

Chapter 2

Recent Macroeconomic Performance and Medium-Term Outlook

2.1 The economy of Bangladesh continues to demonstrate considerable resilience during FY10 despite the global economic recession. On the basis of emerging macroeconomic indicators, GDP growth rate is projected to be 6.0 percent in the current fiscal year in the Medium-term Macroeconomic Framework. Bangladesh has been affected less by the slowdown in international trade than other emerging Asian economies and has maintained strong economic fundamentals, including a sound fiscal stance. Since the beginning of the global economic crisis, the government has been on a high alert and is monitoring its impact on the economy through a Taskforce involving the concerned stakeholders from both the public and private sector. After detailed examination in line with the recommendations of the Task Force, the Government has declared two incentive packages together with fiscal and monetary policy supports. A Technical Committee has also been formed by the Ministry of Finance to monitor and analyse the macroeconomic impact of the crisis, and to identify necessary short-term macroeconomic and fiscal responses.

The Global Economy – Recent Trends, Forecasts and Risks

Global Recovery

2.2 The global recovery is off to a stronger start than anticipated earlier but proceeding at different speeds in the various regions. Global GDP, which contracted by 0.6 percent in 2009, is expected to grow by 4.2 percent this year. This represents an upward revision of 1.1 percentage point from the projection of the October 2009 World Economic Outlook. Following the deepest global downturn in recent history, economic growth solidified and broadened to advanced economies in the second half of 2009. In 2010, advanced economies, are expected to grow by 2.3 percent, up from contraction by 3.2 percent. In most advanced economies, the recovery is expected to remain sluggish by past trends, whereas in many emerging and developing economies, economic activity is expected to be relatively vigorous. Prospects for developing Asian countries are for a relatively robust recovery, growing by 8.7 percent in 2010, up from 6.6 percent in 2009. Domestic demand in this region was relatively resilient, and the economy has been cushioned by counter-cyclical macroeconomic policies.

World Trade

2.3 World trade volumes, which fell by a staggering 10.7 percent in 2009, are projected to expand by 7.0 percent and 6.3 percent this year and in 2011 respectively. Exports from the advanced economies fell by 11.7 percent in 2009,

while import also dwindled by 12.0 percent; these are forecast to spring back to 6.6 percent and 5.4 percent respectively. Emerging and developing economies showed relatively less deceleration in trade volume in 2009 than advanced economies and it is expected that export and import will bounce back to 8.3 percent and 9.7 percent respectively in 2010.

Global Inflation

2.4 The inflationary pressure still remains subdued in most economies despite the onset of global recovery. The low levels of capacity utilisation and the inflation expectations are expected to contain the inflationary pressure in future. In the advanced economies, headline inflation is expected to pick up from 0.1 percent in 2009 to 1.5 percent in 2010, as rebounding energy prices more than offset declining labour costs. In emerging and developing economies, inflation is expected to edge up to 6.2 percent in 2010 from 5.2 percent in 2009, as some of these economies may face growing upward pressure due to increased capital flows.

Global Risks

2.5 Several substantial downside risks remain for the global outlook. Large current account deficits in the United States and a few other advanced economies and big current account surpluses in oil-exporting countries and in emerging Asian economies, especially China, have led to global imbalances. Failure of the countries to take measures to reduce these imbalances could worsen the regulatory system and lead to regulatory failure in maintaining the value of US Dollar or further contraction in economic activities in industrial countries. Poor international policy coordination could delay global financial regulatory reforms. The rapid increase in public debt and deterioration of the fiscal balance, particularly in some of the Euro-zone countries, could be transmitted back to the banking and financial system. Failure to tackle the unfinished reform agendas will leave the financial markets vulnerable to future shocks.

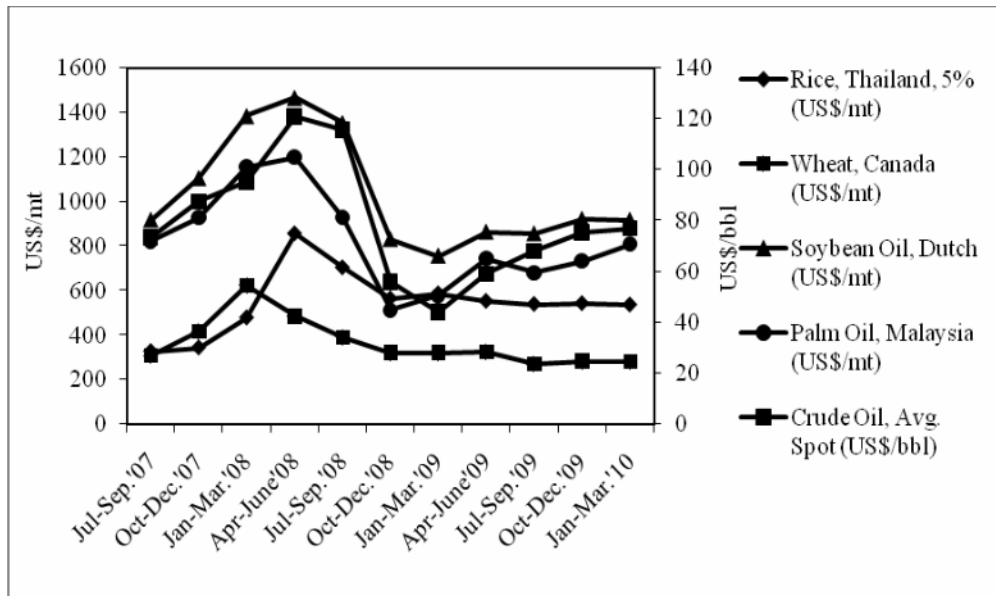
International Commodity Markets

2.6 Commodity prices were unexpectedly buoyant in 2009; the sharp declines in the prices at the outset of the year rebounded relatively soon from the second quarter despite the weakening of demand. The rising trend of commodity prices at the early stage of the recovery of global economic growth contrasts with the past experience. After previous global downturns, prices typically continued to fall or rose at a very modest rate, far below the increases recorded this year. The crude oil prices (average), for example, fell by 21.2 percent during the first quarter of 2009 compared to the last quarter of 2008 and then picked up by 32.2 percent in the second quarter (April-June) of 2009. Similar trends have also been observed for some primary commodities (Figure 2.1).

2.7 The magnitudes of price increases in 2009 and early 2010 have varied considerably across commodities. Fuel and metal prices rose by much more than prices of food or agricultural raw materials. Favourable harvest outcomes led to a weakening in the prices of some major food crops in the second half of 2009. According to the World Bank commodity price indices for low and middle income countries (base year 2000), the energy price index rose from 166.3 in January-March, 2009 to 262.2 in January-March, 2010. Similarly agriculture products rose from 181.9 to 216.7, metals and minerals from 185.0 to 299.0 during the same period. However, the price of fertilizers index declined from 376.6 to 259.0 over the same period. The prices of many commodities are likely to increase further as the global activities are widely expected to expand at a greater pace.

Figure 2.1

International Market Prices (Quarterly Average) of Some Selected Commodities



Source: The World Bank Pink Data Sheet, April 2010

Growth Performance of Bangladesh in FY10

2.8 Amidst the risks of export earnings and the remittances inflows, coupled with the lowering domestic demand, the economic growth demonstrated satisfactory performance. Bangladesh Bureau of Statistics (BBS) has provisionally estimated that the GDP will grow by 5.5 percent in FY10, slightly lower than the revised 5.7 percent growth in FY09. According to BBS, the slowdown is expected because of drought and effects of flood in some areas, which caused a lowering of the *aus* and *boro* productions, despite the increase of the overall agriculture production. Due to the downside risk of the crop and horticulture subsector, BBS provisionally estimated the

growth of the broad agriculture sector to be 3.0 percent, down from 4.1 percent in FY09. However in reality the broad-based government support for providing fertilizers, irrigation and high yielding seed is expected to increase agricultural productivity. Although, the production of *aus* slightly declined, *aman* production has surpassed the target and the available information reveals that *boro* production will remain at a satisfactory level. The crop damages because of flash floods were at a minimum level. Besides, animal farming managed to skip the adverse effects of Avian flu and is expected to show satisfactory growth. The forestry sub-sector and fisheries sector are expected to record stable growth in FY10. Against this backdrop, the growth in agriculture sector is likely to expand by 4.4 percent as envisaged in the Medium-Term Macroeconomic Framework (MTMF).

2.9 In the wake of the global financial crisis, the export growth decelerated during the first half of FY10, rebounded from the second half and year-on-year growth of export gains remarkably since January 2010. The negative growth rate of readymade garments is no longer taking place. Growth performance of other industries such as electronics, engineering products, leather products and pharmaceuticals is robust during FY10. It is expected that improvements in the global economy will increase the exports from Bangladesh. The growth in power, gas, and water supply together is expected to increase over the last year due to new investments in this sector. The growth in the construction sector also rebounded because of the higher demand in the housing sector. Considering the above, the MTMF envisaged that the growth of the industry sector would be slightly moderated to 6.4 percent from 6.5 percent in FY09.

2.10 The growth of the service sector is broad-based in FY10, with strong growth in key sectors such as hotel and restaurants, transport and communication, real estate, public administration and defence, education and health and social services. However, the growth in trade, transport and communication and financial intermediations moderated compared to the last fiscal year. The growth of the broad service sectors is expected to increase slightly from 6.3 percent in FY09 to 6.5 percent in FY10.

2.11 On the expenditure side, the economy remains dominated by consumption, accounting for 80.2 percent of GDP. The rise in consumption is driven by remittance-induced demand and a well-supported budgetary stimulus including higher social safety net spending. The sign of rebound can be seen from an increase in the opening of letters of credit (L/Cs) for capital machinery and industrial raw materials. The higher growth in private sector credit and disbursement of the industrial term loans are signaling a better investment performance in the second half of this fiscal year. The investment level is expected to increase in FY10, as is indicated by the ratio of total investment to GDP ratio, which is about to 24.6 percent, up from 24.4 percent in FY09 in MTMF.

Medium-Term Macroeconomic Outlook: FY11-FY15

Medium-Term Macroeconomic Forecast

2.12 The early recovery from the global recession, sustained growth in the agriculture sector and strong domestic demand have necessitated some upward revision in the medium-term macroeconomic outlook for the Bangladesh economy. The key control or policy variables on which the MTMF, FY11-15 is based are: revenues, annual development expenditure, private investment, credit expansion and exchange rate. Table 2.1 shows the key indicators of the MTMF. A more detailed discussion of the four key elements of the macroeconomic framework is provided in the remainder of this chapter (real sector, monetary and external sector) and in Chapter 3 (fiscal sector).

Table 2.1
Medium-Term Macroeconomic Framework (MTMF), FY11-FY15

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Actual	Actual	Revised	Estimate	Projection	Projection	Projection	Projection
Real Sector								
Nominal GDP (Billion Taka)	5458.2	6148.0	6905.7	7802.9	8834.4	10029.7	11406.9	12941.6
Nominal GDP Growth (%)	15.5	12.6	12.3	13.0	13.2	13.5	13.7	13.5
Real GDP Growth (%)	6.2	5.7	6.0	6.7	7.2	7.6	8.0	8.0
CPI Inflation (%)	9.9	6.7	6.5	6.5	6.3	6.1	6.0	6.0
GDP Deflator (% change)	8.8	6.5	6.0	5.9	5.6	5.5	5.3	5.0
Gross Investment (as % of GDP)	24.2	24.4	24.6	26.4	28.4	30.0	31.6	32.0
Fiscal Sector (% of GDP)								
Total Revenue	10.8	10.4	11.5	11.9	12.5	13.1	13.6	14.1
Tax Revenue	8.8	8.6	9.3	9.7	10.2	10.8	11.3	11.8
Non-Tax Revenue	2.0	1.8	2.2	2.2	2.3	2.3	2.3	2.3
Total Expenditure	15.9	14.3	16.0	16.9	17.2	17.4	17.8	18.1
Revenue Expenditure	12.6	11.2	11.9	12.0	11.9	11.8	11.7	11.5
Annual Development Programme	3.3	3.1	4.1	4.9	5.3	5.6	6.1	6.6
Overall Balance	-5.1	-3.9	-4.5	-5.0	-4.7	-4.3	-4.2	-4.0
Financing	5.1	3.9	4.5	5.0	4.7	4.3	4.2	4.0
Domestic Borrowing	3.5	3.1	2.5	3.0	2.6	2.3	2.2	2.1
Borrowing from the Banking System	3.0	2.2	1.3	2.0	1.8	1.7	1.7	1.7
Non-Bank borrowing	0.5	0.9	1.3	1.0	0.8	0.6	0.5	0.4
External Financing (Net)	1.6	0.8	2.0	2.0	2.1	2.0	2.0	1.9
Monetary Sector (% change)								
Net Domestic Assets	18.1	17.8	13.1	14.8	15.5	15.8	16.5	16.5
Credit to Private Sector	24.9	14.6	18.0	18.2	18.5	18.5	19.0	19.5
Broad Money	17.6	19.2	15.5	16.2	16.3	15.9	15.8	15.8
Exchange Rate (US\$:Taka)	68.6	68.8	69.5	70.2	70.7	71.2	71.5	71.9
External Sector								
Exports (% change)	17.4	10.1	8.0	15.0	16.0	16.5	17.0	17.2
Imports (% change)	25.6	4.2	6.0	16.0	17.5	18.0	18.5	18.7
Remittances (US\$ billion)	7.9	9.7	11.5	14.0	17.1	20.8	25.5	31.4
Current Account Balance (% of GDP)	0.9	2.8	3.7	3.6	3.3	3.0	2.7	2.3
Gross Official Reserve (US\$ billion)	6.1	7.5	10.4	11.0	12.0	12.5	13.0	14.5
Gross Official Reserves (months of Impo)	3.2	3.8	4.9	4.4	4.0	3.5	3.0	2.7

Source: Finance Division

Growth Outlook

2.13 The growth outlook envisaged in the Medium-Term Macroeconomic Framework (MTMF) for FY11 is 6.7 percent, which will gradually increase to 8.0 percent in FY14 and remain at the same level in FY15. The underlying factors for the growth trajectory are broad-based and well-supported by the three broad sectors (agriculture, industry and service) of the economy. The agriculture sector is expected to sustain 4-5 percent growth annually by increasing productivity. Increasing crop intensity and diversifying crop production are the main focus for higher agricultural productivity. Broad government support includes:

- Providing adequate subsidy
- Ensuring uninterrupted power supply for irrigation
- Increasing the flow of agriculture credit
- Using solar energy for irrigation in the remote areas
- Strengthening the agriculture research programs
- Inventing of new varieties of paddy suitable for saline water and floods
- Promoting agro-based processing industries

2.14 The industry sector is projected to expand by 7.5 percent in FY11 and gradually reach double digits by FY15. The 8.0 percent GDP growth projection in the medium term are based on the following targets:

- Increasing the public investment, particularly the level of ADP expenditure to 6.0 percent of GDP.
- Implementing large investment projects in the power and infrastructure sector through PPP initiatives
- Raising investment gradually to 32.0 percent of GDP.

2.15 The services sector is expected to grow in line with the agriculture and industry sector. However, some sectors within the broad sector are expected to expand relatively quickly, particularly, trade, housing, because of excess demand, financial intermediaries, introduction of automation and internet. The service sector is expected to grow by 6.5 percent to 8.0 percent annually over the medium term.

2.16 On the expenditure side, continuously increasing private consumption due to upsurge in remittance inflows, boosting domestic demand, fulfilling investment targets, increasing exports by product diversification, market diversification are the main focus of the growth trajectory.

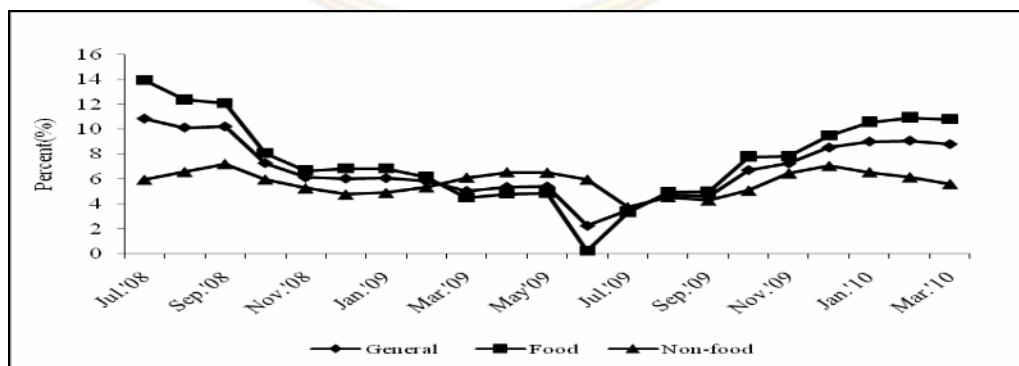
Inflation

2.17 The year-on-year inflation decelerated from 10.8 percent in July 2008 to 2.3 percent in June 2009 because of rapid decline in global commodity prices and good domestic crop harvest. The yearly average inflation rate, therefore, fell to 6.7 percent in FY09 compared to 9.9 percent FY08. During this period food inflation declined more steeply than the non-food inflation. Inflation is on an upward trajectory since June 2009. The year-on-year inflation had reached 8.8 percent in March 2010 from 2.3 percent in June 2009. Food inflation rose to 10.8 percent in March 2010 from 0.3 percent in June 2009 and mainly contributed to the rise in overall inflation, while non-food inflation decreased slightly to 5.6 percent from 5.9 percent in June 2009 (Figure 2.2). Urban inflation (8.7 percent) shows slightly downward trend compared to rural inflation (8.8 percent) mainly due to the price hike of food items. These trends were mainly attributable to the rising price of oil and other imported essentials in the international markets, excess liquidity in the banking system, robust inflow in remittances and accumulation of high foreign exchange reserves caused by money supply growth.

2.18 To check this upward trend of inflation, several steps were taken which include, among others; ensure the smooth supply chain of commodities, open market sale of the essential commodities and market monitoring. Side by side, the government tried to keep inflation at a tolerable level by pursuing an accommodative monetary policy by mopping up excess liquidity due to the upsurge of remittances inflow. The Central Bank has already increased the Cash Reserve Requirements (CRR) and Statutory Liquidity Ratio (SLR) both by 0.5 percentage points from 5.0 percent and 18.0 percent respectively. Against this backdrop it is expected that the annual average inflation will cruise within 6.5 percent in FY10 and is forecast to fall gradually to 5.5 percent by FY15.

Figure 2.2

Year-on-Year Inflation at National Level



Fiscal Sector

2.19 In FY10 budget, total revenue receipt is projected to rise by 23.9 percent (11.5 percent of GDP) over the previous year's revenue earnings. Total public spending is projected to rise by 26.4 percent over FY09, resulting expenditure-GDP ratio at 16.0 percent, fairly higher (1.8 percentage points of GDP) than the expenditure of FY09. The budget deficit is projected at 4.5 percent of GDP, with 2.5 percent financed domestically by bank and non bank borrowings and the rest 2.0 percent by foreign sources.

2.20 Assuming that growth gradually reaches 8 percent in FY14, the MTMF envisaged the increase of revenue earnings for the next four fiscal years by 2.1 percentage points of GDP on an annual average of 0.5 percent every year. Side by side, the Annual Development Plan expenditure will be brought to 6.1 percent of GDP from the current level of 4.1 percent of GDP. Total expenditure is projected to increase to 17.8 percent of GDP, resulting in a budget deficit below the level of 5 percent of GDP. (Further discussions on revenue and expenditure are included in Chapter 3 and Chapter 5 respectively)

Monetary and Financial Sector

2.21 The eighth and ninth issues of Bangladesh Bank's half yearly Monetary Policy Statement (MPS) outline respectively the monetary policy stance for the first and second half of FY10. Both the MPS's are designed to support attainment of the highest sustainable output growth, while containing inflation within tolerable moderate levels. To help the economy sustain growth momentum in the recessionary global environment, Bangladesh Bank continues to maintain easy credit conditions during FY10, with special attention to credit needs for the sectors like agriculture and SME.

Domestic Credit

2.22 Year-on-year domestic credit grew by 16.0 percent in FY09 compared to 21.8 percent in FY08. Credit to the private sector decreased sharply (from 24.9 percent to 14.6 percent), reflecting the sluggish investment in the private sector. However, net credit to the government sector increased by 24.0 percent in FY09, up from 30.4 percent in FY08. Domestic credit growth decelerated further in FY10, and the year-on-year growth in domestic credit was 13.3 percent in March 2010. The slower growth of domestic credit was characterized by the higher growth in foreign assets at the expense of growth in the domestic assets. The obvious development in domestic credit is the contraction of net credit to government (-10.6 percent) in March 2010, because of excessive borrowing from the National Saving Directorate (NSD) and the government's access to foreign financing. The year-on-year growth of private sector credit reached 19.5 percent in March 2010, fairly above the growth rate of the last fiscal year.

2.23 Domestic credit is forecast to grow at an average rate of around 18.5 percent during the FY11-15, with credit to the private sector targeted to grow by 18.2 percent in FY11 and to remain within 19.5 percent during FY12-15.

Money Supply

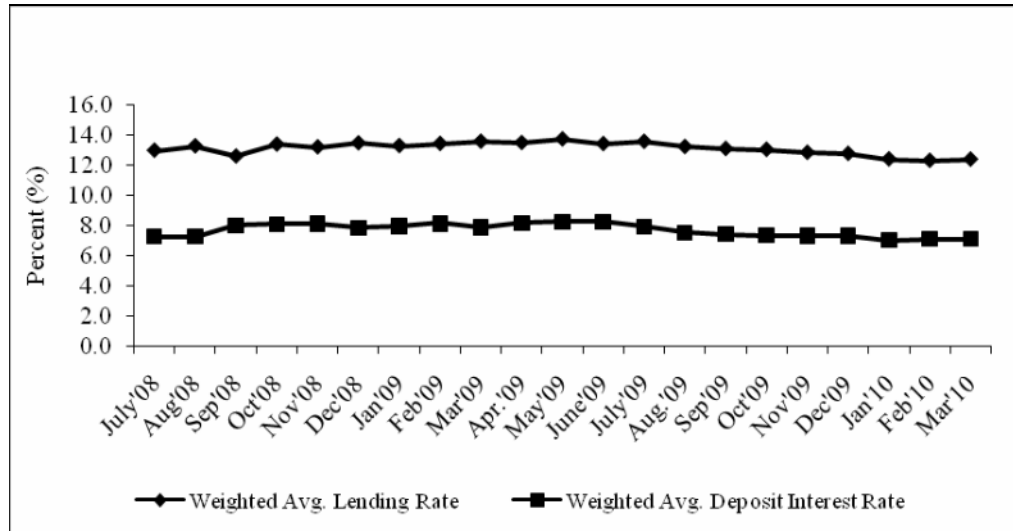
2.24 Broad money grew by 19.2 percent in FY09, significantly higher than the 16.6 percent growth rate in FY08. During FY10, year-on-year growth of broad money reached 21.3 percent in March 2010 from 19.8 percent in March 2009. During the same period net foreign assets in the banking system increased by 70.0 percent, while the net domestic assets increased by 10.7 percent due to the purchase of foreign exchange by the Bangladesh bank for keeping the nominal exchange rate stable and for sterilizing the excess liquidity in the banking system. For FY10, the broad money is targeted to grow 15.5 percent, and the targets will remain around 16 percent to FY15, with a slightly upward trend during the period.

Interest Rate

2.25 Due to the increase of excess liquidity in the banking system during the last quarter of FY09 and the first quarter of FY10, Bangladesh Bank resumed reverse repo auction since October 2009. Eventually, the rate on repo (1-2 Day tenure) fell to 4.5 percent in November, 2009 from 8.5 percent in September, 2009 and remained unchanged at 4.5 percent up to March 2010. On the other hand, rate on reverse repo (1-2 Day tenure) declined to 2.5 percent in October, 2009 from 6.5 percent in March 2010 and also remained unchanged at 2.5 percent up to March 2010. In line with the trend of liquidity, the inter-bank weighted average call money rate increased to 4.5 percent in March 2010 from 1.1 percent in July, 2009, with some irregular fluctuations within this period. The weighted average yield on 91-Day treasury bills increased to 2.3 percent in January 2010 from 1.9 percent in July 2009, while the average yield on 182-Day treasury bills and 364-Day treasury bills were relatively stable for the last couple of months (since October 2009). The weighted average yield on the long-term Bangladesh Government Treasury Bond (5-Year, 10-Year, 15-Year and 20-Year BGTB) was also broadly stable during the period.

2.26 In order to reduce excess liquidity and to induce private sector investors to borrow from the financial system, a ceiling of 13 percent on the lending rate has been imposed since the second quarter of FY09, which was further reduced to 11 percent, with the exception of credit card, housing loans and consumer loans. However, imposing the cap on the lending rate, eventually lowering the interest rate on deposits, resulted in the interest rate spread remaining nearly unchanged (Figure 2.3).

Figure 2.3
Monthly Weighted Average Rate of Interest on Commercial Lending and Deposit



2.27 The weighted average rate of interest on commercial lending increased to 13.5 percent in June 2009, from 11.8 percent in June 2008 and the deposit rate also increased to 8.3 percent from 7.5 percent over the same period. Thus, the interest rate spread widened by 0.9 percentage points to 5.2 percent in June 2009, from 4.3 percent in June 2008. The weighted average rate on commercial lending slipped gradually to 12.4 percent in March 2010 and the weighted average deposit rate also slipped to 7.1 percent in the same period. The spread further widened by 0.1 percentage points to 5.3 percent in March 2010. Real interest rate on deposit remained positive over the last couple of months due to low inflation rate, but could turn negative unless the upward trend in inflation is subdued.

Capital Markets

2.28 After exhibiting considerable volatility during FY09, stock markets witnessed some remarkable achievements in FY10. The market capitalisation and the general index increased remarkably during the period. Market capitalisation of DSE rose from Tk. 1,241.3 billion (20.4 percent of GDP) in June 2009 to Tk. 2,360.5 billion (34.2 percent of GDP) in April 2010, up by 95.0 percent. The DSE general index rose from 3,010.3 points to 5,654.9 points, up by 87.9 percent.

2.29 The number of Beneficiary Owner (BO) accounts reached around 2.5 million in April 2010. The market Price Earnings Ratio (P/E) reached 27.6 percent in March 2010, up from 18.3 percent in January, 2009. This indicates a demand for stock market. In March 2010, the P/E Ratio of some Asian stock markets were: Pakistan: 8.0, Thailand (Bankok): 10.0, Indonesia: 13.0, Hong Kong: 16.0, Sri Lanka 18.5,

Malaysia: 20.0 and India (Mumbai): 20.6. The higher P/E ratio indicates people's expectation of higher return from the stocks making the markets susceptible to more frequent volatility.

2.30 The government is well aware of the need for holding the investors confidence, deepening the markets by listing the new companies including government-owned companies. Already 5 government-owned companies listed in the capital markets and the offloading of the 26 government-owned companies is in the process. To stabilize the markets, the Securities and Exchange Commission (SEC) has taken several precautionary measures, included among which are- strengthened the surveillance system, adjusted margin-loan ratio and introduction of the Book Building Methods, an alternative Initial Public Offering (IPO) valuation method for attracting companies with good track record and sound fundamentals. Besides, the Over-the-Counter (OTC) market was launched in September, 2009 for junk companies to trade. Moreover, the government allocated Tk. 100 million for establishing the 'Bangladesh Institute of Capital Market' to make the market structurally sound and effective.

External Sector

Exports

2.31 Export earnings declined by 11.7 percent in the first quarter of FY10, compared to the robust (42.4 percent growth) performance in the first quarter of FY09. Export picked up in the second and third quarters of FY10, recording 1 percent and 9.8 percent growth respectively compared to the same quarter of the previous year. On a cumulative basis however, export growth in the first ten months of FY10 increased by only 1.0 percent. Among the exported items, woven garments shrank by 2.1 percent and knitwear by 1.4 percent, while raw jute, jute goods, pharmaceuticals, engineering products and leather showed robust growth during the period. Frozen food also performed negatively. The export earning is expected to show an upward trend as the export orders, particularly new orders, in the RMG sector and the external demand for Bangladesh exports are rising because the USA and EU countries, the destination of 75 percent of Bangladeshi exports, have started coming out of recession.

2.32 Export receipts are projected to grow around 8.0 percent in FY10, and at an annual average rate of around 16.0 percent during FY11-15. In order to secure sustained long-term trade growth, export diversification will continue to be the government's major trade development strategy. In the two incentives packages declared by the government, the various measures to boost the exports are: (i) loan rescheduling, (ii) reduction in interest rate, (iii) cash incentives, (iv) disbursement of 70 percent export incentives without audit and (v) incentives for exporting both new products and for new markets.

Imports

2.33 Import payments during the first quarter of FY10 declined sharply by 19.0 percent, compared to the same quarter (growth: 34.9 percent) of the previous year, but bounced back in the second and third quarters with an increase of 9.9 percent 7.3 percent respectively over the same quarter of the previous year. On a cumulative basis, however, negative growth gradually narrow down to 1.5 percent during July-March 2010. Based on the opening of Letters of Credits (LCs) during July-March, import of capital machinery increased by 51.6 percent over the same period of the previous year, which indicates that investment is picking up gradually. Industrial raw materials and petroleum also increased by 9.6 percent and 13.9 percent respectively during the same period. Considering the upward trend of international commodity prices and reviving the investor's confidence the import growth rate for FY10 is now estimated at 6.0 percent. During FY11-15 imports are projected to grow at an annual average rate of around 18.0 percent.

Remittances

2.34 The remittances received from expatriate Bangladeshi workers increased by 22.4 percent during FY09 to USD 9.7 billion. Remittances grew by 16.7 percent during the first ten months of FY10 compared with the same period in FY09. However, the number of workers travelling abroad for employment during the first ten months of FY10 fell by 36.7 percent compared to the same period of FY09. The trends in labour export and remittances inflow have been showing robust growth for the last couple of years, higher than normal trends. In FY07, the remittances from expatriate Bangladeshi workers stood at USD 6.0 billion reflecting 24.5 percent rise over the previous year. In FY08, remittances stood at USD 7.9 billion, registering 32.4 percent increase over the previous year. A total of 564 thousand Bangladeshis went abroad for employment in FY07, which is 5.0 percent higher than the number registered in the previous year. In FY08, the figure of manpower export stood at 981 thousand, which is 73.9 percent higher than that of the previous year. Manpower export decelerated by 33.7 percent to 650 thousands in 2008-09.

2.35 The major share of remittances comes from the Gulf region, where growth was slightly slow, but is projected to regain in 2010. Most of the Bangladeshi workers are unskilled/semi-skilled and are employed in the construction sector. Therefore, the demand for Bangladeshi workers will increase. There are potential demands for Bangladeshi work forces in Eastern Europe, South Africa and North American countries. The government is also trying to encourage more workers to go to these countries. Furthermore, to sustain overseas labour markets by developing a skilled labour force, the National Skill Development Council needs to be more effective in tandem. In FY10 remittances are expected to grow by 18.7 percent, and are projected to increase at an annual average rate of around 22.0 percent and reach USD 31.4 billion in FY15.

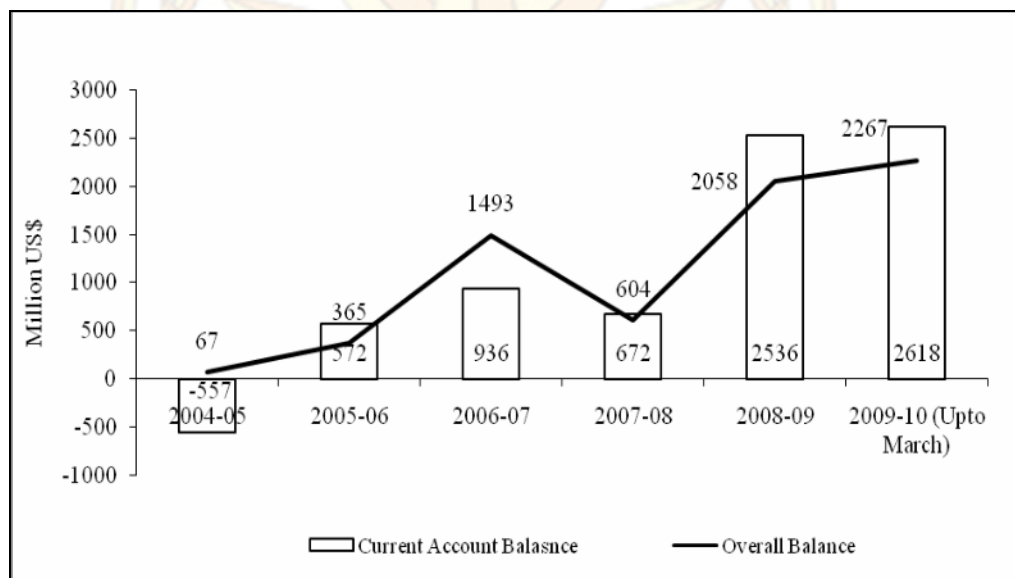
Balance of Payments Situation

2.36 The trade deficit was reduced by 3.3 percent during July-March of FY10 compared to the deficit in the corresponding period of FY09, due to the decline of both exports and imports. However, the robust growth in workers' remittances and lower trade and service deficit increased the current account surplus to USD 2.6 billion from a surplus of USD 1.0 billion in the same period of FY09. Despite the sharp increase (36.4 percent) of medium and long-term loans, the financial and capital account recorded a deficit of only USD 0.3 billion. However, the overall balance showed a larger surplus of USD 2.3 billion against a surplus of USD 1.0 billion in the corresponding period of the previous year.

2.37 The trade deficit is estimated at 4.7 percent of GDP in FY10 and is projected to increase to 4.9 percent in FY11 and 5.4 percent in FY12 and gradually increase reflecting more modest growth in imports compared to the export growth. Current Account Balance (CAB) is estimated at 3.6 percent of GDP in FY10 and with remittances increasing steady. The CAB is projected to decline gradually to 2.3 percent of GDP in FY15.

Figure 2.4

Current Account Balance and Overall Balance



Foreign Exchange Reserves

2.38 Due to decline of import payments and higher current account surplus caused by the robust growth of remittances, the gross official foreign exchange reserves stood at USD 10.6 billion at the end of April 2010, sufficient for meeting the 5.7 months equivalent imports. At the end of April 2009, the reserve was USD 6.5 billion, sufficient to meet 3.4 months equivalent import payments. At the end of FY10 the

reserves are estimated at USD 10.4 billion, covering 4.9 months of imports. Gross foreign exchange reserve is projected to increase gradually and reach USD 14.5 billion in FY15, providing 3.0 months of import coverage.

Exchange Rate

2.39 The nominal exchange rate during July-March of FY10 remained mostly stable against USD, and depreciated only by 0.6 percent compared with the same period of previous year. Market interventions by Bangladesh Bank through purchase of USD from the inter-bank market have kept the exchange rate of Taka broadly stable against USD. During the same period, Taka also depreciated with some trade partner countries, particularly with Euro (4.3 percent), Chinese Yuan (0.7 percent), Japanese Yen (8.1 percent) and Indian Rupee (8.0 percent), but appreciated with Pound Sterling (0.9 percent). For FY10 the average nominal exchange rate of Taka/USD is estimated at Taka 69.5. A gradual depreciation of Taka-USD has been envisaged in the medium term in line with current policy intervention.

2.40 Despite some depreciation during mid-2009, compared to its mid-2008 level, both the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices appreciated in the recent times (Figure 2.5). Given the almost unchanged value of Taka-USD nominal exchange rate, the appreciation of REER would have to put pressure on export competitiveness of the country. Although, the REER based exchange rate rose, the nominal exchange rate is still higher than the REER based exchange rate, indicating that Bangladesh enjoys some export competitiveness.

Figure 2.5
Movement in NEER and REER Indices

