large scale FDI projects remained unresolved.

## 2.2 Major Developments in FY2007

FY2007 witnessed a number of developments which had positive implications for the performance of the economy in that period. These included improvements in income tax collection,

sustained manufacturing growth, robust export growth, rejuvenated capital market and buoyant remittance flow. Reform efforts were also giving some positive results such as improvements in the port operation, movements of goods, strengthening of the Anti Corruption Commission etc.

However, the positive developments were accompanied by other factors that undermined the functions of the economy. These included weak aggregate revenue mobilisation, higher revenue expenditure, all time low implementation of ADP, crisis of fertiliser availability, fall in gross disbursement of agricultural credit, stagnant foodgrain production, acute shortage of electricity and delinquent enforcement of new pay scale in the RMG sector. There was also the increasing political turmoil culminating with the changeover to a reconstituted CTG in the middle of FY2007. This coincided with the declaration of a State of Emergency that has continued till the present time. The consequence of the adverse factors was aggravated by a serious price-hike of essentials throughout the year, fuelled by both domestic market inefficiencies and the increase in global commodity prices, pushing economic management to its limits.

## 3. ASSESSMENT OF THE MTMF

The macroeconomic policymaking during FY2006 to FY2008 is supposed to have been prepared within a Mid-Term Macroeconomic Framework, as contained in the national PRS document.<sup>1</sup> Table-1 depicts a comparison of the MTMF targets and actual performances achieved during the period under review.

As may be observed from the table, the GDP

growth rate compares favourably for FY2006 and was reasonably within target limits for FY2007 (it

is expected to be scaled down however); on the

Table 1 : Measuring budget performance with PRSP targets (output)

Macroeconomic indicators	FY06 (PRSP)	FY06 (Actual)	FY07 (PRSP)	FY07 (Revised)	FY08 (PRSP)	FY08 (Budget)
Output						
Real GDP growth (%)	6.5	6.6	6.8	6.5	6.9	7.0
Consumer Price Index	6.5	7.2	6.0	7.0	5.5	6.5
Gross Domestic Investment (% GDP)	25.0	24.7	24.5	25.3	24.8	26.2
ICOR	3.8	3.7	3.6	3.9	3.6	3.7

Source: PRSP, MTBF and Budget Documents.

<sup>1</sup>The Ministry of Finance has recently updated the MTMF providing a new set of projections for FY08, FY09 & FY10.

contrary, the actual inflation rates were above the target rates, while the gross domestic investment rates were below their targets.

Table-2 continues with the comparison of PRSP's macroeconomic targets with corresponding achievements, particularly with respect to government accounts.

The revenue targets (as per cent of GDP as mentioned in the PRSP) were not met in FY2006 and FY2007 and have been slashed down in the budget for FY2008. Total public expenditures (as per cent of GDP) were lower than their targets in FY2006 and FY2007 primarily due to slack implementation of the ADP, whereas for FY2008 the target has been put at a higher level. However, the incremental government outlay is going to take place mainly in the form of revenue expenditures, rather than that of development expenditures. The overall deficit in FY2006 and FY2007 remained within the PRSP targets due to serious shortfall in development expenditure, although the fiscal deficit is set to increase by more than 1.5 times in FY2008<sup>2</sup>. Domestic financing overshot the target due to lack of adequate foreign financing and bank borrowing emerged as the major source of domestic financing, surpassing the targets in each year. Conversely, foreign financing steadily underperformed, putting pressure on the limited domestic sources.

### 3.1 Employment

Labour market analysis carried out at the CPD indicates that there is a significant gap between the employment projections mentioned in the PRSP and projections

based on PRSP-indicated employment-GDP elasticity.

If the PRS estimates of job creation are assessed in the context of the information provided by the new labour force survey (LFS) 2005, 30.6 lakh new employment opportunities were projected to be

Table 2 : Measuring budget performance with PRSP targets

(Government accounts)

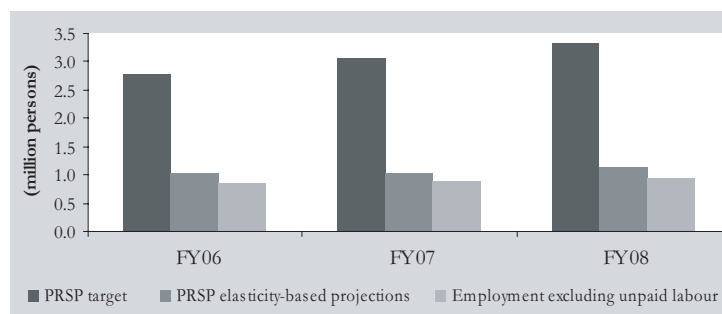
Macroeconomic indicators	FY06 (PRSP)	FY06 (Actual)	FY07 (PRSP)	FY07 (Revised)	FY08 (PRSP)	FY08 (Budget)
Government Accounts (% of GDP)						
<b>Total Revenue</b>	<b>11.0</b>	<b>10.8</b>	<b>11.3</b>	<b>10.6</b>	<b>11.6</b>	<b>10.8</b>
Tax	9.0	8.7	9.2	8.4	9.6	8.6
Non-Tax	2.0	2.1	2.1	2.2	2.0	2.2
<b>Total Expenditure</b>	<b>15.5</b>	<b>14.2</b>	<b>15.0</b>	<b>14.3</b>	<b>15.3</b>	<b>16.4</b>
Current Expenditure	8.6	8.4	8.7	9.2	8.6	9.4
Of which: Interest Payments	1.7	1.9	1.6	2.0	1.7	2.0
ADP	5.9	4.7	5.6	4.6	6.0	5.0
<b>Overall Balance (excl.Grants)</b>	<b>-4.5</b>	<b>-3</b>	<b>-3.7</b>	<b>-3.7</b>	<b>-3.7</b>	<b>-5.6</b>
Financing (net)	4.5	3.0	3.7	3.7	3.7	5.6
Domestic financing	2.0	2.2	1.9	2.1	1.7	3.6
Borrowing from the Banking System	0.9	1.6	1.2	1.4	1.1	1.2
Non-bank borrowing	1.1	0.6	0.7	1.0	0.6	0.8
Foreign financing	2.5	0.8	1.8	1.6	2.0	2.0

Source: PRSP, MTBF and Budget Documents.

created in FY2007. Estimation from PRS-based elasticity approach suggests that only 10.4 lakh jobs may actually have been created in FY2007, resulting in a shortfall of 20.2 lakh. It may be recalled here that 12 lakh new job seekers enter the labour market annually in Bangladesh.

As was noted above, PRS targets imply that more than 30 lakh jobs have to be created in FY2008 if

Figure 1 : Total employment: FY2006-FY2008

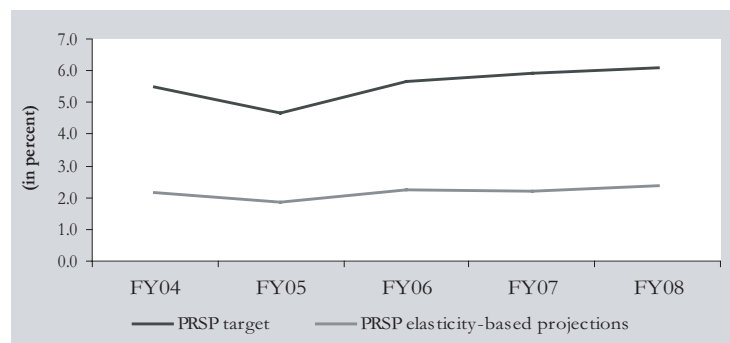


Source: CPD's calculation based on PRSP.

<sup>2</sup>This also includes the liabilities of Bangladesh Petroleum Corporation.

those targets are to be attained (given the new LFS information). However, the CPD analysis suggests

Figure 2 : Growth rate of total employment: FY2004-FY2008



Source: CPD's calculation based on PRSP.

that, given the macro-correlates, it will be highly challenging even to meet the 12 lakh mark. Thus, a wide gap is observed between the two projections on the growth rate of employment. As per the PRSP projection, the growth rate of employment will be around 5.7 per cent in FY2008, whereas it is only 2.4 per cent according to the elasticity approach. In both cases, PRSP employment projections and its growth rates appear to be over-estimated when one considers an employment-GDP elasticity of 0.34, as the “base case” as indicated in PRSP<sup>3</sup>.

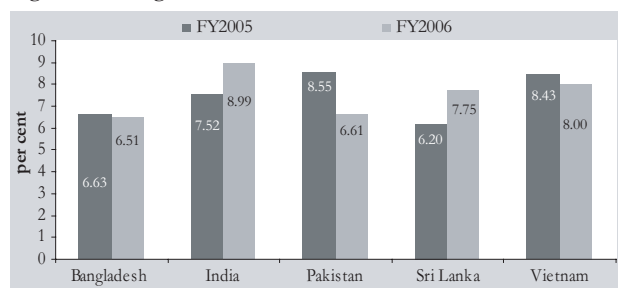
## 4. ASSESSMENT OF BANGLADESH ECONOMY IN FY2007

### 4.1 Growth, Savings and Investment

#### GDP Growth

According to preliminary estimates, Bangladesh economy is set to post 6.51 per cent GDP growth

Figure 3 : GDP growth in Asian countries



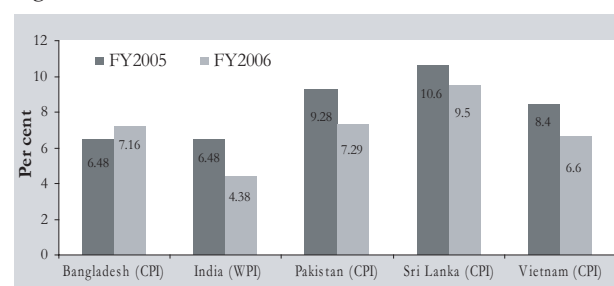
Source: CPD-IRBD database

in FY2007. The preliminary estimate of GDP is generally made on the basis of six to seven months' data of the current fiscal year. However, the proxy indicators suggest that the economic growth had slowed down in the last half of FY2007 compared to FY2006. First, crop sector showed marginal growth while poultry sector was affected by the *avian flu syndrome*. Second, manufacturing growth (other than exports) had been modest due to political turmoil coupled with the energy crisis. Third, growth of construction,

banking and housing & real estate sectors was somewhat adversely affected by the anti-graft drive of the CTG. Moreover, inflationary pressure accompanied by upward revision of the energy price (in April, 2007) also had negative impact on investment and growth. Hence, the CPD anticipates that the initial growth estimate may be revised downward, once data for the full fiscal year is available.

Compared to the major Asian counterparts, Bangladesh's GDP growth rates appear to be regular, not exceptional. South Asia as an entity is going through a moderately high growth trajectory. Inflation is also high regionally and maintaining macroeconomic stability remains the foremost challenge for the policymakers of this region.

Figure 4 : Inflation in Asian countries



Source: CPD-IRBD database

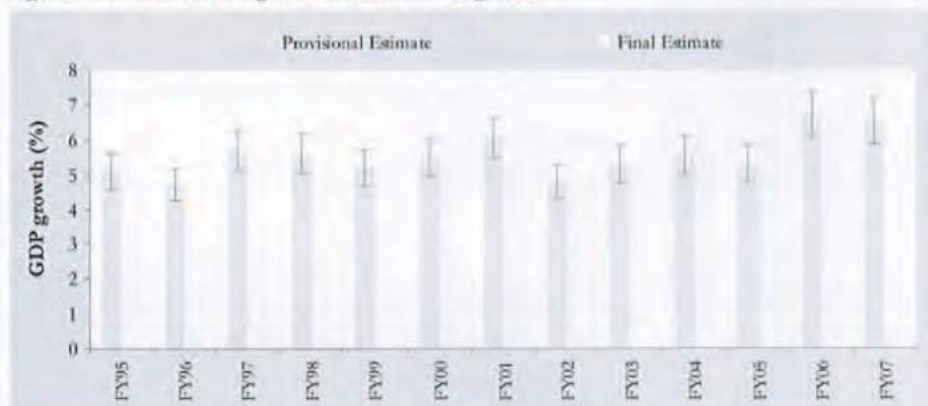
<sup>3</sup>Bangladesh, Government of (2005). *Unlocking the Potentials: National Strategy for Accelerated Poverty Reduction*. Dhaka: General Economics



## The Growth Rhetoric

Significant revision of the provisional GDP has become a tradition in Bangladesh's national income accounting. As expected, the BBS has revised the GDP growth rate for FY2006 downward from 6.71 per cent to 6.62 per cent. This is the ninth time that the GDP has been revised downward in the last twelve years. Over the years, such revisions have raised questions about the empirical basis, estimation methodology and process transparency of the national income accounts estimation of Bangladesh. Absence of dependable information for cross-checking the provisional GDP estimates (e.g. investment and employment) have also been an area of concern. It is also to be mentioned that the average gap between provisional and revised GDP has substantially increased after the centralisation of GDP accounting, with the abolition of district level GDP accounting in 2001.

Figure 5: Revision of GDP growth estimates in Bangladesh



Source: CPD-IRBD database

Because of operational delay in finalising CMI, provisional figures of industrial contribution to GDP are estimated on the basis of Quantum Index of Production (QIP). This is to be replaced by CMI data whilst finalising the estimates. However, QIP is calculated with an 18 years old base (1988-89) and both of its sectoral weights and data collection methodology are out of sync with the present realities. The national income accounting methodology suggests that the extrapolated preliminary estimates will be replaced in the revised GDP, once the final CMI results become available. Given that the latest CMI provides data

for only up to 2001, it is impossible for the BBS to be able to estimate GDP for the more recent years in accordance with the prescribed methodology.

## Sources of Growth

Once again real economic sectors<sup>4</sup> posted a noteworthy 6.79 per cent growth and hence were able to make an increased contribution to the overall GDP growth. In the incremental GDP of FY2007, industry contributed 40.82 per cent and agriculture 10.27 per cent, whereas service sectors remained the front runner with 50.91 per cent. Within the agriculture sector, crop sector posted a minimal 1.92 per cent growth and failed to provide any support to ease the growing inflationary pressure on food items. The major contribution to the incremental GDP comes from the manufacturing sector, accounting 28.27 per cent of the total GDP. Highest sectoral growth was also

observed in the manufacturing sub-sector (11.19 per cent), where large and medium industries recorded 11.56 per cent growth despite political turmoil and acute power crisis. Small industries and mining also registered notable growth of 10.27 per cent and 10.04 per cent respectively.

Given the fact that the GDP growth in Bangladesh is dominated by the service sector, even a moderate growth of 6.77 per cent in this sector contributed 50.91 per cent of the incremental GDP. Within services sectors, education and public administration & defence registered noteworthy growth of 9.01 per cent and 8.50 per cent respectively.

## Per Capita Income

Per capita GDP stood at US\$482 in FY2007, while per capita GNI stood at US\$520, recording 7.8 per cent and 9.2 per cent annual growth rates respectively. Both sustained economic growth and

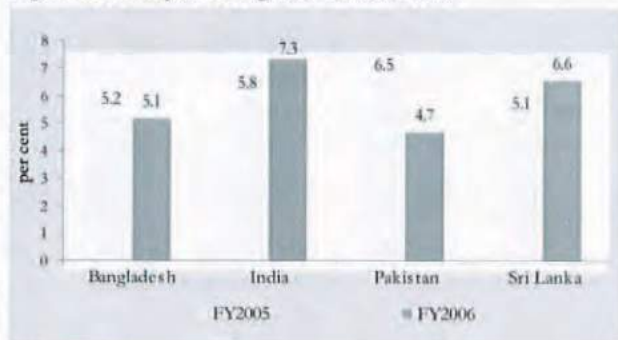
<sup>4</sup>Real sector includes Agricultural Sector (both Agriculture & Forestry and Fisheries); Mining & Quarrying and Manufacturing. The rest of the sub-sectors are noted as Others.



stable exchange rate largely explain this achievement. However, one should also remember that these averages conceal a high degree of worsening income distribution.

During the past one and half decade, the gap between per capita GDP of Bangladesh with other South and Southeast Asian countries has widened.

Figure 6 : Per-capita GDP growth in South Asia



Source: CPD-IBRD database.

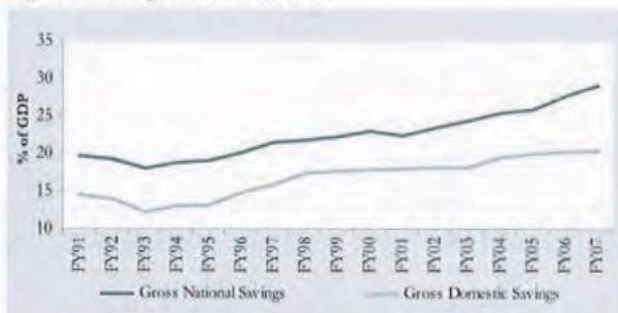
The income gap with China increased from 1.4 times in 1990 to 3.2 times in 2004. With Malaysia the income gap has increased from 9.3 times to 10.7 times. Vietnam's per capita GDP was following Bangladesh (0.83 times when compared to Bangladesh) in 1990, eventually overtaking Bangladesh in 2004 (1.25 times).

Moreover, Bangladesh's per capita GNP growth also remained slower in the recent past when compared with her South Asian neighbours (e.g. India, Pakistan and Sri Lanka).

### Savings

Breaking through the stagnation in domestic savings rate remains a major challenge for the

Figure 7 : Savings rate as % of GDP



Source: CPD-IBRD database.

transitional economy of Bangladesh. Domestic savings as a percentage of GDP in Bangladesh has increased only marginally from 20.25 per cent in

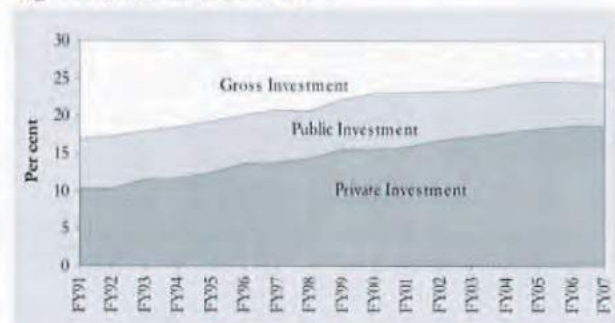
FY2006 to 20.46 per cent in FY2007, registering a miniscule 0.21 per cent increase as a share of GDP. This has in fact been the lowest growth performance in recent years. It implies that consumers had to allocate incremental share of their income for consumption, possibly due to price hike.

Inspired by robust remittance inflow, national savings rate demonstrated encouraging movements since FY2005. The share of national savings to GDP increased significantly further in FY2007 to 29.15 per cent of GDP, as against 27.67 per cent in FY2006, registering an impressive enhancement to the tune of 1.48 per cent of GDP. The gap between national and domestic savings is increasing in a consistent manner in recent years. The present trend in savings behaviour is suggestive of further deterioration in income distribution.

### Investment

Gross capital formation slowed down in recent years and in FY2007 growth rate has been lowest in the last five years (7.22 per cent). During the last

Figure 8 : Investment as % of GDP



Source: CPD-IBRD database.

five years (FY2003-FY2007), the gross investment rate has increased annually by only 0.18 per cent of the GDP. Gross investment was 23.40 per cent of GDP in FY2003, whilst it crawled up to 24.33 per cent in FY2007. This is considerably lower than the MTMF target of PRSP which was set at 25.50 per cent. As a matter of fact, gross investment as percentage of the GDP is lower in FY2007 compared to 24.65 per cent in FY2006.

Public investment scored a historic low rate of 5.60 per cent of GDP in FY2007, compared to the earlier lowest rate of 6.00 per cent in FY2006. The slack of public expenditure explains stagnating gross investment in recent times.

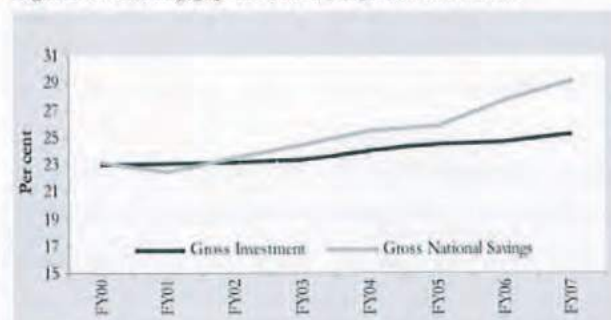
Private investment as a share of GDP marginally



increased from 18.65 per cent in FY2006 to 18.73 per cent in FY2007.

Bangladesh continues to remain an under-invested country; her national savings rate (29.15 per cent) remains higher than the gross investment rate (24.33 per cent), indicating greater availability of idle investible surplus. This amount is approximately Tk. 22,530 crore (almost 4 per cent of GDP).

Figure 9 : Widening gap between savings and investment



Source: CPD-IBRD database

Data from the budget documents (2007-08) suggest that the incremental capital-output ratio (ICOR) improved during FY2006 by 0.37 per cent with the ICOR decreasing from 4.09 in FY2005 to 3.72 in FY2006. Conversely in FY2007, the ICOR registered a marginal increase implying a minor fall in capital productivity from 3.72 in FY06 to 3.74 in FY2007.

Table 3 : Recent ICOR trends in Bangladesh

Indicators	FY05	FY06	FY07	FY08
Growth rate of GDP at constant price (%)	6.00	6.62	6.51	7.00
Investment as % of GDP	24.53	24.65	24.33	26.20
ICOR	4.09	3.72	3.74	3.70

Source: CPD-IBRD database

The targeted growth rate of 7.0 per cent in FY2008 would require either a considerable increase in investment rate or a much improved ICOR, or a combination of both (targeted investment equivalent to 26.20 per cent of GDP and an ICOR of 3.70). Implied investment target for FY2008 would require an additional investment of more than Tk 25,000 crore (worth almost an extra 2 per cent of GDP) over last year's benchmark. This would mean investment growth

has to score a record high rate compared to the last two decades, coupled with regaining the lost capital productivity. Recent slowdown in the growth of gross capital formation and stagnant public investment, however, do not invoke much optimism in this regard.

One of the major issues in this connection would be resource mobilisation for underwriting the required investment. Greater revenue earnings, improved flow of foreign aid (particularly grants) as well as increased foreign and domestic investment may address the need for incremental investment demand. Higher government borrowings may partly substitute these sources. However, in the final analysis one would need to strengthen the national (domestic) savings rate through enhanced household savings, accelerated corporate savings and improved government savings, to sustain this additional flow of resources. Bangladesh has remained an underinvested country for a long period and recalling the large gap between national savings rate and gross investment rate (more than 3 per cent of GDP), it is not the availability of resources, rather its effective utilisation which appear to be the major challenge.

## 4.2 Poverty Situation

### Absolute Poverty

According to the *Household Income and Expenditure Survey 2005*, between 2000 and 2005, Bangladesh achieved remarkable progress in poverty alleviation at the national, urban and rural levels, when estimates are carried out on the basis of *Cost of Basic Needs (CBN)*. Incidence of national poverty by head count ratio, on the basis of CBN, reduced from 48.9 per cent in 2000 to 40.0 per cent in 2005. On average, the annual poverty declining ratio was about 1.8 per cent, posing a notable acceleration over the rate of poverty alleviation

Table 4 : Head Count Rate (CBN) of incidence of poverty

Residence	2005	2000	Change
National	40.0	48.9	-8.9
Rural	43.8	52.3	-8.5
Urban	28.4	35.2	-6.8

Source: CPD-IBRD database

during the 1990s (on average 0.8 per cent per annum).



What is encouraging to note from the nature of poverty reduction during the first half of this decade is that, progress in the rural areas has been faster than that of the urban areas. During this period rural poverty declined by about 1.7 per cent each year, while the pace of urban poverty reduction was somewhat slower (1.4 per cent). However, rural-urban gap still continues to remain high.

*Household Income and Expenditure Survey 2005* suggests the progress in poverty reduction has not been equal across all the standard measure of poverty incidence. According to the Daily Calorie Intake (DCI), on average the absolute poverty<sup>5</sup> declined by about 0.8 per cent each year at national level, with a minor increase in the number of people living below the poverty line. Contrary to the poverty reduction texture as suggested by CBN, the DCI method implies that poverty reduction in the urban areas (on average 1.9 per cent per annum) has been much faster than that in the rural areas (on average 0.6 per cent per annum). Interestingly during this period, faster poverty reduction in urban areas could not prevent the number of people under the poverty line from rising. Number of poor urban inhabitants increased by 1.5 million, whilst number of rural poor decreased by 1.4 million even with a lower poverty reduction rate. Increasing urbanisation and large scale migration explains this dilemma.

Recent decline in poverty had only limited success in reducing the hardcore poverty<sup>6</sup>. During 2000 to 2005 only 0.5 per cent of people could break out of poverty traps; however, this continues to leave 2.1 million people below the lower poverty line. This has been mainly caused by the fact that the number of urban hardcore poor increased substantially during the period, although the number in the rural areas remained somewhat stagnant.

### Relative Poverty

Absolute poverty level offers only a partial poverty

scenario, as it disregards the relative position of the poor. Experience of most of the successful East Asian countries, in the 1970s and 1980s, bears out that low initial inequality combined with rapid growth and pro-poor distributional change could be very effective in reducing poverty. *Household Income and Expenditure Survey 2005* revealed that gini-coefficient has deteriorated from 0.45 in 2000 to 0.47 in 2005, indicating a further worsening of income inequality at the national level. This is particularly due to significant deterioration of income distribution in the rural area; gini-coefficient increased from 0.39 in 2000 to 0.43 in 2005. Interestingly, urban income gini-coefficient

#### Box1: Sources of Inequality in Bangladesh

Bhattacharya and Khan has recently attempted to explain the underlying sources of inequality in rural and urban Bangladesh, based on Household Income and Expenditure Survey 2005. Both in rural and urban areas, income from non-farm enterprises and remittances from abroad were identified as the two major sources of income inequality. "Property income from land" and "Rental value of housing" are the other sources of rising inequality. As a matter of fact, their contribution to inequality was found to be much higher in urban areas compared to the rural areas. Unlike urban areas, salaried wage is another important source of rural income inequality. The study suggested that policies to raise the share of wage income, income from farm, inland remittance and formal transfers could help mitigate the rising inequality in Bangladesh.

Source: Bhattacharya, Deluptyya and Towfiqul Islam Khan (2006): Growth and Inequality Linkages to Poverty in Bangladesh, IRBD 2005-06 (Vol. II), CPD, Dhaka (forthcoming)

remained the same at 0.50, during the reported period.

In IRBD 2005, it was mentioned that the present structure of the Bangladesh economy is not conducive to achieving pro-poor distribution, since the relatively more growth centric economic activities, such as livestock and fisheries (in agriculture), export oriented industries (in industries), remittances etc. do not offer an easy access to the hardcore poor. The increasing income inequality may emerge as a threat not only to the future of poverty alleviation prospect, but also to social cohesion, and could even inhibit democratic progression. In view of this, the issue of income distribution must receive highest priority from the policy makers.

<sup>5</sup>Poverty line is estimated based on 2122 K.cal per capita per day.

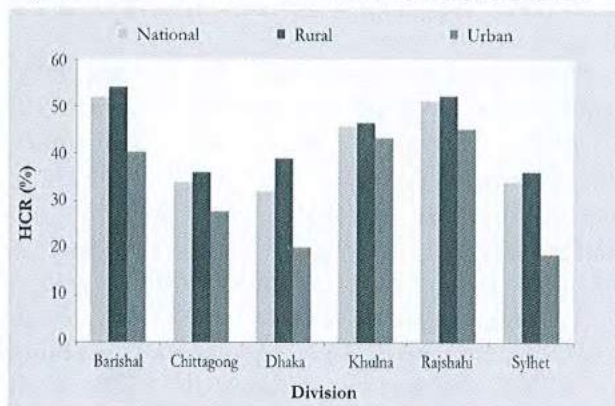
<sup>6</sup>Hardcore Poverty line is estimated based on 1805 K.cal per capita per day.



## Spatial Poverty

Despite an inspiring show in national poverty reduction and hint of reducing rural-urban gap, regional disparity is becoming increasingly visible in Bangladesh. The regional difference of poverty incidence is also a major concern for macroeconomic policies. *Household Income and Expenditure Survey 2005* further shows that incidence of poverty is most extreme in Barishal and Rajshahi divisions, followed by Khulna division. Among these, Rajshahi division recorded limited progress in poverty alleviation, reducing poverty rate from 56.7 per cent in 2000 to 51.2 per cent in 2005 according to CBN method. However, poverty rates in Barishal and Khulna divisions remained stagnant over this period. In Barishal division, poverty rate reduced to 52.0 per cent in 2005 from 53.1 per cent in 2000 while in Khulna division poverty rate increased to 45.7 per cent in 2005 from 45.1 per cent in 2000.

Figure 10 : Head Count Rate of incidence of poverty (CBN) 2005



Source: Based of HIES 2005

Poverty is less concentrated in the eastern divisions of Bangladesh i.e. Dhaka, Chittagong and Sylhet. Where all the geographic regions achieved accelerated rural poverty reduction compared to urban areas between 2000 and 2005, Sylhet turned out to be the only exception. Sylhet posted remarkable poverty reduction over this period, reducing poverty incidence from 49.6 per cent in 2000 to only 18.6 per cent in 2005.

The latest poverty statistics indicate the emergence of an increasing east-west divide in the development process of Bangladesh. This added dimension of poverty structure in Bangladesh creates demands for targeted programmes and more energetic effort to address the attendant tasks.

## 4.3 Public Finance

### Revenue Receipts

Revenue-GDP ratio of Bangladesh has registered a declining trend in the recent past. In FY2007, revenue-GDP ratio of the country further declined by 0.20 per cent of GDP, reaching 10.01 per cent. NBR revenue collection during FY2007 registered 11.5 per cent growth, within which direct tax (income tax) collection increased significantly, by about 34.7 per cent. This high growth in income tax collection appears to be the result of the NBR drive to legalise untaxed income. During this period, collection of import duty posted a marginal growth of 0.9 per cent, recovering from a negative (-) 0.6 per cent growth posted in the preceding year. However, share of import duty declined from 23.2 per cent in FY2006 to 21.0 per cent in FY2007. Total import related duties (import duties, import VAT and import portion of the supplementary duties together) posted a marginal growth of 3.2 per cent in FY2007. Collection of value added tax (VAT) increased by 12.2 per cent. Achievement with respect to the annual target shows a positive sign as 94.7 per cent of the NBR target (revised) has been realised in FY2007, against 94.1 per cent in FY2006.

On the other hand, non-NBR tax components posted an inspiring growth rate of 21.6 per cent during FY2007, against a slower growth of 7.4 per cent in FY2006. Non-tax component of the revenue collection, however, shows a much slower growth of 2.7 per cent in FY2007, compared to the high benchmark growth of 14.3 per cent achieved during FY2006.

In the face of a higher growth in non-NBR tax revenue mobilisation, an identical NBR tax revenue growth and a slower non-tax revenue growth in FY2007 compared to the growth rates of FY2006, total revenue collection during FY2007 stood at Tk 46,807 crore. This indicates a 10.1 per cent growth over the figures of FY2006. A closer look at the growth composition reveals that 87.0 per cent of the total increase has been contributed by the growth in NBR tax revenue collection, while for the rest, 7.7 per cent and 5.3 per cent increase are attributed to the growth in non-NBR tax component and non-tax component respectively.

Given a 7.2 per cent inflation rate and 6.51 per cent real GDP growth, domestic resource

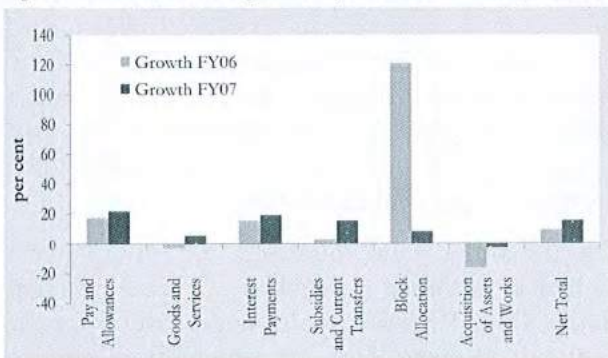


mobilisation during FY2007 remained moderate and could not surpass the performance of the preceding year. A target of 11.3 per cent revenue-GDP ratio was set for FY2007 (as per the original target figures mentioned in the Budget Summary). At the end of the fiscal year, the realised figure (10.01 per cent) fell short of the target by quite a significant margin of 1.28 per cent of the GDP. The revenue-GDP ratio of Bangladesh was lower compared to neighbouring countries such as India (10.3 per cent), Pakistan (13.9 per cent) and Sri Lanka (16.3 per cent).

### Revenue Expenditure

Targeted revenue expenditure for FY2007 was 14.8 per cent higher than the actual expenditure figure of FY2006.<sup>7</sup> Figures at the end of the fiscal year, however, shows that actual revenue expenditure of FY2007 was 15.6 per cent higher than the

Figure 11 : Growth of revenue expenditure by economic classification, FY2006-07



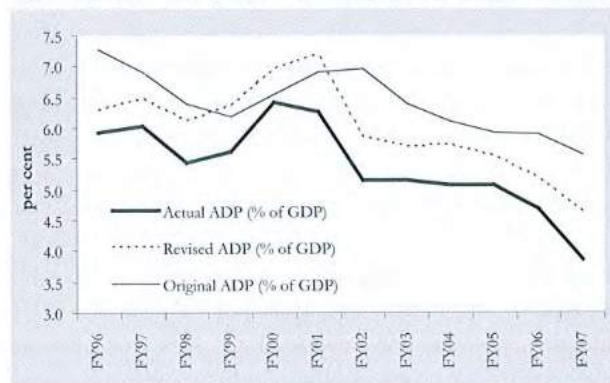
Source: CPD-IRBD database

expenditure of FY2006. Total revenue expenditure stood at Tk 42,253.6 crore in FY2007, which is Tk 297.4 crore more than the targeted expenditure. Actual expenditure on account of the major three heads, "salary and allowances", "subsidies and transfers" and "interest payments", which accounted for 80 per cent of the total actual revenue expenditure, registered high growth rates during FY2007. These were 21.8 per cent, 15.6 per cent and 19.1 per cent growth respectively. In the backdrop of a higher benchmark growth of 121.3 per cent in FY2006, expenditure in block allocation increased by 7.8 per cent in FY2007.

### Annual Development Programme (ADP)

In the context of an already visible abating trend of ADP implementation during the recent past, FY2007 marks the poorest performance ever. The original ADP for FY2007 was fixed at Tk 26,000

Figure 12 : Annual Development Programme (FY1996-FY2007) as % of GDP



Source: CPD-IRBD database

crore which was revised downwards by 20.9 per cent to Tk 21,600 crore in the end. Expenditure record shows that only 69.32 per cent of the original allocation of 83.45 per cent of the revised allocation has been spent during the year, while the respective figures were 79.48 per cent and 90.57 per cent in FY2006. Despite the low benchmark implementation level of the ADP in FY2006, expenditure of FY2007 falls behind the performance of FY2006 in terms of absolute spending also. Total expenditure in FY2007 amounts to Tk 18,024 crore, which was Tk 19,472 crore in FY2006, indicating 7.44 per cent fall in expenditure in FY2007. The actual expenditure of FY2007, both in terms of percentage of allocation and percentage of GDP for the year, is the lowest ever.

When calculated as a percentage of GDP, ADP implementation status has been gradually deteriorating since FY2001. FY2006 figure of 4.68 per cent of the GDP was the lowest since FY1991. But in FY2007, the actual ADP as percentage of GDP stood at an all time low, 3.86 per cent.

Among the five Ministries/Divisions which received the highest allocation in the revised ADP, the Ministry of Health and Family Welfare and

<sup>7</sup> Target figures reported by the finance division; includes requisition of assets and works. According to budget documents, excluding requisition of assets and works and adjusting for recoveries, revenue expenditure targets for FY2006 and FY2007 were Tk 35,523 crore and Tk 39,536 crore. Deduction of recoveries was not accounted for in the available information on actual revenue expenditure of FY2007 that was accessed from the Finance Division.



Ministry of Communication were the least spending, with expenditure of only 74 per cent and 80 per cent of their respective allocations during FY2007. It is pertinent to mention here that the CPD IRBDs have repeatedly expressed the concern over low implementation record of Ministry of Health and Family Welfare, considering its relevance in terms of poverty alleviation. Ministry of Primary & Mass Education was the best performer in terms of expenditure, managing to spend 96 per cent of its revised allocation. Power Division and the Local Govt. Division spent 89 per cent and 88 per cent of their respective allocations.

Implementation status of the 14 ministries, mandated to develop their own budget under the Medium Term Budgetary Framework (MTBF), has shown much better performance compared to the average for the others. While all the ministries/divisions spent on an average 75 per cent of their revised allocation, the average spending of these 14 ministries stood at 86.2 per cent in FY2007. Apart from the Ministry of Social Welfare, Ministry of Water Resources and Ministry of Health & Family Welfare, which have spent only 74 per cent of their respective allocations, all the other ministries/divisions managed to perform above the national average.

The new ADP for FY2008 has been set at Tk 26,500 crore, which is 22.7 per cent higher than the RADP and 1.9 per cent higher than the original ADP of FY2007. With 38 new projects, ADP of FY2008 includes 927 projects in total. The ratio of domestic-foreign sources of financing is targeted to be the same as RADP of FY2007 (63:47). Targeted ADP for FY2008 will stand at 5.0 per cent of GDP. Sectoral allocation pattern of the new ADP reveals that Education and Religion received the highest allocation (16.3 per cent of the total ADP). Power sector has been prioritised in the ADP of FY2008 and is set to receive 30.7 per cent more allocation than that of the RADP (FY2007), which is also 14.9 per cent higher than the original ADP of FY2007.

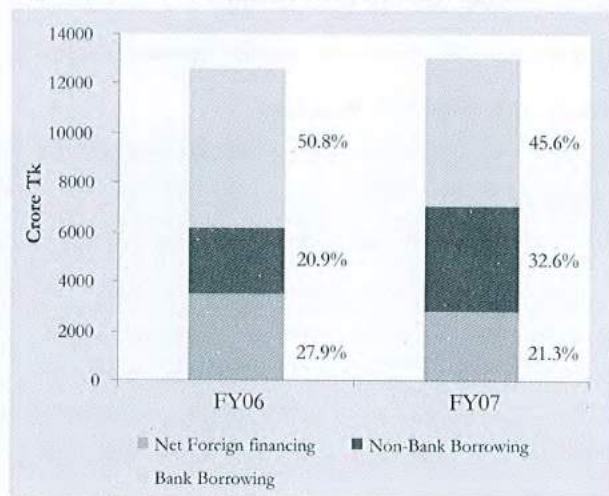
Free, this time, from political pressure at the formulation stage, quality of the ADP of FY2008 should be seen as the critically important feature rather than its size. The chief of the CTG has already announced that ADP allocation for FY2008 would not be revised. How far the non-political government can keep that promise of a fuller ADP

implementation remains to be closely monitored. If it is successful, it will be an important and welcome departure.

### Budget Deficit and Financing

At the end of the FY2007, overall deficit was 3.7 per cent higher than that of FY2006. Regarding financing of deficit, net foreign financing during the year declined by (-) 21.0 per cent. On the other hand, total domestic financing rose by 13.2 per cent. Share of domestic financing rose to 78.7 per cent in FY2007 from 72.1 per cent in FY2006. As net foreign financing did not arrive as expected, the government had to heavily rely on domestic sources for financing of the deficit. Initially the government borrowed from the banking sector and eventually started to draw on the non-banking sector during the last quarter. Borrowing from the non-banking sector experienced a high growth of 61.8 per cent over the figures of FY2006. During the fiscal year, total non-bank borrowing stood at Tk. 4,282.6

Figure 13 : Sources of financing in FY2006 and FY2007



Source: CPD-IRBD database

crore, whereas in the previous year it was Tk 2,646.7 crore. However, borrowing from the banking sector declined by (-) 7.0 per cent in FY2007. Total deficit at the end of the year amounted to 2.8 per cent of the GDP of FY2007, which was 3.0 per cent in FY2006.

The budget deficit (excluding grants) for FY2008 has been estimated at Tk 29,836 crore, which is 5.6 per cent of the targeted GDP. This high deficit will mark a substantial growth of 127.32 per cent over the actual deficit of FY2007. Such high borrowing usually creates a vicious circle of borrowing and



revenue expenditure which needs to be monitored carefully as this may turn out to be a major concern for the CTG. Hence, for FY2008, one needs to concentrate not so much on the level, but the modes of financing the deficit.

## 4.4 Monetary Sector

### Money Supply, Reserve Money and Liquidity

Money supply (in terms of M3) has posted a rise of 15.8 per cent in FY2007. Reserve money posted a rise of 17.7 per cent at the end of June 2007 over June 2006. Excess liquidity of the scheduled banks stood significantly higher at Tk.14,279.61 crore as of end of June, 2007, against Tk.9,591.05 crore in the end of June, 2006. This higher liquidity in the banks could have originated from lack of the investment demand. The lending rate of Bangladesh, often criticised by entrepreneurs to be high, also needs to be revisited. The (seasonal) volatility of call money rates also needs to be studied.

### Government Sector Borrowing

Expansion of domestic credit slowed down in

Table 5 : Government sector borrowing

End of Period	Domestic Credit M3										Total Domestic Credit
	Government (Net)				Other Public Sector			Private Sector			
	Banking Sector	NBDC	NSD	Total	Banking Sector	NBDC	Total	Banking Sector	NBDC	Total	
2003-04	21851.3	16.0	34001.6	55868.9	8956.7	0.0	8956.7	92458.9	5400.0	97858.9	162684.3
2004-05	25552.8	35.7	36497.7	62086.2	11174.9	6.1	11181.9	108235.7	7430.1	115665.8	188933.0
2005-06	31595.9	35.9	39464.3	71096.1	15081.2	13.4	15094.6	127773.8	9626.5	137400.3	223591.0
2006-07	36011.3	29.3	43639.2	79679.8	17130.8	41.4	17172.2	146350.2	12529.0	158879.2	255731.2
Growth (FY07)	14.0	-18.4	10.6	12.1	13.6	209.0	13.8	14.5	30.2	15.6	14.4

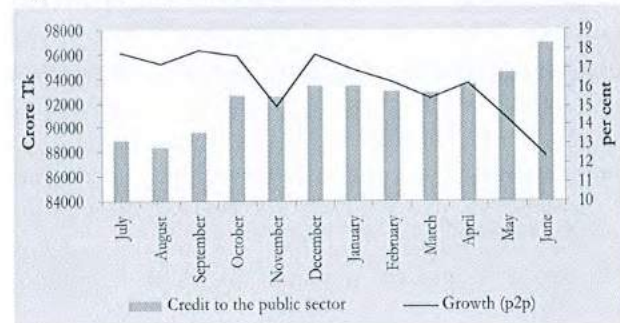
Source: CPD-IRBD database

FY2007 with a point to point growth of 14.4 per cent and total domestic credit amounting to Tk 255,731.2 crore. To compare, FY2006 was characterised by a high and unsustainable domestic credit growth of 18.3 per cent. On a point to point basis, at the end of June 2007, total outstanding domestic credit to the public sector increased by 12.4 per cent, within which government borrowing, accounting for 82.3 per cent of the total public sector credit, posted a rise of 12.1 per cent.

Credit to other public sector, on the other hand, rose by 13.8 per cent during the period under

consideration. Sale of NSD certificates during this period registered a 9.5 per cent growth. As the repayment of the principal amount increased only

Figure 14 : Government sector borrowing



Source: CPD-IRBD database

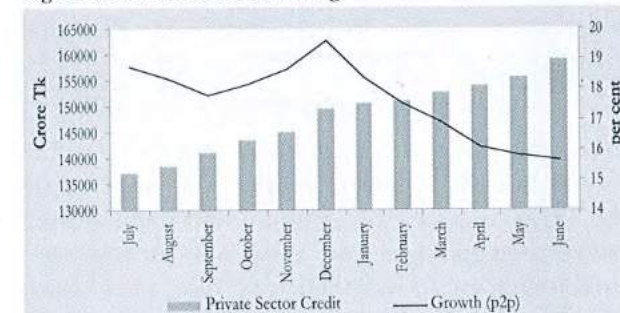
by 1.06 per cent, the growth of net sale of NSD stood at 40.73 per cent. Data for credit to government from the non-bank depository corporations (NBDCs) at the end of FY2007 showed a negative growth of (-) 18.4 per cent on a point to point basis.

### Private Sector Borrowing

At the end of FY2007, total outstanding credit to the private sector stood at Tk 158,879.2 crore, posting a moderate 15.6 per cent growth on a point to point basis. Within the total credit to the private sector, 92.1 per cent came from the banking sector, while the rest 7.9 per cent came from the NBDCs. Point to point growth rates during FY2007 indicate towards a restrained credit flow, both for the public and private sectors. However, it is logical to suggest

that domestic credit growth should be put on leash by controlling public borrowing, and not by

Figure 15 : Private sector borrowing



Source: CPD-IRBD database

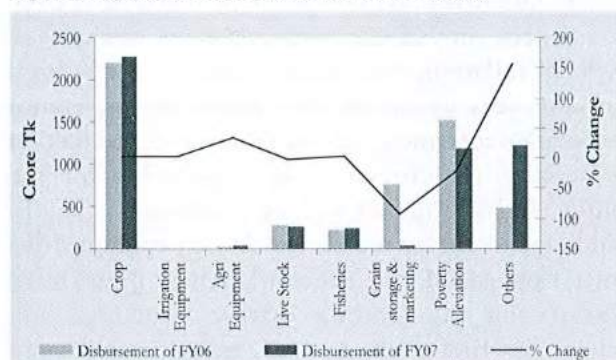
curtailing credit flow to the private sector.



## Agricultural Credit

In the backdrop of the prevailing high inflation, especially for food items, total credit disbursement to the agricultural sector posted a worrying negative growth of (-) 3.7 per cent in FY2007. While total disbursement amounted to Tk 5,292.5 crore in FY2007, total recovery amounted to Tk 4,676.0 crore which is 12.3 per cent higher than the recovery in FY2006. Hence, in net terms, total credit flow to the rural economy only amounted to Tk 616.5 crore, registering substantial negative growth of (-) 53.7 per cent.

Figure 16 : Agricultural credit position (FY2006 & FY2007)



Source: CPD-IRBD database

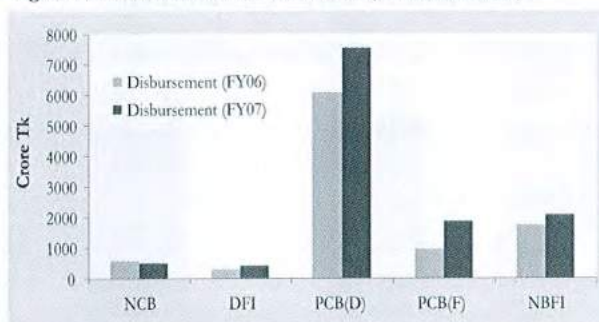
Crop loan followed by "Poverty Alleviation" received the highest amount of credit with respective disbursements of Tk 2,285.59 crore and Tk 1,189.48 crore. "Poverty Alleviation" however recorded the highest fall in FY2007 with (-) 59.4 per cent negative growth in disbursement over that of FY2006.

## Industrial Credit

Term loan disbursement stood at Tk 12,394.8 crore in FY2007, registering a high growth of 28.4 per cent, mainly owing to the low benchmark growth of FY2006 (5.9 per cent). However, net disbursement during this fiscal year is about 15.1 per cent more than the equivalent figure of FY2006, because of high growth of recovery (34.2 per cent on a point to point basis). Term loan disbursed by the NCBs decreased significantly by (-) 18.1 per cent and their share in total disbursement also declined by quite a significant margin, from 6.1 per cent in FY2006 to 3.9 per cent in FY2007. On the other hand, disbursements by all other banks have increased significantly. Disbursement by the private commercial banks (PCBs) (foreign) recorded the highest increase of 98.7 per cent,

taking its share from 9.8 per cent in FY2006 to 15.1 per cent in FY2007. Term loan disbursement

Figure 17 : Disbursement of Term Loan (FY2006-FY2007)



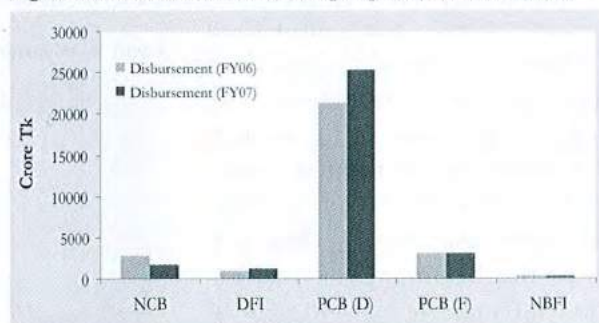
Source: CPD-IRBD database

by private commercial banks (PCBs) (domestic), specialised banks (DFIs) and NBFIs increased by 24.3 per cent, 34.9 per cent and 19.4 per cent respectively. With 60.8 per cent share in the total disbursement, private commercial banks (PCBs) (domestic) remain the major source of term loan.

Disbursement of working capital in FY2007 recorded a relatively low growth of 11.3 per cent. In FY2007 an amount of Tk. 31,651.32 crore was disbursed against the sanctioned amount of Tk. 26,221.42 crore.

PCBs (Domestic) accounted for more than 80 per cent of the total disbursement of working capital, while the highest growth (26.7 per cent) was registered by the specialised banks (DFIs). On the other hand, disbursement of working capital by the

Figure 18 : Disbursement of Working Capital (FY2006-FY2007)



Source: CPD-IRBD database

NCBs recorded significant negative growth of (-) 40.5 per cent.

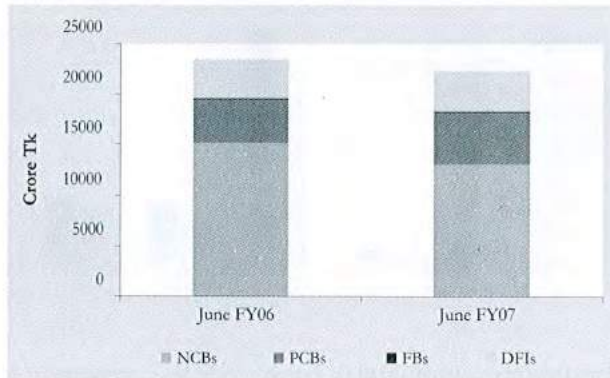
## Loan Default Scenario

Total classified loan for FY2007 stood at Tk 22,302.05 crore, registering a decrease of (-) 4.96 per cent over the corresponding figure of FY2006. NCBs made impressive progress in reducing the



total classified loan, recording a decline of Tk 2,168.52 crore (negative growth rate of (-) 14.24

Figure 19 : Loan default scenario (FY2006 and FY2007)



Source: CPD-IRBD database

per cent) from the corresponding figure for FY2006. However, total classified loan of the Foreign Banks (FBs) increased significantly by 154.30 per cent during FY2007, while classified loan of PCBs and DFIs increased by 20.18 per cent and 1.12 per cent respectively.

### Consumer Price Inflation

On the basis of moving average, consumer price inflation increased from 7.16 per cent in June 2006 to 7.20 per cent in June 2007. Consumer price inflation, on a point-to-point basis, stood at 9.20 per cent in June 2007 which was 7.54 per cent in June 2006.

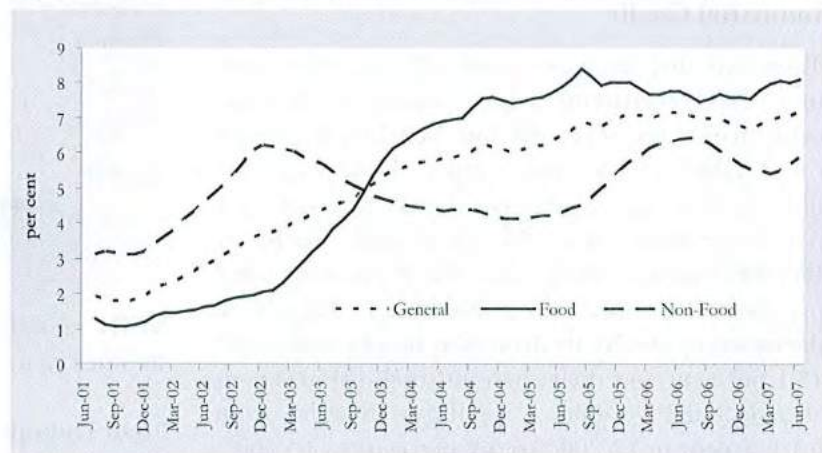
In the recent past, food inflation had tended to be higher than the non-food inflation. Food inflation accelerated at a much faster rate induced by cost push factors, manifested largely through higher global price of food, energy, fertiliser and steel. However, since the beginning of FY2007 food inflation along with general inflation began to decline, reaching 7.57 per cent and 6.71 per cent respectively at the end of January, 2007. But this trend did not persist for long as food and general inflation (MA) began to move up again from February, 2007 and settled much higher at 8.11 per cent and 7.20 per cent in June 2007.

While the usual trend of food and non-food

inflation had been to move in opposite directions, i.e., non-food inflation tended to reduce with the increase in food price, the last quarter of FY2007 had shown a contrasting trend with both the food and non-food indices moving in the same upward direction. Non-food inflation rose from 5.42 per cent in March 2007 to 5.89 per cent in June 2007, when 12 months moving average is considered.

The CPD's study on *Price of Daily Essentials* attempted to capture some of the reasons contributing to the increase in food inflation. Lack of institutional monitoring mechanism and information gap between the relevant stakeholders were identified as two of the major domestic bottlenecks impeding the price control mechanism. Global inflation, collusion of market agents, both at importers and wholesalers levels, preponderance of market intermediaries and increasing production cost were also found to be responsible for the inflationary trend, in terms of food price index. In addition to these, the recent anti-corruption drive may have added on to the inflationary pressure by dislocating the existing market structures and channels. Increased cost of transportation and relatively high rate of interests and bank charges have further boosted the price level. As mentioned earlier, apart from the domestic forces, the rising inflationary expectations because of the current inflationary trend in the international market, global supply shocks due to adverse climate conditions in major exporting regions and global price hike of petroleum products, have significant

Figure 20 : Consumer Price Inflation (CPI) at the national level (moving average)



Source: CPD-IRBD database

influence over the upward moving price scenario in Bangladesh. With such adverse global and domestic situations, the study predicts that national inflation



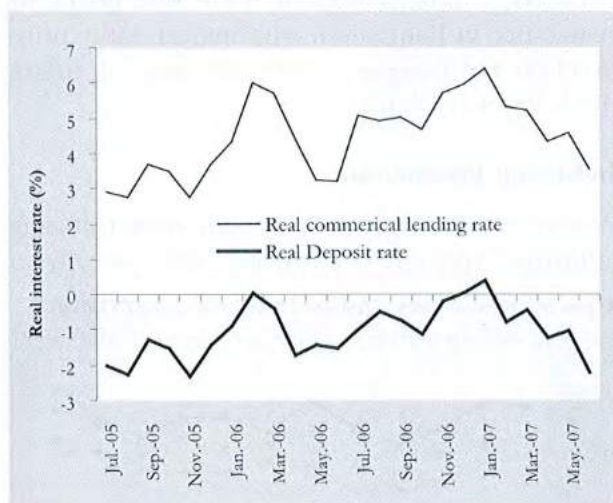
level is unlikely to be reduced to a level that is below 7 percent in near future, at least not before the Aman harvesting season.

The study identified that relative price changes are more of a supply side issue and evidence indicates towards cost-push inflation. To a large extent, the inflationary phenomenon was rather of a product specific nature than a macroeconomic one. In order to cope with the situation, the study suggested that supply of essential commodities be increased through duty-free access and steps to reduce the influence of market intermediaries.

**Interest Rate**

Commercial lending rate gradually increased from 10.75 per cent in June 2006 to 12.75 per cent in June 2007. Real interest rate on commercial lending was also rising during the first few months of FY2007, with July being an exception, and reached 6.39 per cent in January 2007 from 3.21 per cent in June 2006. However, since then, with high inflation, it had been gradually falling and declined to 3.55 per cent at the end of FY2007. Deposit rate (3 to 6 months), although increased from 6.03 per cent from June 2006 to 7.01 per cent in June 2007, could not protect its real value and remained negative in real terms. Real deposit rate showed a minor correction from (-) 2.03 per cent to (-) 1.51

Figure 21 : Lending and deposit rates



Source: CPD-IRBD database

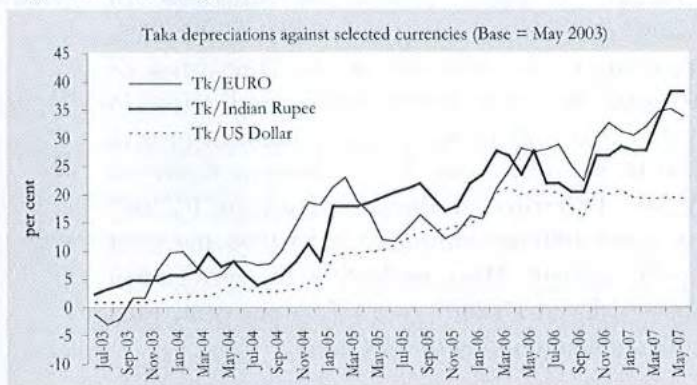
per cent during FY2006, but in FY2007 it further declined to (-) 2.19 per cent. While both real lending and deposit rates have recently

demonstrated declining trends, real deposit rate fell at a greater pace, widening the gap between the two.

**Exchange Rate Situation**

Between July 2006 and June 2007 Taka appreciated against the US dollar by 1.02 per cent, while against the Euro and the Indian Rupee, Taka depreciated by 4.58 per cent and 13.33 per cent respectively. In

Figure 22 : Exchange Rates



nominal terms, weighted average exchange rate of US dollar declined from Taka 69.65/\$ in July, 2006 to Taka 68.94/\$ in June, 2007. On the other hand, during the same period, weighted average exchange rate of the Euro and the Indian Rupee increased from Taka 88.48/Euro and Taka 1.50/Rs. to Taka 92.53/Euro and Taka 1.70/Rs respectively.

Depreciation trend of Taka against US dollar, Euro and Indian Rupee since May 2003, when Bangladesh entered into the floating exchange rate regime, suggests that Taka depreciated more against the Indian Rupee and Euro, in that order, compared to the US dollar.

**4.5 Real Economy**

**Agricultural Production**

According to the estimates of Bangladesh Bureau of Statistics (BBS), total foodgrain production (rice and wheat) in FY2007 was 28.05 million metric tonnes (mmt) which is 2.88 per cent higher than that of the previous year (FY2006). Total rice production in FY2007 was 27.31 mmt (Aus: 1.51 mmt; Aman: 10.86 mmt; Boro: 14.94 mmt). Production of Aus rice declined significantly by 13.35 per cent in FY2007 compared to that of FY2006. On the other hand, production estimates of the two major crops, Aman and Boro, surpassed



the production figures of FY2006. Total production of Aman rice in FY2007 was 0.46 per cent higher than the production of FY2006. Boro production in FY2007 increased significantly by 6.91 per cent over the previous year. In the face of a gradually declining trend of wheat production, FY2007 recorded marginally higher production of wheat by 0.27 per cent over the estimates of FY2006, total production amounting to 0.74 mmt.

However, livestock production situation of FY2007 deteriorated compared to that of FY2006. According to the estimates of the Directorate of Livestock Services (DLS), milk production in FY2007 was 2.28 mmt, posting a nominal growth of 0.44 per cent over the production figure of FY2006. Estimated production of eggs in FY2007 was 5,369 million, indicating a (-) 0.98 per cent negative growth. Meat production also went down substantially in FY2007 by (-) 7.96 per cent, total production amounting to 1.04 mmt.

On the other hand, fish production in FY2007 registered a significant progress. According to the provisional estimates of the Directorate of Fisheries (DoF), total fish production in FY2007 was 2.59 mmt, indicating 11.31 per cent higher production than the preceding year (FY2006). Inland fish production in FY2007 (2.00 mmt) was 8.45 per cent higher than in FY2006. Contribution of cultured fisheries to the inland fish production is increasing over time and reached 57 per cent in FY2007, from 48 per cent in the preceding year, the production figure (1.0 mmt) recording 29.66 per cent growth over the estimates of FY2006. Marine fish production in FY2007 also marked significant rise by 22.36 per cent, total production amounting to 0.59 mmt.

### Food Import

In FY2007, total rice import (private and public) was 0.72 mmt, indicating 35.44 per cent more import than the previous year. Private import of rice rose significantly by 39.58 per cent, while import by public sector declined by (-) 25.43 per cent. Against a public rice import of 0.03 mmt, private import amounted to 0.70 mmt, taking the share of private import to 96.49 per cent in FY2007 whereas the share was 93.63 per cent in FY2006.

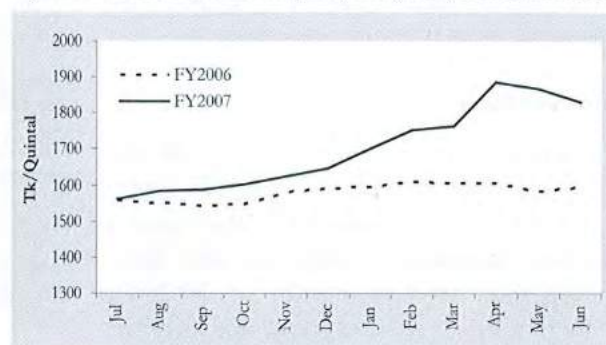
On the other hand, wheat import by private and public sector in FY2007 declined considerably.

Total wheat import declined by 16.25 per cent compared to the import of FY2006 as private and public imports decreased by (-) 14.33 per cent and (-) 29.19 per cent respectively. Altogether, total import of foodgrains in FY2007 declined by (-) 5.52 per cent compared to the import in FY2006.

### Rice Price

At the beginning of FY2007 the wholesale price of coarse rice was around Tk 15,610 per mt.

Figure 23: Trends in wholesale rice price (coarse) during FY2006 and FY2007



Source: CPD-IRBD database

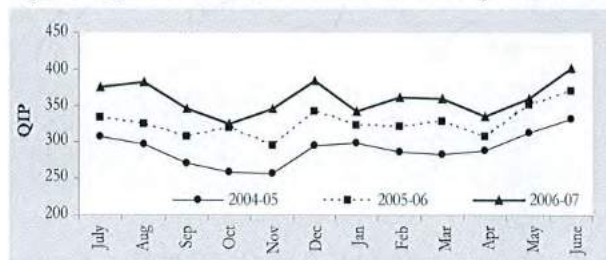
Throughout the year the price of rice was on the rise, but during January 2007 the price level took a serious upward turn and reached Tk 18,600 per mt in April 2007. However, the last two months of the fiscal year, after the harvest of Boro rice, recorded a declining trend and by the end of FY2007, price per mt stood at Tk 18,310, taking the annual growth in price to 17.30 per cent.

However, a comparison of wholesale prices of coarse rice in Bangladesh with import parity price of Delhi and Bangkok reveals that price of coarse rice is lower in Dhaka.

### Industrial Production

Production in large and medium manufacturing industries registered 10.01 per cent growth in

Figure 24: Quantum Index of Industrial Production during FY2005-07



Source: CPD-IRBD database

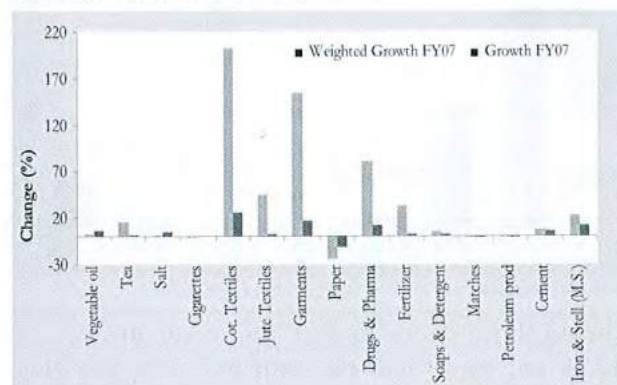
FY2007 according to the QIP, against a more



respectable growth of 12.49 per cent achieved in FY2006.

During FY2007, most of the major industries achieved positive growth with cotton textiles (25.84 per cent), RMG (16.88 per cent), drugs & pharma (11.54 per cent), M.S. products (11.86 per cent) and

Figure 25 : Growth in industrial production



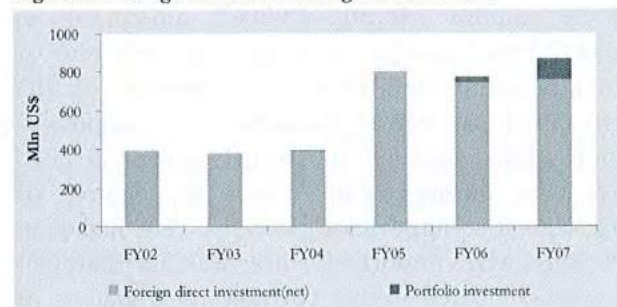
Source: CPD-IRBD database

cement (5.82 per cent). On the other hand, production of paper recorded substantial fall by (-) 10.92 per cent and marginal decrease in production was recorded for matches (-0.83 per cent), petroleum products (-0.54 per cent) and cigarettes (-0.16 per cent).

### Foreign Investment

During FY2007 Bangladesh received a net amount of US\$866 million as foreign investment, of which US\$760 million came as foreign direct investment (FDI) and the rest came as portfolio investment. The target of US\$ 1 billion of FDI inflow for FY2007 could not be realised; nevertheless, the

Figure 26 : Foreign investment during FY2000-FY2006



Source: CPD-IRBD database

actual inflow was 2.3 per cent higher than the FDI of FY2006.

On the other hand, portfolio investment increased significantly by 231.3 per cent, from 32 million in

FY2006 to 106 million in FY2007. This could be one underpinning factor behind the buoyant performance portrayed by the two bourses of the country.

Financial account stood at US\$ 721 million in FY2007, recovering well from the negative account

Table 6 : Financial account of foreign investment (FY06 & FY07)

(In million US\$)

	FY2005-06	FY2006-07
Financial account	-141	721
i) Foreign direct investment (net)	743	760
ii) Portfolio investment	32	106
iii) Other investment	-916	-145
MLT loans 2/	1023	1037
MLT amortization payments	-488	-525
Other long-term loans (net)	-37	-29
Other short-term loans (net)	-256	493
Other capital	-495	-524
Trade credit (net)	-898	-470
Commercial Bank	235	-127
Assets	31	-98
Liabilities	204	-29

Source: CPD-IRBD database

of US\$ (-) 141 million experienced in FY2006. A net amount of US\$145 million was repatriated from the country during FY2007. Against an inflow of US\$1,037 million MLT loan, US\$525 million was repatriated in FY2007 as amortization payments. Net trade credit (US\$ -470 million) and accounts of Other capital (US\$ -524 million) are the two major sources of the total repatriation in FY2007.

### Capital Market

During the political uncertainty, the Dhaka Stock Exchange (DSE) observed a decrease in all of its share price indices in the first half of FY2007. However, take over of the current CTG appears to have restored confidence and brought momentum to the market. The DSE All Share Price Index (DSI) started to rise immediately and stood at 1427.74 on 22 January, 2007. At the end of FY2007, DSI increased to 1764.2 from 1040.5 in June 2006, registering a rise by 723.7 points. The General Index (DGEN) also increased by 809.8 points from 1339.5 to 2,149.3 during the same period. Performance of the top ranked companies (the DSE20 index) indicates a slower pace of increase, by 571.23 points, increasing from 1310.9 to 1882.1 during the period under consideration. Apart from two direct listings, a total of 12 IPOs came into the market during FY2007, whereas 14



IPOs came during FY2006. Significant oversubscription of IPOs remained a reality in FY2007. During FY2007, an amount of Tk 20.1 billion was oversubscribed (13.5 times of the offered amount).

Various initiatives of the Securities and Exchange Commission (SEC), undertaken in the recent past, have without doubt contributed significantly to an increase in investors' confidence. However, it is also true that the current anti-graft movement of the government has, to some extent, diverted small investments towards the stock market, contributing to the recent buoyancy in the market.

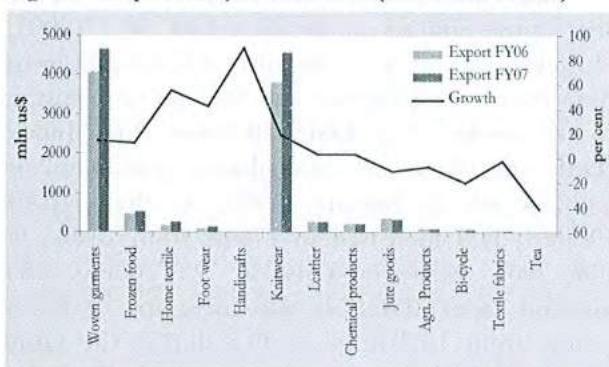
To sustain the recent performance of the market, cautious monitoring is required without jeopardizing the current stimulus. With the visible thirst for investment from the small capital holders, a growing need for expansion of investment opportunities in the share market is being felt. Bringing more and quality companies to the stock market remains an urgent task. Efforts are needed to have mobile companies listed in the market.

## 4.6 External Sector

### Export

Despite the political turmoil and labour movements, export earnings stood at US\$12,177.86 million at the end of FY2007, registering a respectable growth of 15.69 per cent over the corresponding period of FY2006. Most of the major export items posted positive growth rates. It is to be noted in this context that despite the

Figure 27 : Export of major commodities (FY2006 and FY2007)

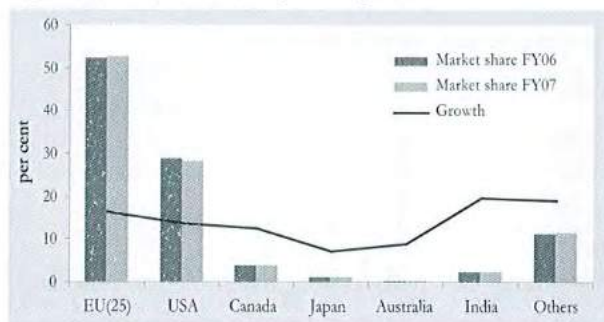


Source: CPD-IRBD database

uncertainties experienced in the RMG sector during FY2007, export earnings from woven-RMG sector increased significantly by 14.05 per cent whilst export of knitwear-RMG posted a 19.30 per

cent growth. Export of home textile grew by 55.50 per cent. Handicrafts export grew phenomenally by 89.77 per cent and foot-wear recorded an impressive growth of 42.44 per cent over the exports of FY2006. Frozen food, leather and

Figure 28 : Market share of export and growth



Source: CPD-IRBD database

chemical products posted moderate growth of 12.24 per cent, 3.42 per cent and 3.31 per cent respectively.

Major decline in exports were recorded by tea (-41.63 per cent), electronics (-35.90 per cent), bicycle (-19.64 per cent), jute goods (-11.15 per cent), and agri products (-7.04 per cent).

In terms of market diversification, Bangladesh experienced the highest growth in India (19.6 per cent) during FY2007. The EU and the USA continues to remain the largest markets for Bangladesh's export, with 52.5 per cent and 28.3 per cent of respective shares in export in FY2007. The growth had been 13.6 per cent, 12.6 per cent and 16.4 per cent in the USA, Canada and the EU respectively.

### Import

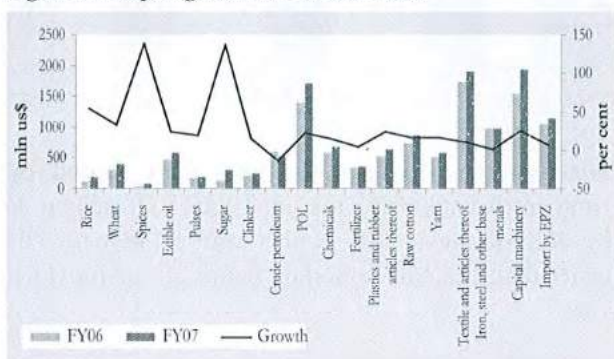
Total imports during FY2007 amounted to US\$17,156.7 million, showing a growth rate of 16.3 per cent compared to the imports of the previous fiscal year. In US dollar terms, import of food grains recorded substantial growth of 39.0 per cent during FY2007 over the figures of FY2006. Rice import was 53.8 per cent higher in FY2007, while import of wheat was 33.3 per cent higher compared to the corresponding figures of FY2006. Sugar import also posted a phenomenal growth of 136.9 per cent.

Among the other major import items, capital machineries (25.4 per cent), POL (22.1 per cent), raw cotton (15.8 per cent), chemicals (15.2 per cent) and textile articles (9.5 per cent) recorded



high to moderate growth rates. On the other hand, import of crude petroleum and pharmaceutical products declined by (-) 13.3 per cent and (-) 2.6 per cent respectively. During FY2007, imports by EPZ registered a growth of 11.6 per cent.

Figure 29 : Import growth in FY2006-FY2007



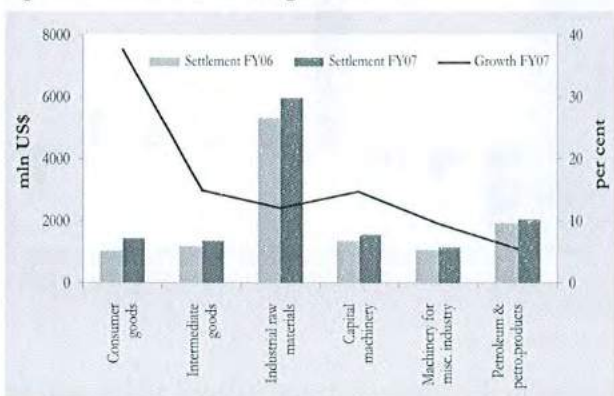
Source: CPD-IRBD database

While it is unlikely that an increased investment demand had its role behind the moderately high import growth of FY2007, considering the impact of ongoing anti-graft movement, the obvious possibility is that the growth, especially for the food items, is underpinned by the rise in global prices. The rise in import payments is likely to continue for some time to come, which could put the BOP situation under pressure in the upcoming days.

### Opening and Settlement of Import LCs

Letter of credits (LCs) worth US\$15,971.4 million was settled during July-June period of FY2007, registering a growth of 14.5 per cent over the corresponding period of the last year. Fresh

Figure 30 : Settlement of LC during FY2006-FY2007



Source: CPD-IRBD database

openings of import LCs during the FY2007 registered identical growth (14.5 per cent) with total figure amounting to US\$17,451.0 million.

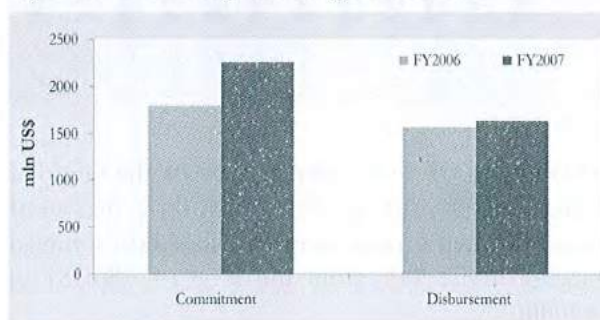
Major increase in opening and settlement of LCs took place for consumer goods and intermediate goods. While opening and settlement of LCs for consumer goods grew by 47.9 per cent and 37.6 per cent, the respective growth figures for intermediate goods were 21.8 per cent and 15.0 per cent. In a more disaggregated terms, within consumer goods, opening and settlement of rice and wheat together grew by 62.9 per cent and 35.8 per cent respectively. For pulses the growth figures were 19.3 per cent and 14.7 per cent. During this period, LC settlement of capital machineries posted moderate growth of 14.6 per cent, but fresh opening of LCs registered marginal growth of 1.3 per cent. For industrial raw materials, machinery for miscellaneous industries and petroleum and petroleum products, the growth rates were 12.0 per cent, 9.7 per cent and 5.5 per cent respectively.

In case of fresh opening of LCs, industrial raw materials, machinery for miscellaneous industries, and petroleum and petroleum products registered 10.2 per cent, 7.1 per cent and 17.1 per cent growth respectively in FY2007.

### Foreign Aid

Total foreign aid disbursed during FY2007 was

Figure 31 : Flow of foreign aid during FY2006-FY2007



Source: CPD-IRBD database

higher than the disbursement of FY2006. An amount of US\$1,624.6 million was disbursed as foreign aid which indicates an increase of 3.6 per cent in gross terms compared to FY2006. After accounting for the payment of principal (US\$525.1 million), net foreign aid during FY2007 stood at US\$1,099.5 million, which is 1.9 per cent higher than the corresponding figure of the preceding year. According to the programmed expenditure in the revised budget of FY2007, demands for an aid inflow (in gross terms) amounted to around US\$1,620 million (including grants).



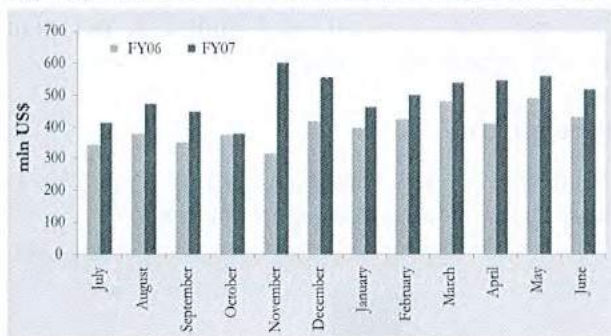
On the other hand, commitment of aid in FY2007 stood at US\$2,256.2 million, gaining substantial growth of 26.2 per cent over the commitment of FY2006.

### Remittances

Remittance flow continued to demonstrate buoyant performance during FY2007, easing the pressure on balance of payments. In the backdrop of a high benchmark growth of 24.78 per cent during FY2006, flow of remittance posted 24.52 per cent increase in FY2007 taking the total inflow to US\$5,979.32 million. Remittance inflow in a single month (US\$598.73 million) was highest in November 2006.

Saudi Arabia remains to be the single largest (US\$1735 million) source of remittance in FY2007 with 29.01 per cent share in the total inflow, while the largest increase has been registered from the U.K. (58.80 per cent).

Figure 32 : Monthly trend in the flow of remittance during FY2006-FY2007



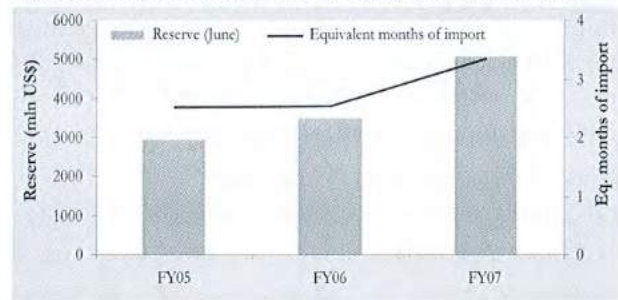
Source: CPD-IRBD database

This high inflow took place in view of the fact that during FY2007, the number of workers that went abroad through formal channels had almost doubled (563,644 in FY2007 from the level of 286,381 in FY2006).

### Foreign Exchange Reserves

In the face of a controlled import and buoyant export-remittance earnings, foreign exchange reserves have been on the rise since the second half of FY2006. But since the beginning of FY2007, thanks to higher growth in the remittance inflow, the reserve situation improved quite substantially. At the end of June 2007, foreign exchange reserves stood at US\$5,077.24 million which was about 45.74 per cent higher than that of the corresponding month of the previous year. This amount is equivalent to 3.3 months import of the country while the reserve at the end of FY2006 equalled to 2.5 months import.

Figure 33 : Foreign exchange reserves and equivalent months of import



Source: CPD-IRBD database

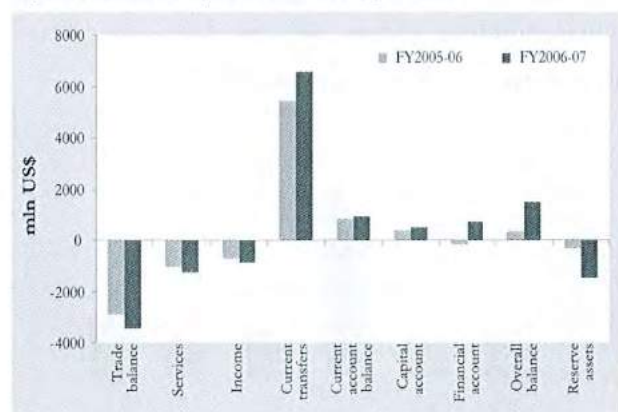
Gross foreign exchange balances held abroad by commercial banks also rose to US\$368.10 million at the end of June 2007, which was 41.45 per cent higher than the corresponding figure of the previous year.

### Balance of Payments

Trade balance deteriorated in FY2007 as trade deficit climbed up to US\$3,458 million from US\$2,889 million of FY2006. Despite the larger service (-US\$1,261 million) and income (-US\$883 million) deficit, the current account balance recorded a surplus of US\$952 million during FY2007 against the surplus of US\$824 million of FY2006, owing to larger current transfers. It is basically the higher remittance flow that has resulted in a larger surplus of US\$6,554 million in the current transfers, providing a breathing space to the BoP situation.

Despite a weakened trade balance, BoP with a larger

Figure 34 : Balance of Payment scenario during FY2006-07



Source: CPD-IRBD database

surplus in the current account balance and a positive financial account experienced a surplus in the overall balance to the tune of US\$1,493 million during FY2007 as against a surplus of US\$338 million in FY2006.



## 5. OUTLOOK AND CHALLENGES FOR FY2008

### Growth Outlook

The CTG has set a growth target of 7.0 per cent for the coming FY2007-08. Taking note of the performance in FY2007, it is maintained that all the three major components of GDP, *viz.* Agriculture, Industry and Service will have to register quite a robust performance, if such optimistic growth targets were to be attained. The agricultural sector has to post significantly higher growth since crop and livestock sectors have slowed down considerably in FY2007. The crop sub-sector has to significantly increase its growth rate (4 plus per cent) while livestock sub-sector must regain the momentum it lost after the Avian Flu. Manufacturing sub-sectors will need to sustain its impressive growth which was recorded in FY2007 notwithstanding the prevailing situation. Manufacturing, both large and small scale, has to score a moderate increase in its growth rate; the construction sub-sector also ought to reclaim the lost momentum. The other components of the Industry sector i.e. Electricity, Water and Gas Supply along with Mining and Quarrying, must retain their pace of growth. Since service sector alone accounts for half of the national income, it has to moderately accelerate its growth on the FY2007 benchmark. Real Estate, Renting and Business Activities have to revert back to higher growth path, whereas sectors such as Education and Health and Social Works must significantly improve their performance. It is anticipated that Public Administration and Defence would experience accelerated growth in FY2008. Import Duty has to break free from negative growth rate, as was recorded in FY2007, and has to increase its incremental contribution in realising the targeted growth rate. In short, attainment of the projected 7.0 per cent economic growth would demand an energetic performance by all the major sectors of the economy. However, for this to happen, the investment in the economy, both domestic and foreign, will continue to remain the single most important factor. As it appears for now, the targets set for FY2008 will be hard to achieve in view of the performance of macroeconomic indicators in the first few months of FY08. The economy's growth rate will need to be accelerated to significantly higher trajectory in the remaining

months of FY2008, if the growth targets are to be attained. This will not be an easy task.

### Medium Term Outlook

The new MTMF (FY2008-2010) outlook for FY2009 and FY2010 makes the projection (by the CTG) that the economy will grow at 7.0 per cent and 7.2 per cent in FY2009 and FY2010 respectively. The projections also depict optimism about harnessing the inflationary trend, setting the

Table 7 : Medium term outlook of Bangladesh economy

Indicators	Budget	Projected	
	2007-08	2008-09	2009-10
<b>Output (%)</b>			
Real GDP growth (%)	7.0	7.0	7.2
CPI inflation	6.5	5.5	5.0
GDP deflator (% change)	6.0	5.2	4.9
Gross Domestic Investment (% GDP)	26.2	27.4	28.1
<b>Government Accounts (% of GDP)</b>			
Total Revenue	10.8	11.1	11.2
Tax	8.6	9.1	9.2
Non-Tax	2.2	2.0	2.0
Total Expenditure	16.4	14.9	15.0
Current Expenditure	9.4	9.0	9.1
Of which: Interest Payments	2.0	1.9	1.9
Overall Balance (excl.Grants)	-5.6	-3.8	-3.8
Financing (net)	5.6	3.8	3.8
Domestic Borrowing	3.6	2.0	2.1
External Borrowing	2.0	1.8	1.7
<b>Money and Credit (% change)</b>			
Net Domestic Assets	13.6	14.7	14.1
Private Sector	14.5	15.5	15.0
Broad Money	15.0	14.0	13.0
<b>Balance of Payments</b>			
Exports, f.o.b (% change)	18.5	18.0	18.0
Imports, c.i.f (% change)	19.0	18.5	17.0
Remittances (US\$ million)	6600.0	7400.0	8200.0
Current Account Balance (% of GDP)	0.7	0.1	-0.4
Gross Official Reserve (US\$ million)	5300.0	6112.0	7151.0

Source: PRSP, MTBF and Budget Documents.

target at 5.5 per cent for FY2009 and 5.0 per cent for FY2010.

In the revised medium term outlook, revenue collection is programmed to grow at a slow pace, whereas total expenditures are to fall drastically in FY2009. Consequently, fiscal deficit is expected to



improve leading to an improvement in the overall balance. This sudden shift may be explained by the disclosure of BPC debts and its adjustment amounting to about 1.42 per cent of GDP in FY2008.

In the monetary sector, Broad Money Growth was projected to slowdown over the years from 15 per cent in FY2008 to 13 per cent in FY2010. It is expected that private credit flow will sustain high expansion despite reduction in aggregate growth.

The BOP components are expected to experience robust growth in the coming years. These include steady export growth and import performance as well as improvement in foreign exchange reserves situation. Remittance flow is also expected to continue the current momentum.

The overall new medium-term macroeconomic outlook suggests that the CTG is quite optimistic about accelerating economic growth, strengthening fiscal framework, maintaining monetary discipline and enhancing external balance. The performance of the economy in the first few months of FY2008, with the inflationary pressure and scaling down of the GDP growth rates (from the projected 7% to about 6.0 - 6.2%), are indicative of the challenges that lie ahead for the CTG in FY2008 and for Bangladesh beyond that time frame, in FY2009 and FY2010.

### Challenges for FY2008

A number of emerging challenges that the Bangladesh economy could face in the upcoming year may be identified in view of the emerging trends currently being experienced. These include addressing some critical structural challenges and maintenance of macroeconomic stability, since these are crucial to attaining the targets set in the MTME.

### Stabilising Market Price, Particularly Food Prices

Arresting the existing high inflationary trends, particularly high prices of essential commodities including food items, ought to be seen as the most urgent task of the government. Both domestic underperformance and international shocks contributed to the creeping inflation which has been observed for the last one year, and has accelerated in recent times. It is unlikely that the national inflation will decline below 7.0 per cent in the near future, particularly in view of the low harvest, in the

aftermath of two successive floods and cyclone Sidr. Various market and non-market interventions, coupled with strong institutional reforms, will be required to curb the present inflation, keeping in view both short and medium term perspectives.

### Achieving Pro-Poor Growth and Addressing Inequality

Translating the gains of economic growth performance into incremental gains for the poor and disadvantaged groups of the society will be a major challenge facing the CTG. As is known, the pace of poverty alleviation accelerated during 2000 to 2005 (on average reducing 1.8 per cent poverty rate per annum). At the same time, regional disparity and intra-household income inequality have continued to worsen and threaten to undermine future prospect of poverty alleviation. Income generation through gainful employment for the rural and urban poor, addressing the problems of seasonal unemployment and of people who have lost homes due to Sidr, floods and river erosion remain critical areas of intervention, which requires urgent financial support and policy interventions.

### Investment Augmentation and Improved Domestic Savings

A major challenge will be to address those areas which inhibit investment and constrain entrepreneurial initiative. Practical measures will have to be devised to transform savings into investment for the purpose of accelerating the growth prospect of the economy.

### Expanding Domestic Tax Base

Historically, Bangladesh has the lowest revenue-GDP ratio among all her counterparts in the South Asian region. Intensifying domestic resource mobilisation through an active revenue collection drive, extending the coverage of revenue collection and improving auditing system for augmenting more transparent corporate governance persist to be a challenge in terms of ensuring higher domestic resource mobilization and comfortable fiscal situation in coming years.

### Better Management of Aid Flow

Low disbursement of foreign aid has been a major concern in recent years. Although the importance of



foreign aid in the overall economy has been on the decline in recent years, the importance of increased foreign aid flow for development, particularly for sectors including health, education, human resources and infrastructure, cannot be overemphasised. Even though the situation has somewhat improved with the installation of the present CTG, meeting the targets for foreign aid utilisation will remain a major challenge for Bangladesh.

#### **Improving the Quality of ADP Implementation**

Appropriate resource allocation and implementation of the ADP has been a major challenge for successive governments in Bangladesh. Declining trend in ADP-GDP ratio is acting as a limiting factor in terms of the future economic growth of the country. Selection of demand driven projects and their effective implementation are basic requirements for better management of public expenditure programmes in Bangladesh. Enhancing utilisation performance of ADP through better governance and enhanced capacity of the implementing ministries and agencies, ought to receive top priority from the government.

#### **Improving Investment in Agriculture**

Gross disbursement of agricultural credit recorded a fall during FY2007. With an improved recovery, net disbursement performance has been even worse. In view of the rising production cost and stagnant production, the negative growth of agricultural credit is likely to have adverse impact on future agricultural production. In FY2008, improving investment in agriculture will be a major challenge for ensuring and maintaining the four plus percent growth rate of agricultural GDP.

#### **Improved Allocation in Power, Education and Health**

The challenge for the government will be to go for immediate measures to address the existing acute power shortages. An absence of urgent and decisive decision as regards power projects is having an adverse impact on short term energy availability and medium-to-long term energy security.

Providing quality education and proper basic health services continue to remain a major task for Bangladesh. The slow down in the utilisation of allocation in education and health in recent times,

will adversely affect development of human capital in the long term. In view of this, selection of appropriate projects and increased attention to raising the quality of health and education services ought to be given due attention.

#### **Sustaining Export Growth**

The narrow export basket of Bangladesh is likely to face heightened competition once the EU and US restrictions on RMG export from China is withdrawn (in January 2008 and January 2009 respectively). Already, early signs in FY2008 have indicated the challenges on this front: export growth in early months were negative with very slow recovery in subsequent months. The encouraging sign is that buyers (of apparels) have once again started to place orders in Bangladesh, in view of the improving business situation. Export and market diversification are the twin challenges that are to be addressed in FY2008.

#### **Improving the FDI Flow**

FDI inflow to Bangladesh has been on the decline in the past year and the country is lagging behind, compared to other developing countries in terms of attracting FDI. It is to be noted here that Vietnam, an economy with similar size, was able to attract about US\$15 billion in FDI in the first nine months of 2008. Apart from taking decisions with regard to large scale FDI propositions, energetic steps should be taken to remove bottlenecks and provide attractive incentive packages to stimulate FDI flow to the country. Development of clusters, putting in place incentives for technology upgradation and R&D and other initiatives will need to be pursued to ensure higher inflows of FDI.

#### **Greater Mobilisation of Equity Capital**

The capital market in Bangladesh has improved remarkably during the recent times. Investors' confidence is on the rise; as a consequence of which market capitalization and all share price indices are on the rise in recent years. With improved monitoring mechanism against market manipulation in place, this is perhaps the most opportune time for further consolidation and strengthening of the equity market. This will have to be done both by providing more investment opportunities as well as by catering to new investors, more particularly from among the NRBs



and foreign investors. To this end, bringing more SoEs into the capital market with a view to mobilising larger capital will be the major task in hand for the CTG.

#### Keeping up Remittance Flow

Remittance inflow has provided a cushion to the BoP situation of Bangladesh economy in FY2007. Improving the quality of manpower, enhancing their earnings power and effective negotiation for greater market access for Bangladeshi workers going abroad will stand out as the major challenges to sustain this remittance flow in the next fiscal year.

#### Pushing Forward Reforms

A number of important reforms have been initiated by the CTG in the past year. These have to be continued effectively and energetically and will require bringing about major legal and institutional changes in several key areas. The formation of the Better Business Forum (BBF) and the Regulatory Reforms Commission (RRC) are expected to contribute to this process in 2008. Concrete initiatives and proactive stance in pursuing those initiatives could make a lot of difference in improving not only business environment, but also ensuring better governance in Bangladesh in FY2008.

## 6. CONCLUDING REMARKS

FY2007 has been an exception year for Bangladesh. With crucial changes in political governance and consequent economic governance, the year will stand out in Bangladesh's history as a defining time. FY2007 and the early months of FY2008 experienced rapid rise in price levels, fuelled by both domestic factors and global developments, natural calamities in the form of consecutive floods and cyclone Sidr, slow down in investment and growing concerns about food security as well as energy security. Low ADP utilisation, fiscal pressure as a consequence of revenue expenditure outpacing revenue income, deteriorating terms of trade with respect to slower pace of export and the consequent adverse impact on balance of trade, indicate difficult times in the coming months. The continuing high flow of remittance and high reserves are expected to provide some cushion. However, policy makers will need to keep in mind that continuing rise in prices could undermine the positive developments by creating pressure on both budget and the available resources.

Some of the challenges faced during FY2007 are likely to continue in FY2008. The spiraling inflation trends, particularly food price inflation

that persisted all through FY2007, will continue to remain a major concern. With little sign of improvement at the closure of the year, curtailling inflation will be the major task that the CTG will need to address. It is to be reckoned that it is the weaker sections in the society and the marginalised that suffer most as a result of high food inflation. In a country with growth and spatial inequalities, the adverse consequences of high inflation cannot be overemphasised. Combating inflation should receive the highest priority in FY2008.

Inflation can only be curtailed in the medium term through higher production and higher productivity, particularly because projections indicate that global prices of food, oil and Bangladesh's imports in general are expected to remain high. In view of this, stimulating savings and creating a conducive environment for both domestic and foreign investment will be crucial. The CTG has taken a number of important reforms that will have far reaching positive impact for the economy and the country as a whole. The immediate task is to create the sufficient conditions, through stimulating production and investment, to reap the benefits of institutional reforms.



## ANNEX 1: BALANCE SHEET OF BANGLADESH ECONOMY IN FY2007

Indicator	FY2006	FY2007
<b>Growth</b>	GDP growth is revised downward for FY06 from 5.71 per cent to 5.62 per cent. Domestic savings as percentage of GDP was 20.25	Another impressive growth performance of 6.51 per cent
<b>Savings</b>	National savings as percentage of GDP improved to 27.67 per cent.	Stagnation in domestic savings continues (20.46 per cent of the GDP) National savings growth also slowed down in this fiscal (13 per cent) Consistent increase in gap between national and domestic savings
<b>Investment</b>	Investment as percentage of GDP improves to 24.65 per cent. Public investment comes down to 6 per cent of GDP.	Growth in gross capital formation slowed down- the growth rate is the lowest in last five years (7.22 per cent) Investment as percentage of GDP declined to 24.33 per cent. Public investment stands at all time low (5.60 per cent of GDP) Widening savings investment gap.
<b>Revenue Receipts</b>	94.1 per cent of NBR target was achieved in FY2006. Non-NBR tax components showed slower growth of 7.4 per cent while non-tax component of the revenue collection has grown by 14.3 per cent.	Revenue-GDP ratio of Bangladesh reached 10.01 per cent demonstrating a decline by 0.20 per cent of GDP; NBR revenue collection during FY2007 registered 11.5 per cent growth while non-NBR tax components grew by 21.6 per cent. Direct tax (income tax) collection increased significantly by 34.7 per cent while total revenue collection achieved a growth of 10.1 percent. 94.7 per cent of the NBR target (revised) was achieved in FY2007.
<b>Public Expenditure</b>	Revenue expenditure registered a benchmark growth of 15.6 per cent. ADP figure was 4.68 per cent of the GDP. Actual ADP expenditure stood at 79.48 per cent and 90.57 per cent of the original and revised allocations respectively.	Revenue expenditure for FY2007 recorded a growth of 15.6 percent. Total revenue expenditure stood at Tk 42253.6 crore which was Tk 297.4 crore more than the targeted expenditure. ADP expenditure declined by 7.44 per cent.
<b>a. Revenue Expenditure</b>		
<b>b. ADP</b>		
<b>Fiscal Deficit</b>	Total deficit was 3.0 per cent in FY2006. Share of domestic financing was 72.1 per cent.	Overall deficit has grown by 3.7 percent while net foreign financing declined by 21.0 percent. Total domestic financing rose by 13.2 per cent. Borrowing from the non-banking sector has grown by 61.8 per cent while borrowing from the banking sector declined by 7.0 per cent. Total deficit stood at 2.8 per cent of the GDP at the end of the fiscal year.
<b>Domestic Credit Expansion</b>	Total domestic credit growth was 18.3 per cent.	Total domestic credit amounted to Tk 255731.2 crore. Expansion of domestic credit slowed down with a point to point growth of 14.4 per cent. Total outstanding domestic credit to the public sector increased by 12.4 per cent. Government borrowing accounting for 82.3 per cent of the total public sector credit, recorded a growth of 12.1 per cent.
<b>Industrial Credit</b>	Contribution of NCBs in total disbursement of term loan was 6.1 per cent.	Term loan disbursement registered significant growth of 28.4 per cent. Share of NCBs decreased significantly to 3.9 percent. With 60.8 per cent share in the total disbursement, private commercial banks (PCBs) (domestic) remained the major source of term loan. Disbursement of working capital recorded a slower growth of 11.3 per cent.



Indicator	FY2006	FY2007
<b>Agriculture Credit</b>	Total agricultural credit disbursement stood at Tk5496.21 crore at the end of FY2006.	Total credit disbursement to the agricultural sector declined 3.7 per cent in net terms. Total credit flow to the rural economy amounted to Tk 616.5 crore, registering substantial negative growth of (-) 53.7 per cent.
<b>Loan Classification</b>	Total classified loan was recorded at Tk 23465.17 crore.	Total classified loan recorded a decline of 4.96 per cent amounting Tk 22,302.05 crore. Loan by Foreign Banks (FBs) increased significantly by 154.30 per cent, while that of PCBs and DFIs increased by 20.18 per cent and 1.12 per cent respectively.
<b>Price Inflation</b>	The consumer price inflation was 7.16 in June 2006. On a point-to-point basis, consumer price inflation stood at 7.54 percent in June 2006.	The consumer price inflation was 7.20 in June 2007. On a point-to-point basis, consumer price inflation stood at 9.20 percent in June 2007.
<b>Agriculture output</b>	Total food grain production was 27.27 million metric ton during FY2006.	Total food grain production (rice and wheat) in FY2007 was 28.05 million metric tonnes (mmt) recording a growth rate of 2.88 per cent. Total rice production in FY2007 was 27.31 mmt. Livestock production deteriorated while production of fisheries has shown some decline.
<b>Industrial Production</b>	A 12.49 per cent growth has been indicated by the QIP.	A 10.01 percent growth was recorded in production by large and medium manufacturing industries.
<b>Foreign Investment</b>	Bangladesh received US\$743 million as FDI in FY2006.	Bangladesh received a net amount of US\$866 million as foreign investment during FY2007. Leaving aside the unrealised inflow of \$1 million, the FDI growth rate was recorded at 2.3 percent.
<b>Capital Market</b>	All Share Price Index (DSI) was at 1040.5 in June 2006. The General Index (DGEN) stood at 1339.5. Total number of IPOs coming to the market was 14.	All Share Price Index (DSI) increased to 1764.2 during FY2007 registering a rise by 723.7 points from FY2006. The General Index (DGEN) also increased by 809.8 points to 2,149.3 during the same period. Apart from two direct listings, a total of 12 IPOs came to the market during the period.
<b>Export</b>	Export earnings reached US\$10526.164 during FY2006.	Export earnings reached US\$12,177.86 million at the end of FY2007, recording a growth rate of 15.69 per cent over the corresponding period of FY2006.
<b>Import</b>	Total imports amounted to US\$14746 in FY 2006.	Total imports during FY2007 amounted to US\$17,156.7 million, showing a growth rate of 16.3 per cent compared to the imports of the previous fiscal.
<b>Remittances</b>	Remittance earnings have registered a significant growth of 24.78 per cent during FY2006.	Flow of remittance posted 24.52 per cent increase in FY2007 with a total inflow of US\$5,979.32 million.
<b>Foreign Aid</b>	Total foreign aid worth US\$1567.6 million was disbursed during FY2006.	Total foreign aid of US\$1624.6 million was disbursed indicating an increase of 3.6 per cent in gross terms compared to FY2006.
<b>Foreign Exchange Reserve</b>	The reserve at the end of FY2006 equalled 2.5 months' import.	Foreign exchange reserves stood at US\$5,077.24 million registering a growth of 45.74 per cent compared to that of the corresponding month of the previous year. This amount is equivalent to 3.3 months' import of the country.
<b>Balance of Payments</b>	Current account balance surplus stood at US\$824 million during FY2006. Overall balance recorded a surplus of US\$338 million.	Current account balance recorded a surplus of US\$952 million during FY2007. Balance of Payment experienced a surplus in the overall balance to the tune of US\$1,493 million during this period, significantly higher than that of the previous year.



## Acknowledgement to the Expert Reference Group

In continuation of the CPD-IRBD tradition, CPD organised an Expert Group Consultation Meeting to discuss the working documents of the Third Reading of the *State of the Bangladesh Economy FY2007*. The meeting was held on 29 May 2007 at the CPD dialogue room. This in-house meeting was attended by a distinguished group of high level policymakers and professionals. CPD-IRBD Research Team acknowledges the contribution of the participants by way of sharing their views and comments on the documents. However, CPD remains solely responsible for the observations and analyses presented in this volume.

A list of the participants of the meeting is provided below (in alphabetical order):

<i>Professor Syed M Absan</i>	Resident Economic Advisor Policy Analysis Unit Bangladesh Bank
<i>Mr Siddiqur Rahman Choudhury</i>	Chairman, Agrani Bank and Former Secretary, Finance Division
<i>Mr Zobdul Hoque</i>	Former Deputy Director General Bangladesh Bureau of Statistics (BBS)
<i>Dr Saadat Husain</i>	Chairman Public Service Commission and Former Cabinet Secretary
<i>Dr Akbar Ali Khan</i>	Former Advisor to the Caretaker Government and Visiting Professor BRAC University
<i>Dr S R Osmani</i>	Visiting Professor Department of Development Studies BRAC University
<i>Dr Masibur Rahman</i>	Former Secretary, ERD
<i>Dr Kaniz Siddique</i>	International Consultant Ministry of Finance
<i>Dr Sajjad Zobir</i>	Executive Director, ERG