Macroeconomic Performance and Prospects

Global Economic Outlook

1.1 The global economy is growing more slowly than anticipated, and growth is projected to remain subdued at 2.9 percent in 2013 (Table 1.1). The growth in advanced economies is expected to pick up gradually following a weak 1.2 percent growth in 2013. In emerging market and developing economies, the growth rate is expected to slow to 4.5 percent in 2013. However, global activity is expected to strengthen moderately, but downside risks to global growth prospects still dominate the outlook.

1.2 IMF's latest World Economic Outlook Update (WEO Update October 2013) anticipated that average growth rate of world economy (2.9 percent) will be lower than the July 2013 WEO Update projections of 3.1 percent. The WEO forecast was revised downward mainly because of slower growth in China and in a growing number of emerging market economies, for both cyclical and structural reasons. Growth rate of the United States is projected to decline from 2.8 percent in 2012 to 1.6 percent in 2013. However, activity in the US is regaining pace, helped by a recovering real estate sector, higher household wealth, easier bank lending conditions, and more borrowing. In Japan, growth is projected to pick up at 2.0 percent in 2013, the same as in 2012, in response to the Bank of Japan's Quantitative and Qualitative Monetary Easing and the government's fiscal stimulus. In the euro area, economic growth is expected to contract by 0.4 percent in 2013, dampened by still tightening credit conditions in the periphery.

Table 1.1 Overview of the World Economic Outlook projections

(annual percentage change)

	2011	2012	Projections 2013	Projections 2014
World output	**3.9**	**3.2**	**2.9**	**3.6**
Advanced economies	1.7	1.5	1.2	2.0
United States	1.8	2.8	1.6	2.6
Euro area	1.5	-0.6	-0.4	1.0
Germany	3.4	0.9	0.5	1.4
France	2.0	0.0	0.2	1.0
Italy	0.4	-2.4	-1.8	0.7
Spain	0.1	-1.6	-1.3	0.2
United Kingdom	1.1	0.2	1.4	1.9
Japan	-0.6	2.0	2.0	1.2
Canada	2.5	1.7	1.6	2.2
Other advanced economies	3.2	1.9	2.3	3.1
Emerging market and developing economies	6.2	4.9	4.5	5.1
Developing Asia	7.8	6.4	6.3	6.5
China	9.3	7.7	7.6	7.3
ASEAN-5	4.5	6.2	5.0	5.4
South Asia				
Bangladesh	6.5	6.1	5.8	6.0
India	6.3	3.2	3.8	5.1
Pakistan	3.7	4.4	3.6	2.5
Sri Lanka	8.2	6.4	6.3	6.8
World trade volume (goods and services)	**6.1**	**2.7**	**2.9**	**4.9**
Imports				
Advanced economies	4.7	1.0	1.5	4.0
Emerging and developing economies	8.8	5.5	5.0	5.9
Exports				
Advanced economies	5.7	2.0	2.7	4.7
Emerging and developing economies	6.8	4.2	3.5	5.8
Commodity prices (U.S. dollars)				
Oil	31.6	1.0	-0.5	-3.0
Nonfuel	17.9	-9.9	-1.5	-4.2
Consumer prices				
Advanced economies	2.7	2.0	1.4	1.8
Emerging market and developing economies	7.1	6.1	6.2	5.7
South Asia				
Bangladesh	10.7	8.7	7.6	6.5
India	8.4	10.4	10.9	8.9
Pakistan	13.7	11.0	7.4	7.9
Sri Lanka	6.7	7.5	7.4	6.9

Source : World Economic Outlook, October 2013, IMF.

In emerging market economies, the reasons for weaker growth may include tightening capacity constraints, stabilising or falling commodity prices, less policy support, and slowing credit. The forecast for growth rate for China is reduced to 7.6 percent in 2013, which will affect commodity exporters among the emerging market and developing economies. An overview of the WEO projections of economic growth is presented in Table 1.1.

1.3 In advanced economies, consumer prices are anticipated to ease from 2.0 percent in 2012 to 1.4 percent in 2013. In the United States, the CPI inflation is projected to fall from 2.1 percent in 2012 to 1.4 percent in 2013. Moreover, in the euro area, inflation is projected to fall from 2.5 percent in 2012 to 1.5 percent in 2013. In emerging and developing economies, inflation is projected to increase slightly from 6.1 percent in 2012 to 6.2 percent in 2013 (Table 1.1).

1.4 The growth rate of world trade volume is projected to rise from 2.7 percent in 2012 to 2.9 percent in 2013 (WEO, October 2013). This is lower than the projection of WEO Update, July 2013. The growth rates of exports and imports for the advanced economies are expected to increase to 2.7 and 1.5 percent in 2013 from 2.0 and 1.0 percent in 2012 respectively. However, the projected growth rates of exports and imports for emerging market and developing economies are expected to decline to 3.5 and 5.0 percent in 2013 from 4.2 and 5.5 percent in 2012 respectively.

1.5 According to the IMF Global Financial Stability Report (GFSR, October 2013), financial stability risks are broadly under control. Accommodative monetary policies and precautionary policy measures have eased monetary and financial conditions and reduced near-term stability risks. Commitments by the European Central Bank (ECB) to provide additional debt relief for Greece have greatly decreased redenomination risk. Moreover, initiatives by the ECB have reduced sovereign liquidity risk, which helped boost the resilience in economies of Italy and Cyprus. Overall, financial market conditions have improved and are benefiting the broader economy; however, the transmission is slow and incomplete.

1.6 Despite global growth projected to recover from slightly below 3.0 percent in 2013 to 3.6 percent in 2014, the overall balance of risks to near and medium global growth outlook is still dominated by downside risks. Although near term tail risks in advanced economies have diminished, key advanced economies should maintain a supportive macroeconomic policy mix, anchored by credible plans for medium term public debt sustainability. The main downside risks are related to the possibility of a longer growth slowdown in emerging market economies, specially given risks of lower potential growth, slowing credit and weak external conditions.

Developments in Bangladesh Economy

1.7 Macroeconomic situation in Bangladesh has been quite stable for a considerable period of time in recent years and proved resilient to global financial crisis posting GDP growth rate averaging 6.2 percent during the past five years. Using the 1995-96 base year the Bangladesh economy achieved GDP growth of 6.0 percent in FY13, and 6.2 percent using the 2005-06 base. Substantial remittance inflows and export activities helped to achieve this solid economic growth rate. Inflation decreased sharply to 6.8 percent (using the new 2005-06 base) at the end of FY13 driven by a gradual decline both in food and non-food inflation. Broad money (M2) registered 16.7 percent growth in FY13 due mainly to growth in net foreign assets; however, broad money growth was lower than the targeted growth of 17.7 percent and 17.4 percent actual growth in FY12. Total domestic credit declined from 19.2 percent in FY12 to 10.9 percent in FY13. The growth rate of credit to private sector declined from 19.7 percent in FY12 to 10.8 percent in FY13. This decline, however, was compensated partly by newly introduced overseas financing by Bangladeshi corporates. Other than European Union and US, export diversification to the newly discovered markets improved earnings from exports to record a satisfactory growth of 10.7 percent in FY13 as against 6.2 percent in FY12. The growth of imports decreased from 2.4 percent in FY12 to 0.8 percent in FY13 due mainly to major reduction in imports of food grain, some consumer goods and capital machinery. A lower trade deficit and higher growth of workers' remittances led the current account balance to a significant surplus of USD 2525 million in FY13. The overall balance also showed a huge surplus of USD 5128 million in FY13 with substantial contributions from current account balance, capital account and financial account.

Growth Performance

1.8 Bangladesh's GDP growth rate of 6.0 percent in FY13 using the 1995-96 base, and 6.2 percent using the 2005-06 base, remain impressive. Growth in agriculture sector declined from 3.1 percent in FY12 to 2.2 percent in FY13. Growth in crops and horticulture sub-sector slid to 0.2 percent in FY13 from 2.0 percent in FY12, though growth in animal farming and forest and related services subsectors increased slightly during the period. Fishing sub-sector grew above 5.0 percent in FY13. The sectoral GDP growth rates are presented in Table 1.2.

1.9 Industry sector grew slightly more at 9.0 percent in FY13 compared to 8.9 percent in FY12 driven in large part by faster growth in mining and quarrying, construction and small scale industries (Table 1.2). Mining and quarrying sub-sectors grew strongly by 11.1 percent in FY13 compared with 7.8 percent in FY12. Power, gas and water supply subsector demonstrated a lower growth of 8.6 percent in FY13 compared with 12.0 percent in FY12; however, the growth in FY13 remained above the long run trend.

1.10 Services sector growth decreased to 5.7 percent in FY13 from 6.0 percent in FY12 affected mainly by lower growth of wholesale and retail trade sub-sector. Wholesale and retail trade sub-sector, the major services sub-sector, declined to 4.7 percent in FY13 from 5.6 percent in FY12 reflecting weaker domestic demand. Growth rates of hotel and restaurants, transport, storage and communication, real estate, renting and other business activities, community, social and personal services subsectors increased slightly in FY13. On the other hand, growth rates of financial intermediation, public administration defense, health and social works sub-sectors edged down during the period. Education subsector grew strongly from 7.2 percent in FY12 to 9.7 percent in FY13 (Table 1.2).

Savings and Investment

1.11 Gross fixed investment increased slightly to 26.8 percent of GDP in FY13 from 26.5 percent in FY12 due to increasing growth of public investment (Chart 1.1). During the same period, private investment decreased from 20.0 to 19.0 percent of GDP and public investment increased from 6.5 to 7.9 percent of GDP. National savings rates increased slightly from 29.2 percent of GDP in FY12 to 29.5 percent of GDP in FY13. Domestic savings as a percent of GDP remained unchanged at 19.3 percent in FY13. The domestic savings-investment gap as a percentage of GDP, correspondingly, increased from 7.2 percent in FY12 to 7.5 percent in FY13.

Price developments

1.12 The average inflation rate, using the FY06 new base, moderated to 6.8 percent at the end of FY13 from 8.7 percent at the end of FY12. Over this period, food and non-food inflation both decreased from 7.7 to 5.2 percent and from 10.2 to 9.2 percent respectively. The decrease in average inflation during FY13 was driven mainly by a gradual fall of food inflation until January 2013 when food inflation bottomed out at 3.2 percent. A steady decline in non-food inflation during the second half of FY13 also contributed to fall in average inflation. Though average inflation went down, point-to-point inflation increased to 8.1 percent in FY13 from 5.6 percent in FY12.

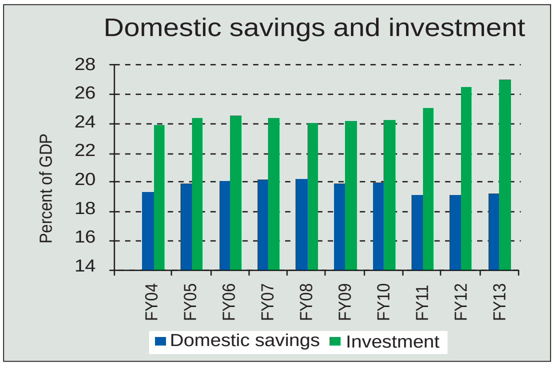
Table 1.2 Sectoral GDP growth rates

(at FY96 constant prices)

	FY94-03 (Average)	FY04-13 (Average)	$FY12^R$	$FY13^P$
1. Agriculture	**3.1**	**3.9**	**3.1**	**2.2**
a) Agriculture and forestry	2.5	3.7	2.5	1.2
i) Crops and horticulture	2.2	3.4	2.0	0.2
ii) Animal farming	3.0	4.4	3.4	3.5
iii) Forest and related services	4.1	4.9	4.4	4.5
b) Fishing	5.8	4.3	5.4	5.5
2. Industry	**7.2**	**8.0**	**8.9**	**9.0**
a) Mining and quarrying	6.4	8.5	7.8	11.1
b) Manufacturing	6.6	8.4	9.4	9.3
i) Large and medium scale	6.5	8.8	10.5	10.3
ii) Small scale	6.7	7.5	6.5	6.8
c) Power, gas and water supply	5.7	7.5	12.0	8.6
d) Construction	8.8	7.1	7.6	8.1
3. Services	**5.0**	**6.3**	**6.0**	**5.7**
a) Wholesale and retail trade	6.3	6.4	5.6	4.7
b) Hotel and restaurants	6.1	7.5	7.6	7.6
c) Transport, storage and communication	5.9	7.3	6.6	6.7
d) Financial intermediations	5.5	9.3	11.0	9.0
e) Real estate, renting and other business activities	3.6	3.8	4.1	4.1
f) Public administration and defence	5.4	7.4	5.8	5.1
g) Education	6.4	8.5	7.2	9.7
h) Health and social works	4.4	7.5	7.9	7.5
i) Community, social and personal services	3.0	4.5	4.8	4.9
GDP (at FY96 constant market prices)	**5.0**	**6.2**	**6.2**	**6.0**

Source: Bangladesh Bureau of Statistics.
R= Revised, P= Provisional.

Chart 1.1



Money and Credit Developments

1.13 In FY13, Bangladesh Bank designed its monetary policy stance based on assessment of global and domestic macroeconomic conditions and outlook. BB continued restrained policy stance in H1 of FY13 to curb inflation. In H2 of FY13 repo and reverse repo rates were decreased from 7.75 and 5.75 percent in FY12 to 7.25 and 5.25

percent respectively in FY13. Besides, Bangladesh Bank continued to maintain the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR) for banks at 6.0 percent and 19.0 percent respectively.

1.14 Broad money (M2) recorded lower growth of 16.7 percent in FY13 against the targeted growth of 17.7 percent and 17.4 percent actual growth in FY12. The growth in broad money was attributed mainly by the growth in net foreign assets (NFA). The NFA of the banking system increased by 50.3 percent in FY13 against targeted 21.0 percent resulting from robust growth in remittance and low import growth. The credit to public sector increased by 11.1 percent in FY13. The growth rate of the credit to private sector declined significantly from 19.7 percent in FY12 to 10.8 percent in FY13. This decline was mainly due to investment uncertainty ahead of national general election and more stringent lending practices by the banks. As a result, net domestic assets (NDA) recorded a lower growth of 11.1 percent in FY13 as compared to targeted 17.1 percent growth and 19.3 percent growth in FY12.

1.15 Of the components of broad money on the liability side, growth of the time deposits (17.8 percent) was higher than that of the currency and demand deposits (12.6 percent). The income velocity of money declined to 1.72 in FY13 from 1.78 in FY12 indicating increased monetisation and financial deepening in the economy.

1.16 The weighted average interest rate on bank advances decreased to 13.7 percent at the end of June 2013 from 13.8 percent at the end of June 2012, while the deposit rate increased to 8.5 percent from 8.2 percent over the same period.

Chart 1.2

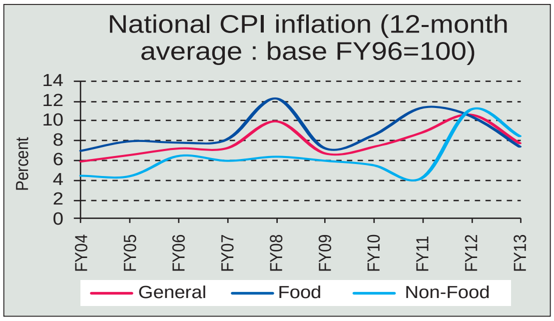


Chart 1.3

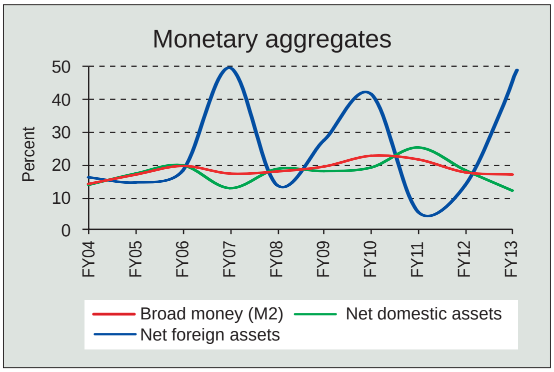
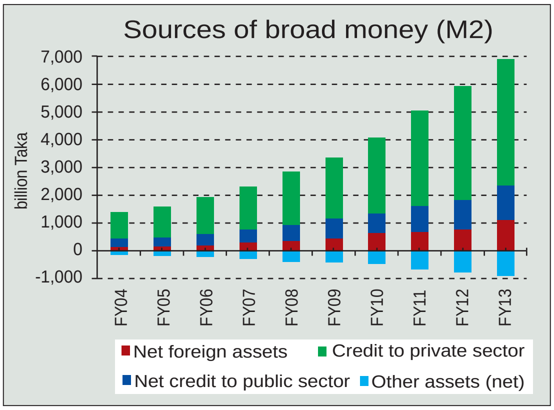


Chart 1.4



Public Finance

1.17 Excluding grants, the overall budget deficit to GDP ratio increased from 4.1 percent in FY12 to 4.8 percent in FY13. However, domestic financing of the deficit decreased to 3.1 percent of GDP in FY13 from 3.3 percent of GDP in FY12.

1.18 Revenue receipts in FY13 were 13.5 percent of GDP. Its growth was 21.8 percent in FY13 compared to 23.3 percent growth in FY12.

1.19 Public expenditure in FY13 was 18.3 percent of GDP. In nominal terms it grew by 24.2 percent compared to 18.8 percent growth in FY12. Current expenditure in FY13 was 9.9 percent of GDP.

External Sector

1.20 The exports earnings increased to USD 26566 million from USD 23989 million and import payments increased marginally to USD 33576 million from USD 33309 million in FY13 over FY12. Trade deficit declined to USD 7010 million in FY13 from USD 9320 million in FY12. The services and income account including primary income and secondary income registered a surplus of USD 9535 million due to a buoyant increasing remittance inflows. Remittance inflows increased to USD 14338 million in FY13 from USD 12734 million in FY12 (Appendix-3, Table-XVI). As a result, current account balance moved to a surplus of USD 2525 million as compared to a deficit of USD 447 million in FY12. The capital and financial account surplus continued to increase from USD 1918 million in FY12 to USD 3367 million in FY13, primarily due to increased flow of FDI, medium and long term loan disbursements and net trade credit. The capital account surplus increased from USD 482 million to USD 588 million during this period. While taking into account net errors and omissions, the overall balance of payments registered a huge surplus of USD 5128 million in FY13 compared to a surplus of USD 494 million in FY12. Gross international foreign exchange reserves at USD 15300 million at end of FY13 reflected improved external balances, representing 5.5 months of import cover.

Chart 1.5

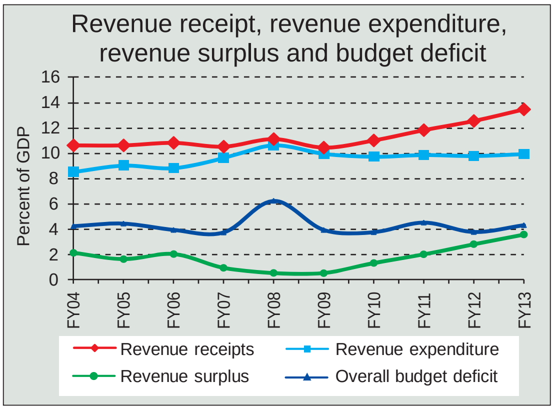
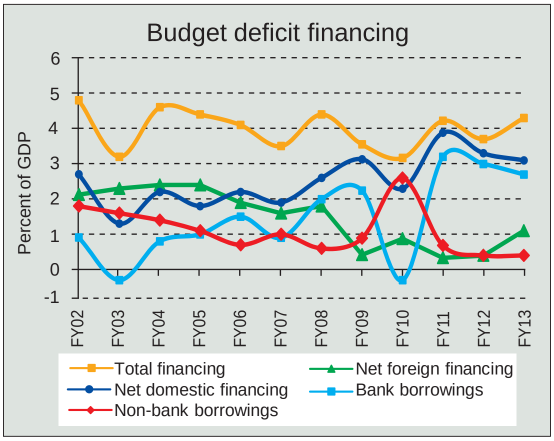


Chart 1.6



1.21 The export earnings, expressed as a percent of GDP, decreased from 20.7 percent in FY12 to 20.5 percent in FY13. The growth rate of exports earnings increased from 6.2 percent to 10.7 percent during this period. While leather, jute goods, knitwear and woven garments experienced a positive growth, some of the exports items like fish, shrimps, raw jute, tea, home textile and engineering products experienced a negative growth.

1.22 Import payments, as a percent of GDP, decreased from 28.7 in FY12 to 25.9 in FY13.

Imports grew at a rate of 0.8 percent in FY13 compared to the 2.4 percent growth in FY12. This lower growth of import payments resulted mainly from negative growth in imports of food grains, edible oil, sugar, POL, fertiliser, and capital machinery. However, imports of pulses, chemicals, textile & textile articles thereof and iron, steel & other base metals showed positive growth in FY13.

1.23 The rate of growth of workers' remittance inflows increased by 12.6 percent in FY13 playing an important role in strengthening the current account balance.

1.24 In order to achieve BB's monetary policy goal and to avoid undue volatility in the foreign exchange market, Bangladesh Bank remained vigilant by closely monitoring the exchange rate movements, and buying and selling of foreign exchanges. In FY13, Bangladesh Taka experienced appreciation of 5.2 percent against US dollar mainly due to strong growth in the flow of inward remittances, increase in export earnings and sluggish import payments. BB purchased USD 4539.0 million in order to mop up excess liquidity in the local foreign exchange market. The nominal exchange rate of Taka stood at Taka 77.77 per US dollar as of end June 2013 compared to Taka 81.82 per US dollar as of end June 2012. In nominal effective terms, against a trade weighted eight currency basket (base: 2000-01=100), Taka appreciated by 6.4 percent in FY13. The real effective exchange rate of the Taka also appreciated by 11.3 percent as of end June 2013.

1.25 Outstanding external debt of Bangladesh increased to USD 23.3 billion as of end June 2013 from USD 22.1 billion as of end June 2012. However, the outstanding debt to GDP ratio declined to 18.0 percent at the end of June 2013 from 19.0 percent at end of June 2012.

Chart 1.7

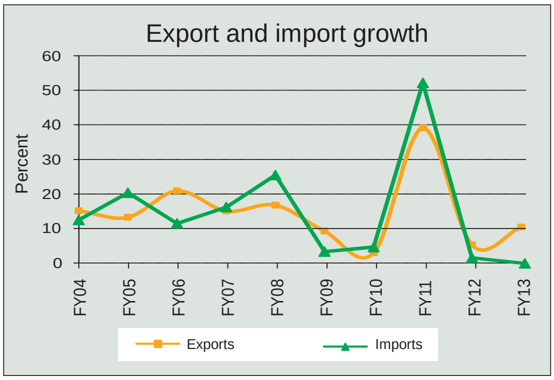


Chart 1.8

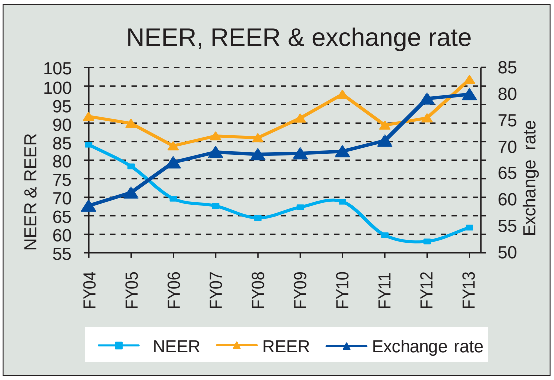
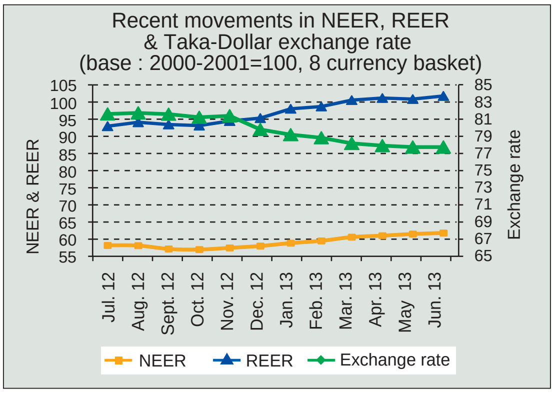


Chart 1.9



Near and Medium Term Outlook for Bangladesh Economy

1.26 The outlook for the Bangladesh economy is favourable over the medium term in light of a growing working age population and likely continued global demand for Bangladeshi products. Faster growth of beyond 7 percent will require sustained investments in infrastructure specially in the energy sector. BB's projections suggest that the GDP growth outlook for FY14 is unlikely to deviate significantly from the last 10 years' average of 6.2 percent. This is based on current and projected trends of a number of variables including global growth, exports, investments, imports, remittances etc.

1.27 The monetary stance of BB in FY14 will target a monetary growth path which aims to bring average inflation down to 7 percent while ensuring that credit growth is sufficient to stimulate inclusive growth. Further reductions in inflation will be targeted in subsequent years.