

CHAPTER 1

MACROECONOMIC SITUATION

Sustained growth since the 90's till June 2007 speaks of the resilience of Bangladesh economy. GDP over the last five years achieved more than 5 percent growth consecutively. Despite high pressure on the import bills due to price hike of crude oil and other essential commodities in international market in 2006, Bangladesh's foreign trade remains at a satisfactory level. The remarkable growth of import-export trade, current account surplus, and secular increasing trend in the flow of remittance kept the external sector stable. Along with macroeconomic development, Government has also taken pragmatic measures in human resource development. Allocations in budget are being made commensurate with the development strategy and priority of social sectors including reduction of income poverty and human poverty so that more effective use of resources can be ensured. Gender budgeting has been included in the national budget in an attempt to bring the women to the mainstream of development.

Growth, Savings and Investment

According to the provisional estimates released by BBS, the highest growth in industry and service sector along with the continued trend of growth in service sector propelled the GDP growth rate to 6.51 percent in FY 2006-07. It is to be noted that, the economy posted the growth at 6.63 percent according to the final estimate in FY2005-06. The GDP growth rate is estimated slightly lower compared to the previous fiscal year due to the decline of growth in crops sub-sector of agriculture sector. Growth in livestock sector is also assumed to decline. The growth rate of the manufacturing sub-sector within the broad industry sector is estimated at 11.19 percent compared to 10.77 percent for the previous year. The total contribution of the large scale industry sector at current price is estimated at 49.13 percent for FY 2006-07 compared to 49.13 percent in FY 2005-06. According to final estimate, the per capita GDP and GNI in FY 2005-06 stood at US\$ 447 and US\$ 476 respectively. At current price, the per capita GNI for FY 2006-07 exceeds US\$ 500 for the first time. The per capita GDP and GNI for FY 2006-07 are provisionally estimated at US\$ 482 and US\$ 520 respectively. As a result, Bangladesh is expected to attain the position of a medium income country in the near future.

Continued rise in savings and investment plays an important role in achieving the high economic growth. According to provisional estimates, the rates of domestic and national savings stand at 20.46 and 29.15 percent of GDP in FY 2006-07 which is the ever highest. It is to be noted that the rates for FY 2005-06 were 20.25 percent and 27.67 percent respectively. The rate of investment is assumed to decline at 24.33 percent for FY 2006-07 compared to the previous year's 24.65 percent of which public sector accounts for 5.60 percent and private sector accounts for 18.73 percent. In FY 2005-06, these rates stood at 6.00 percent and 18.65 percent respectively.

Inflation

The rising trend of inflation is due mainly to higher prices of oil and some other imported commodities such as rice, different kinds of lentils and wheat etc in the international market, distortions in the supply chain and demand pressure generated from these commodities. The supply of wheat and rice is declining due to the worldwide fall in production for which inflation increased to 7.17 percent in FY 2005-06 compared to 6.48 percent of the previous year. The rate of inflation on point-to-point basis for FY 2006-07 was 7.22 percent of which the inflation for food and non-food items was 8.12 percent and 5.90 percent. To tackle this upward trend of the inflation, several steps like open market sale of the essential commodities, market monitoring, and improving ban hoarding have been undertaken. Side by side the government is trying to keep the inflation at the tolerable level by pursuing moderate monetary policy.

Fiscal Sector

Government is conducting a survey to identify the new tax payers in order to strengthen the revenue earning activities and to increase the tax-GDP ratio. The total tax revenue earning of NBR for FY 2005-06 amounted Tk.33,986.91 crore which was 13.65 percent higher than the previous fiscal year and it stood at Tk.49,472 crore for FY 2006-07 which is 10.26 percent higher than that of the previous year.

The total tax-GDP ratio was 10.79 percent according to the revised budget of FY 2005-06. In FY 2006-07, this is estimated at 11.24 percent. According to the revised budget of FY 2005-06, total public expenditure amounted to 14.69 percent of GDP and this is estimated at 14.92 percent in FY 2006-07. Total ADP spent against the revised ADP for FY 2005-06 was Tk.21,500 crore which is 91 percent of the allocation. The revised ADP for FY 2006-07 is Tk.21,600 crore of which Tk.17,206 crore has been spent in FY 2006-07 which is 79.7 percent of the revised allocation.

In FY 2005-06, the overall budget deficit without foreign grants was 3.9 percent of GDP which was 3.3 percent with foreign grants. In FY 2006-07, it is estimated at 3.7 percent and 3.2 percent respectively. To finance the budget deficit in FY 2005-06, net foreign and domestic finance was 1.7 percent and 2.2 percent of GDP respectively. In FY 2006-07, it is estimated at 1.8 percent and 1.9 percent of GDP respectively.

External Sector

The rising trend at export and import trade in FY 2006-07 has been sustained. There is a continued growth of RMG in the export items. The export growth of knitwear and oven garments has been achieved at 35.38 percent and 13.50 percent respectively in FY 2005-06 which are 19.30

percent and 14.05 percent in FY 2006-07. Total export earning amounted to US\$ 10,526.16 million in FY 2005-06 which was 21.63 percent higher than the previous fiscal year's earning of US\$ 8,654.52 million. The total export earning for FY 2006-07 amounts to US\$ 12,177.86 million which is 15.69 percent higher than the previous year's earning of US\$ 10,526.16 million.

The total import payments (cif) amounted to US\$ 17157 million in 2006-07, which has increased by 16.4 percent compared to the previous year's import payment of US\$ 14746. Trade balance recorded a smaller deficit of US\$ 3,458 million during FY 2006-07 compared to the deficit of US\$ 2,889 million during FY 2005-06. Despite large service deficit, the current account balance recorded a surplus of US\$ 952 million during FY 2006-07 against the deficit of US\$ 824 million over the previous year. This happened due to larger current transfers of US\$ 6,558 million during the reporting period. For an increase in the financial account of US\$ 721 million, the overall balance recorded a surplus of US\$ 1493 million during FY 2006-07 against the surplus of US\$ 338 million during FY 2005-06. This was mainly due to an increase in current account balance of US\$ 952 million as well as capital account of US\$ 490 million.

A total of 2.91 lakh Bangladeshis had gone abroad for employment in FY 2005-06, which is 16.4 percent higher than the number of the previous year. In FY 2006-07, manpower exports reached 5.64 lakh, which is 93.81 percent higher than the previous year's export. Due to the increase in skilled manpower export and the creation of facilities to send remittances from workers' abroad remittances flow has been increasing gradually. In FY 2005-06, the remittances from expatriate Bangladeshi workers stood at US\$ 4801.88 million reflecting 24.78 percent rise over the previous year. In FY 2006-07, remittances stood at US\$ 5978.47 million reflecting 24.50 percent rise over the previous year. The exchange rate faced upward pressure up to December 2006 in FY 2006-07 due to higher growth of investment (increase in import of capital machinery) in private sector in 2004-05 and for import of petroleum and intermediate goods at higher price from the world market. Taka-US Dollar exchange rate starts to increase from mid-January 2007 for export earnings and for the supply of foreign currency through remittance following several measures commensurate with the tight monetary policy. During January-June 2007, Taka-US Dollar exchange rate increased by 1.57 percent (nominal monthly basis). In Taka-US Dollar exchange (in interbank exchange), each dollar stood at Tk. 68.94 in June 2007 year-end, depreciating from Tk. 69.72 of June 2006.

Money and Credit Situation

In FY 2006-07 broad money (M2) increased by Tk. 30830 crore (17.02 percent) compared to that of the previous year. Broad money (M2) increased by Tk. 29568 crore (19.51 percent) in FY 2005-06 than that of the previous year. During FY 2006-07, currency in circulation increased by

16.54 percent, while demand deposit and time deposit showed an increase of 18.42 and 16.89 percent respectively. The trend of broad money indicates that credit to the government sector (net), other public sector and private sector increased by 13.96, 15.25 and 15.12 percent respectively. Thus, total domestic credit showed a growth of 14.92 percent in FY 2006-07.

Capital Market

It reveals from an analysis of the capital market situation that up to June 2007, market capitalisation of securities stood at Tk.47,585.50 crore. General share price index of the DSE stood at 1764.18 in June 2007, which was 1040.47 in June 2006. The number of securities listed with the CSE reached 219 as of June 2007 from 213 as of June 2006. By the end of June 2007, the issued capital of listed securities stood at Tk.8,103.29 crore, which is 29.59 percent higher compared to that at the end of June 2006. As of June 2007, market capitalisation of securities reached Tk.39,849.90 crore. General share price index of the CSE reached 5194.77 as on June 2007, which was 2879.19 on June 30, 2006. As a result, capital market to some extent has been boosted up.

Reform Programmes

The Government has undertaken several reform programmes to bring about improvements in the macroeconomic management in FY 2006-07. Included among them are:

Fiscal Sector

- Modernisation activities of NBR already undertaken under the Strategic Development Plan is continuing;
- The rate of custom duty (0 percent, 5 percent, 12 percent and 25 percent) has been reduced;
- Some relevant reforms in custom's law in order to overcome the port congestion with goods have been effected;
- Agreements have been concluded with 25 countries to remove the complexities arising from imposing dual tax;
- The time limit has been reduced from one year to nine months for Commissioner, Customs, Excise & VAT (Appeal) and VAT Appellate Tribunal to ensure quicker disposal of appeal cases, and
- A survey to identify the new tax payers to strengthen the revenue earning activities and to increase the tax -GDP ratio has been done.

Public Expenditure Management (PEM)

- A total of 10 ministries including 6 new ones has been brought under Medium Term Budget Framework (MTBF) in FY 2006-07;
- Medium Term Budget Strategy (MTBS) has been prepared. The budget proposals have been made in line with the macroeconomic and fiscal policy framework under MTBS;
- A new monitoring format in the Budget Call Circular (BCC) in order to identify the impact of probable budget expenditure has been introduced;
- A circular titled “Determinations of Poverty Reduction Spending: Guidelines for Line Ministries” to increase the pro-poor expenditure has been issued;
- A circular with detailed guidelines on internal audit to the line ministries has been issued. The guidelines are intended to make an effective use the “Audit/Survey Fee” allocated to the line ministries;
- Gender budgeting has been included in the national budget in an effort to bring the women to the mainstream of development.

Monetary Policy and Monetary Management

In order to achieve high and sustained GDP growth as well as to keep control over the anticipated demand pull inflation, cautious monetary policy was adopted in FY 2005-06 and this continued in FY 2006-07 to put a rein on inflation and to reduce domestic credit supply. At the same time, since October 2006, 30-day and 90-day Bangladesh Bank bills have been reintroduced, which is considered as a complementary to statutory liquidity ratio (SLR) and an instrument of inter-bank repo. As a result, a significant change has taken place in the operation of government debt management and monetary policy.

The monetary policy for FY 2006-07 had a positive impact on money supply and domestic credit expansion, which eventually helped in attaining economic growth and contain inflation.

Reforms in Banking Sector

- A draft Memorandum and Articles of Association (MAA) has been finalised for 3 NCBs to transfer them as 3 Public Limited Companies;
- Four NCBs have signed a Memorandum of Understanding (MOU) with the Bangladesh Bank to monitor overall performance;
- Four internationally reputed local audit firms have been appointed to assess the asset quality held by the banks;
- Decision has been made to privatise Rupali Bank and a financial adviser has been appointed to implement the decision and according to rule, Privatisation Commission has been engaged and Sale & Purchase agreement has been finalised;

- Management of Agrani Bank has been contracted out to a consulting firm and management consultants have been appointed in 8 banking core areas. These new initiatives have brought about remarkable improvement of the performance of Agrani Bank;
- Management teams appointed for Sonali and Janata banks have begun their work.

Money and Financial Market Reforms

- In order to reach at par with the international level, a master circular has been issued containing existing loan classification and loan provisioning policies. In the circular the limit of short-term micro-credit has been raised from Tk. 10,000.00 to Tk. 25,000.00. The circular also contains directions on the offshore banking operations to establish transparency in this area;
- To protect the interest of potential investors, depositors, creditors and to streamline overall banking evaluation of the system, raising capital through IPOs and ratings by a reputed credit rating agency along with publication of their annual and half-yearly reports have been made compulsory;
- To determine capital adequacy, general provision (1percent of unclassified loans), an element of supplementary capital, will be replaced by general provision maintained against unclassified loans. In order to expand large bank credit, guarantee against AAA rated multilateral development banks (MDBs) will be exempted for loan facilities from large amount bank credit policy. Claims on assets by such banks will be included in the risk-weighted asset system for determining capital adequacy;
- In the revised bank branch expansion policy private banks will have to submit their annual plan relating to branch expansion to Bangladesh Bank by November of the previous year instead of the current practice of 60 days before the opening of a branch.
- An elaborate policy has been formulated on merger/ amalgamation of banks and financial institutions.
- A unified system (one year=360 days) has been introduced for calculating interests on deposits and loans/leases by financial institutions.
- To encourage infrastructure development by private sector entrepreneurs, Bangladesh Bank is implementing a project titled “Investment Promotion and Financing Facility (IPFF)” (except local financial institutions). This project aims at providing long-term financial assistance for infrastructure development projects and creating value addition in the domestic financial market.

Capital Market

- Balance Enquiry Option in Internet for Beneficiary Owners (BO) account holders has been introduced at the Central Depository Bangladesh Ltd. (CDBL) on August 9, 2006. After the introduction of CDBL, transparency in securities issuance, trading and settlement have increased significantly and settlement period of securities transactions has reduced by a day;
- A new category named 'N' has been introduced on the stock exchanges for newly listed companies that did not hold annual general meeting from the date of listing;
- The government has taken initiatives to set up an oversight body named 'Financial Reporting Council' to ensure timely preparation of financial statements by the issuers reflecting true state of financial affairs of issuer companies and also to ensure objective auditing of the same by statutory auditors in adherence to International Standard on Auditing;
- To educate investors, intermediary institutions and to improve the corporate governance in the listed companies, the Securities and Exchange Commission (SEC), in association with other stakeholders, is going to establish a securities training institute titled 'Bangladesh Institute of Capital Market' which is now at its final stage.

Poverty Reduction Strategy Paper (PRSP)

The Poverty Reduction Strategy Paper titled 'Unlocking the Potential: National Strategy for Accelerated Poverty Reduction' in light of the Millennium Development Goals (MDGs) declared by UN on September 2000 has been implemented after its approval by the government in October 2005.

Medium Term Macroeconomic Framework (MTMF)

The broad objective of the MTMF (FY 2004-05 to FY 2009-2010) is to promote economic growth and employment, including small and medium size enterprise development, in a manner consistent with the poverty reduction goal by channeling an increasing share of government expenditure into social and infrastructural sectors and directly poverty reducing activities. Basically this framework is a planning for 3-years to inject resources into the prioritised sectors. An effective link of resources has been established among GDP, fiscal sector, monetary sector and external sector in this framework. At present, MTMF has been updated by Finance Division in order to prepare a Medium Term Budget Framework (MTBF). Some important variables of the macro economy have been projected in 3-years duration considering the recent macroeconomic trends and future possibilities and uncertainties to achieve the target. The trends and projections of key indicators of macroeconomic framework have been shown in Table 1.1:

Table 1.1: Medium Term Macroeconomic Framework: Key Indicators

Indicators	Actual		Revised	Estimated		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Growth Rate of GDP (percent)	6.0	6.6	6.5	7.0	7.0	7.2
GDP Deflator	5.1	5.2	5.6	6.0	5.2	4.9
Average Inflation (CPI)	6.5	7.2	7.0	6.5	5.5	5.0
Gross Domestic Investment (in percent of GDP)	24.5	24.7	25.3	26.2	27.4	28.1
Total Revenue	10.3	10.3	10.6	10.8	11.1	11.2
Tax	8.2	8.2	8.4	8.6	9.1	9.2
Non-tax	2.1	2.1	2.2	2.2	2.0	2.0
Total Expenditure	14.0	13.9	14.3	16.4	14.9	15.0
Current Expenditure	9.0	9.3	9.7	11.4	9.6	9.6
Annual Development Programme	5.0	4.6	4.6	5.0	5.3	5.4
Overall Balance	-3.7	-3.6	-3.7	-5.6	-3.8	-3.8
Financing (Net)	3.7	3.6	3.7	5.6	3.8	3.8
Domestic Financing	1.9	2.1	2.2	3.6	2.0	2.1
Banking System	1.1	1.5	1.0	1.3	1.2	1.1
Non-bank Borrowing (Net)	0.8	0.6	1.1	2.3	0.8	1.0
Foreign Financing	1.8	1.5	1.6	2.0	1.8	1.7
Money and Credit (end of year; percent change)						
Net domestic asset	17.2	19.8	17.1	13.6	14.7	14.1
Domestic credit	17.5	20.5	17.0	14.9	13.6	12.8
Credit in private sector	17.0	18.3	15.0	14.5	15.5	15.0
Broad money (M2)	16.8	19.5	18.0	15.0	14.0	13.0
Balance of payment (percent change)						
Exports (f.o.b)	14.0	21.6	20.5	18.5	18.0	18.0
Imports (f.o.b)	20.6	12.1	20.0	19.0	18.5	17.0
Remittances	14.1	24.8	20.0	15.0	12.0	10.0
External current account balance (in percent of GDP)	-1.0	0.9	1.0	0.7	0.1	-0.4
Balance of payments (in million US dollars)						
Exports (f.o.b)	8.6	10.4	12.6	14.9	17.6	20.7
Imports (f.o.b)	11.9	13.3	16.0	19.0	22.5	26.3
Remittances	3.8	4.8	5.8	6.6	7.4	8.2
Gross official reserves (in million US dollars)	2.9	3.4	4.5	4.9	5.3	6.2

Source: BBS, Bangladesh Bank and CGA data system, Finance Division

Agriculture

In 2006-07, the overall contribution of the broad agriculture sector at constant prices is projected 21.11 percent of GDP against its contribution of 21.84 percent in 2005-06. Within the broad agriculture sector, the contribution of agriculture and forestry, and fisheries are estimated at 16.38 percent and 4.73 percent respectively in 2006-07. In 2005-06, the contributions of these two sectors were 16.98 percent and 4.86 percent respectively. In 2006-07, a target for food grains production has been set at 329.75 lakh metric tons (Aus 22.22 lakh metric tons, Aman 131.80 lakh metric tons, Boro 167.40 lakh metric tons and wheat 8.38 lakh metric tons). According to the estimate of BBS, the actual output of Aus finally stood at 15.12 lakh metric tons while Aman recorded an output of 108.41 lakh metric tons. Budgetary target of domestic food grains procurement for 2006-07 is 11.50 lakh metric tons (rice: 11.00 lakh metric tons and wheat: 0.50 lakh metric tons). The actual quantity of rice has been procured under the domestic procurement programme in this year was 11.44 lakh metric tons (Boro 9.81 lakh metric tons and Aman 1.63 lakh metric tons). In FY 2006-07 the food grain imports from government's own resources were estimated at 3.00 lakh metric tons (rice: 1.00 lakh metric tons and wheat: 2.00 lakh metric tons). Out of which, 2.24 lakh metric tons has been imported. In 2006-07, 22.09 lakh metric tons of food grains (rice: 6.95 lakh metric tons and wheat: 15.14 lakh metric tons) were imported by the private sector.

Considering the situation obtaining at national and international levels, a new National Agriculture Policy to provide guidelines for the development of agriculture is in the process of formulation. Measures have been taken to put in place a more robust and effective national agricultural research arrangements and at the same time emphasis has been laid on increased coordination between research and extension. Besides, efforts are underway to bring about overall improvement in agriculture by taking a range of steps like protection of ever-increasing erosion of soil, assessing utility of irrigation water, monitoring abuse of land and preventing crop nutrition deficiencies.

Expansion of community-based fish culture, use of modern technology has been boosting the inland fish production. Side by side, incentives like tax holiday for the farmers; 25 percent cash incentive to export of poultry and poultry products; tax-free importation of equipment, drugs, vaccines used in the farms and restriction on import of poultry and poultry products from countries affected by bird flu have been taken for the development of livestock. For the investment in agriculture sector, the target for agriculture credit disbursement for the year 2006-07 has been fixed at Tk.6351 crore. Out of which Tk.5292.51 crore has been distributed and Tk.4676.00 crore has been recovered during the year.

Industry

The contribution of the industry sector to Bangladesh economy has been on the increase. In FY 2006-07, the contribution of the industry sector to real GDP is 29.77 percent compared to that of 17.31 percent in FY 1980-81. It is expected that this upward growth trend of the industrial sector will help in attaining the national growth rate at 7 percent. According to provisional estimate, in FY 2006-07 the contribution of the manufacturing sector to GDP is 17.79 percent, which is 4.34 percent higher than that of the previous year. In FY 2006-07, the growth rate in the manufacturing sector is estimated at 11.19 percent, which is 3.9 percent higher than that of the previous financial year. This trend in growth has accelerated the pace of economic development in Bangladesh. This growth was propelled by readymade garments and knitwear industry.

The government has taken up programmes to provide financial assistance to expand SMEs through commercial banks. Under this programme, the financing capabilities of various financial institutions and banks have been enhanced and up to June, 2007 Bangladesh Bank has disbursed Tk 453.91 crore for refinancing. Out of this, the contribution of IDA and ADB was Tk. 125.28 crore and Tk. 77.38 crore respectively while that of Bangladesh bank was Tk. 251.25 crore. This would result in employment generation in one hand and enhancement of purchasing power of the poor on the other.

The disbursement and recovery of the industrial loan was Tk44,046.10 crore and Tk. 32,858.99 crore respectively during 2006-07 which is 15.61 percent and 10.50 percent higher than that of previous fiscal year. The volume of disbursed working capital loan and term loan increased by 11.26 percent and 28.44 percent respectively in FY 2006-07 than that of FY 2005-06. On the other hand, the loan recovery of the working capital increased by 3.55 percent in FY 2006-07 and the recovery of the term loan increased by 34.16 percent in the same year over that of the previous fiscal year.

There are 8 EPZs in Bangladesh namely Chittagong EPZ, Dhaka EPZ, Mongla EPZ, Comilla EPZ, Ishwardi EPZ, Uttara EPZ, Adamjee EPZ and Karnaphuli EPZ. As on June 2007, 264 industries are in operation in the EPZs. The total investment in the EPZs stands at US\$ 1132.26 million upto June, 2007. During FY 2005-06, the total investment was US\$ 112.89 Million while during FY 2006-07 the actual investment stands at US\$ 152.37 which is 35 percent higher than that of the previous financial year. Exports from the EPZs are on the rise over the last few years. Up to 2005-2006, the EPZs have made a total of US\$ 11.839 billion exports. The Export target for the FY 2006-2007 was US\$ 2 billion against which the actual export stood at US\$ 2.064 billion. An employment opportunity for 2,01,169 Bangladeshi nationals has been created in the EPZs in a permanent pay roll out of which 64 percent is female. In addition to FDI promotion, export and employment generation, EPZs of Bangladesh have also been making special contribution to the development of backward linkage and supportive industries of the country.

The enterprises within EPZs are required to procure raw materials from the local market. In addition, 100 percent export oriented enterprises in local market also supplies its products to EPZ enterprises. Therefore, the EPZs are contributing towards development of both backward and forward linkage industries.

State-Owned Enterprises (SOEs)

State-Owned Enterprises (SOEs) still make major contribution towards industry, power, gas, transport and communication and service sectors of Bangladesh economy. To keep pace with the increasing expansion of private sector in the market economy, a range of reforms including privatisation of public enterprises is well in progress. The contribution of SOEs in GDP, value addition, employment generation and revenue earning is still substantial. The annual growth rate of total operating revenue of all existing SOEs during FY 2002-03 to FY 2005-06 is 13.27 percent. During this period the value of purchase of goods and services increased by 16.72 percent. During FY 2002-03, the operating profit of the SOEs was Tk.354 crore while it came down to an operating loss of Tk.2701 crore in 2005-06.

According to provisional accounts, the net loss of 44 SOEs during FY 2006-07 stood at Tk. 3735.5 crore. All the SOEs together contributed Tk.240.9 crore to the public exchequer during FY 2005-06 which is estimated at Tk.276.55 in FY 2006-07. In FY 2005-06, government provided grant/subsidy amounting to Tk.567.63 crore to 13 public entities which has been estimated at Tk 633.76 crore in FY 2006-07. Up to June 2007, the total DSL outstanding against 40 SOEs stood at Tk.65,238.68 crore of which Tk. 6,199.68 crore has been paid which is only 9.50 percent of total DSL outstanding. The operating profit on total assets of SOEs was 0.31 crore in 2002-03 but it reached to a negative level of 1.99 crore in FY 2004-05. In 2005-06, this loss is reduced to 1.95 crore. The net profit on operating revenue was also negative all the years except FY 2002-03. Again this loss increased to 7.75 percent in 2005-06. On the other hand, the rate of dividend on equity has been increased to 0.70 in 2005-06 from 0.56 in 2002-03. It appears from the turnover of assets that the efficiency of resource utilization during FY 2005-06 increased slightly compared to the level of efficiency in the previous fiscal year.

Power and Energy

Power: At present only 43 percent of the total population has got access to electricity and per capita electricity generation is only 165 kWh which is very low compared with other countries. Alongside the public sector, government has, therefore, involved private sector with power generation so that it can deliver electricity to every household by 2020 in fulfillment of its declared goal. In FY 2006-07, the total installed generation capacity of electricity was 5269 MW including 3872 MW in public sector and 1397 MW in private sector. In the public sector, a good number of generation units have become very old and are being operated at a much-reduced capacity. Besides, the water level of Kaptai Lake has gone down which caused a huge reduction

in the power generation. As a result for the last few years, actual demand could not be met due to shortage of available generation capacity. In FY 2006-07, maximum power generation was recorded 3785 MW of which 2540 MW from PDB and 1245 MW from IPP. In FY 2006-07 out of the total power generation, 87.25 percent was gas-based, 5.63 percent was oil-based and the rest 7.12 percent was hydro and coal-based. Although the organisations like PDB, REB, DESA and DESCO are meeting the electricity demand of the country, the Power Grid Company of Bangladesh (PGCB) is being developed as the sole transmission network entity, which would take over responsibilities like power transmission, use, operation and maintenance including future expansion. During 2006-07, the net energy generation was 23,135 MKWh of which public sector accounts 14,538 MKWh and private sector 8,597 MKWh.

Under BPDB system, 33 kV, 11 kV and 0.4 kV electricity is distributed across the country. The power distribution line installed in 1995-96 stood at 35,962 kilometers, which was extended to 47,479 kilometers in FY 2006-07. Besides, the number of subscribers also grew from 11,56,672 to 16,48,411 in the same period. While in 1995-96 the system loss (on net generation) was 17.0 percent, it gradually declined to 7.03 percent in FY 2006-07. Accounts receivable is a significant problem to BPDB. In 2006-07, it stood at Taka 3982.05 crore, which was equivalent to 8.93 months' bill of the receivable.

Energy: Although Bangladesh is not rich in mineral resources; her high quality gas is meeting the demand of 73 percent of commercial fuel use. In 22 gas fields across the country, the estimated proven recoverable gas reserve was 15.188 TCF. Up to June 2007, total 7.054 TCF gas has been produced leaving only 8.134 TCF recoverable. Gas is being produced from 73 wells of 17 gas fields in the country. Besides, the whole country has been divided into 23 blocks for rapid exploration of gas. In these blocks, as a consequence of allowing foreign investment under Production Sharing Contract (PSC), 10 PSCs have been signed for 12 blocks up to June 2007 of which, with the termination of 2 PSCs currently 8 PSCs are operating in 10 blocks. In order to control pollution arising from the use of fuel oil in the vehicles, the process of converting all vehicles into CNG is being encouraged. To facilitate CNG use, 165 CNG re-fueling stations and 108 conversion workshops have been set-up to meet the requirements of 1,13,945 CNG vehicles run in the country as of June 2007. Installation of 18 more CNG re-fueling stations in various regions of the country is under way. The task of establishing more 26 filling stations under ADB financed "Dhaka Clean Fuel Project" has been taken up. The government has liberalized the conditions relating to importation of CNG conversion kits so that private entrepreneurs can come forward.

In the mineral sector, Baropukuria Coal Mine has produced about 3.00 lakh metric tons of coal in FY 2005-06 and 3.88 lakh metric tons in FY 2006-07 which was fully used in Baropukuria Thermal Power Plant. It is expected that coal will be extracted with full targeted capacity within a very short period. Bangladesh Petroleum Corporation (BPC) is now engaged in developing and

expanding fuel stock system in different places across the country. In FY 2006-07 BPC imported 11.68 lakh metric ton crude petroleum commodities and 23.36 lakh metric ton refinery petroleum commodities. Bangladesh Geological Survey (GSB) Directorate is engaged in mineral exploration, discovery and evaluation of mineral deposits, and research in different discipline of geosciences. This has resulted in the discovery of coal deposits at Barapukuria, Digharpara in Dinajpur district and Khalaspir in Rangpur district. At present GSB is implementing three development projects relating to geoscientific activities, geological exploration and modernization of drilling equipment.

Transport and Communication

In the current context of globalisation and market economy, there is a critical need for evolving a developed and well-knit transport and communication system that should be able to integrate Bangladesh with the international transport and communication network. The transport and communication network in Bangladesh has evolved around road, rail and air transport system including post, telecommunication and information technology. In FY 2006-07, total allocation in non-development and development budget together was TK.5533.96 crore against Communication Ministry. The contribution of this sector to GDP at constant price in FY 2006-07 is 10.21 percent. A total number of 186 development/investment projects and 2 technical assistance projects have been included in the RADP of Roads and Highways Department for FY 2006-07. Tk.2,944.74 crore has been allocated for a total of 186 investment projects, of which GoB component recorded Taka 2172.61 crore and project aid recorded Taka 772.13 crore. There is a network of 21,571 km. roads under the jurisdiction of Roads and Highways Department.

For infrastructure development of urban and rural areas, LGED is implementing a series of programmes with foreign and local funding. During FY 1991-92 to 2006-07 a total of 1,12,629 km. (64,649 km Katcha road and 47,938 km paved road, upazila road and union road) and 5,72,458 meter bridge/culverts have been constructed.

The Jamuna Bridge is playing a vital role in road transport system. The bridge has made the communication between eastern and northern region of the country much easier, and is inducing enhanced production. Besides, with the establishment of the Jamuna Bridge, the economic activities in the north-west zone augmented manifold. Revenue from toll collection at the Jamuna Bridge during FY 1997-98 was Tk.0.99 crore and which stood at Tk. 171.50 crore during FY 2006-07. The government has taken up the project for construction of a bridge over the Padma. The total cost of the 5.58 km. long bridge has been estimated at Tk.10,161.75 crore. Subject to the availability of funds from the development partners, the actual construction of the bridge is expected to commence in 2008-09 and it will take about five years to complete the project. To keep pace with the rest of the world in this age of free flow of information Bangladesh Telegraph and Telephone Board (BTTB) has been launching a series of initiatives for modernisation,

improvement and extension of a telecommunication system of the country. In FY 2006-07 Tk. 463.51 crore has been allocated in the ADP for implementing 9 projects of BTTB. Bangladesh has been connected with high speed submarine cable consortium called SEA-ME-WE-4 to facilitate economical, modern telecommunication and low-price ICT services. Laying SEA-ME-WE-4 submarine cable has been completed in December 2005 and its commercial operation started at May 2006. According to BTRC's database up to June 2007 the total number of subscribers of six cell phone operator companies is 27.7 million and tele density is 16.85. The Government within its limited resources has already taken initiatives to introduce e-governance in the country. Major Ministries, Divisions and Departments have already launched their websites. At present, software & IT service companies in Bangladesh have been exporting software and their services to different countries which includes USA, UK, Australia, Canada, Denmark, KSA, Japan, Sweden, UAE, Germany, Italy, Netherlands, Norway, Switzerland, France, and Nepal. Several users of Bangladeshi software include Nokia, JAPAN Airlines, World Bank, HP, US Postal Department, and US Department of Agriculture.

Human Development

The prime objective of all development efforts is to ensure continued improvement of the quality of life of the people. The UN Millennium Development Goals (MDGs) therefore lays special emphasis on human development. The government of Bangladesh has taken initiatives to achieve eight goals of MDGs by 2015. To bring about human development, priority has been given to education, in particular primary education, poverty reduction, health services and social welfare activities. In order to bring about further improvement in health sector by sustaining the successes already achieved in this sector, the Government, has been implementing an integrated Health, Nutrition and Population Sector Programme (HNPS-2003-2010).

Following the implementation of several programmes in the health sector, maternal and child mortality rate has already reduced remarkably. Also there is an upward trend of average life expectancy following measures preventing the communicable diseases and raising the nutritional status. To ensure universal primary education by 2015, the government has undertaken various measures in the line with PRSP. A scheme for awarding stipends to the female students up to higher secondary level has been introduced for the spread of female education. As a consequence, the ratio of male-female students at the primary level has now risen to 50:50. With the introduction of new recruitment rules provisioning 60 percent quota for female teachers, the proportion of female teachers has now gone up to 44 percent from 21 percent in 1991. Besides, with a view to enhance the quality of education, a comprehensive programme has been taken up to stop adopting unfair means and to augment infrastructural facilities. An elaborate programme has been taken up at the initiative of different ministries including the Ministry of Women and Children Affairs to remove gender disparity and to bring the women into the mainstream of developmental activities. Women empowerment has further improved with the introduction of the

system of inclusion of mother's name alongside father's name in the academic certificate at the end of academic session at various levels and in the citizenship certificates and also authorising mothers to draw stipends for the primary students. Programmes are underway to provide vocational training and credit to the unemployed youth to turn them into an efficient and productive force. Besides, a range of programmes has been taken up to ameliorate the lot of insolvent freedom fighters and the unprivileged segment of the society including the tribal people. There has been strengthening of activities directed at enhancing the quality in the sphere of sports and culture. These measures resulted in significant progress in human resource development and Bangladesh, according to UNDP Human Development Reports, attained the rank of medium level human development category of countries like India and Sri Lanka in five consecutive years since 2003.

Poverty Alleviation

Since independence, the Government and the NGO's have been putting joint endeavours to improve the quality of life of the people through planned development efforts. The Household Income and Expenditure Survey (HIES) 2005 of the Bangladesh Bureau of Statistics (BBS) shows downward trend in income poverty. According to the Cost of Basic Needs (CBN) method used in the survey, the incidence of poverty at the national level declined from 48.9 percent in 2000 to 40.0 percent in 2005. It would be observed from this survey that in the case of Division wise poverty situation, at the national level, using the lower poverty line, Barisal Division has the highest incidence of poverty scoring 35.6 percent while the Chittagong Division has the lowest incidence of poverty of 16.1 percent. The incidence of poverty in Dhaka Division declined to 32.0 percent in 2005 from 46.7 percent in 2000. The incidence of poverty in the rural area of Dhaka Division came down to 39.0 percent in 2005 from 55.9 percent in 2000. The estimates of Head Count Ratio (HCR) in 2005 using the lower poverty line showed that Chittagong Division recorded the lowest incidence of poverty followed by Dhaka and Sylhet Divisions. The reduction of HCR is also significant in the urban area. It came down to 20.2 percent in 2005 from 28.2 percent in 2000. The incidence of poverty slightly increased in Khulna Division. In 2005, the estimates of incidence of poverty by ownership of land using the upper poverty line, were found to be 46.3 percent for landless households, 56.4 percent for owners of less than 0.05 acre land, 44.9 percent for owners of 0.05-0.49 acre land, 22.9 percent for 1.5-2.49 acre land, 15.4 percent for 2.50-7.49 acre land and 3.1 percent for owners of 7.5 acre or more land. The monthly household nominal income was estimated at Tk.7203 at the national level, where as it was estimated at Tk. 6096 in the rural area and Tk. 10463 in the urban area. Monthly household income was Tk. 5842 at the national level in 2000. It increased by 23.3 percent in 2005 over the year 2000 and by 115.59 percent over 1991-92 in nominal terms. The average monthly household expenditure was estimated at Tk. 6134 in 2005 at the national level, where as it was Tk. 5319 in

the rural area and Tk. 8533 in the urban area. In 2000, it was Tk. 4886, Tk. 4257 and Tk. 7360 at the national, rural and urban levels respectively.

Both the government and non-government organisations have been implementing a number of programmes for employment and income generation and also for the upliftment of the poor. These programmes continue to enhance the entitlement of the poor and at the same time their empowerment and awareness building. Besides, Food for Works Programme, VGD Programme, construction and maintenance of rural infrastructure etc. are also generating employment for the poor. On the other hand, education expansion programmes like food for education, special stipend and financial assistance, free primary education are directly reducing the burden of educational expenses as well as playing an important role in human resource development. The government has significantly increased the amount and number of beneficiaries of Old-Age Allowance Programme, Allowances Programme for Widowed, Deserted and Destitute Women and Honorarium Programme for Insolvent Freedom Fighters. While continuing with the on-going safety-net programmes, the Government has also adopted new programmes like allowance for the physically handicapped and seasonal unemployment reduction allowance which would contribute to the welfare of the poor and also the underprivileged community. Side by side, the government has also revitalised the micro-credit programmes to further expand the social safety-net programmes for poverty reduction. Under these programmes, a large number of beneficiaries are receiving direct financial assistance. Among them, in the case old-age allowance programme, the number of beneficiaries is 16 lakh, in the case of widowed and women deserted by their husbands allowance programme the beneficiary coverage is 6 lakh 50 thousand and in the case of honorarium for insolvent freedom fighters the number of beneficiaries is 1 lakh. Besides these, under the beneficiary coverage of primary stipend programme, over 55 lakh poor children are receiving benefits. Under the Abashan Project, 65 thousand landless, homeless and rootless families are receiving the benefits of health and family welfare services and other facilities including income-generating activities. Till June 2007 nine major NGOs of the country disbursed micro-credit to the tune of 55,207.28 crore. Up to June 2007 Grameen Bank, PKSF and BRDB disbursed credit amounting Tk. 33,114.91 crore, Tk.4256.84 crore and 5993.01 crore respectively. During the same period, the scheduled banks disbursed Tk. 12502.93 crore while other specialised commercial banks disbursed Tk.2290.51 crore. The administrative Departments of the Government disbursed credits amounting Tk. 8668.99 crore up to Dec. 2006.

Private Sector Development

Private sector's contribution to the total investment in Bangladesh economy is remarkable. Of the total 24.33 percent investment in the provisionally estimated GDP of FY 2006-07, the share of private investment has been computed to be 18.73 percent. Currently 77 percent of total investment in the national economy is coming from the private sector. Government has brought reforms in the privatisation guidelines to strengthen, galvanise and modernise the privatisation

process. Government has put in place necessary institutions and infrastructure to create a private investment-friendly environment. Government has formulated Bangladesh Private Sector Infrastructure Guidelines to foster private sector participation in the projects for the development of infrastructure of the country. Detailed description of procedures for undertaking infrastructure projects in various sub-sectors on private initiative has been provided in the guidelines. The number of subscribers of the 6 cellular mobile companies in the country was about 2.77 crore as of June 2007. In 2001, the mobile tele-density recorded 0.58 percent which rose to 16.85 in 2007(Jan, 2007). Currently, a total of 43 privately owned general insurance companies and 17 life insurance companies are operating in the country. Premiums realised by the state-owned Sadharan Bima and 43 private general insurance companies together stood at Tk.807.28 crore in 2005 compared to Tk. 679.74 crore in 2004. Participation of private sector in health services continues to rise. Presently, 32 registered private Medical Colleges, 8 Dental Colleges, 1170 private Hospitals and 1760 Clinics are operating with 26510 beds. Along with these facilities, a good number of quality Diagnostic Centers, Heart Foundations and Cancer Hospitals are contributing to this sector. The contributions of NGOs in providing health services are also remarkable. As of June 2006, the number of textile units in different sub-sectors were, spinning 254, weaving 1,422 (large, medium & small weaving units), handlooms 148,342, knitting and knit-dyeing 800, woven dyeing-finishing 303 and about 2000 local hosiery units in the country. Majority of the textile industry of the country mainly belongs to the private sector. Only 23 old textile mills are now under public sector (BTMC), some of which have been put into operation by the private entrepreneurs under Service Charge System.

Environment and Development

In order to protect environment and also to ensure development, Government is taking steps having legal compulsions including sensitising people of all strata. With this end in view, a number of policies and similar other instruments like national land use policy, national water policy, national environmental policy, national environment law and rules, national forest policy and national agriculture policy have been formulated. Side by side with these, the Government, is implementing the conventions and protocols signed at international and regional levels in order to protect and develop environment.

The Government has been implementing a range of programmes, which are playing a critical role in protecting and developing environment. Included among them are: making compulsory the use of catalytic converter, oxidation catalyst and diesel particulate filter in the petrol, diesel and gas driven vehicles; encouraging introduction of environment-friendly block bricks; making compulsory the use of installing chimney of 120 feet high in traditional brick fields; taking action against illegal cutting of hills; issuing certificates in favour of the industrial enterprises giving assurance that the level of pollution from these industries remains within the reasonable limit; issuing certificates in favour of the industrial enterprises that create severe pollution after the

installation of effluent treatment plant. Besides these, creating reserved area for protecting bio-diversity, taking actions leading to drawing up national strategy to face the climatic change, taking initiative to frame laws to manage biomedical waste, introducing training for managing clinical waste, inclusion of environment education in the course curriculum of primary and secondary level are contributing towards creating environmental and ecological balance.

Bangladesh Forest Department at the beginning of the new century has initiated Nishorgo Support project to save the nature and natural forests through 'Community-management' system. In this system people living in and around natural forests and the department work together for protection of natural forests and nature. The Ministry of Food and Disaster Management has formulated a draft tsunami work plan for early warning system.

Besides these, it is now mandatory to mention environmental impact in the development project documents before taking the project. The activities of the forest department and the department of environment that deal with environment pollution, forest management, afforestation, preservation of wildlife, management of reserved areas, establishment of eco-parks etc. are contributing towards preservation of bio-diversity and development of environment.

Global Economic Environment

Remarkable growth has been achieved in the world economy despite the price hiking of oil. According to World Economic Outlook 2007, the global economy expanded vigorously in 2006, growing by 5.4 percent and global growth is expected to moderate to 4.9 percent in 2007 and 2008. Strong growth and rising oil prices in the first half of 2006 raised concerns about inflation, but pressures have moderated with the decline in oil prices since August.

The increase in internal demand for the Euro area, continuous growth of Japan, and rapid growth in developing countries specially in China and India and the increase in demand for some least developed countries have accelerated the growth of the world economy. By the same time, the economy of South Asia has also been registering higher growth. The increase in internal demand, the expansion of foreign trade and the high flow of remittances have played an important role in the achievement of growth in South Asian countries. According to 'Asian Development Outlook, 2007', the average GDP growth was 8.7 percent in South Asian countries in 2006. The GDP growth of almost of all of the countries of this region was above 6 percent. The growth for India, Pakistan and Srilanka in South Asian countries in 2006 was 9.2 percent, 6.2 percent and 7.5 percent respectively.

According to World Economic Outlook April, 2007 the rate of inflation in the developed countries was 2.3 percent and it is estimated to 1.8 percent and 2.1 percent in 2007 and 2008 respectively. In developing and emerging economies, the inflation was 5.3 percent in 2006 which slightly increased to 5.4 percent in 2007 and is assumed to be 4.9 percent in 2008. The inflation in Asian developing economies was 4 percent in 2006 which may decline to 3.9 percent and 3.4

percent in the next two years. The rate of inflation is remarkably higher in developing countries than that of developed ones due to price hike of crude oil in international market, the price increase of essential commodities including agricultural products and the increase in internal demand. Along with achieving higher growth, the South Asian countries have to face the challenges arising inflation. It is to be noted that the rate of inflation in India, Pakistan and Srilanka in 2006 was 6.1 percent, 7.9 percent and 9.5 percent respectively.

Global Trade Environment

The World Trade Volume in 2006 grew by 9.2 percent which was 7.4 percent in 2005. It may slide down to decline to 7.0 percent and 7.4 percent in 2007 and 2008 respectively according to World Economic Outlook 2007. In 2006, the developed countries has posted export growth at 8.4 percent which was 5.6 percent in the previous year. On the other hand, it was 10.6 percent in 2006 in the developing countries which was 11.2 percent in the previous year. It is assumed that the export growth of both developed and developing countries may decline in 2007 and 2008. The growth in import for developed countries was 7.4 percent in 2006 which was 6.1 percent in 2005. On the other hand, it was 15.0 percent for developing countries in 2006 which was 12.1 percent in 2005. In 2007 this may decline to 4.7 percent for developed countries and 12.5 percent for developing countries.

Current account deficit for developed countries in 2006 increased to US\$ 563.2 million which was US\$ 473.4 million in the previous year. On the other hand, it was a surplus of US\$ 544.2 billion for developing countries in 2006 which was US\$ 428.0 billion in 2005. The imbalances in world trade are arising from current account deficit (6.5 percent of GDP) in the US economy and a huge surplus in current account of China, Japan and some Asian countries including oil exporting countries.