

Bangladesh Economic Update

Half-Yearly Assessment of the Economy of Bangladesh

December 2011



উন্নয়ন অন্বেষণ
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SUMMARY

The economy is under pressure due to soaring imports of fuel and fertiliser, skyrocketing inflation levels, rise in budget deficit and government borrowing, increase in subsidies, falling foreign aid and currency reserve, sharp rise in import bills, declining export earnings and devaluation of the currency. If the challenges, sparked in recent times by the processes of deceleration of growth in real sectors and the pressures created by nominal variables, are not sorted out by the government on an urgent basis the national output may further contract in coming years with lagged effects. In other words, the gap between targeted and achieved growth rate might increase further in the coming years.

Different governments have taken a total of six five-year plans after independence. The main goals of these plans were to speed up economic growth, alleviate poverty and generate employment opportunities. Considering the achievement of targeted rates, the performance of previous five-year plans was not up to the mark. Under the business-as-usual scenario, if the current deceleration continues and radical policy options are not acted upon, the end of the Sixth Five Year Plan might achieve average annual growth rate of only 5.45 per cent against the targeted growth rate of 7.3 per cent.

The government has targeted to achieve the GDP growth rate of 7 percent in FY 2011-12 based on assumptions of further improvements in the global and domestic economy and taking into account the expected impacts of reforms initiated in various sectors. In FY 2011-12, according to business usual scenario, the growth rate of GDP might be at 6.82 percent but the MTMF projection is 7 percent. However, the target of GDP in FY 2011-12 is Tk. 8996.70 billion in which the contribution of agricultural sector is projected to be Tk. 1506.87 billion, while industrial and service sector might contribute Tk. 2351.10 billion and Tk. 436064 million respectively. Under the business as usual scenario it is assumed that the contribution of agricultural sector might decrease by 31 percentage points while service sector might increase by 10 percentage points in FY 2011-12.

National savings and total investment is increasing over the years but at a slower rate. National savings stood at Tk. 2236.5 billion in FY 2010-11, which was 7.32 percent higher than that of FY 2009-10. Total investment in FY 2010-11 had experienced Tk. 1947.9 billion, which was 14.91 percent higher than that of FY 2009-10. Under the business as usual scenario, total investment and national savings in FY 2011-12 might reach at Tk. 2079.5 billion and Tk. 2396.1 billion respectively, which is 6.76 percent and 7.13 percent higher than that of FY 2010-11. The gap between national savings and total investment might increase at Tk. 316.7 billion in FY 2011-12 which might be 9.74 percent higher than that of FY 2010-11.

Private savings as percent of GDP is decreasing over the years. This ongoing trend suggests that private savings and private investment as percent of GDP might be 18.38 and 19.77 percent respectively in FY 2011-12. Public savings and public investment followed an irregular trend over the years. Public savings and public investment were 1.33 percent and 5.3 percent respectively in FY 2010-11. According to the optimistic scenario, the public savings might increase to 1.35 percent and investment might decrease to 5.19 percent in FY 2011-12.

For achieving the targeted GDP growth rate, containing the rate of inflation at a tolerable limit is a prerequisite. In FY 2011-12, the government has targeted the rate of inflation at 7.5 percent while it was 8.8 percent in FY 2010-11 and 7.31 percent in FY 2009-10. In November 2011-12, general inflation rate is 10.51 percent while it was 8.14 percent in November 2010-11. Under the business as usual scenario, in FY 2011-12, the rate of inflation (12-month average), point to point inflation and CPI might increase to 9.41, 10.83 and 252.10 percent respectively, which is a grave concern for the economy. At the end of the last fiscal year, food inflation was 11.34 percent while the continuation of the current trend suggests that the rate of food inflation might increase to 14.54 percent by the end of FY 2011-12.

An increasing trend has been observed in import payments and export earnings over the years. In FY 2011-12, import payments and export earnings are estimated at USD 35400 million and 25700 million respectively. However, in 2010-11, import payments was USD 33660 million and export earnings was USD 22930 million. At the end of this fiscal year import bills might reach at USD 3383.2 million, which is 16.25 percent than that of June 2010. Continuation of current trend might witness export earnings at USD 1497.56 million at the end of FY 2011-12.

The overall budget deficit (excluding grants) in FY 2011-12 is estimated at Tk. 452.04 billion which is 5 percent of GDP and is 14.96 percent higher than that of FY 2010-11 and 31.57 percent higher than that of FY 2009-10. Considering the inclusion of grants in FY 2011-12, the overall budget deficit is estimated at Tk. 402.66 billion which is 4.4 percent of GDP and is 16.67 percent higher than that of the past fiscal year and 37.77 percent higher than that of FY 2009-10. The government has estimated the total revenue collection at Tk. 1183.85 billion in FY 2011-12 against Tk. 951.87 billion of the revised budget of FY 2010-11. The revenue expenditure in FY 2011-12 is estimated at Tk. 1635.89 billion. The total expenditure for development sectors is estimated at Tk. 506.42 billion and Tk. 1129.56 billion for non-development sectors in FY 2011-12.

In FY 2011-12, the overall public debt/borrowing has been estimated at Tk. 402.66 billion which is 31.59 percent higher than that of the revised budget of FY 2010-11 and 47.50 percent higher than that of the revised budget of FY 2009-10. The share of domestic borrowing and foreign borrowing has been estimated at Tk. 272.08 billion and Tk. 130.58 billion respectively in current fiscal year, which are 67.57 and 32.43 percent of the total borrowing. Moreover, in FY 2011-12, net foreign and domestic borrowing has been projected at Tk.130.58 billion and Tk. 272.08 billion respectively, which are 125.79 and 9.63 percent higher than that of FY 2010-11.

The government has become more dependent on banking sectors other than non-banking ones for domestic financing over the time. Over the past few years, the overall budget deficit registered an increasing trend that put a serious pressure on the total debt of the country. Continuation of current trend might result into an increasing movement in domestic debt. Total estimation of government borrowing from domestic sources in FY 2011-12 is Tk. 272.08 billion which is 23.26 percent higher than that of FY 2010-11. The government borrowing from banking sector in FY 2011-12 (up to September, 2011) is Tk. 72.28 billion which is 0.8 percent of GDP.

Government borrowing from the banking system outstanding as on 30 September 2011 is Tk. 806.65 billion which was Tk. 768.25 billion outstanding as on 31 August 2011. The government

borrowing from non-banking sector in FY 2011-12 (July to September, 2011) is Tk.10.00 billion that was Tk. 17.410 billion in FY 2010-11. Government domestic borrowing from banking sector in FY 2011-12 (July-September, 2011) is 622.57 percent higher than borrowing from non-banking sector. If the current trend continues, there might be an increasing trend of external debt in forthcoming years. In FY 2011-12, the amount of external debt might amount to USD 21879.5 million.

Revenue is an essential element to manage the government's fiscal budget. It is a better way to finance the budget deficit than borrowing from any other sources. In FY 2011-12, total revenue is targeted at Tk. 1183.85 billion which is 27.51 percent higher than that of the preceding fiscal year. Under the business as usual scenario, total tax revenue, NBR and non-NBR revenue might increase to Tk. 78.86 billion, Tk. 76.86 billion and Tk. 1.94 billion respectively in June 2011-12. Continuation of current trend suggests that total tax collection in FY 2011-12 might reach at Tk. 862.83 billion, which might be Tk. 95.02 billion or 9.92 percent less than that of the targeted tax collection of FY 2011-12. However, NBR revenue might reach at Tk. 862.52 billion and non-NBR revenue at Tk. 26.33 billion in FY 2011-12, which is Tk. 56.18 billion and Tk. 12.71 billion respectively less than those of the targeted level of the current fiscal year.

The foreign exchange reserves are essential for paying the import bills and to repay the foreign debts. The gross foreign exchange reserves are declining over the years. It has declined to USD 9285.20 million in November 2011-12 from USD 10338.3 million in October 2011-12, the lowest ever in the last 12 months. Under the business as usual scenario, (by using the data of July 2010-November 2011) reserve might reach at USD 8682.38 million in the last month of the current fiscal year that is 20.43 percent lower than that of July 2010-11. However, the continuation of trend from July 2011 to November 2011 suggests that reserve might reach at USD 7750.66 million in June 2011-12, which is 8.97 percent less than that of June 2010-11.

The Annual Development Programme (ADP) for FY 2011-12 has been projected at Tk. 460 billion as 5.1 percent of the GDP. This is 19.00 percent higher than the proposed ADP and 28.00 percent higher than the revised ADP of FY 2010-11. In the first eight months of FY 2010-11, only 39.49 percent of the revised ADP was implemented while the highest implementation took place in the last four months, which was around 52 percent out of a total implementation of 90.82 percent. The monthly trend suggests that only 66.73 percent of ADP might be implemented in FY 2011-12 while the yearly trend suggests that about 88.35 percent of the ADP might be implemented by the end of the current fiscal year.

Recent decline in agricultural subsidy might bubble up the cost of agricultural production for which food security might be at stake. The allocation of subsidy in agriculture sector in FY 2011-12 is Tk. 45000 million which is 21.05 percent less than that of FY 2010-11. The amount of agricultural subsidy in FY 2010-11 was Tk. 57000 million. The growth performance of agriculture sector follows an irregular trend over the year. The rate of growth of agricultural sector was 5.56 percent in FY 2009-10 while it was 4.82 percent in FY 2010-11. However, FY 2011-12 might witness a minimal growth rate of only 4.99 percent compared to FY 2008-09 and FY 2009-10.

Bangladesh is in the process of transition from a predominantly agrarian economy. The present government promised to increase the contribution of industrial sector in GDP from 30.33 percent

in FY 2010-11 to 40 percent by the calendar year 2021. According to the business as usual scenario, in FY 2011-12, total growth rate of manufacturing sector might be 9.76 percent, while the growth rate of small and cottage industry and medium and large industry might be 7.36, and 10.76 percent respectively.

Power is a pre-condition for economic and social development of any country. In achieving the targets of Vision 2021, the government has set medium-term target of enhancing electricity supply to 7000 MW (Mega Watt) by 2013 (2015) and long-term target of generating power supply to 20000 MW in 2021. The present demand of electricity is 6000 MW against the production of 4000-4600 MW while per capita electricity consumption is 236 KWH (Kilo Watt Hour) and only 49 percent people are under electricity coverage in FY 2010-11.

Decline in the supply of gas together with the global and national price hike of fuel have increased production cost of electricity, resulting into the increase of subsidy in power sector. Subsidy has increased to Tk. 52000 million in FY 2011-12 compared to Tk. 42000 million in FY 2010-11. The growth rate of subsidy in power sector has increased by 23.81 percent in FY 2011-12 than that of the previous fiscal year. If the cost of electricity and fuel price in international level remains the same, oil subsidy bill might reach to more than Tk. 200000 million by the end of the FY 2011-12.

ADP allocation in health sector in FY 2011-12 has come down to one-third than that of the last fiscal year. In the FY 2011-12, Ministry of Health and Family Welfare (MoHFW) has received an ADP allocation of Tk. 10030.80 million while it was Tk. 34447 million in FY 2010-11. During July-October in FY 2011-12, only Tk. 1093 million has been implemented that is only 11 percent of allocated ADP. During the same period in FY 2010-11, the amount of implanted ADP was Tk. 5162 million which was 15 percent of total allocation.

Education sector is provided with an allocation of Tk. 45432.6 million in the ADP in FY 2011-12 that is 2.20 percent less than that of the allocation of FY 2010-11. Total expenditure in education from July to October 2011 is Tk. 8796.20 million that is only 19.36 percent of total allocation. However, implementation of ADP in education for the same period in FY 2010-11 was 19.8 percent while in FY 2009-10, it was 29.14 percent which exhibits poor ADP implementation status in education sector in FY 2011-12.

Giving top priority to mainstreaming gender, the government has taken several initiatives to reach the national and international targets through gender budgeting. In FY 2011-12, the government has allocated Tk. 431.9 billion as gender budget that is about 26.40 percent of the national budget. Moreover, Ministry of Women and Children Affairs (MoWCA) has been allocated with an amount of Tk. 12.37 billion in the current fiscal year. In present fiscal year, the allocation for gender related expenditure covers almost all the government ministries and division.

Reduction of poverty through acceleration of economic growth has been one of the main promised focuses of the current budgetary allocation. An allocation of Tk. 868.91 billion (53.12 percent of total budget) has been proposed as poverty reducing expenditure in FY 2011-12 which is 3.55 percent less than that of the revised budget of FY 2010-11. The concerning factor is that

the lower allocation in poverty reducing expenditure may not be favourable in achieving the targets of Millennium Development Goals (MDGs), Vision-2021 and Sixth Five Year Plan. In this regard, the government has invested in various safety net programmes in the current fiscal year. Continuing all social safety nets and empowerment programmes, the government has allocated Tk. 225.56 billion in FY 2011-12 which is about 13.79 percent of the total budget and 2.51 percent of GDP.

Employment opportunities are largely dependent on investment. Over the years the growth rate of investment has decreased from 14.9 percent in FY 2010-11 to 6.76 percent in FY 2011-12. Therefore, it is evident that the trend of employment opportunities has been following a decreasing trend during the last few years which has resulted from the decreasing investment scenario. With the rising unemployment situation, the real wage may decline which is being fuelled by the overall rate of inflation (point to point) of 11.58 percent with food inflation of 12.47 percent. With the increased number of unemployed people and reduction in income and real wage, the aggregate demand might be lowered, putting negative effect on investment and output.

1. INTRODUCTION

The current issue of Bangladesh Economic Update focuses on the overall economic condition of Bangladesh particularly in the half way of FY 2011-12. The issue investigates the sector-wise performance of current fiscal year in light with the targets set in national budget of FY 2011-12, Medium Term Macroeconomic Framework (MTMF), Medium Term Budgetary Framework (MTBF) and other national plans, policies and goals. The issue also tries to explore current implementation status and of Annual Development Programme (ADP), and makes projection thereof.

2. MACROECONOMIC SCENARIO

2.1 GDP

In FY 2010-11, the total amount of GDP in terms of taka was 7874.95 billion (in current market price) in which Tk. 1403.81 billion came from agricultural sector, Tk. 2174.88 billion from industrial sector and Tk. 4037.92 billion from service sector. The target of GDP in FY 2011-12 is Tk. 8996.70 billion in which the contribution of agricultural sector is projected to be Tk. 1506.87 billion, while industrial and service sector might contribute Tk. 2351.10 billion and Tk. 436064 million respectively.

2.1.1 GDP Growth

The government has targeted to achieve the GDP growth rate of seven percent in FY 2011-12 based on assumptions of further improvements in the global and domestic economy and taking into account the expected impacts of reforms initiated in various sectors. In FY 2011-12, according to business usual scenario, the growth rate of GDP might be at 6.82 percent but the MTMF projection is seven percent. The gap between business as usual scenario and MTMF projection might be 18 percentage point. In FY 2010-11, the growth rate of GDP was 6.66 percent that was 59 percentage points more than that of the previous fiscal year. However, in FY 2011-12, the growth rate of GDP might be 6.82 percent that is only 16 percentage points more than that of the previous fiscal year. Moreover, if the government achieves seven percent of targeted GDP growth in the current fiscal year, it will

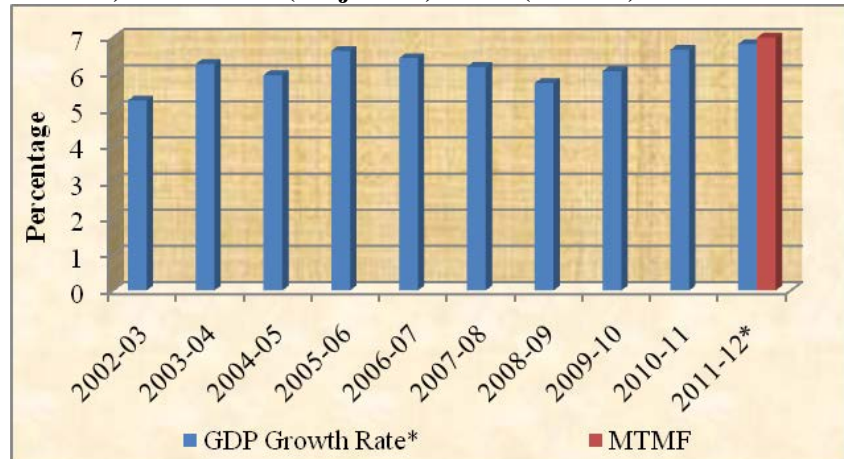
The target of GDP in FY 2011-12 is Tk. 8996.70 billion.

The government has targeted to achieve the GDP growth rate of 7 percent in FY 2011-12.

In FY 2011-12, according to business usual scenario, the growth rate of GDP might be at 6.82 percent but the MTMF projection is 7 percent.

be only 34 percentage points more than that of the FY 2010-11. It means that the increment rate of GDP growth in FY 2011-12 might be lower than the growth of FY 2010-11.

Figure 1: Gap between GDP growth rate (Business as usual scenario) and MTMF (Projection) in FY (2011-12)



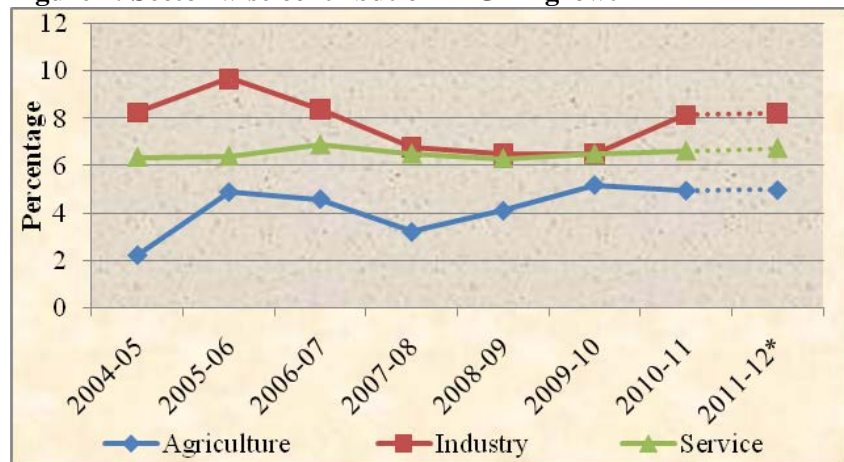
Source: Authors' calculation based on Bangladesh Bank, 2011

In FY 2011-12, the contribution of agriculture, industry and service sector in GDP growth might be at 4.98, 8.23 and 6.75 percent respectively.

2.1.2 Sector Wise Contribution in GDP Growth

In FY 2011-12, the contribution of agriculture, industry and service sector in GDP growth might be at 4.98, 8.23 and 6.75 percent respectively while the contribution of the same sectors in FY 2010-11 were 4.96, 8.16 and 6.63 percent correspondently. The performance of the sectors in GDP growth in 2005-06 was comparatively high which were 4.9, 9.7 and 6.4 percent respectively.

Figure 2: Sector wise contribution in GDP growth



Source: Authors' calculation based on Bangladesh Bank and Bangladesh Bureau of Statistics, 2011

Under the business as usual scenario it is assumed that the contribution of agricultural sector might decrease by 31 percentage points while service sector might increase by 10 percentage points in FY 2011-12.

The contribution of agricultural sector in GDP is following a decreasing trend while the contribution of industrial sector is increasing over the years. In FY 2005-06, the contribution of agricultural, industrial and service sector in GDP was 21.84 percent, 29.03 percent and 49.14 percent in that order which were the highest in last six fiscal years except service sector. However, the contribution of respective sectors in FY 2009-10 was 4.1, 6.5 and 6.3 percent respectively. FY 2010-11 has witnessed a different scenario in the sector-wise performance in GDP growth while the contribution of agricultural sector in GDP was 19.95 percent, industrial sector 30.33 percent and service sector 49.72 percent. Under the business as usual scenario it is assumed that the contribution of agricultural sector might decrease by 31 percentage points while service sector might increase by 10 percentage points in FY 2011-12. The matter of concern is that the contribution of industrial sector in GDP in the last fiscal year had increased by 40 percentage point than that of FY 2009-10 while in the current fiscal year, the contribution of the sector might only increase by 22 percentage points.

In FY 2011-12, savings as percentage of GDP and investment as percentage of GDP is targeted at 28.90 and 24.86 percent respectively.

2.2 Savings and Investment

The target of the government is to stimulate GDP growth rate at 8 percent by 2013 where the share of investment to GDP is required at 35-40 percent. GDP growth rate was 6.66 percent in FY 2010-11 with 28.40 percent of savings and 24.73 percent of investment. In FY 2011-12, the targeted GDP growth rate is seven percent, whereas savings as percentage of GDP and investment as percentage of GDP is targeted at 28.90 and 24.86 percent respectively.

National savings stood at Tk. 2236.5 billion in FY 2010-11, which was 7.32 percent higher than that of FY 2009-10. National savings as percent of GDP dropped down from 30.02 percent in FY 2009-10 to 28.40 percent in FY 2010-11 due to the current higher inflationary situation, which influences people to save less.

Under the business as usual scenario, total investment and national savings in FY 2011-12 might reach at Tk. 2079.5 billion and Tk. 2396.1 billion respectively.

Total investment in FY 2010-11 had experienced Tk. 1947.9 billion, which was 14.91 percent higher than that of FY 2009-10. Moreover, investment as percent of GDP is increasing but at a slower rate because of poor infrastructural condition, high inflation and upward trend of interest rate. Under the business as usual scenario, total investment and national savings in FY 2011-12 might reach at Tk. 2079.5 billion and Tk. 2396.1 billion respectively, which is 6.76 percent and 7.13 percent higher than those of FY 2010-11.

Under the business as usual scenario, this gap between national savings and investment might increase at Tk. 316.7 billion in FY 2011-12.

The continuous trend suggests that private savings and private investment as percent of GDP might be 18.38 and 19.77 percent respectively in FY 2011-12.

According to the optimistic scenario, the public savings might increase to 1.35 percent and investment might decrease to 5.19 percent in FY 2011-12.

In November 2011-12, general inflation rate is 10.51 percent while it was 8.14 percent in November 2010-11.

The gap between national savings and investment has been increasing after the FY 2001-02. In FY 2001-02, the gap was Tk. 8 billion while it sky rocketed at Tk. 388.9 billion in FY 2009-10. But in FY 2010-11, the gap between savings and investment reduced by Tk. 100.30 billion and stood at Tk. 288.6 billion which was 25.80 percent lower than that of FY 2009-10 due to the increase in both savings and investment. Under the business as usual scenario, this gap might increase at Tk. 316.7 billion in FY 2011-12 which might be 9.74 percent higher than that of FY 2010-11.

Private savings as percent of GDP is decreasing over the years. In FY 2001-02, it was 17.05 percent while it was top of the table in FY 2007-08 at 18.96 percent. Later it continued to fall and in FY 2010-11, it declined to 18.26 percent. However, private investment as percent of GDP is increasing over the years but at a very slower rate. In FY 2008-09, private investment was 19.70 percent and in FY 2010-11, it reached at 19.50 percent. This continuous trend suggests that private savings and private investment as percent of GDP might be 18.38 and 19.77 percent respectively in FY 2011-12.

Public savings and public investment followed an irregular trend over the years. Public savings and public investment were 1.33 percent and 5.3 percent respectively in FY 2010-11. According to the optimistic scenario, the public savings might increase to 1.35 percent and investment might decrease to 5.19 percent in FY 2011-12.

2.3 Inflation Rate

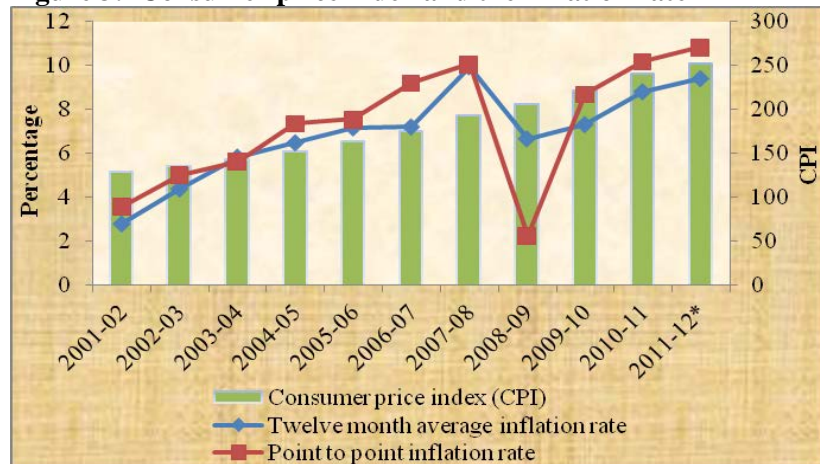
For achieving the targeted GDP growth rate, containing the rate of inflation at a tolerable limit is a prerequisite. In FY 2011-12, the government has targeted the rate of inflation at 7.5 percent while it was 8.8 percent in FY 2010-11 and 7.31 percent in FY 2009-10. In November 2011, general inflation rate is 10.51 percent while it was 8.14 percent in November 2010.

In FY 2001-02, the rate of general inflation (12-month average) was 2.79 percent and point-to-point was 3.58 percent while consumer price index (CPI) was at 130.26. The rate of inflation continued to increase further in the next fiscal years. In FY 2007-08, the rate of general inflation (12-month average) was higher at 9.94 percent and the rate of point-to-point inflation was 10.04 percent. But in FY 2008-09, the rate of point to point inflation followed a huge decline and dropped down to 2.25 percent as well as general inflation declined to 6.66 percent.

Under the business as usual scenario, by the end of FY 2011-12, the rate of inflation (12-month average), point to point inflation and CPI might increase to 9.41, 10.83 and 252.10 percent respectively.

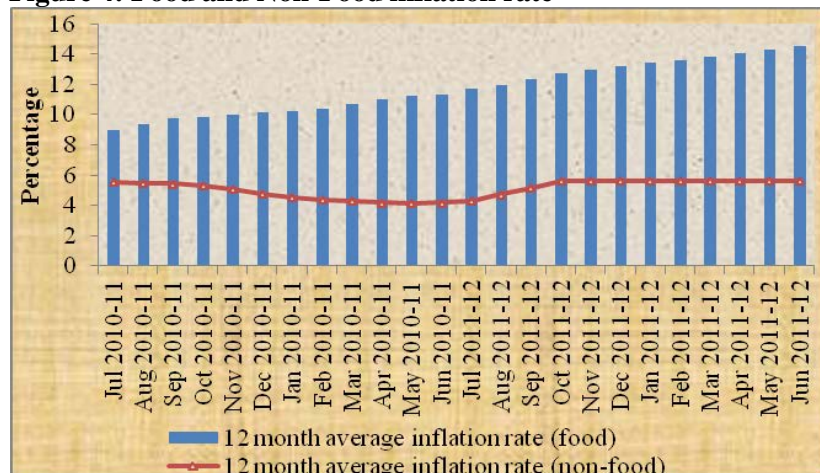
In FY 2010-11, the rate of point to point inflation experienced a higher level at 10.17 percent while CPI reached at 241.02. Under the business as usual scenario, by the end of FY 2011-12, the rate of inflation (12-month average), point to point inflation and CPI might increase to 9.41, 10.83 and 252.10 percent respectively, which is a matter of grave concern for the economy. Therefore, it would be challenging to uphold the overall inflation rate at 7.5 percent in FY 2011-12 as an increase in the government borrowing from the central bank and other sources also contributed to soaring inflation.

Figure 3: Consumer price index and the inflation rate



Source: Authors' calculations based on Bangladesh Bank and Bangladesh Bureau of Statistics, 2011

Figure 4: Food and Non-Food inflation rate



Source: Authors' calculations based on Bangladesh Bank, 2011

Monthly data of food and non-food inflation reveals that food inflation is increasing more rapidly than the non-food inflation. Increase in the global food and oil prices often leads to higher

domestic retail prices due to increase in cost of production and overall prices. Moreover, fuel price hike by three times in the current fiscal boosted the food inflation to rise further.

Continuation of the current trend suggests that the rate of food inflation might increase to 14.54 percent by the end of FY 2011-12.

The annual average rate of food inflation is increasing over the months. The rate of food inflation on point to point basis has also increased from 12.82 percent in October 2011 to 12.47 percent in November 2011. At the end of the last fiscal year, food inflation was 11.34 percent while the continuation of the current trend suggests that the rate of food inflation might increase to 14.54 percent by the end of FY 2011-12.

Under the business as usual scenario, the rate of non-food inflation might reach at 5.60 percent at the last month of current fiscal year.

The rate of non-food inflation declined from August, 2010-11 to May 2010-11, but later followed an increasing trend with slower pace. Non-food inflation was 5.54 percent in July 2010-11 while 4.29 percent was in July 2011-12. In October 2011-12, the non-food inflation, 12-month average and point to point, has reached at 5.58 and 9.05 percent. However, non-food inflation is 4.93 percent during July-October, 2011-12 while 5.43 percent observed during July-October 2010-11. Under the business as usual scenario, the rate of non-food inflation might reach at 5.60 percent at the last month of current fiscal year while it was 4.15 percent in the same month of FY 2010-11.

The higher rate of food inflation increases general inflation and makes the economy unstable.

2.4 Trade Balance

2.4.1 Import and Export

In FY 2011-12, import payments and export earnings are estimated at USD 35400 million and 25700 million respectively.

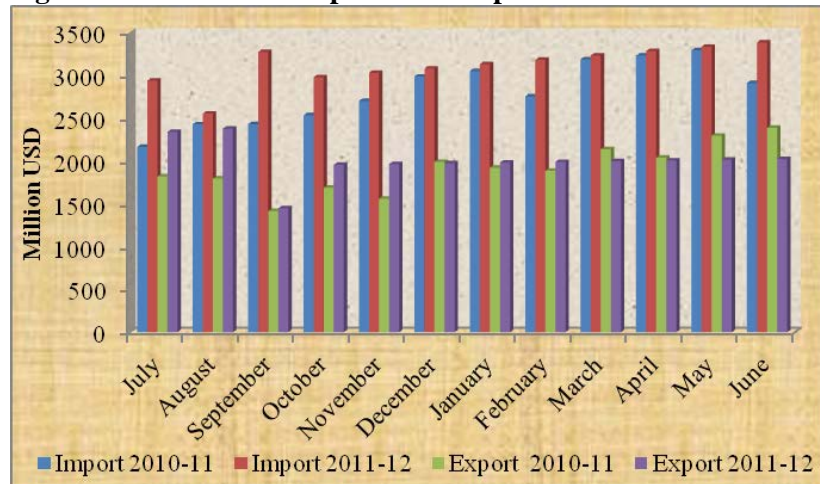
An increasing trend has been observed in import payments and export earnings over the years. In FY 2011-12, import payments and export earnings are estimated by the government at USD 35400 million and 25700 million respectively. However, in 2010-11, import payments was USD 33660 million and export earnings was USD 22930 million.

Import payments in September 2011 stood at USD 3271.8 million that is USD 719 million or 28.17 percent higher than that of August 2011 (USD 2552.8). However, an import payment of September 2011 was 34.66 percent higher than that of September 2010. Import payments during July to October 2011-12 is USD 11739.4 million which has increased by USD 2185.4 million or 22.87 percent as compared to USD 9554 million during July to

At the end of this fiscal year, import bills might reach at USD 3383.2 million, which is 16.25 percent than that of June 2010.

October 2010-11. In the current fiscal year, import bills are increasing due to the payments for petroleum import, capital machineries and industrial raw materials. Under the business as usual scenario, import bills might increase in the upcoming months. In December 2011, import payments might reach at USD 3078.55 million, which is 3.15 percent than that of December, 2010. At the end of this fiscal year, import bills might reach at USD 3383.2 million, which is 16.25 percent than that of June 2010.

Figure 5: Condition of Exports and Imports over the months



Source: Authors' calculations based on Bangladesh Bank, 2011

At the beginning of FY 2011-12, export earnings was USD 2339.52 million in July 2011 while it was USD 1818.75 million in July 2010. Export earnings in September 2011 was USD 1447.47 million which was 19.37 percent lower than that of August, 2011 because of the fluctuations of exchange rates and increase in the inflation rate. In November, 2011 export earnings is USD 1591.24 million which is 18.60 percent lower than that of October 2011.

Continuation of current trend might witness export earnings at USD 1497.56 million at the end of FY 2011-12.

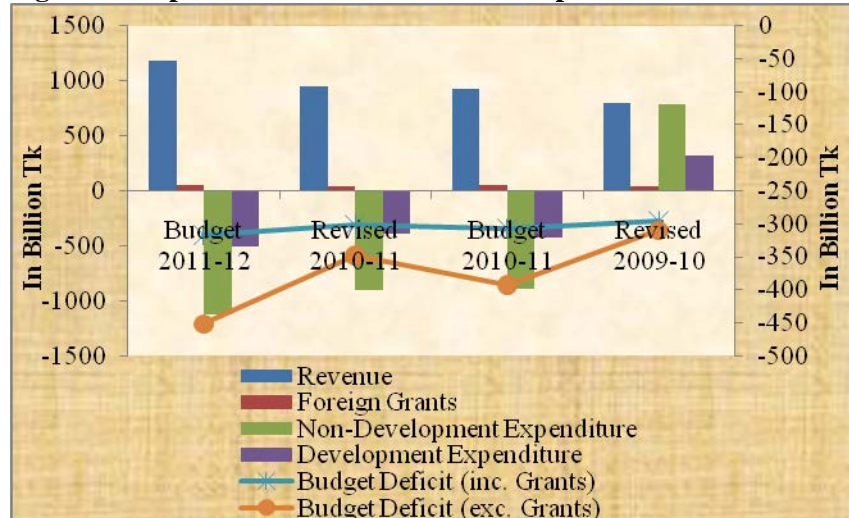
Total export earnings during July-November, 2011-12 was USD 9709.77 million, which has increased by USD 1433.54 million or 17.32 percent as compared to USD 8276.23 million in July-November 2010-11. Continuation of current trend might witness export earnings at USD 1497.56 million at the end of FY 2011-12, which might be 5.00 percent lower than that of November 2011-12 and also 37.00 percent lower than that of June 2010-11.

2.5 Budget Deficit

In FY 2011-12, total revenue and foreign grants is estimated at Tk. 1233.23 billion that is 24 percent higher than that of the

previous fiscal year in which total revenue is Tk. 1183.85 billion and foreign grants is Tk. 89.38 billion.

Figure 6: Gap between total revenue and expenditure

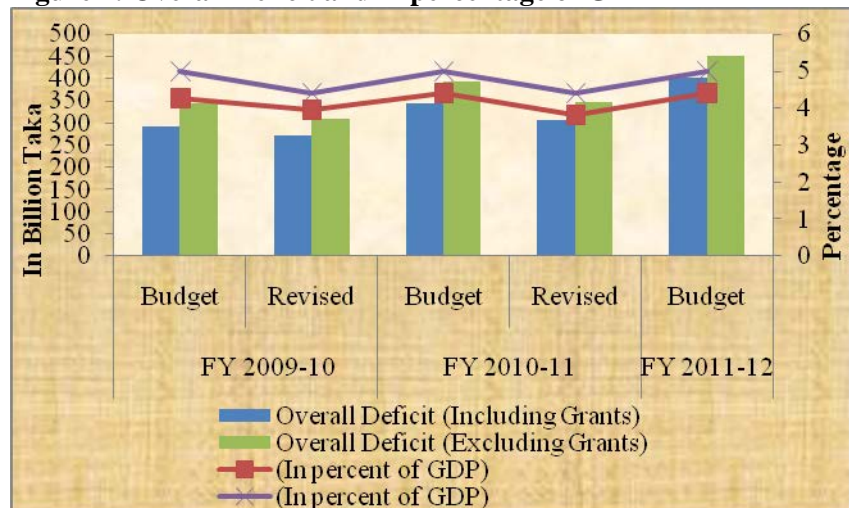


Source: Finance Division, 2011

The government has estimated the total revenue collection at Tk. 1183.85 billion in FY 2011-12.

The government has estimated total revenue collection at Tk. 1183.85 billion in FY 2011-12 against Tk. 951.87 billion of the revised budget of FY 2010-11. The tax collection from NBR sources is estimated at Tk. 918.7 billion in FY 2011-12 that is about 21.52 percent higher than that of the collection of the previous fiscal year. The revenue expenditure in FY 2011-12 is estimated at Tk. 1635.89 billion. The total expenditure for development sectors is estimated at Tk. 506.42 billion and Tk. 1129.56 billion for non-development sectors in FY 2011-12.

Figure 7: Overall Deficit and in percentage of GDP



Source: Authors' calculation based on Ministry of finance, Bangladesh Bank, 2011

The overall budget deficit (excluding grants) in FY 2011-12 is estimated at Tk. 452.04 billion which is 5 percent of GDP and is 14.96 percent higher than that of FY 2010-11.

In FY 2011-12, the overall public debt/borrowing has been estimated at Tk. 402.66 billion.

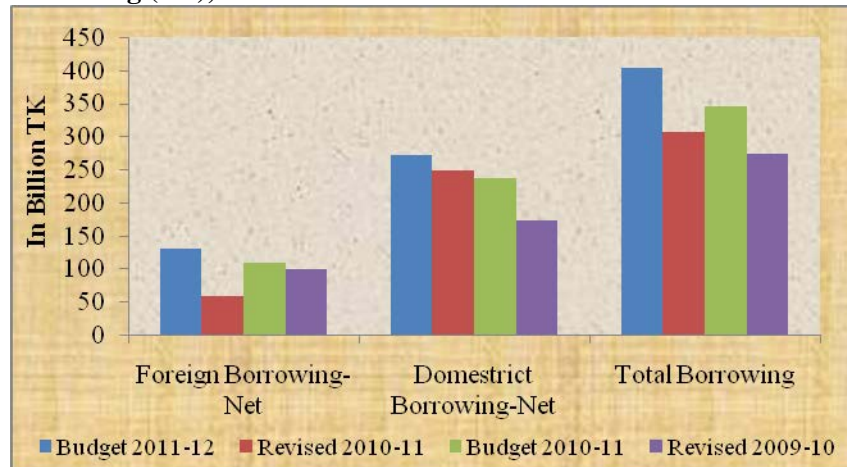
In FY 2011-12, net foreign and domestic borrowing has been projected at Tk. 130.58 billion and Tk. 272.08 billion respectively.

The overall budget deficit (excluding grants) in FY 2011-12 is estimated at Tk. 452.04 billion which is 5 percent of GDP and is 14.96 percent higher than that of FY 2010-11 and 31.57 percent higher than that of FY 2009-10. Considering the inclusion of grants in FY 2011-12, the overall budget deficit is estimated at Tk. 402.66 billion which is 4.4 percent of GDP and is 16.67 percent higher than that of the past fiscal year and 37.77 percent higher than that of FY 2010-11.

2.6 Public Debt

In FY 2011-12, the overall public debt/borrowing has been estimated at Tk. 402.66 billion which is 31.59 percent higher than that of the revised budget of FY 2010-11 and 47.50 percent higher than that of the revised budget of FY 2009-10. The share of domestic borrowing and foreign borrowing has been estimated at Tk. 272.08 billion and Tk. 130.58 billion respectively in current fiscal year, which are 67.57 and 32.43 percent of the total borrowing. Moreover, in FY 2011-12, net foreign and domestic borrowing have been projected at Tk.130.58 billion and Tk. 272.08 billion respectively, which are 125.79 and 9.63 percent higher than those of FY 2010-11.

Figure 8: Total borrowing, foreign borrowing (net) and domestic borrowing (net), over the FY2009-10 to FY 2011-12



Source: Finance Division, 2011

2.7 Deficit financing and Debt Management

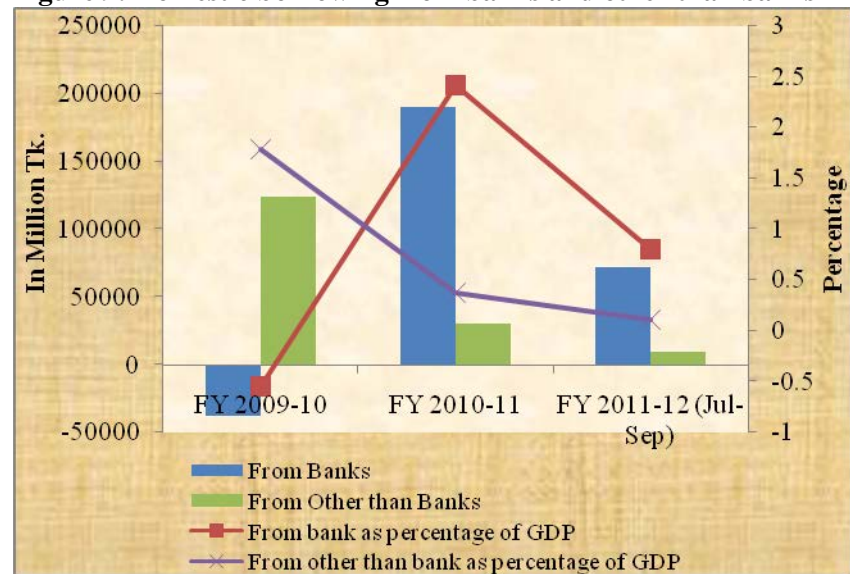
There are two sources of deficit financing: internal and external debt. The government has become more dependent on banking sectors other than non-banking ones for domestic financing over the time. Over the past few years, the overall budget deficit registered an increasing trend that put a serious pressure on the total debt of the country.

Total estimation of government borrowing from domestic sources in FY 2011-12 is Tk. 272.08 billion which is 23.26 percent higher than that of FY 2010-11.

2.7.1 Government Domestic Borrowing (net)

Continuation of current trend might result into an increasing movement in domestic debt. Total estimation of government borrowing from domestic sources in FY 2011-12 is Tk. 272.08 billion which is 23.26 percent higher than that of FY 2010-11 and 275.47 percent higher than that of FY 2001-02. In FY 2011-12, the government has estimated to borrow 68 percent higher from banking sectors in comparison to that of FY 2008-09 indicating a sharp crowding out effect which has dampened private investments. The government borrowing from banking sector in FY 2011-12 (up to September, 2011) is Tk. 72.28 billion which is 0.8 percent of GDP. Government borrowing from the banking system outstanding as on 30 September 2011 is Tk. 806.65 billion which was Tk. 768.25 billion outstanding as on 31 August 2011. The government borrowing from non-banking sector in FY 2011-12 (July to September, 2011) is Tk.10.00 billion that was Tk. 17.410 billion in FY 2010-11. Government domestic borrowing from banking sector in FY 2011-12 (July-September, 2011) is 622.57 percent higher than borrowing from non-banking sector.

Figure 9: Domestic borrowing from banks and other than banks



Source: Bangladesh Bank, 2011

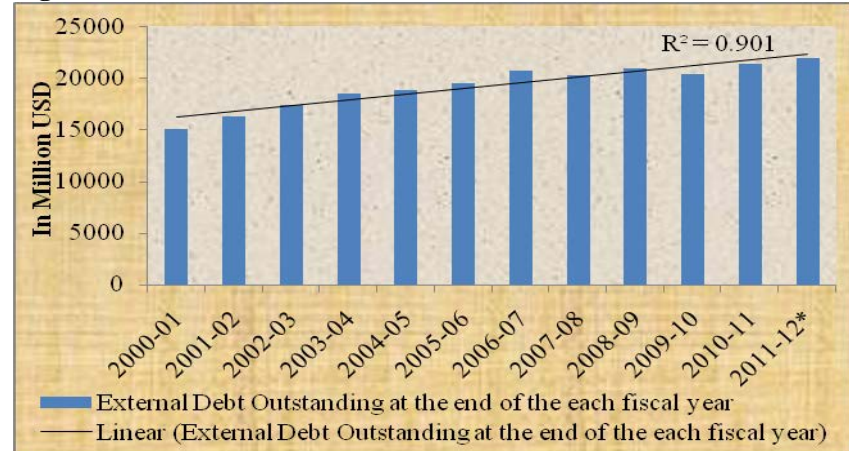
In FY 2011-12, the amount of external debt might amount USD 21879.5 million.

2.7.2 Government Borrowing from External Sources

Total external debt in FY 2010-11 was to USD 21347.44 million while in FY 1972-73 it was only USD 65 million. Over the time, the amount of external debt has been increasing at a higher rate and therefore in FY 1989-90, the amount has reached to USD 1069 million, incurring a growth of additional USD 55 million each year. If the current trend continues, there might be

an increasing trend of external debt in forthcoming years. In FY 2011-12, the amount of external debt might amount USD 21879.5 million.

Figure 10: External Debt scenario



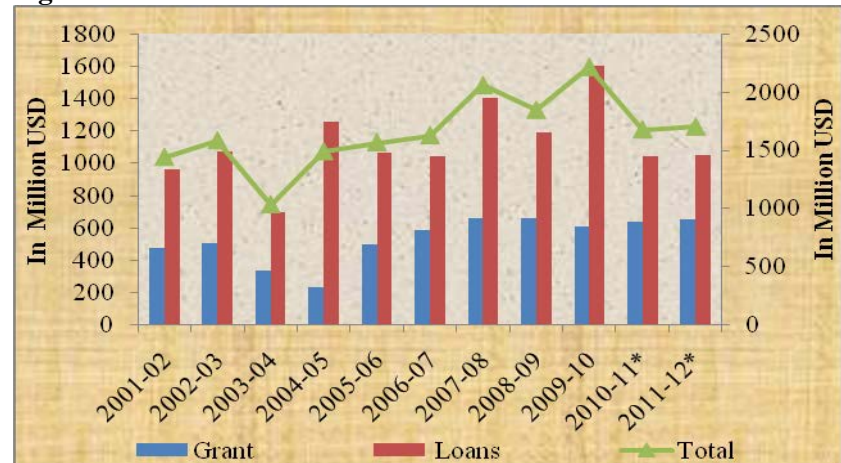
Source: Authors' calculation based on ERD, Ministry of Finance, 2011

A total of USD 1702.612 million, both loans and grants, might be disbursed in FY 2011-12 in which the amount of grants might be USD 653.02 million while foreign loan would be USD 1049.592 million.

2.7.3 Disbursement of Loans and Grants

External disbursement of loans and grants in April 2011 was USD 1,399 million in which USD 531 million was grant and USD 868 million was foreign loans respectively. In FY 2001-02, total disbursement was only USD 1442 million whereas in FY 2003-04, it was the lowest at USD 1033 million. Moreover, in FY 2009-10, it has risen to USD 2217 million that was 114 percent higher than that of FY 2003-04. If the current trend continues, a total of USD 1702.612 million, both loans and grants, might be disbursed in FY 2011-12 in which the amount of grants might be USD 653.02 million while foreign loan would be USD 1049.592 million.

Figure 11: External Disbursement of Loans and Grants



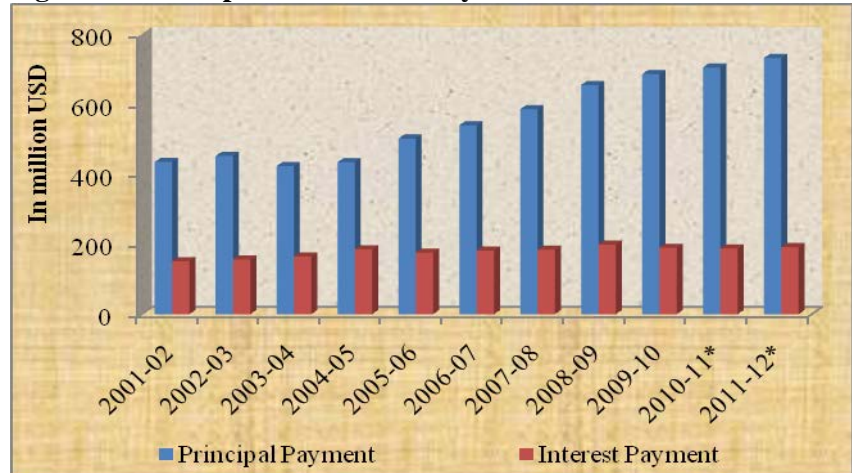
Source: Authors' calculation based on ERD, Ministry of Finance, 2011

2.7.4 Principal and Interest Payment

Total payment in April 2011 amounts USD 744 million in which USD 588 million was principal payment and USD 157 million was interest payment. Both principal and interest payment have risen at a much higher rate during the 1990s. In FY 2001-02, the principal and interest payments were USD 435 million and USD 151 million respectively. Under the business as usual scenario, in FY 2011-12, total payments might stand at USD 923.71 million, which is 3 percent higher than that of the previous fiscal year. In the current fiscal year, principle payments might reach at USD 705.15 million and interest payment at USD 191.54 million, which are 80 and 20 percent of total payment.

Under the business as usual scenario, in FY 2011-12, total payments might stand at USD 923.71 million.

Figure 12: Principal and Interest Payment



Source: Authors' calculation based on ERD, Ministry of Finance, 2011

2.7.5 Net Foreign Aid Flow

Total aid disbursements during July-October of FY 2011-12 stood at USD 340.86 million compared to USD 443.25 million of the same period of FY 2010-11. In addition, net foreign aid receipts during July-October of FY 2011-12 also stood lower at USD 80.54 million, against USD 216.47 million during July-October of FY 2010-11. In FY 2010-11, total foreign aid amounts USD 1,777.33 million, which was USD 387.12 million less than that of the previous fiscal year. Total foreign aid might reach at USD 1800.565 million by the end of the current fiscal year that is only 1 percent higher than that of FY 2010-11.

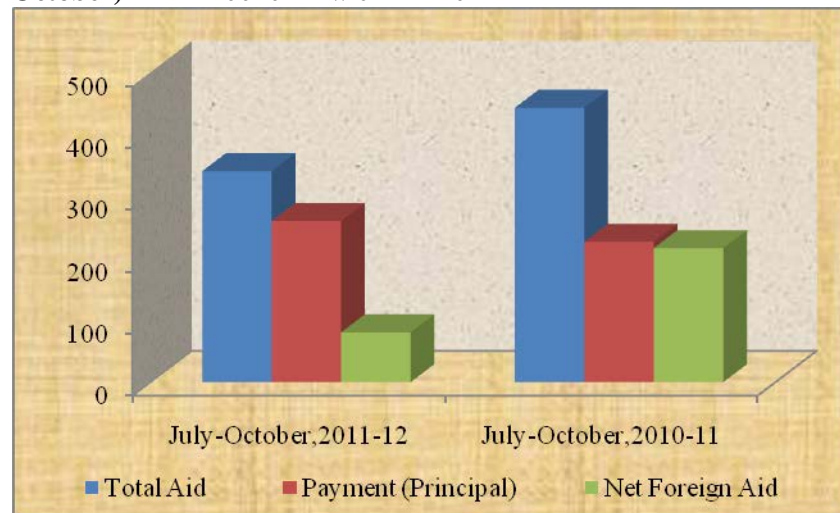
Total foreign aid might reach at USD 1800.565 million by the end of the current fiscal year that is only 1 percent higher than that of FY 2010-11.

In April 2011 the flow of net foreign aid after principal payment was USD 811 million and after both principal and interest payment was USD 655 million. In the last ten years, there is not much volatility witnessed in net foreign aid. Though total aid has been increasing over the time and in the meantime payment of

Under the business as usual scenario, by June 2012, the amount of total aid and payment (principal) might stand at USD 79.43 million and USD 124.37 million.

principal has also been increasing, makes a lesser net foreign aid. Net foreign financing during July-December of FY 2010-11 had decreased in comparison to the corresponding period of previous year. The amount of both foreign grant and aid decreased due to lower utilisation. Under the business as usual scenario, by June 2012, the amount of total aid and payment (principal) might stand at USD 79.43 million and USD 124.37 million while net foreign aid might see a shortfall of USD 44.94 million.

Figure 13: Comparison the Flow of Net Foreign Aid (July-October) in FY 2010-11 with FY 2011-12



Source: Bangladesh Bank, 2011

If the current trend prevails, at the end of this fiscal year, total tax revenue might amount at Tk. 824.53 billion against the government targeted of Tk. 957.85 billion indicating a gap of Tk. 133.32 billion.

2.8 Public Finance Balance

In the budget of FY 2011-12, the government has targeted to collect total revenue of Tk. 1183.85 billion which is 13 percent of the total GDP. The National Board of Revenue (NBR) has to collect Tk. 918.70 billion in the FY 2011-12 which is 77 percent of the total targeted revenue. However, the collection was 78 percent of total targeted revenue in FY 2010-11. In August 2011, the collection of total tax revenue is Tk. 61.06 billion that is 7 percent higher than that of the collection of August 2010, among which NBR tax revenue is Tk. 58.82 billion and non-NBR tax revenue is Tk. 2.23 billion. If the current trend prevails, at the end of this fiscal year, total tax revenue might amount at Tk. 824.53 billion against the government target of Tk. 957.85 billion indicating a gap of Tk. 133.32 billion.

2.9 Tax

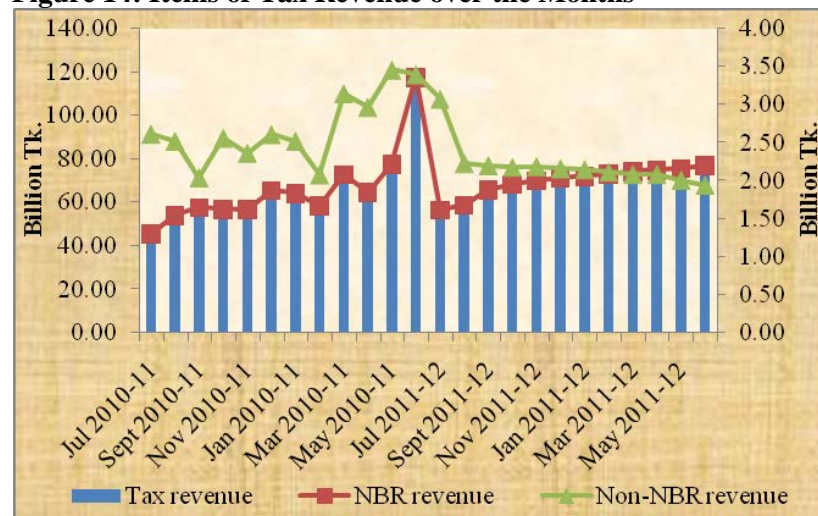
Revenue is the essential element to manage the government's fiscal budget. It is a better way to finance the budget deficit than

Under the business as usual scenario, total tax revenue, NBR and non-NBR revenue might increase at Tk. 78.86 billion, Tk. 76.86 billion and Tk. 1.94 billion respectively in June 2011-12.

the borrowings from any other sources. In FY 2011-12, total targeted revenue is Tk. 1183.85 billion which is 27.51 percent higher than that of the preceding fiscal year. Moreover, the targets of tax and non-tax revenue are set at Tk. 957.85 billion and Tk. 226.00 billion respectively in FY 2011-12. NBR and non-NBR revenue are proposed at Tk. 918.7 billion and Tk. 39.15 billion respectively in FY 2011-12, while in FY 2010-11, the contribution of NBR and non-NBR were Tk. 790.91 billion and Tk. 32.2936 billion respectively. In FY 2010-11, the collection of total revenue, tax revenue and non-tax revenue was Tk. 984.57 billion, Tk. 823.21 billion and Tk. 161.36 billion correspondingly.

In August 2011, the collection of total tax revenue has increased by 2.63 percent than that of July, 2011 and 7.77 percent than that of August 2010. Total tax revenue was the highest in two consecutive fiscal years in June 2010-11, which was Tk. 40.01 billion more or 49.70 percent higher than that of May 2010. However, a declined trend is witnessed in July while total tax revenue has declined by 50.92 percent than that of June 2010.

Figure 14: Items of Tax Revenue over the Months



Tk. 2.20 billion which is 1.35 percent lower than that of August 2011 but 7.84 percent higher than that of September 2010.

NBR revenue might reach at Tk. 862.52 billion and non-NBR revenue at Tk. 26.33 billion in FY 2011-12.

Under the business as usual scenario, total tax revenue, NBR and non-NBR revenue might increase at Tk. 78.86 billion, Tk. 76.86 billion and Tk. 1.94 billion respectively in June 2011-12. Continuation of current trend suggests that total tax collection in FY 2011-12 might reach at Tk. 862.83 billion, which might be Tk. 95.02 billion or 9.92 percent less than that of the targeted tax collection of FY 2011-12. However, NBR revenue might reach at Tk. 862.52 billion and non-NBR revenue at Tk. 26.33 billion in FY 2011-12, which is Tk. 56.18 billion and Tk. 12.71 billion respectively less than that of the targeted level of the current fiscal year.

2.10 Remittance

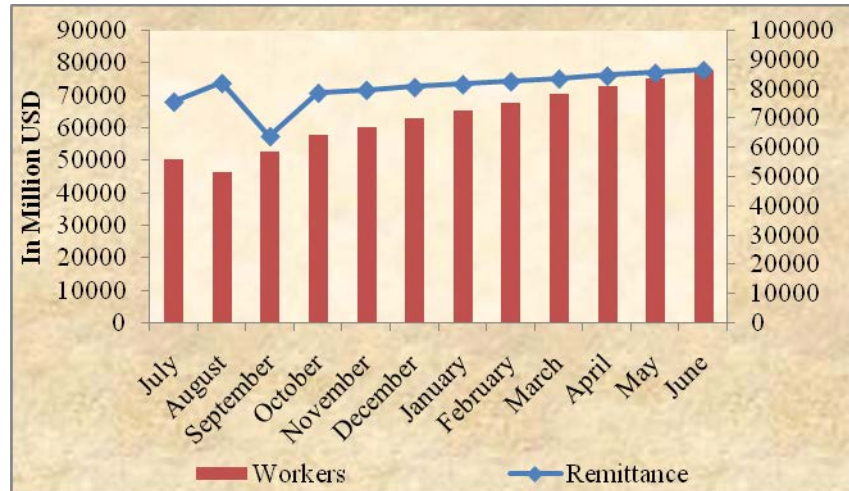
The receipt of remittances during July-November 2011 is USD 4927.74 million which is USD 346.31 million or 7 percent higher than that of the same period of FY 2010-11 while the amount of total receipt of remittance was USD 4581.43 million in that year.

2.10.1 Number of Persons Left for Abroad on Employment and Total Workers Remittance

Under the business as usual scenario, by the end of this fiscal year, earnings from remittance might reach at USD 1094.63 million and expatriates going abroad might stand at 77866.4 persons.

At the beginning of FY 2010-11, the total number of expatriates went abroad amounts to 28347 and remittance earning was USD 857.31 million while a total of 50307 expatriates went abroad at the same period of FY 2011-12 and total earnings from remittance totals USD 1015.58 million. If the first quarter of the three successive fiscal years is compared, total remittance earning amounts to USD 4012.29 million which is 11.98 percent higher than that of FY 2010-11 and 11.18 percent higher than that of FY 2009-10. Earnings from remittance in the first two months of the current fiscal year were in a satisfactory level that was USD 1015.58 million and USD 1101.79 million in July and August 2011. Though this flow becomes lower in September, it picks up again in October. In October 2011, remittance earning was USD 1039.48 million, which was correspondently 12.51 percent and 15.41 percent higher than those of FY 2010-11 and FY 2009-10. In the first quarter of FY 2011-12 total 207563 expatriates went abroad which is 70.91 percent higher than that of FY 2010-11 and 37.84 percent higher than FY 2009-10. Under the business as usual scenario, by the end of this fiscal year, earnings from remittance might reach at USD 1094.63 million.

Figure 15: Number of employment and workers' remittance in FY 2011-12

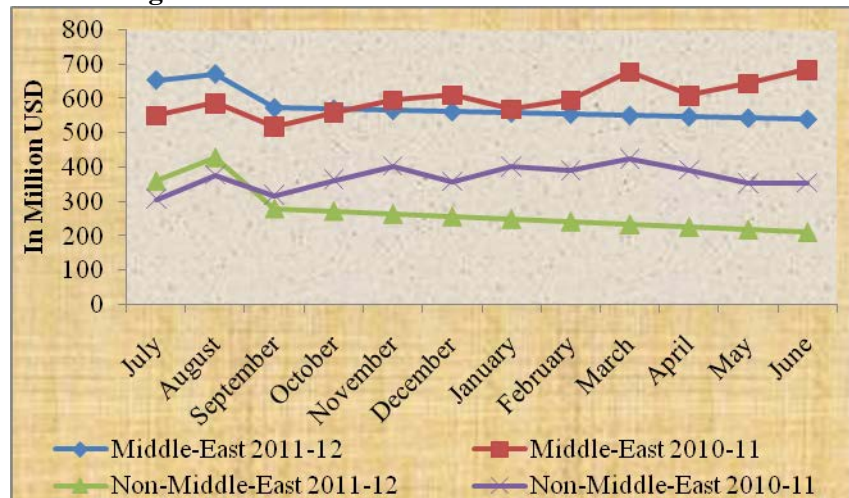


Source: Authors' calculation based on Bangladesh Bank, 2011

2.10.2 Region Wise Remittance Flow

In the first three month of FY 2011-12, total earning of remittance from Middle-Eastern region amounts to USD 1904.99 million which in FY 2010-11 was USD 1657.55 million. During the same period of FY 2011-12, total earning from remittance from non-Middle-Eastern region totals USD 1067.81 million while it was USD 1001.39 million in FY 2010-11. Continuation of the prevailing trend may witness total earnings of USD 541.93 million from Middle-Eastern countries and USD 211.22 million from non-Middle-Eastern countries by the end of the current fiscal year.

Figure 16: Comparison between Middle-Eastern and non Middle-Eastern Region

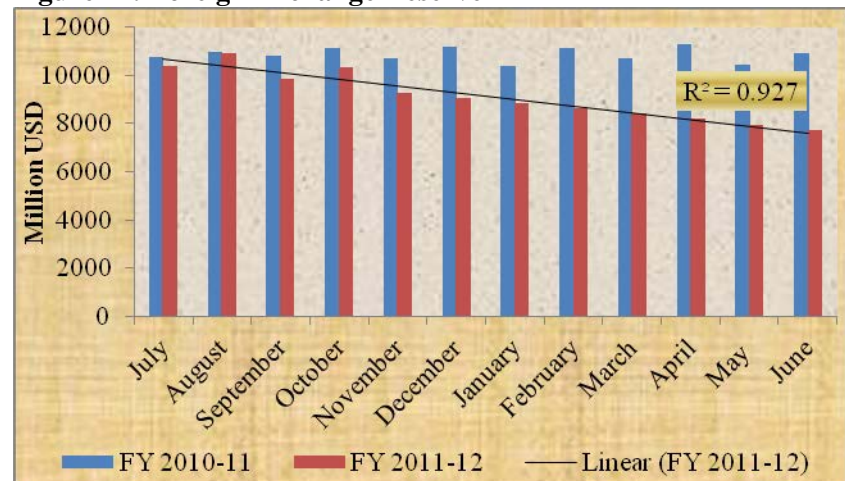


Source: Authors' calculation based on Bangladesh Bank, 2011

2.11 Foreign Exchange Reserve

The foreign exchange reserves are essential for paying the import bills and to repay the foreign debts. The gross foreign exchange reserves are declining over the years. It has declined to USD 9285.20 million in November 2011-12 from USD 10338.3 million in October 2011-12, the lowest ever in the last 12 months. This is lowered by USD 1461.42 million or 13.66 percent than that of November 2010-11. This foreign exchange reserves has declined mainly due to the payments of the petroleum and imports of different capital machineries and increase in budget deficit and debt. According to the Bangladesh Bank, foreign exchange reserves were highest in December 2010 at USD 11174.4 million.

Figure 17: Foreign Exchange Reserve



Source: Authors' calculation based on Bangladesh Bank, 2011

Moreover, a general concept is that it is required to have a total of three months import bills as reserve which is USD 9 billion but International Monetary Fund (IMF) suggests that reserve of four months import bills is a prerequisite. The existing reserves are slightly over the total cost of the import bill of three months.

Continuation of trend from July 2011 to November 2011 suggests that reserve might reach at USD 7750.66 million in June 2011-12, which is 8.97 percent less than that of June 2010-11.

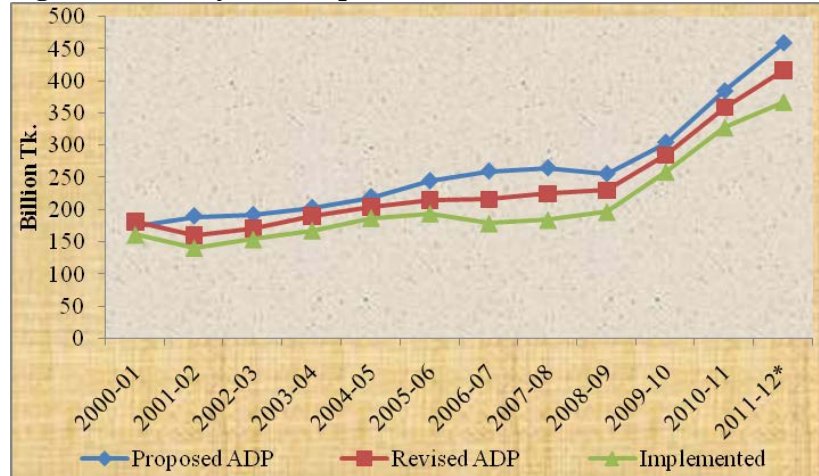
Under the Business as usual scenario, (by using the data of July 2010-November 2011) reserve might reach at USD 8682.38 million in the last month of the current fiscal year that is 20.43 percent lower than that of July 2010-11. However, the continuation of trend from July 2011 to November 2011 suggests that reserve might reach at USD 7750.66 million in June 2011-12, which is 8.97 percent less than that of June 2010-11.

The Annual Development Programme (ADP) for FY 2011-12 has been projected at Tk. 460 billion as 5.1 percent of the GDP.

2.12 ADP Implementation

The Annual Development Programme (ADP) for FY 2011-12 has been projected at Tk. 460 billion as 5.1 percent of the GDP. This is 19.00 percent higher than the proposed ADP and 28.00 percent higher than the revised ADP of FY 2010-11.

Figure 18: Yearly ADP implementation status



Source: Authors' calculations based on Ministry of Finance, Implementation Monitoring and Evaluation Division, 2011

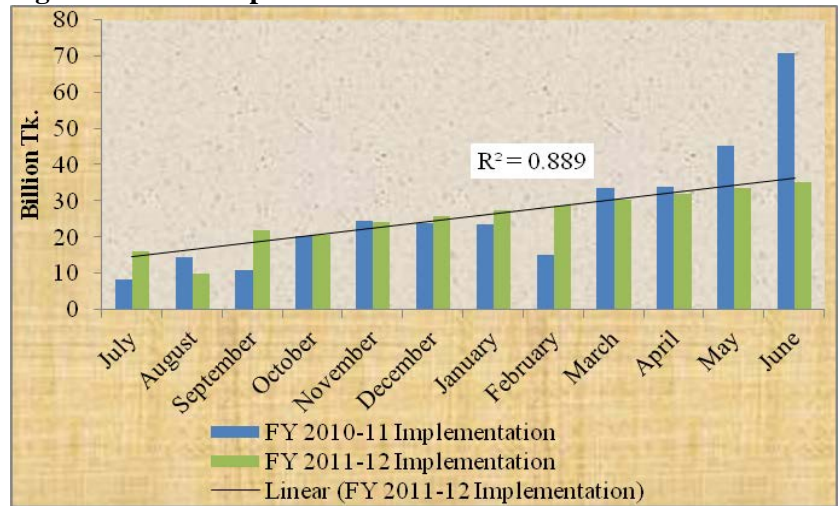
During FY 2000-01 to 2005-06, the average implementation as percentage of revised ADP was 89.61 percent and then it lowered in the next two fiscal years. In FY 2010-11, implementation of ADP was Tk. 328.3 billion, which is 26.00 percent higher than that of FY 2009-10. Implementations as percent of proposed and revised ADP were 85.27 percent and 91.50 percent respectively in FY 2010-11.

In the first eight months of FY 2010-11, only 39.49 percent of the revised ADP was implemented while the highest implementation took place in the last four months, which was around 52 percent out of a total implementation of 90.82 percent.

Continuation of monthly data trend suggests that only 66.73 percent of ADP might be implemented in FY 2011-12 and persistence of the yearly data trend suggests that about 88.35 percent of the ADP might be implemented.

In the first five months of the current fiscal year, implementation as percentage of ADP was around 21 percent. Continuation of monthly trend suggests that only 66.73 percent of ADP might be implemented in FY 2011-12 and the yearly trend suggests that about 88.35 percent of the ADP might be implemented by the end of the current fiscal year. Under the business as usual scenario, implementation of ADP might attain Tk. 35.28 billion in the last month of this FY 2011-12, which might be 50.00 percent lower than that of June 2010-11.

Figure 19: ADP Implementations over the months

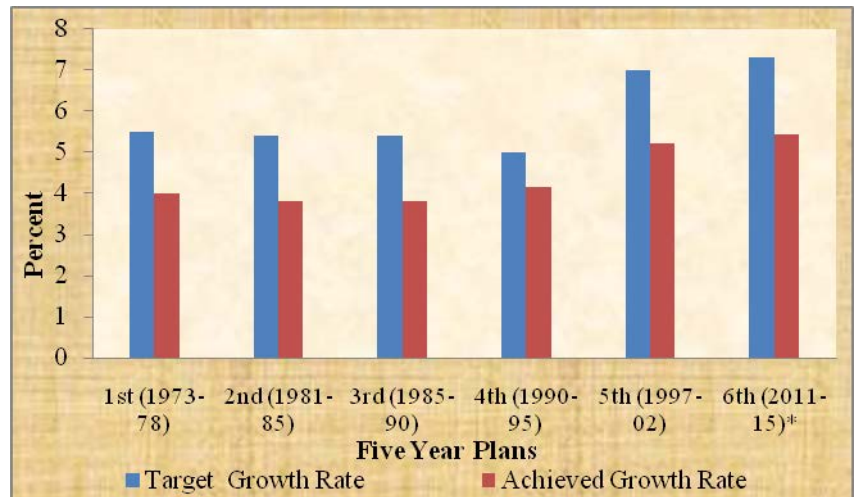


Source: Authors' calculations based on Implementation Monitoring and Evaluation Division, Ministry of Finance, 2011

3. REAL SECTOR SCENARIO

Different governments have taken six five year plans after the independence mainly emphasizing on the acceleration of economic growth, poverty alleviation and employment generation.

Figure 20: Difference between target and achieve growth rate in Five Year Plan



Source: Authors' calculation based on Five-Year Plans, Planning Commission, 2011

The growth performance during previous five year plans was not up to the mark considering the achievement of targeted growth rate.

Under the business as usual scenario, the average annual growth rate of 5.45 percent might be achieved by the end of Sixth Five Year Plan against the targeted growth rate of 7.3 percent.

In the Fifth Five Year Plan (1997-2002), the average annual growth rate was 5.21 percent against the targeted growth rate of 7 percent. Under the business as usual scenario, the average annual growth rate of 5.45 percent might be achieved by the end of Sixth Five Year Plan against the targeted growth rate of 7.3 percent. Therefore, the year gap between targeted and achieved growth rate might increase further in the upcoming years while the main objectives of the plans may remain far behind.

3.1 Agriculture

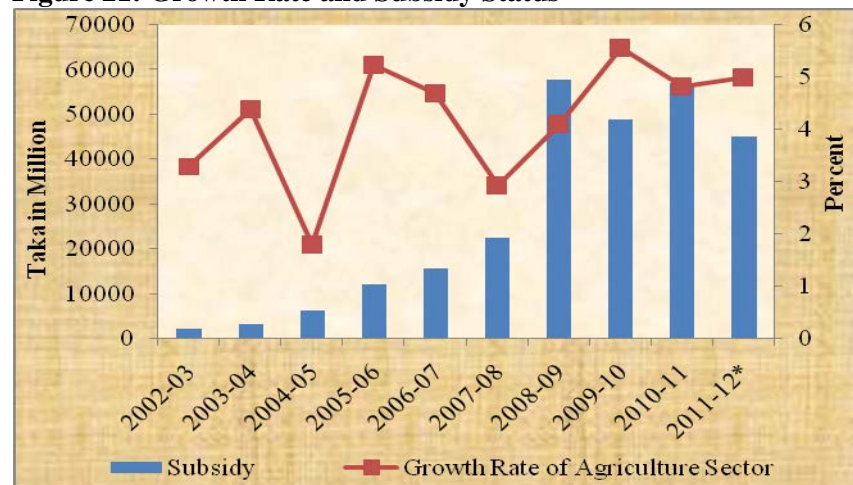
The sector of agriculture is one of the driving forces of the economy and the life-blood of rural economy. A large population is depended on the sector of agriculture not only because of food but also because of livelihood options. Therefore, any change in agriculture sector affects the livelihood of mass people both directly and indirectly. Nevertheless, total employment of agriculture has decreased from 48.10 percent in 2005 to 43.53 percent in 2009 although it remained the highest source of employment (MES, 2009). The target of current government is to increase food production and ensure food security with keeping the price of agriculture inputs like fertiliser, seed, fuel etc. at a reasonable level. However, recent increased price of fertiliser, fuel and electricity may build a barrier in fostering the pace of agricultural advancement.

3.1.1 Agricultural Subsidy

Subsidy in agriculture sector in FY 2011-12 is targeted at Tk. 45000 million which is 21.05 percent less than that of FY 2010-11. The amount of agricultural subsidy was Tk. 57000 million in that year.

Subsidy in agriculture sector in FY 2011-12 is targeted at Tk. 45000 million that 21.05 percent less than that of FY 2010-11.

Figure 21: Growth Rate and Subsidy Status



Source: Unnayan Onneshan database and Bangladesh Bureau of Statistics, 2011

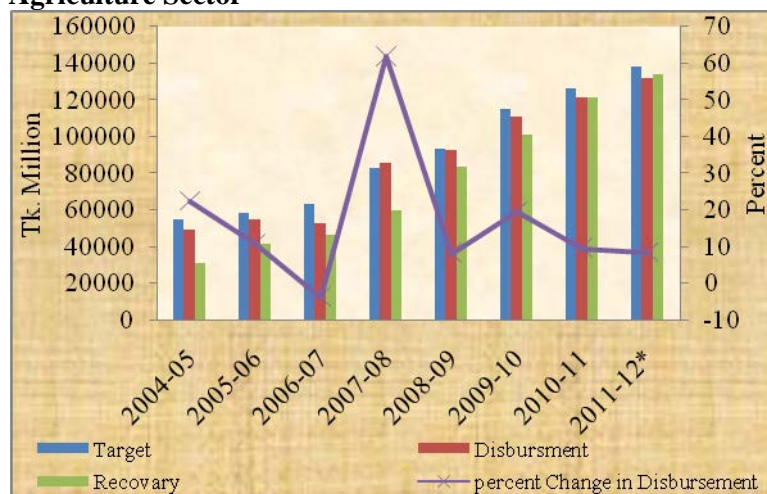
Decline in agricultural subsidy might bubble up the cost of agricultural production for which food security might be at stake. The growth performance of agriculture sector follows an irregular trend over the year. The rate of growth of agricultural sector was 5.56 percent in FY 2009-10 while it was 4.82 percent in FY 2010-11. However, FY 2011-12 might witness a minimal growth rate of only 4.99 percent compared to FY 2008-09 and FY 2009-10.

3.1.2 Credit Disbursement

The target of agricultural credit, disbursement and recovery are increasing over the years. In FY 2009-10, total disbursement of agricultural credit was Tk. 111168.9 million while Tk.121843.2 million was in FY 2010-11. The rate of credit disbursement increased by 19.73 percent in FY 2009-10 than that of FY 2008-09 whereas it increased by only 9.6 percent in FY 2010-11. Moreover, the gap between the target and actual disbursement is following an increasing trend. In FY 2009-10, the gap was Tk. 3954.1 million and FY 2010-11 witnessed a gap of Tk. 4330.8 million. In FY 2011-12, credit disbursement is targeted at Tk.138000 million while the continuation of existing trend illustrates that total credit disbursement might be Tk. 132168.2 million. The gap might also increase to Tk. 5831.8 million by the end of the current fiscal year. During July-October, 2011 the disbursement of agriculture credit stood lower at Tk. 30102.9 million in comparison to Tk. 36083.9 million of the same period of previous fiscal year.

In FY 2011-12, credit disbursement is targeted at Tk.138000 million while the continuation of existing trend illustrates that total credit disbursement might be Tk. 132168.2 million.

Figure 22: Credit Target, Disbursement and Recovery in Agriculture Sector



Source: Authors' calculation based on Bangladesh Bank, 2011

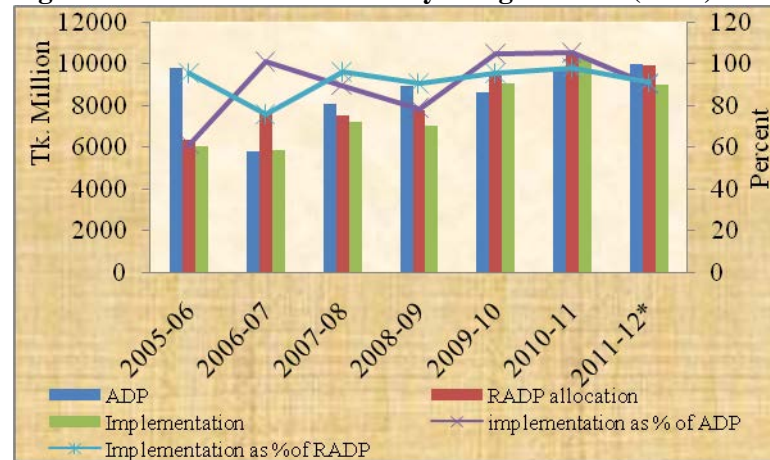
3.1.3 ADP Implementation Scenario (Agricultural Sector)

In FY 2010-11, the allocation of ADP and Revised Annual Development Programme (RADP) for the Ministry of Agriculture was Tk. 9670.3 and Tk. 10421.8 million respectively. In FY 2011-12, ADP allocation is Tk. 9977.4 million that is only 3.17 percent more than the FY 2010-11. If the current trend continues, RADP allocation for Ministry of Agriculture might be Tk. 9897.6 million that is 5.03 percent less than that of previous fiscal year.

If the current trend persists, 90.20 percent of the ADP might be implemented by the end of the current fiscal year.

The lowest implementation between FY 2005-06 and FY 2010-11 was observed in FY 2006-07 with the implementation of 76.01 percent while the highest implementation was 97.93 percent in FY 2010-11. Under the business as usual scenario the implementation status will be also follows the decline trend regarding ADP and RADP that might not be enough to ensure food security. During July to November of FY 2011-12, total ADP implementation of Ministry of Agriculture is Tk.2589.47 million that is 25.95 percent of total allocation of the respective ministry while it was 26.45 percent for the same period of the previous fiscal year. If the current trend persists, 90.20 percent of the ADP might be implemented by the end of the current fiscal year.

Figure 23: ADP status of Ministry of Agriculture (MoA)



Source: Authors' calculation based on Implementation Monitoring and Evaluation Division, Ministry of Planning, 2011

3.2 Industry

Bangladesh is in the process of transmission from a predominantly agrarian economy. The present government is promised to increase the contribution of industrial sector in GDP from 30.33 percent in FY 2010-11 to 40 percent by the calendar year 2021. In addition, the proportion of labour force employed

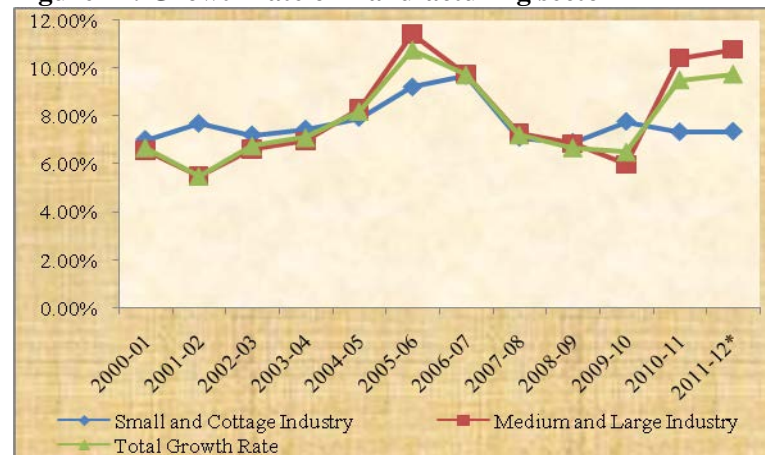
is projected to accelerate from 17.85 percent in FY-2009-10 to 25 percent by the calendar year 2021.

3.2.1 Growth Rate of Manufacturing Sector

The manufacturing sector consists of two sub-sectors: Small and Cottage Industry and Medium and Large Industry. Therefore, the total growth depends on both the two sub-sectors. During FY 2009-10, the growth rate of total manufacturing sector was 6.5 percent whereas the growth rate of small and cottage industry was 7.77 and medium and large industry was 5.98 percent. In FY 2010-11, the growth rate of total manufacturing sector increased to 9.51 percent. On one hand, the growth rate of small and cottage industry decreased to 7.34 percent and on the other hand, medium and large industry increased to 10.41 percent. According to the business as usual scenario, in FY 2011-12, total growth rate of manufacturing sector might be 9.76 percent, while the growth rate of small and cottage industry and medium and large industry might be 7.36, and 10.76 percent respectively.

According to the business as usual scenario, in FY 2011-12, total growth rate of manufacturing sector might be 9.76 percent.

Figure 24: Growth rate of manufacturing sector



Source: Authors' calculation based on Bangladesh Bureau of Statistics, 2011

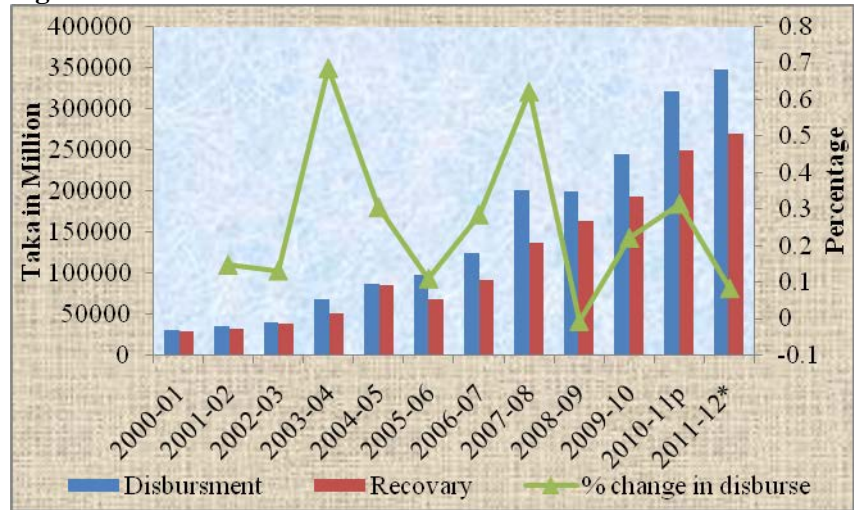
3.2.2 Industrial Terms Loan

Disbursement and recovery of industrial term loan have been increasing gradually since FY 2001-02. In FY 2010-11 disbursement and recovery of industrial term loan stood at Tk. 321632 and Tk. 250158.9 million respectively which were 31.34 percent and 29.58 percent higher than those of the previous fiscal year. If the current trend prevails in FY 2011-12 the disbursement of loan might reach at Tk. 348092.1 million that will be only 8.22 percent higher than that of FY 2010-11. This might be the second lowest growth during last twelve years. Disbursement of industrial term loans during July-September of FY 2011-12 stood lower at Tk. 74374.4 million as compared to

If the current trend prevails, FY 2011-12 the disbursement of loan might reach at Tk. 348092.1 million.

Tk. 74735.1 million during the same period of FY 2010-11.

Figure 25: Industrial Term Loan

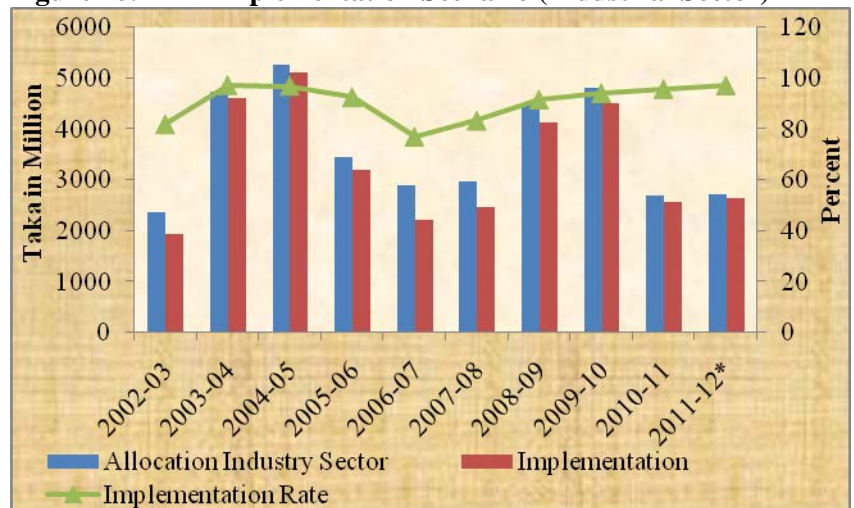


Source: Bangladesh Bank, 2011

3.2.3 RADP status in Industry

In this sector, the public expenditure of ADP is very poor with fluctuations in allocation over the years. Over the last few years, there was a significant gap between the allocation and implementation of ADP in the industrial sector. The allocation of RADP in industry sector was Tk. 2377.8 million in FY 2002-03 and gradually increased till FY 2004-05 then declined. In FY 2008-09 and FY 2009-10 the allocation was Tk. 4508.7 and Tk. 4810.7 million respectively.

Figure 26: ADP Implementation Scenario (Industrial Sector)



Source: Implementation Monitoring and Evaluation Division, Ministry of Finance, 2011

In FY 2010-11 the RADP allocation was Tk. 2686.5 million that as 44.15 percent less than that of previous fiscal year and this was the highest declining rate during last nine years. In FY 2011-12, the total ADP is Tk. 460000 million whereas the ADP allocation on industry sector is Tk. 5021.2 million that is 1.09 percent of total ADP. The implementation by the ministry of industry during July to November in FY 2011-12 is Tk. 55.14 million. The percentage of implementation was 9.14 and 7.08 percent during FY 2009-10 and FY 2010-11.

The present demand of electricity is 6000 MW against the production of 4000-4600 MW while per capita electricity consumption is 236 KWH (Kilo Watt Hour).

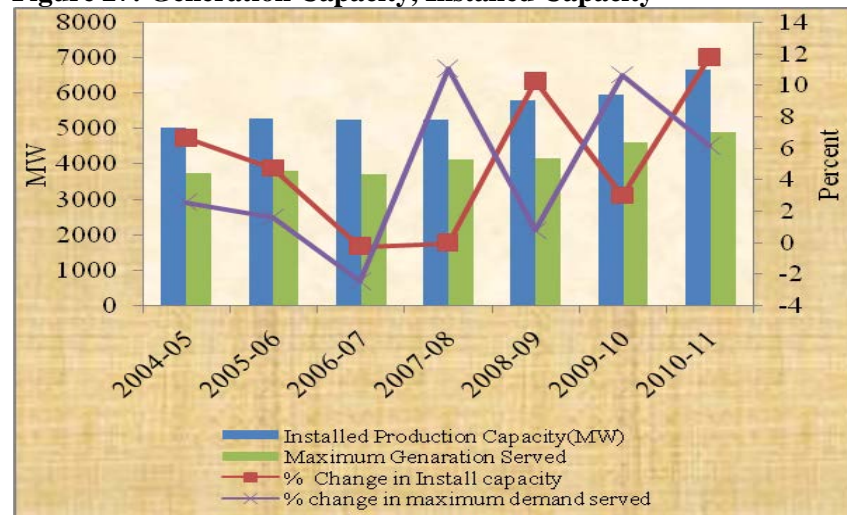
3.3 Power

Power is a pre-condition for economic and social development for any country. In achieving the targets of Vision 2021, the government has set up medium-term target of enhancing electricity supply to 7000 MW (Mega Watt) by 2013 (2015) and long-term target of generating power supply to 20000 MW in 2021. The present demand of electricity is 6000 MW against the production of 4000-4600 MW while per capita electricity consumption is 236 KWH (Kilo Watt Hour) and only 49 percent people are under electricity coverage in FY 2010-11.

3.3.1 Generation Capacity, Installed Capacity

The installed production capacity and maximum generation has increased over the years but at a minimal rate. The total installed capacity was 5025 MW in FY 2004-05 while it increased at 6685 MW in FY 2010-11 (up to 13 June). Moreover, maximum generation served in FY 2004-05 was 3751 MW while it reached at 4890 MW in FY 2010-11. There is no regular trend of changes in installed capacity and maximum demand served.

Figure 27: Generation Capacity, Installed Capacity



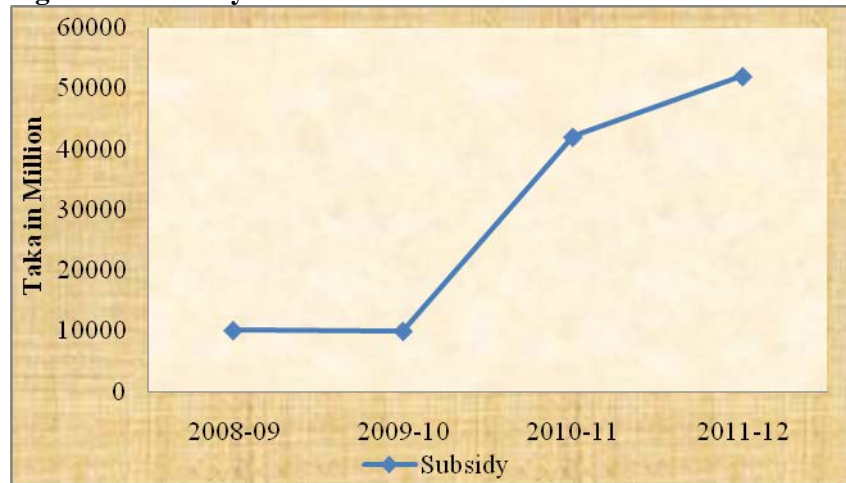
Source: Power Division and Bangladesh Bureau of Statistics, 2011

3.3.2 Subsidy in Power

Decline in the dependency of gas with the global and national price hike of fuel increases the production cost of electricity resulting into the increase of subsidy in power sector. Subsidy has increased to Tk. 52000 million in FY 2011-12 compared to Tk. 42000 million in FY 2010-11. The growth rate of subsidy in power sector has increased by 23.81 percent in FY 2011-12 than that of the previous fiscal year. If the cost of electricity and fuel price in international level remains the same, oil subsidy bill might reach to more than Tk. 200000 million by the end of the FY 2011-12.

Subsidy has increased to Tk. 52000 million in FY 2011-12 compared to Tk. 42000 million in FY 2010-11.

Figure 28: Subsidy in Power



Source: Finance Division

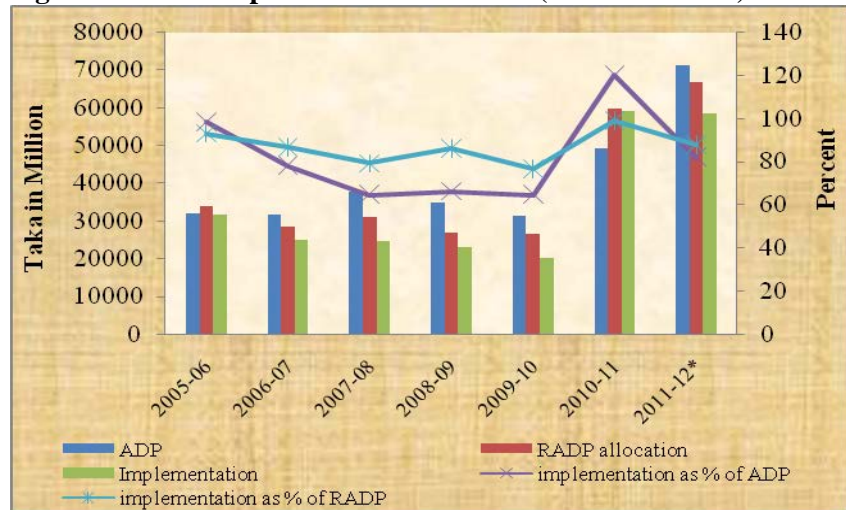
3.3.3 ADP and RADP allocation on Power Division

During FY 2010-11, the allocation of ADP and RADP in Power Division was Tk. 49162.2 and 59818.8 million. In FY 2011-12, ADP allocation for Power Division is Tk. 71452.8 million that is 45 percent more than that of FY 2010-11. Under the business as usual scenario, the RADP allocation on Power Division might be Tk. 66808.37 million that is 11.68 percent more than that of previous fiscal year.

If the current trend continues, 87.7 percent of ADP might be implemented.

Implementation of RADP of Power Division in FY 2010-11 was 98.88 percent. Since power sector is given the highest priority, the implementation status of ADP is comparatively higher than other ministries and divisions. During July-November of FY 2011-12, the status of ADP implementation of Power Division is 35 percent while it was 16.42 percent for the same period of FY 2010-11. If the current trend continues, 87.7 percent of ADP might be implemented.

Figure 29: ADP Implementation Scenario (Power Division)

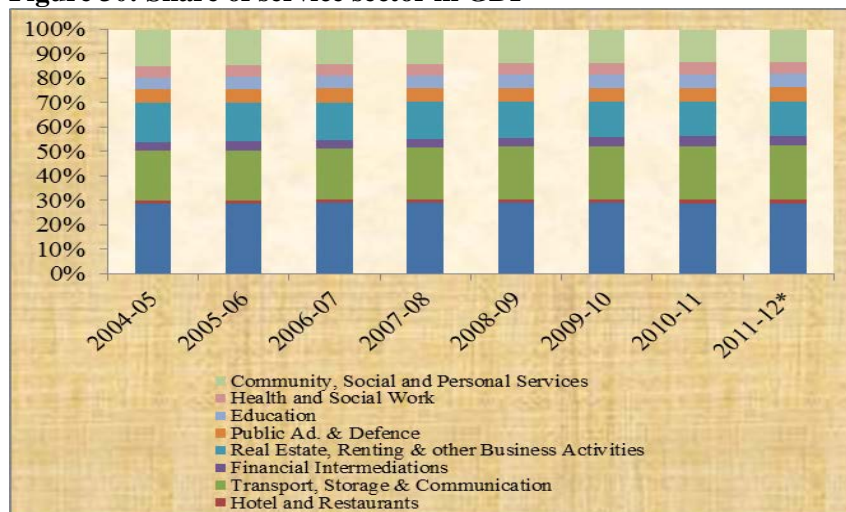


Source: Authors' calculation based on Implementation Monitoring and Evaluation Division, Ministry of Planning, 2011

3.4 Service

The services sector constitutes a significant share of gross domestic product (GDP) and increasingly becoming the core of the economy of Bangladesh. Expansion of services offers room for increased foreign exchange earnings through exports and foreign direct investment (FDI) resulting from improved capacity and efficiency of the sector. Depending upon the pattern of growth, it further contributes towards national development by enhancing efficiency and employment, which are key sources of national output resulting into the reduction of poverty and illiteracy.

Figure 30: Share of service sector in GDP



Source: Authors' calculation based on Bangladesh Bureau of Statistics

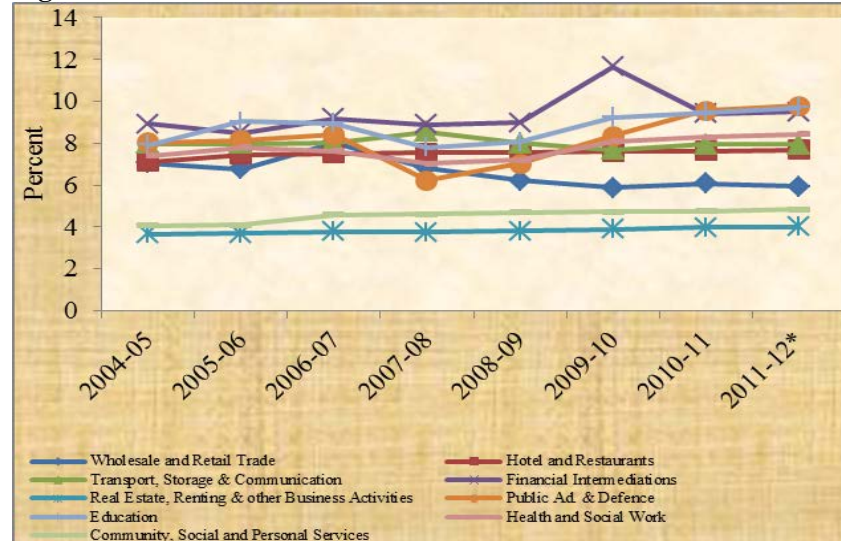
The share of contribution of services sector in GDP was 49.72 percent in FY 2010-11. The services sector consists of wholesale and retail trade; hotel and restaurant; transport, storage & communication; financial intermediations; real estate, renting and business activities; public administration and defense; health and social works, and community, social and personal services activates.

In FY 2010-11, the contribution of wholesale and retail trade; transport, storage and communication; real estate, renting and business activity; and community, and social and personal works in GDP was 14.27, 10.91, 6.99 and 6.7 percent respectively.

3.4.1 The growth rate of service sector

In FY 2010-11, the growth rate of service sector has been higher than that of FY 2009-10. Only the growth rate of financial intermediations decreased to 9.42 percent in FY 2010-11 from 11.64 percent in FY 2009-10. The economy of Bangladesh is challenged due to high inflationary pressure (both food and non-food inflation), liquidity crisis in the money market and nose dive of share prices in the capital market.

Figure 31: Growth rate of sub-sector of service



Source: Authors' calculation based on Bangladesh Bureau of Statistics

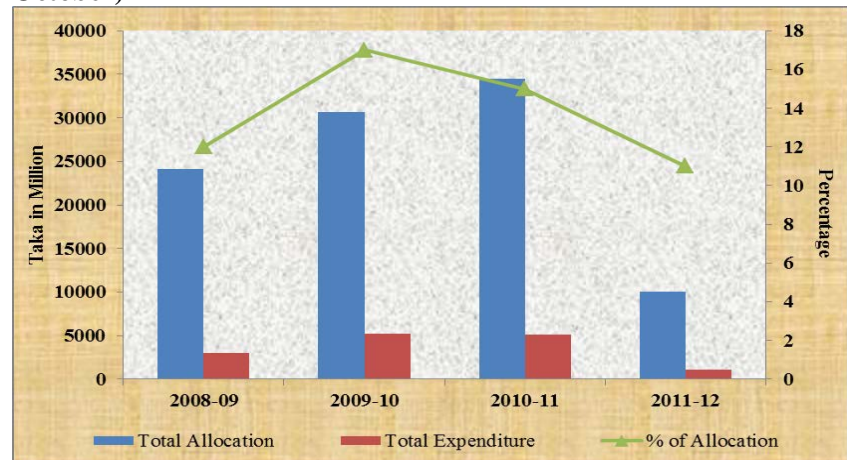
4. SOCIAL SECTOR

4.1 Health Sector

FY 2011-12 has witnessed a downward allocation in entire social sector in the national budget. The proposed budgetary allocation in FY 2011-12 in health sector is Tk. 88890 million (including

development and non-development), which got reduced by Tk. 200 million and revised at Tk. 88690 million. Moreover, the proposed public investment in health, population and family welfare sector has marked negative revision during most of the years between FY 2001-02 and FY 2011-12.

Figure 32: ADP Expenditure in Health Sector over the years (July-October)



Source: Implementation Monitoring and Evaluation Division, Ministry of Planning, 2011

ADP allocation in health sector in FY 2011-12 has come down to one-third than that of the last fiscal year.

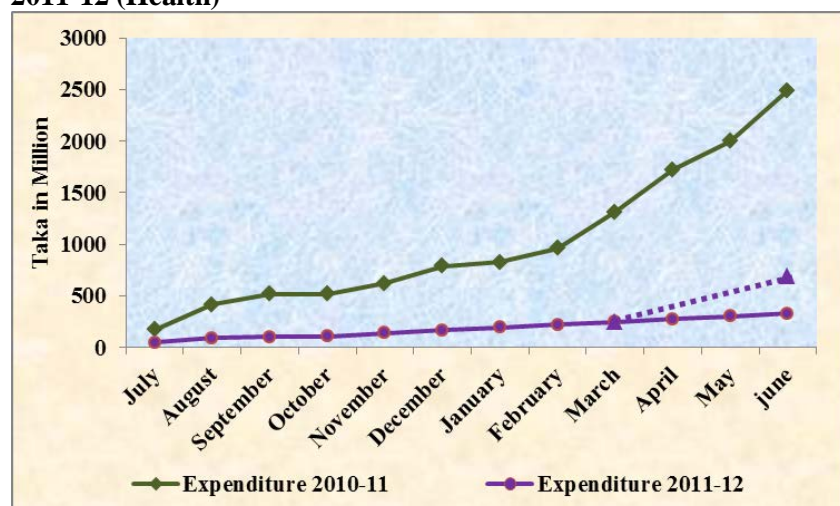
ADP allocation in health sector in FY 2011-12 has come down to one-third than that of the last fiscal year. In the FY 2011-12, Ministry of Health and Family Welfare (MoHFW) has received an ADP allocation of Tk. 10030.80 million while it was Tk. 34447 million in FY 2010-11. During July-October in FY 2011-12, only Tk. 1093 million has been implemented that is only 11 percent of allocated ADP. During the same period in FY 2010-11, the amount of implanted ADP was Tk. 5162 million which was 15 percent of total allocation.

Under the business as usual scenario, total expenditure of ADP of health sector might stand at Tk. 3279 million at the end of FY 2011-12.

If the current rate of implementation continues, another 21.69 percent of ADP allocation in health sector might be implemented by the remaining eight months of the current fiscal year. Under the business as usual scenario, total expenditure of ADP of health sector might stand at Tk. 3279 million at the end of FY 2011-12. This indicates that more than half of the allocated money (Tk. 6751.8 million) may remain unspent.

However, if the trend of spending more money in the last four months prevails, a total of Tk. 6911.85 million might be implemented at the end of the fiscal year which is only 68.9 percent of the total allocation in health sector while the implementation status was 72.26 percent in FY 2011-12.

Figure 33: ADP implementation scenario FY 2010-11 and FY 2011-12 (Health)



Source: Authors' calculation based on Implementation Monitoring and Evaluation Division, Ministry of Planning, 2011

A number of initiatives have been introduced under the draft National Health Policy. Lower allocation and poor implementation of the allocated amount in ADP indicates the negligence of the public investment in the sector which reflects the poor quality of public health system across the country, both in rural and urban areas.

Table 1: Targets and Status for Health

Major Indicators	MDGs Targets by 2015			Vision-2021 Targets		
	Targets	Govt. Projection (to achieve target)	Gap	Targets	Govt. Projection (to achieve target)	Gap
Under-Five Mortality	48 deaths per thousand live births	53 deaths per thousand live births	7 deaths per thousand live births			
Infant Mortality Rate	31 deaths per thousand live births	43 deaths per thousand live births	12 deaths per thousand live births	15 deaths per thousand live births	13 deaths per thousand live births
Maternal Mortality Rate	143 deaths per 100,000 live births	280 deaths per 100,000 live births	137 deaths per 100,000 live births	1.5%	1.79%	0.29%
Birth Attended by Skilled Health Personnel	50%	23%	27%			
Contraceptive Use Rate				80%	71.5%	8.5%

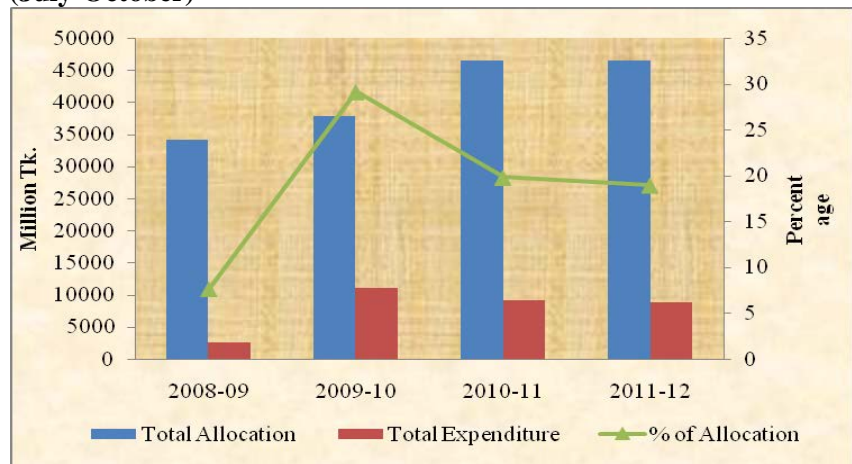
4.2 Education Sector

The government has given due importance on education sector for attaining the targets set in Millennium Development Goals (MDGs), National plan on Action (NPA) - II, National Education Policy (NEP) 2010 and National Budget for FY 2011-12. The finance minister has proposed a budgetary allocation of Tk. 203160 million in FY 2011-12, development and non-development combined, that is 12.4 percent of the national budget and 9.37 percent and higher than the revised budget of FY 2010-11.

ADP allocation in education sector in FY 2011-12 is 2.20 percent less than that of the allocation of FY 2010-11.

The sector is provided with an allocation of Tk. 45432.6 million in the ADP in FY 2011-12 that is 2.20 percent less than that of the allocation of FY 2010-11. Total expenditure in education from July to October 2011 is Tk. 8796.20 million that is only 19.36 percent of total allocation. However, implementation of ADP in education for the same period in FY 2010-11 was 19.8 percent while in FY 2009-10, it was 29.14 percent which exhibits poor ADP implementation status in education sector in FY 2011-12.

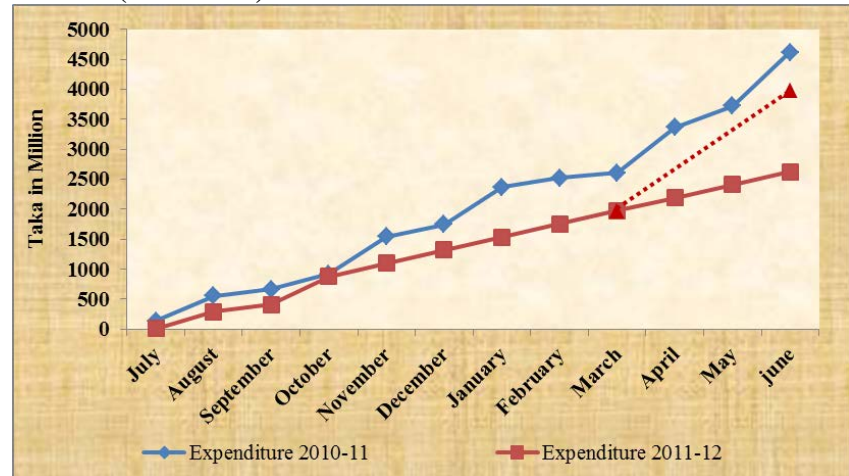
Figure 34: ADP Expenditure in Education Sector over the years (July-October)



Source: Implementation Monitoring and Evaluation Division, Ministry of Planning, 2011

ADP allocation for Ministry of Primary and Mass Education (MoPME) under 11 projects totals Tk. 24184.9 million while the allocation for Ministry of Education (MoE) is Tk. 21247.7 million under 65 projects. Between July and October of FY 2011, MoPME has implemented 25 percent while MoE implemented only 13 percent of the allocation of respective ministry.

Figure 35: ADP implementation scenario FY 2010-11 and FY 2011-12 (Education)



Source: Authors' calculation based on Implementation Monitoring and Evaluation Division, Ministry of Planning, 2011

If the current trend of implementation of ADP in education sector prevails, total implementation might stand at only Tk. 26268.50 million.

If the current trend of implementation of ADP in education sector prevails, total implementation might stand at only Tk. 26268.50 million which is only 56.58 percent of the total allocation of the sector. However, it is witnessed that a lion's share of the unimplemented allocation is spent in the last three or four months of the fiscal year. In FY 2011-12, 43.39 percent of ADP was implemented in the last three months and if the trend continues in FY 2011-12, a total of Tk. 39873.50 million might be implemented which is 85.88 percent of the total allocation.

Table 2: Targets and Status for Education

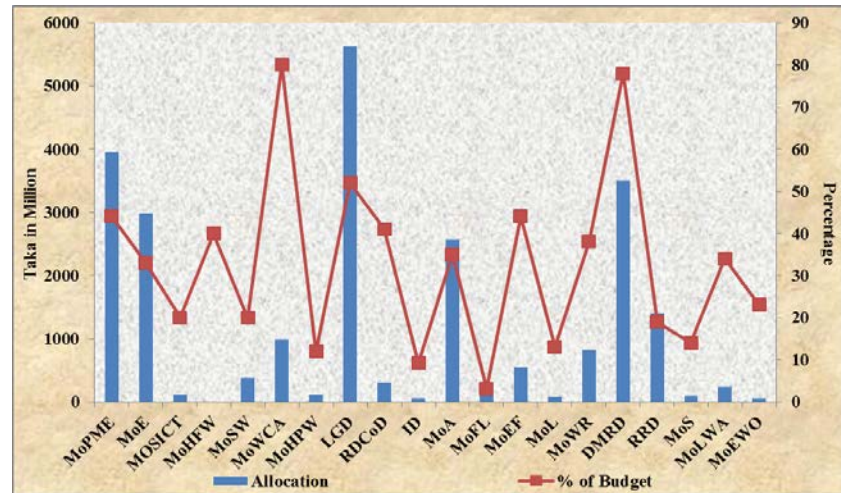
	Targets	Projects taken under ADP (FY 2011-12)
MDG	<ul style="list-style-type: none"> ▪ 100% net enrollment by 2015 	<ul style="list-style-type: none"> • Reaching Out of Children Project
NPA II	<ul style="list-style-type: none"> ▪ 95% net enrollment by 2015 ▪ 5% drop-out by 2015 ▪ 90% adult literacy by 2015 	<ul style="list-style-type: none"> • School feeding programme at Poor area.
NEP 2010	<ul style="list-style-type: none"> ▪ 100% net enrollment by 2010-11 ▪ Pre-primary education & free primary education to class VIII ▪ Secondary education from class IX up to XII ▪ student ratio – 1:30 by 2018 ▪ 100% adult literacy by 2014 	<ul style="list-style-type: none"> • Reconstruction and reform project for Government primary school. • Teaching quality improvement in secondary education project. • Skills Development project.
NB 2011-12	<ul style="list-style-type: none"> ▪ Stipend for 40% students (30% female & 10% male) in all upazilas ▪ Create "Prime Minister's Education Assistance Foundation" ▪ Transform 307 schools into Model Schools ▪ Build 3000 academic buildings of private schools ▪ Distribution of laptop, multimedia projector and internet modem in 20,500 educational institutions ▪ 100% adult literacy by 2014 ▪ 1:40 teacher-student ratio by 2011-12 	<ul style="list-style-type: none"> • Stipend for primary Education (Second Step). • Stipend for Higher secondary students (Forth step). • Construct primary school at 1500 without area. • Transform 306 upazilas elected private school into model school.

4.3 Gender

Bangladesh is a developing country with a per-capita GDP of USD 755 (Bangladesh Economic Review, 2011). In the 2010 Human Development Index (HDI), Bangladesh has ranked 129 among 164 countries, and according to the Gender Inequality Index (GII) it has ranked 116 among 138 countries (UNDP, 2010). Hence, Bangladesh has to go a long way than many least developed countries for eliminating gender disparity.

Giving top priority to mainstream gender, the government has taken several initiatives to reach the national and international targets through gender budgeting. In FY 2011-12, the government has allocated Tk. 431.9 billion as gender budget that is about 26.40 percent of the national budget. Moreover, Ministry of Women and Children Affairs (MoWCA) has been allocated with an amount of Tk. 12.37 billion in the current fiscal year. In present fiscal year, the allocation for gender related expenditure covers almost all the government ministries and division.

Figure 36: Gender related ADP and Budgetary allocation in selected ministries in FY 2011-12



Source: Ministry of Finance, 2011

ADP allocation for MoWCA in FY 2011-12 is Tk. 1215.6 million. From July 2011 to October 2012, a total of the total Tk. 285.39 million has been implemented that is 23.47 percent of the allocation for MoWCA. In the current fiscal year, various initiatives have been undertaken by the government to eliminate violence against women and children. In order to create women friendly environment for working mothers, the government has taken measures to increase the number of child day care centers. To get the benefits of the projects that the government has taken, proper implementation of ADP is a prerequisite.

5. POVERTY AND INEQUALITY

Despite considerable thrust on poverty alleviation in all plan documents since the independence of Bangladesh, a significant portion of population is still living below the poverty line. It is a constitutional obligation of the government to provide a decent living standard for the citizens by alleviating poverty. In its election manifesto, the present government has therefore laid special emphasis on poverty alleviation and pledged to reduce poverty. They made a commitment to reduce the rate of poverty to 25 percent and 15 percent by calendar year 2013 and 2021 respectively.

According to the latest available national statistics on poverty, based on head count rate (CBN) and using upper poverty line, the incidence of poverty has decreased to 31.5 percent in calendar year 2010 at the national level with an annual average rate of decrease at 1.32 percent from FY 1991-92. If the persisting trend continues, the incidence of poverty may slide down to 27.5 percent and 17 percent by calendar year 2013 and 2021, which are 2.5 and 2 percent higher than those of the targets of the present government.

Table 3: Targets and Status for MDG, Vision-2021 and SFYP

	Targets/ Projection/ Gap	Head Count Poverty %
MDGs Targets by 2015	<i>Targets</i>	29
	<i>Projection</i>	25
	<i>Gap</i>	...
Vision-2021 Targets	<i>Targets</i>	15
	<i>Projection</i>	17
	<i>Gap</i>	2
Sixth Five Year Plan (SFYP) 2011-15	<i>Targets</i>	22
	<i>Projection</i>	25
	<i>Gap</i>	3

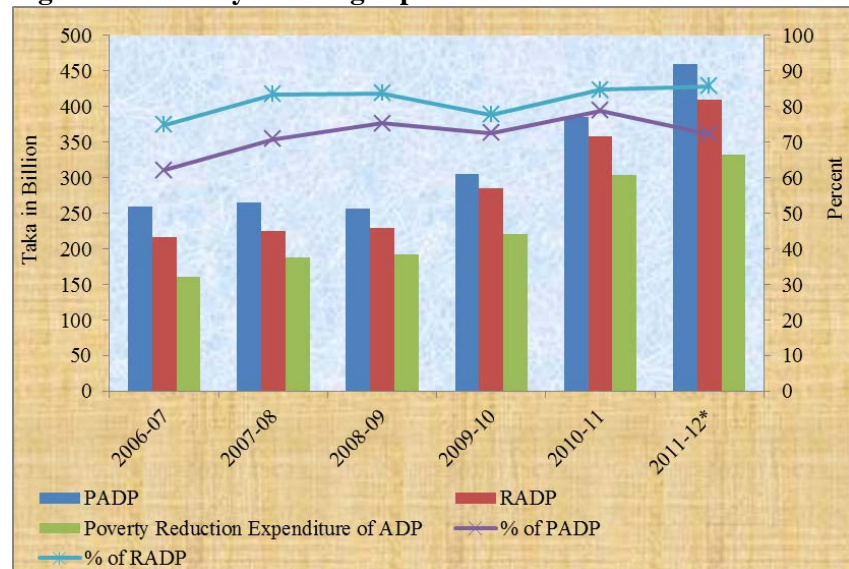
On one hand, in rural areas, the incidence of poverty has decreased from 58.7 percent to 35.2 percent during FY 1991-92 to calendar year 2010 with an annual average decrease rate of 1.24 percent. On the other hand, in urban areas, it has decreased from 42.7 percent in FY 1991-92 to 21.3 percent in calendar year 2010 with an average decrease rate of 1.13 percent. It is evident that the incidence of poverty and the rate of decrease are higher in rural areas than that of the urban areas.

If considered the divisional poverty, it is witnessed that there exists an inequality because of geography, business activities as well as the lack of balanced development throughout the country.

The incidence of poverty using upper line is higher in Barisal division which was 39.4 percent in calendar year 2010 and may drop down to 35.7 percent in 2013. In addition, the annual rate of reduction in percentage are 2.1, 1.95, 1.62, 1.43, 1.37 and 1.30 percent in Rajshahi, Chittagong, Dhaka, Sylhet, Barisal and Khulna division respectively. Under the business as usual scenario, the target of reducing poverty to 25 percent in 2015 may remain behind the target of achievement except for Chittagong division and the target of 15 percent in 2021 might be achieved by four divisions which include Dhaka, Chittagong, Rajshahi (including Rangpur), Sylhet division while Barisal and Khulna division may remain far behind the target of achievement.

There is a positive relationship between food inflation and poverty. The upward trend of general inflation as well as food inflation drags more people down the poverty line. In 2000, food inflation (12-month average) was 2.68 percent where 55.8 million people were living under poverty line. However, food inflation of 7.91 percent had been witnessed in 2005 while the number of people living below the poverty line amounts 56 million. The data analysis illustrates that 0.04 million people may newly be gone under poverty line due to one percent increase in food inflation, only if other things remain constant. The rate of food inflation in October 2011 was 12.69 percent which indicates that more people are newly added to the population who are living below the poverty line.

Figure 37: Poverty reducing expenditure in ADP



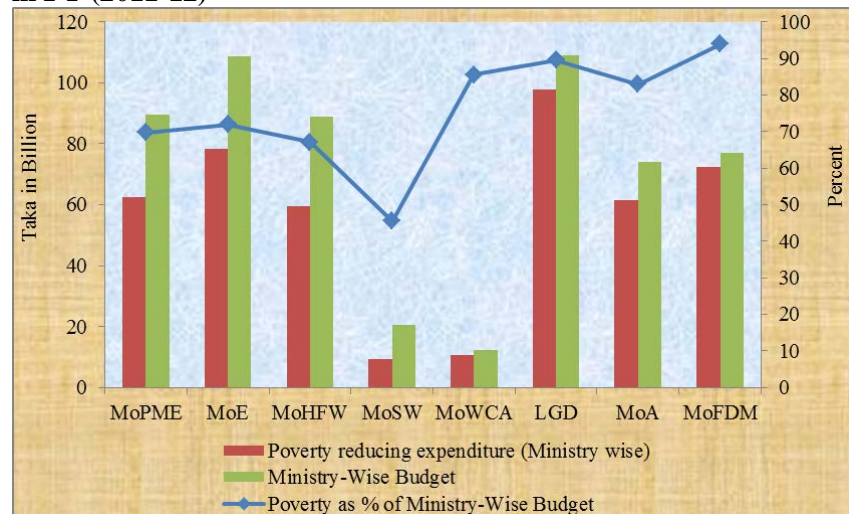
Source: Authors' calculation based on Ministry of Finance, 2011

Reduction of poverty through acceleration of economic growth has been one of the principle focuses of the current budgetary allocation. An allocation of Tk. 868.91 billion (53.12 percent of total budget) has been proposed as poverty reducing expenditure in FY 2011-12 which is 3.55 percent less than that of the revised budget of FY 2010-11. The concerning factor is that the lower allocation in poverty reducing expenditure may not be favorable in achieving the targets of Millennium Development Goals (MDGs), Vision-2021 and Sixth Five Year Plan. In this regards, the government has invested in various safety net programs in the current fiscal year. Continuing all social safety nets and empowerment programmes, the government has allocated Tk. 225.56 billion in FY 2011-12 which is about 13.79 percent of the total budget and 2.51 percent of GDP.

In addition, poverty reducing expenditure in the current fiscal year is Tk. 332.09 billion which means that the growth rate of poverty reducing expenditure has decreased by 27.74 percent than that of the previous fiscal year.

With the vision of alleviating poverty, the government as poverty reducing expenditure has Proposed Annual Development Programme (PADP) of Tk. 460 billion while the amount of Revised Annual Development Programme (RADP) is Tk. 408.9 billion in FY 2011-12. Poverty reducing expenditure is following an increasing trend in terms of volume over the years; however, in terms of growth rate it is reducing. In addition, poverty reducing expenditure in the current fiscal year is Tk. 332.09 billion which means that the growth rate of poverty reducing expenditure has decreased by 27.74 percent than that of the previous fiscal year while it was Tk. 303.66 billion. During FY 2008-09 to 2010-11 the growth rate increases from 2.524 to 37.105.

Figure 38: Ministry-wise (Selected) Poverty reducing expenditure in FY (2011-12)



Source: Authors' calculation based on Ministry of Finance, 2011

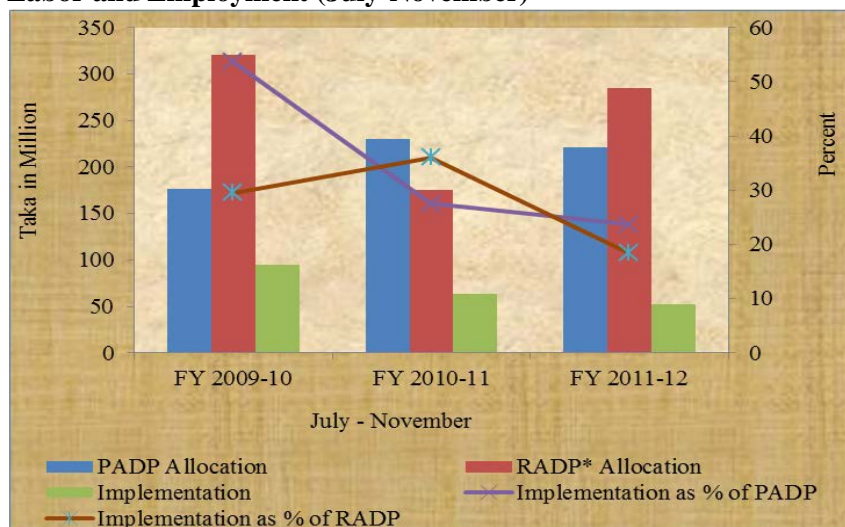
In FY 2011-12, poverty reducing expenditure has been allocated in 53 out of 71 ministries including divisions.

In FY 2011-12, poverty reducing expenditure has been allocated in 53 out of 71 ministries including divisions. In FY 2008-09, ministry-wise highest allocation on poverty reducing expenditure was in the ministry of agriculture (MoA) which was Tk. 66.19 billion. After FY 2008-09, the ministry of Local Government division (LGD) has been receiving the highest allocation in the sector in three successive fiscal years, Tk. 76.98 billion, Tk. 85.47 billion and Tk. 97.77 billion in FY 2009-10, FY 2010-11 and FY 2011-12 respectively. The top seven ministries that received highest allocation on poverty reduction apart from LGD are ministry of Education (Tk. 78.19 billion), Food and Disaster Management (Tk. 72.48 billion), Primary and Mass Education (Tk. 62.57 billion), Agriculture (Tk. 61.48 billion), Health and Family Welfare (Tk. 59.61 billion), Women and Children Affairs (Tk. 10.59 billion) and Social Welfare (Tk. 9.28 billion).

6. EMPLOYMENT

In case of employment generation, the government has planned to create employment opportunities for about 656 lac and 26 thousand man-month in the FY 2011-12 which is 5.58 percent higher than that of the previous fiscal year. But the employment opportunities are largely depended on investment. Over the years the growth rate of investment has decreased from 14.9 percent in FY 2010-11 to 6.76 percent in FY 2011-12. Therefore, it is evident that the trend of employment opportunities has been following a decreasing trend during the last few years which has resulted from the decreasing investment scenario.

Figure 39: ADP Allocation and implementation of the Ministry of Labor and Employment (July-November)



Source: Authors' calculation based on Implementation Monitoring and Evaluation Division, Ministry of Planning, 2011

Labor force has increased by 8.485 percent from FY 2005-06 to calander year 2009, according to the monitoring of Employment Survey (MES) 2009 the Labor Force Survey (2005-06). But the rate of unemployment has increased at 5.1 percent in calander year 2009, the highest among the last several years, which implies that the employment generation is lagging behind the actual rate of inclusion of active labor force, placing the government on a huge challenge. According to the Okun's law there is a negative relationship between unemployment and real GDP. During FY 2005-06 to FY 2009-10, the rate of unemployment has increased from 4.3 percent to 5.1 percent while the real GDP has decreased from 5.96 percent to 5.74 percent.

With the rising unemployment situation, the real wage may decline which is being fuelled by the overall rate of inflation (point to point) of 11.58 percent with food inflation of 12.47 percent. With the increased number of unemployed people and reduction in income and real wage, the aggregate demand might be lowered, might putting negative effect on investment and production output.

Under the business as usual scenario, a total of Tk. 125.873 million of the total allocation of Ministry of Labor and Employment may be implemented by the end of the current fiscal year which is 57 and 44 percent of PADP and RADP.

In FY 2011-12, the PADP and projected RADP of the Ministry of Labor and Employment are Tk. 221.2 million and Tk. 285.24 million respectively. A total of Tk. 52.373 million has been implemented which are 24 and 18 percent in respect to PADP and RADP until November 2011. The implementation of this allocation is lower than that of the implementation of FY 2010-11 for the same period (July-November) which was Tk. 63.006 million. Under the business as usual scenario, a total of Tk. 125.873 million may be implemented by the end of the current fiscal year which is 57 and 44 percent of PADP and RADP.



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