Bangladesh Economic Update
Half-Yearly Assessment of the Economy of Bangladesh
December 2012

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1. INTRODUCTION

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The current issue of Bangladesh Economic Update focuses on the overall economic condition of Bangladesh at the half way stage of FY 2012-13. This December also marks the end of the penultimate year of the current regime. This issue investigates the sector wise performance of the current fiscal year in light of the targets set in the annual budget, Medium Term Macroeconomic Framework (MTMF) and other national plans, policies and goals. It also attempts to explore the current implementation status of the Annual Development Programme (ADP) and makes projection thereof.

The Medium Term Macroeconomic Framework (MTMF) is itself a puzzle, having been revised four times (once every year) during the tenure of the current regime.

The fiscal measures suggested in the budget, coupled with a contractionary monetary policy and orthodox exchange-rate management are part of a three-year programme agreed between the government and the International Monetary Fund (IMF). This programme, articulated in the Memorandum of Economic and Financial Policies (henceforth referred to as IMF-MEFP), is a typical IMF prescription for austerity which, in recent times, has come under serious attack from mainstream economists for its repressive effect on economic growth.

The Medium Term Macroeconomic Framework (MTMF) is itself a puzzle, having been revised four times (once every year) during the tenure of the current regime.

The preparation of the current budget faced some major macroeconomic challenges. The increasing savings-investments gap, the myopic fiscal-monetary policy mix stipulated in the IMF-MEFP, inflationary pressures and confrontational politics may hinder attainment of the desired level of growth in FY 2012-13. The high rate of interest, an outcome of contractionary monetary policy, is contributing to the mounting savings-investment gap.

In the MTMF, the government has targeted a higher growth rate requiring more investment. For this to happen, a credit-friendly environment is needed where sufficient funds can be accessed at affordable rates. But the government, in line with the IMF direction to control inflationary pressure, has done away with the cap on interest rates and a higher interest rate has suppressed supply of money and credit, which, in turn, is constricting investment. The government is thus faced with a trade-off between inflation and investment

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The present contractionary monetary policy with its concomitant high interest rates also discourages foreign investors. Due to flexible foreign exchange policy, the taka has been depreciating steadily against the major currencies lowering the real rate of interest, which is one of the major factors slowing down foreign investment. Foreign investors are also wary of the unstable political environment prevailing in the country.

The average rate of growth in deficit is increasing rapidly. The rate of increase in revenue collection has not kept pace with the rate of increase in expenditure. The rising subsidy, especially for the energy sector, has substantially increased total revenue expenditure. This increase in subsidy, unsupported by corresponding revenue growth, has resulted in augmented borrowing, which in turn has increased interest payments, further increasing revenue expenditure. Again, to finance this increase in revenue expenditure, the government has to go for further borrowing thus trapping the country in a vicious circle of spiraling debt and deficit. This has also led to decreased spending social sectors, as the principal and payment emerges as the major item of government spending.

The current imbalance in the balance of payments (BoP) has accrued over the years mainly due to persisting trade imbalances. The trade deficit has registered a sudden jump since FY 2009-2010 because of increased imports of crude petroleum and petroleum products to feed the 'quick rental' power plants. On the other hand, import of raw materials, intermediate goods and capital machinery have witnessed relative decline. The steady depreciation of the Taka against USD further contributes to the increase in import bills (measured in Taka), which increases the trade deficit and consequently reduces the overall balance.

The allocation of Annual Development Programme (ADP) has been continuously increasing over the last twenty years. However, implementation has consistently fallen far short of target.

The proposed allocations in the health, population and family welfare sectors have undergone downward revisions during most of the years between FY 2001-02 and FY 2011-12 affecting the marginalized sections of the society.

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The likelihood of achieving the targeted rate of growth in the coming years is uncertain. This period is also likely to be characterized by higher inflation and failure to create poverty-reducing employment.

2. MACRO ECONOMIC DEVELOPMENT

2.1 Growth Scenario in the Current Government Regime

There is a marked divergence between the growth targets envisioned in the MTMF and the actual rate of growth (Table - 01), which is mainly the result of the myopic policy adopted by the government in line with the IMF prescriptions. In FY 2010-11 and FY 2011-12, the rate of growth was 6.1 and 6.32 percent whereas it was 5.8 percent in FY 2009-10.

In the first fiscal year of the tenure of the present government (FY 2008-09), the MTMF target was 6.5 percent while the actual growth was 5.7 percent, a fall of 0.5 percent from the previous fiscal.

In FY 2011-12, the actual growth in GDP was 6.32 percent against the MTMF target of 7.0 percent. In the first fiscal year of the tenure of the present government (FY 2008-09), the MTMF target was 6.5 percent while the actual growth was 5.7 percent, a fall of 0.5 percent from the previous fiscal. The share of consumption in growth in the last year's GDP has increased slightly to 80.0 percent from 79.7 percent in FY 2007-08. The investment situation has been negatively affected in FY 2008-09 as indicated by a decrease of total investment as a percentage of GDP to 24.18 from 24.21 in FY 2007-08. The government could not achieve its growth target in any fiscal year of its tenure.

Table 01: Target of MTMF and actual rate of growth

Component	MTMF	2008-09	2009-10	2010-11	2011-12	2012-13	2012-14	2014-15
GDP Growth	MTMF 08-11	6.5	7.0	7.2				
	MTMF 09-12		5.5	6.0	6.5			
	MTMF 12-16			6.7	7.0	7.2	7.6	8
	MTMF 13-17				7.0	7.2	7.6	8
Actual Growth in GDP		5.7	5.8	6.1	6.32			

Source: Bangladesh Bank and Finance Division, Ministry of Finance, Bangladesh

2.2 Savings and Investment

National savings may be 31.51, 32.18 and 32.86 percent and total investment may be 26.37, 26.71 and 27.05 percent of the nominal GDP in FY 2012-13, FY 2013-14 and FY 2014-15 respectively

Considering the historical track record, national savings may be 31.51, 32.18 and 32.86 percent and total investment may be 26.37, 26.71 and 27.05 percent of the nominal GDP in FY 2012-13, FY 2013-14 and FY 2014-15 respectively.[1] The savings-investment gap has increased sharply and will continue to increase if the existing policies remained unchanged. This gap may be 5.14, 5.47 and 5.81 percent of the nominal GDP in FY 2012-13, FY 2013-14 and FY 2014-15 respectively

In FY 2001-02, domestic and national savings as a percentage of GDP were 18.16 and 23.44 percent respectively and these had risen to 20.31 and 30.21 respectively in FY 2007-08. That means the growth rate was not enough to accelerate the rate of domestic and national savings. The rate of national savings has been almost constant during this government's tenure (Table 02).

The rate of national savings has been almost constant during this government's tenure

In FY 2001-02, the rate of total investment was 23.15 percent of GDP of which the shares of the public and private sectors were 6.37 and 16.78 percent respectively. The rate of national investment gradually picked up to reach 24.65 percent of GDP in FY 2005-06 but it declined to 24.46 percent in FY 2006-2007 and again in FY 2008-2009 to 24.18 percent.

Table 02: MTMF and actual investment and national savings

Component	MTMF	2008-09	2009-10	2010-11	2011-12	2012-13	2012-14	2014-15
Gross Investment (as percentage of GDP)	MTMF 08-11	24.4	26.3	27				
	MTMF 09-12		23.6	24.3	25.2			
	MTMF 12-16			26.5	28.8	29.6	31.0	32.5
	MTMF 13-17				25.9	26.6	28.1	29.6
Actual Investment		24.18	25.0	24.4	25.45*			
Actual National Savings		29.6	30.02	28.78	29.40*			
National Savings(as percentage of GDP)	MTMF 12-16			28.3	29.8	30.4	31.1	32.8
	MTMF 13-17				26.3	26.8	28.2	29.6

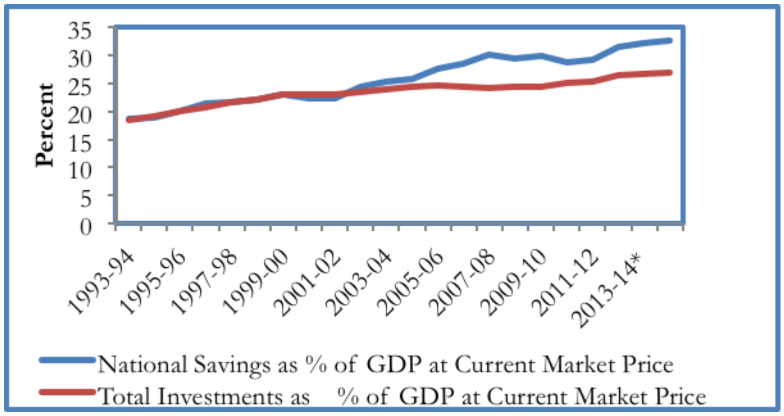
Source: Bangladesh Bank and Finance Division, Ministry of Finance, Bangladesh

[1] The details projection procedure is shown in Appendix: C

In FY 2009-10, investment increased slightly to 25 percent of the GDP but in FY 2010-11, it again declined to 24.4 percent. In FY 2011-12, the provisionally estimated investment was 25.45 percent of the GDP. In case of investment, the government could not achieve the targets set in any of the revised MTMFs.

The MTMF projections assume no gap between savings and investment by 2014-2015 at 29.6 percent of the current GDP. The adopted policy, however, does not support this target.

Figure 01: National savings and total investment as percentage of current GDP



Source: Bangladesh Bank, 2012.

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In the case of percentage change in broad money, there is a mismatch between MTMF projections and the actual money supply. All MTMF projections assume a decreasing trend in the percentage change in broad money

A regression analysis based on corresponding growth-investment data suggests that investment of USD 2460 billion is required to achieve 7.2 percent economic growth for the current fiscal year.[2]

2.3 Money Supply and Credit

In the case of percentage change in broad money, there is a mismatch between MTMF projections and the actual money supply. All MTMF projections assume a decreasing trend in the percentage change in broad money but the change in broad money supply has always exceeded the target levels albeit at a decreasing rate.

MTMF targets for domestic and private sector credit are on contractionary mode. The credit growth increased in both these sectors during FY 2008-09 and FY 2010-11, but started to fall in FY 2011-12

The growth of broad money during FY 2008-09 rose to 19.2 percent from 17.6 percent in FY 2007-08. In FY 2009-10, the growth of broad money increased slightly reaching 22.4 percent. It was 21.34 and 17.39 percent in FY 2010-11 and FY 2011-12 respectively reflecting the contraction of the monetary policy.

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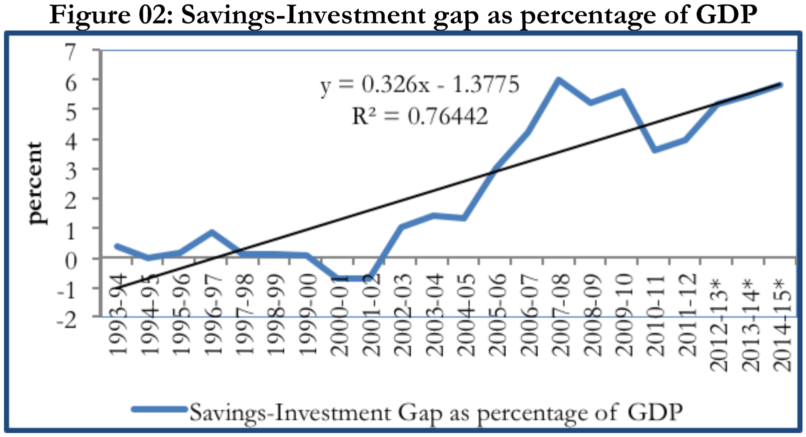
Figure 02: Savings-Investment gap as percentage of GDP



Source: Author's calculation based on data of Bangladesh Bank, 2012

[2] The details of the regression have been shown in Appendix: D

The recent contractionary monetary policy has been adopted to curb monetary expansion and thereby reduce broad money in the near future. The growth of broad money and domestic credit is supposed to decline over three sub sequential years, which is indicative of high interest rates during those years. Because of this, investment is negatively affected and consequently the real economic rate of growth has been hampered. Private sector credit is projected to remain constant during this period. The main objective of a contractionary monetary policy is reduction of the rate of inflation.

Table 03: Domestic credit, credit in private sector and broad money

Component	MTMF	2008-09	2009-10	2010-11	2011-12	2012-13	2012-14	2014-15
Domestic Credit (percentage change)	MTMF 08-11	18	18.2	17.9				
	MTMF 09-12		19.2	18.8	18.4			
	MTMF 12-16			17.7	19.2	19.5	19.5	19.2
	MTMF 13-17				19.1	18	17.1	16.7
Actual change of DC		15.9	17.6	27.42	19.53			
Credit in private sector (percentage change)	MTMF 08-11	17	19	19				
	MTMF 09-12		18.3	18.5	18.5			
	MTMF 12-16			18	18	18	18.5	18.5
	MTMF 13-17				16	16	16	16
Actual change		14.6	24.2	25.83	19.72			
Broad Money (M2) (percentage change)	MTMF 08-11	16.9	15.8	15.3				
	MTMF 09-12		16.3	16.2	16			
	MTMF 12-16			16	15.8	15.8	15.7	15.5
	MTMF 13-17				17	16	15.5	15.5
Actual change		19.2	22.4	21.34	17.39			

Source: Bangladesh Bank and Finance Division, Ministry of Finance, Bangladesh

A recent study of Unnayan Onneshan (UO) has shown that there is no statistically significant relationship between money supply and inflation that could explain the growth of GDP in the short run, but there is a statistically significant positive relationship between these two variables in the long run. The results of the empirical analyses have major policy implications, particularly in articulating monetary policy. The evidence

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suggests that in the short run, there is a need to focus on understanding the level of price, the sources of inflation and its relationship with other complementary policies affecting growth and employment rather than employing a limited one-pronged approach of targeting inflation only.

The deficit does not augment capital formation and thus fails to contribute to the growth process in any way. Moreover, the unprecedented government borrowings projected for FY 2012-13 seems to squeeze liquidity and force up interest rates.

The government has adopted a contractionary monetary policy for the last three years to fight inflation but the real reasons for the present sky rocketing prices may well be hidden in the government's myopic policy mixture leading to misidentification of the source of inflation.

2.4 Fiscal Management

Table 04: Budget deficit

Component	MTMF	2008-09	2009-10	2010-11	2011-12	2012-13	2012-14	2014-15
Budget Deficit (as percentage of GDP)	MTMF 08-11	5	4.4	4				
	MTMF 09-12		5	4.8	4.7			
	MTMF 12-16			4.3	5.0	5	5	5
	MTMF 13-17				5.1	5	4.7	4.6
Actual Budget Deficit		4.1	4.5	4.4	5.1			

Source: Bangladesh Bank and Finance Division, Ministry of Finance, Bangladesh

Because of the government's contractionary monetary policy, interest rates are already high and investment levels low.

The MTMFs assume around five percent fiscal deficit (the difference between available finance and actual spending). The present unsatisfactory trend of these deficits is, however, the result of government' shortsighted policies. A major cause of this deficit is the huge amount of money paid out of government coffers to subsidize the operations of the quick rental power plants that are based on a short-run concept with scant regard for long-term sustainability.

The deficit does not augment capital formation and thus fails to contribute to the growth process in any way. Moreover, the unprecedented government borrowings projected for FY 2012-13 seems to squeeze liquidity and force up interest rates. A liquidity crisis already exists in the economy because of the massive borrowing from the Central Bank.

The major contributor to the growth of the Bangladesh economy is consumption. Because of the government's contractionary monetary policy, interest rates are already high and investment levels low. The higher rate of interest also reduces consumption and thereby appears to have potential to restrict growth.

2.5 Exchange Market

The flexible exchange-rate system contributes to the acceleration of inflation because of the unabated depreciation of the taka. In an import-dependent economy where imports far outweigh exports, the additional taka amount required, because of depreciation, to finance imports is much greater than the money coming in from exports. Obviously, the increase in the export-import gap also adversely affects the BoP situation. The burden of external repayment depreciates the taka and consequently, increases the cost of import. As a result, the inflation goes up creating pressure on the BoP.

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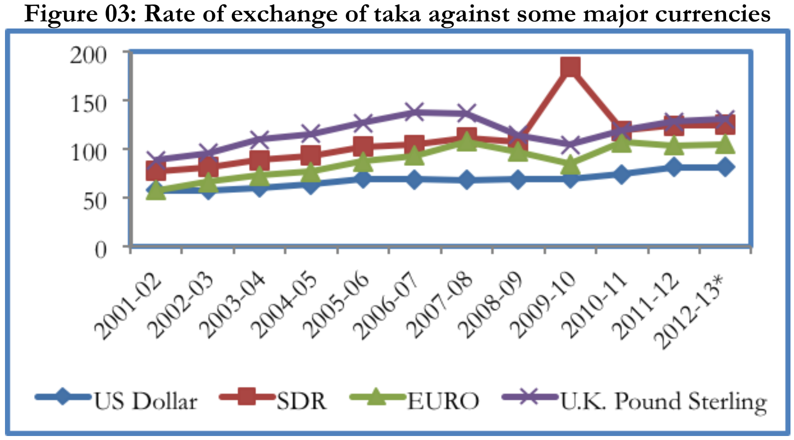
Figure 03: Rate of exchange of taka against some major currencies



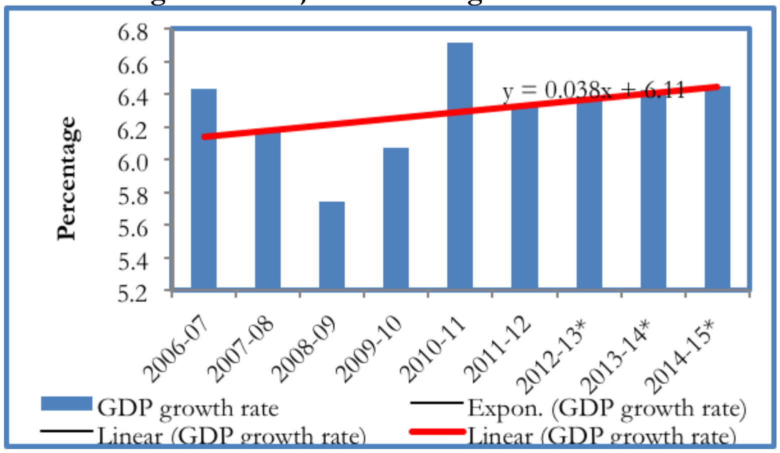
Source: Bangladesh Bank, 2012

Over time, the taka has depreciated against major currencies such as USD, SDR, EURO and Pound Sterling (Figure - 3).

2.6 Scenarios of GDP growth

Considering the historical patterns, real GDP growth may be 6.37, 6.42 and 6.45 percent in FY 2012-13, FY2013-14 and FY 2014-15 respectively.

Figure 04: Projected rate of growth in GDP



Source: Projection based on data of Bangladesh Bank, 2012[3]

2.7 A Comparison of the projections by IMF, MTMF and UO on GDP Growth

If IMF-MEFP is followed, the Unnayan Onneshan projects that real GDP growth may be 5.75, 5.65 and 5.56 in FY 2012-13, FY 2013-14 and FY 2014-15 respectively.

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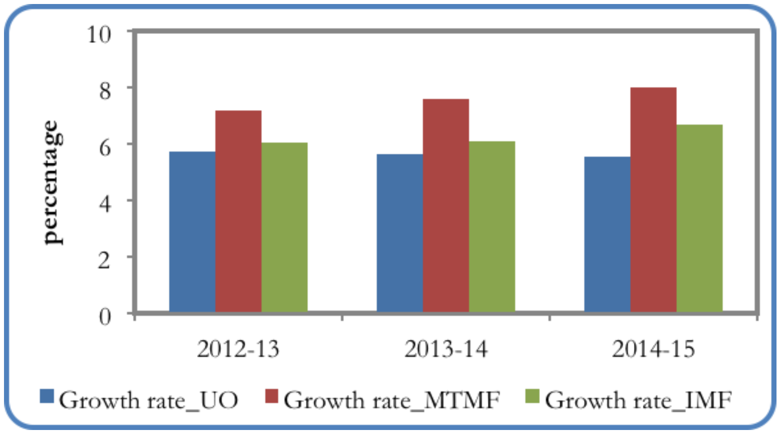
MTMF and IMF have made similar projections for real GDP growth, CPI inflation and the current account balance as percentage of GDP. They employ a similar ruse: data fallacy. According to them, the decreasing rate of CPI inflation and current account balance produces a sharp increase in real growth trends. It has, however, already been established that CPI index and current account balance increases as a result of the application of IMF policies causing real GDP growth rate to decline.

3. The details of the projection have been shown in Appendix: A & B

In the budget for FY 2012-13, the government's targeted budget deficit is Tk. 520680 million, which is 12.39 percent higher than that of FY 2011-12.

Deficit as percentage of GDP was 5.06 percent in FY 2011-12; the same variable was 4.35, 4.47 and 4.06 percent in FY 2010-11, FY 2009-10 and FY 2008-09 respectively

Figure 05: Comparison of real GDP growth projections by IMF, MTMF and UO



Source: Finance Division, Ministry of Finance, Bangladesh, IMF and Author's projection

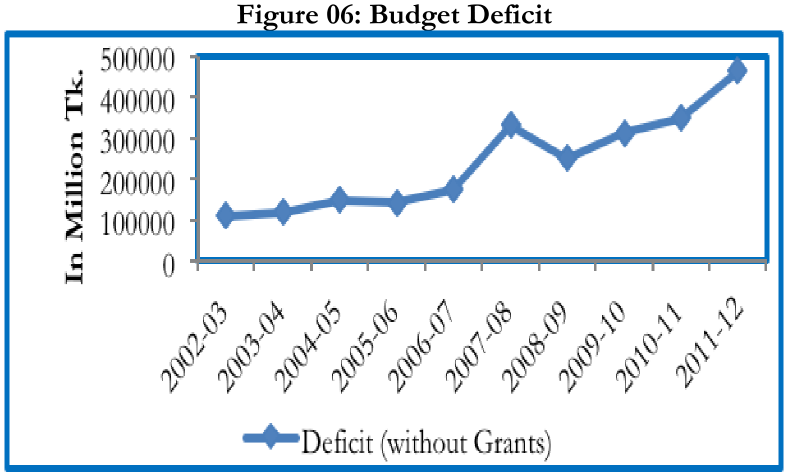
It is shown that the projections of IMF and MTMF are almost identical which indicates that the basic tools of that projection is similar. A gap between these two projections by UO is there which has occurred due to the myopic policy adopted by IMF.

3. REVENUE-EXPENDITURE BALANCE

3.1 Deficit

Over the years, deficit has been increasing steadily (except for a fall in FY 2007-2008). In the budget for FY 2012-13, the government's targeted budget deficit is Tk. 520680 million, which is 12.39 percent higher than that of FY 2011-12. In FY 2011-12, actual deficit (without grants) was Tk. 463280 million. In the 1st quarter (July-September) of the FY 2012-13, budget deficit was about 60 percent less than the deficit during the same period of the previous fiscal year.

Figure 06: Budget Deficit



Source: Finance Division, National Board of Revenue (NBR), Implementation Monitoring and Evaluation Division (IMED), Planning ministry, 2012

Deficit as percentage of GDP was 5.06 percent in FY 2011-12; the same variable was 4.35, 4.47 and 4.06 percent in FY 2010-11, FY 2009-10 and FY 2008-09 respectively.

Table 05: Average deficit as percent of GDP under various regimes

Regime	Deficit (without Grants)
FY 2002-03 to FY 2007-08	3.65
FY 2007-08 to FY 2008-09	5.06
FY 2009-10 to FY2011-12	4.63
UO Projection FY 2012-13	5.11
MTBF Projection FY 2012-13	5.00

Source: Finance Division, National Board of Revenue (NBR), Implementation, Monitoring and Evaluation Division (IMED) and Planning Ministry, 2012.

The gap between expenditure and revenue has been increasing on a year-to-year basis because government expenditure has been increasing more rapidly than revenue.

During FY 2002-03 to FY 2007-08, average deficit as a percentage of GDP was 3.65; the same was 4.63 during FY 2009-10 to FY 2011-12. On the other hand, the gap between the forecast of deficit (as a percentage of GDP) based actual past figures and the MTMF projection may be 0.11 in FY 2012-13.

3.2 Government Expenditure and Revenue

The gap between expenditure and revenue has been increasing on a year-to-year basis because government expenditure has been increasing more rapidly than revenue.

In FY 2011-12, revenue collection was Tk.1148850 million, 20.69 percent higher than that of the previous year whereas government expenditure at Tk. 1612130 million was 17.62 percent more than that of the previous year.

In the last decade, revenue collection as percentage of GDP increased by 2.21 whereas expenditure as a percentage of GDP increased by 3.63.

3.2.1 Government Expenditure and Revenue as Percentage of GDP

In the last decade, revenue collection as percentage of GDP increased by 2.21 whereas expenditure as a percentage of GDP increased by 3.63.

In FY 2011-12, the non-development expenditure as a percentage of GDP was 11.05 percent and the development expenditure as percentage of GDP was 4.98 percent; the same variables were 10.57 and 5.01 percent respectively in FY 2010-11.

According to projections based on historical patterns, non-development expenditure as a percentage of GDP may be 11.13 in FY 2012-2013 whereas MTBF predicts it to be 13.1 during the same period.

Table 06: Components of government expenditure as percentage of GDP in various regimes

Regime	Non-development expenditure (percent)	Development expenditure (percent)
FY 2002-03 to FY 2007-08	8.89	4.74
FY 2007-08 to FY 2008-09	10.78	4.36
FY 2009-10 to FY2011-12	10.91	4.83
UO Projection FY 2012-13	11.13	4.98
MTBF Projection FY 2012-13	13.1	5.3

Source: Implementation Monitoring and Evaluation Division (IMED), Planning Ministry and Finance Division, 2012

According to projections based on historical patterns, non-development expenditure as a percentage of GDP may be 11.13 in FY 2012-2013 whereas MTBF predicts it to be 13.1 during the same period.

In FY 2011-12, tax revenue as a percentage of GDP was 10.53 and non-tax revenue as percentage of GDP was 2.03; the same variables were 10.04 and 2.05 percent in the FY 2010-11.

Table 07: Major components of tax revenue as percentage of GDP

Regime	Tax on income and profit	Value added tax (VAT)	Import duty	Supplementary duty
FY 2002-03 to FY 2007-08	1.66	2.80	2.01	1.49
FY 2007-08 to FY 2008-09	2.11	3.19	1.63	1.47
FY 2009-10 to FY 2011-12	2.74	3.53	1.42	1.66
UO Projection 2012-13	3.11	3.78	1.36	1.78

Source: Finance Division, Finance Ministry, 2012

During FY 2009-10 to FY 2011-12, average 'tax on income and profit' as percentage of GDP was 2.74; this was 1.66 percent during FY 2002-03-FY 2007-08, indicating a marked increase under the current regime. However, during the latter period, the 'import duty' component, as percentage of GDP, has decreased. According to historical patterns, average 'tax on income and profit' and 'VAT' as percentage of GDP might increase and 'import duty' as percentage of GDP might decrease in FY 2012-13.

3.2.2 Subsidies in Energy and Power Sectors

Subsidy for the energy and power sectors has surpassed that for agriculture and social sectors. This may result in price hikes of essential goods and reduction of social welfare programmes thus adversely affecting the marginalised sections of society. The rise in global fuel prices and increased imports of petroleum products for the quick rental power plants has necessitated a 30.31 percent increase in total subsidy in the current budget over the previous fiscal to Tk. 144450 million. The contracts for the rental power plants, which were due to expire in December 2012, have been extended for another year because the government failed to generate additional capacity from the public sector power plants. This will cost an additional Tk.12000 million in subsidies. Subsidy for the power sector during the current fiscal is Tk. 38500 and this is likely to increase in future. Consequently, all sectors of the economy are likely to be adversely affected.

The rise in global fuel prices and increased imports of petroleum products for the quick rental power plants has necessitated a 30.31 percent increase in total subsidy in the current budget over the previous fiscal to Tk. 144450 million.

Table 08: Subsidy, interest payment, pay/allowances and pensions/gratuities as percentage of GDP

Regime	Subsidy	Interest payment	Pay and allowances	Pensions and Gratuities
FY 2002-03 to FY 2007-08	0.51	1.82	2.46	0.57
FY 2007-08 to FY 2008-09	1.22	2.18	2.48	0.61
FY 2009-10 to FY2011-12	1.21	2.03	2.46	0.53
UO Projection FY 2012-13	1.37	2.17	2.35	0.55

Source: Ministry of Finance, Budget in a brief, 2012

During FY 2009-10 to FY 2011-12, average subsidy as percentage of GDP was 0.51. This was 1.21 during FY 2002-03-FY 2006-07.

3.2.3 Power Generation

The high level of subsidy is attracting more private sector investment in power generation reducing the share of the public sector. The resultant dependency on the private sector may induce rent seeking as well as an increase in the price of power. In FY 2011-12, the share of the public sector in net power generation was 9 and 38.90 percent less than FY 2010-11 and FY 2000-01 respectively.

3.3 Deficit Financing and Debt Management

Over the years, domestic financing has been increasing at an alarming amount but net foreign finance (without grants) has increased only a little; grants, too, have dried up. The government has become more and more dependent on the banking sector for domestic financing.

In the first quarter (July-September) of the current fiscal year, foreign financing was Tk. 27334 million. This was only Tk. 9043.9 million during the same period of FY 2011-12. In the FY 2011-12, domestic financing was Tk. 344690 million and net foreign financing (without grants) was Tk. 73990 million.

In the last decade, domestic financing as percentage of GDP increased at an alarming rate while foreign financing and grants as percentage of GDP decreased.

Table 09: Components of deficit financing as percentage of GDP under various regimes

Regime	Domestic Financing (percent)	Net Foreign Finance (without grants) (percent)	Grants (percent)
FY 2002-03 to FY 2007-08	1.87	1.28	0.81
FY 2007-08 to FY 2008-09	2.45	0.95	0.84
FY 2009-10 to FY 2011-12	3.13	0.99	0.52
UO Projection 2012-13	3.85	0.79	0.48
MTBF Projection FY 2012-13	3.20	1.8 (Foreign Finance + grants)	

Source: Bangladesh Bank, Bangladesh Bureau of Statistics, Finance Division, Finance Ministry, 2012

During FY 2009-10 - FY 2011-12, average domestic financing as percentage of GDP was 1.26 percent higher and average net foreign financing and grants as percent of GDP were each 0.29 percent lower than what it was during FY 2002-03 - FY 2006-07. The gap between forecasts based on historical patterns and MTBF projections of domestic financing as percentage of GDP may be 0.65 percent.

In recent years, domestic financing from banking sector has increased substantially while non-banking sector contribution has decreased.

3.3.1. Components of domestic financing

In recent years, domestic financing from banking sector has increased substantially while non-banking sector contribution has decreased.

In the first quarter (July-September) of the current fiscal year, net domestic financing was only Tk. 9805.5 million. This was Tk. 82728.8 million during the same period of FY 2011-12

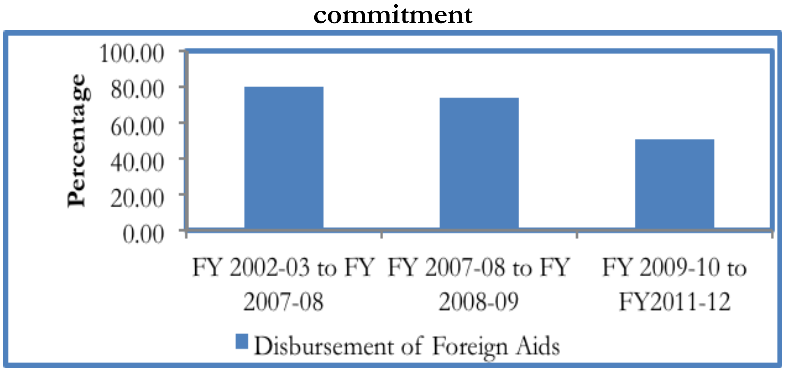
In the first quarter (July-September) of the current fiscal year, net domestic financing was only Tk. 9805.5 million. This was Tk. 82728.8 million during the same period of FY 2011-12. In FY 2011-12, domestic financing from banking sector was Tk. 291150 million; this was Tk. 183800 million in FY 2010-11. In contrast, domestic financing from non-banking sector during the corresponding periods (FY 2011-12 and FY 2010-11) was only Tk. 53540 million and Tk.64400 million respectively.

3.3.2 Commitment and Disbursement of Aids (Loans and Grants)

In FY 2010-11 and FY 2011-12, there was a marked divergence between commitment and disbursement of different forms of foreign aid.

In FY 2011-12, total commitment was USD 4490 million of which less than half (USD 2030 million) was disbursed. During the tenure of the current government (FY 2009-10 to FY 2011-12), disbursement of foreign aid was 50.99 percent of total commitment whereas it was 74.05 and 80.31 percent during FY 2007-8 to FY 2008/09 and FY 2002-03 to FY 2006-07 respectively.

Figure 07: Disbursement of foreign aids as percentage of commitment



Source: Economic Relation Division, Ministry of Finance, 2011

3.4 Debt Burden

Per capita debt burden has been increasing over the years. The continuously rising public debt has been exerting pressure on the macro-economic stability of the country. As a result, a new situation has emerged wherein new debts are being used to pay off old debts (and interest accrued thereon) instead of for growth augmenting programmes.

According to the budget, per capita debt is now Tk. 2998.31. In FY 2011-12, it was Tk. 2761.74, which was 35.11 percent more than what it was in FY 2010-11.

According to the budget, per capita debt is now Tk. 2998.31. In FY 2011-12, it was Tk. 2761.74, which was 35.11 percent more than what it was in FY 2010-11. Per capita debt burden was Tk. 2044.09, Tk. 1868.58 and Tk. 1389.04 in FY 2010-11, FY 2009-10 and FY 2008-09 respectively. According to historical patterns, per capita debt burden might be Tk.2975 in FY 2012-13.

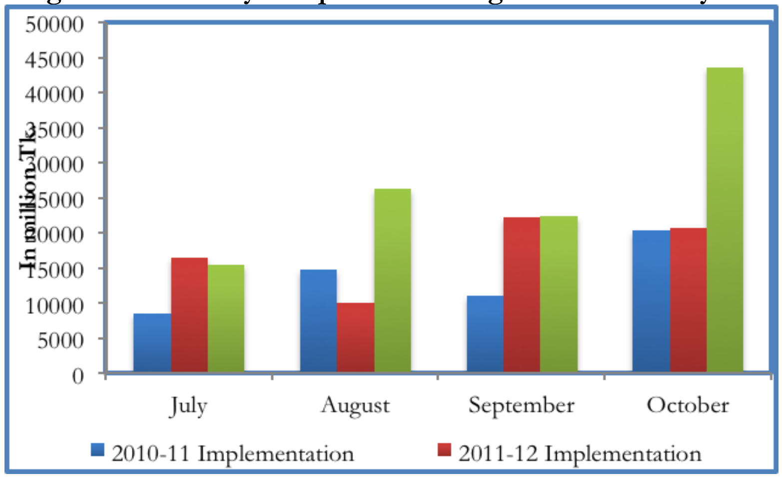
4. ANNUAL DEVELOPMENT PROGRAMME (ADP)

The rate of increase in ADP implementation has been decreasing after FY 2009-10. ADP allocation for the current fiscal year (FY 2012- 13) is Tk. 550000 million, 33.86 percent higher than that of the revised ADP of the last fiscal year (FY 2011-2012)

Every year, the government sets a highly ambitious ADP target which is unrealistic in view of low implementation capacity. ADP allocation has been increasing continuously over the last twenty years (except FY 2008-09) but implementation has been consistently short of target. Moreover, it is observed that the rate of increase in ADP implementation has been decreasing after FY 2009-10. ADP allocation for the current fiscal year (FY 2012- 13) is Tk. 550000 million, 33.86 percent higher than that of the revised ADP of the last fiscal year (FY 2011-2012). ADP implementation in October 2012 was Tk. 43482 million which is respectively 111.38 and 114.76 percent higher than that of the corresponding month of FY 2011-12 and FY 2010-11.

ADP implementation up to October of the current fiscal was higher than in any of the last five fiscal years. Road Division, which had utilized only 0.13 percent of their total allocation up to September 2012, suddenly accelerated implementation in October raising total implementation to 27 percent by the end of the month. This expenditure contributes 20 percent of the total allocation of ADP during July-October 2012, which was 15 percent in the same period of the previous fiscal year. Furthermore, the average implementation as percentage of revised ADP was 91.12 percent during FY 2009/10 - FY 2012/13 whereas it was 90.23 percent during FY 2000/01 - FY 2005/06. An estimate based on past data reveals that total implementation as percentage of proposed ADP might reach at 89.51 percent by the end of FY 2012-13.

Figure 08: Monthly comparison among the three fiscal years



Source: Finance Division, Ministry of Finance and Implementation Monitoring and Evaluation Division (IMED), 2012

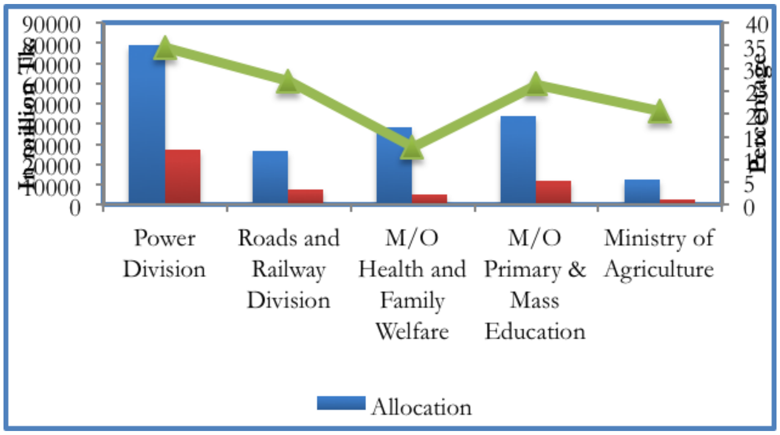
During the July-October period of FY 2012-13, the highest ADP expenditure was in power division, which was 34 percent of the total allocation and the Roads, and Railway Division utilized Tk. 7162 million from the allocated Tk. 26522 million.

4.1 Allocation and Implementation Status of Some Major Ministries

The allocations of the ministries of Education, Primary & Mass Education, Communication (Roads and Railway Division) and Health and Family Welfare have been decreasing over the last three fiscal years since a large share (14.35 percent) of the development budget totaling Tk. 78905 million went to the power division. In FY 2012-13, shares of the Roads and Railway Division, Ministry of Primary and Mass Education, Ministry of Health and Family Welfare and Ministry of Education in the total development budget are 4.82, 8.0, 7.0 and 2.1 percent respectively.

During the July-October period of FY 2012-13, the highest ADP expenditure was in power division, which was 34 percent of the total allocation and the Roads, and Railway Division utilized Tk. 7162 million from the allocated Tk. 26522 million. The Ministry of Primary and Mass Education utilized only Tk. 11667 million out of the allocated Tk. 43822 million during the same period. Among them, the lowest share of ADP allocation went to the Ministry of Health and Family Welfare, which utilized only Tk. 4843 million that was 13 percent of their total allocation.

Figure 09: Implementation status among the major large ministries



Source: Finance Division, Ministry of Finance and Implementation Monitoring and Evaluation Division (IMED), 2012

The data of Implementation Monitoring and Evaluation Division (IMED) suggests that all the government ministries and divisions together have utilized Tk. 70565 million during July-October 2012

According to newspaper reports, the data of Implementation Monitoring and Evaluation Division (IMED) suggests that all the government ministries and divisions together have utilized Tk. 70565 million during July-October 2012; 21 percent fund of the allocated Tk. 33502 million came from government's own resources whereas 17 percent of Tk. 21512 billion came from the project assistance.[4]

5. EXTERNAL BALANCE

5.1 Current Account Balance

5.1.1 Trade Balance

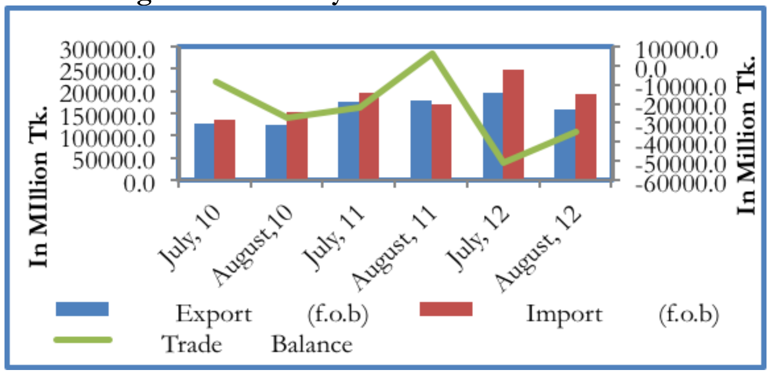
During July-August of the current fiscal year, import payment was 24.38 percent more than export earning; corresponding figures were 14.25 and 4.29 percent respectively in FY 2011-12 and FY 2010-11

Between July and September of the current fiscal year, trade deficit was USD 77 million more than that of the same period of the previous fiscal year. This occurred because the increase in export earning was only USD 82 million whereas import payment increased by USD 159 million during this period. During July-August of the current fiscal year, import payment was 24.38 percent more than export earning; corresponding figures were 14.25 and 4.29 percent respectively in FY 2011-12 and FY 2010-11. In the month of September 2012, import bills of crude petroleum and petroleum products were respectively 2.14 and 262.12 percent higher than that of the previous fiscal year. In FY 2011-12, total imports of crude petroleum and petroleum products amounted to Tk. 83870 and Tk. 304840

[4]http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMTFfMjBfMTJfMV8yXzE1MDU4Nw==

million respectively, which is respectively 32.09 and 32.19 percent more than FY 2010-11 figures.

Figure 10: Monthly scenario of trade balance



Source: Bangladesh Bank, Monthly Publication, 2012

In the month of November 2012, total export earning was USD 1765 million against a target of USD 1990 million, an 11.35 percent shortfall.

However, import of raw material of some exportable goods is decreasing. During July to September of the current fiscal year, outstanding LCs for industrial raw materials and capital machinery were USD 2367.72 million and USD 118.76 million more than those of the corresponding period of the previous fiscal year. This might have a long-term adverse impact on the economy of Bangladesh. The shares of crude petroleum and petroleum products in total import were 2.99 and 10.85 percent; this is respectively 0.34 and 1.24 percent more than those of the previous fiscal year.

In the month of September 2012, export earnings from readymade garments (including knit wear and hosiery) and fish & shrimp were Tk. 11122 million and Tk. 335 million respectively which is Tk. 890 million and Tk. 148 million less than corresponding figures for September 2011

Though the rate of export growth is increasing, it is still short of target. In the month of November 2012, total export earning was USD 1765 million against a target of USD 1990 million, an 11.35 percent shortfall. There was a downward trend in the export of some commodities during the last quarter of the previous fiscal year (2011-2012). During this period, EU member countries emerged as the largest buyers of Bangladeshi goods; their combined imports totaled Tk.206897 million (or 53.2 percent of the country's total exports). Total exports to EU countries during the corresponding period of the previous year was however Tk. 212402.00 million (or 55.6 percent of total exports). Similarly, exports to North American Free Trade Agreement (NAFTA), OIC (Organization of Islamic Countries) and other European countries reduced by USD 72.73, USD 36.18 and USD 82.38 respectively. In the month of September 2012, export earnings from readymade garments (including knit wear and hosiery) and fish & shrimp were Tk. 11122 million and Tk. 335 million respectively which is Tk. 890 million and Tk. 148 million less than corresponding figures for September 2011.

In FY 2011-12, total export earning and import payment were Tk. 195820.9 million and Tk. 252310.1 million respectively which are 19.49 and 18.00 percent more than the figures of FY 2010-11. During FY 2009/10 - FY 2011/12, the average rates of growth in export and import were 23.4 and 22.84 percent respectively whereas these were 16.69 and 18.24 percent during FY 2002/03 - FY 2004/05.

5.1.2 Exchange Rate Depreciation

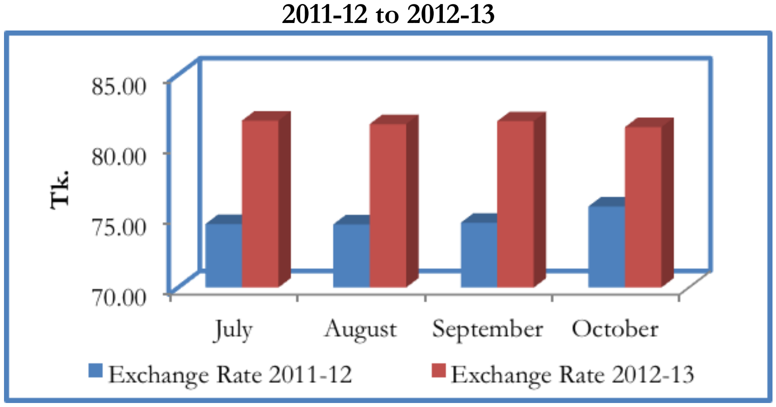
The exchange rate has been exhibiting signs of instability because of the Euro zone crisis, higher oil price and excessive increase in import payments

Depreciation of Taka against USD further increases the Taka value of import bills thereby increasing the trade deficit. During the last four months of the current fiscal year, the average exchange rate was Tk. 81.58, which is Tk. 6.78 more than that of the same period of the previous fiscal year. The exchange rates were Tk. 81.73 and Tk. 81.52 respectively in the months of September and October, 2012. Depreciation of Taka against USD was 0.54, 0.08 and -0.01 percent in the months of October, September and August of FY 2012-13 respectively.

The inflow of foreign loan and grants has lessened creating pressure on the foreign exchange reserve. Depreciation of Taka will make imported goods more costly and the exportable goods cheaper for the buyers

The exchange rate has been exhibiting signs of instability because of the Euro zone crisis, higher oil price and excessive increase in import payments. The price of light suit crude oil in the New York Mercantile Exchange has increased by USD 1.22 per barrel reaching USD 86.67 on 16th November, 2012. In the London Intercontinental Exchange, the Brent crude oil price rose by USD 0.98 per barrel. The main reason for the increase in Bangladesh's import bill was the additional import of petroleum products and crude petroleum for the quick rental power plants. Moreover, the inflow of foreign loan and grants has lessened creating pressure on the foreign exchange reserve. Depreciation of Taka will make imported goods more costly and the exportable goods cheaper for the buyers.

Figure 11: Monthly comparison of exchange rate between FY 2011-12 to 2012-13

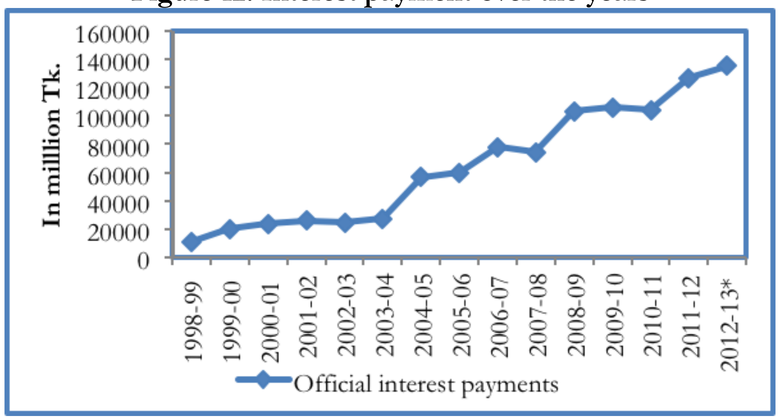


Source: Bangladesh Bank, Monthly Publication, 2012

5.1.3 Interest Payment

In order to meet expenditure requirements, Bangladesh has to borrow regularly from different sources under various conditions. As a result, interest payment on loans is a major factor affecting the BoP.

Figure 12: Interest payment over the years



Source: Authors' calculation based on Bangladesh Bank, Economic data, 2012

Interest payment has been increasing over the years. During the July-August period of FY 2012-13, total official interest payment was USD 113 million, USD 12 million more than that of the same period of FY 2011-12

Interest payment has been increasing over the years. During the July-August period of FY 2012-13, total official interest payment was USD 113 million, USD 12 million more than that of the same period of FY 2011-12. In FY 2011-12, interest payment was Tk.127174 million, Tk. 23185 million higher than that of FY 2010-11. According to historical patterns, interest payment may increase to Tk. 135478 million in FY 2012-13, Tk. 23185 million more than that of FY 2012-13. During FY 2002/03 - FY 2004/05, the annual average rate of growth in interest payment was 37.88 percent whereas it was 7.29 percent during FY 2009/10 - FY 2011/12.

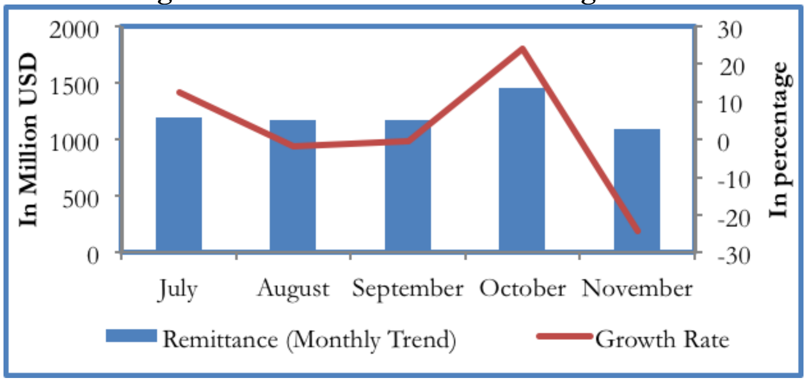
The flow of remittance has been increasing in volume, but the rate of growth in remittance has decreased since FY 2008-09 except in the last fiscal year

5.1.4 Remittance Inflows in Bangladesh

Over the years, the flow of remittance has been increasing in volume, but the rate of growth in remittance has decreased since FY 2008-09 except in the last fiscal year. Moreover, inflow of remittance in the current fiscal year exhibits a downward trend except for the month of October.

In the month of November 2012, total remittance inflow was USD 1098.25 million which was respectively USD 355.35 million, USD 73.65 million, USD 80.40 million and USD 102.90 million less than those of October, September, August and July in of the same year. The rates of growth in remittance were -24.45, 24.04, -0.57 and -1.87 percent in the months of November, October, September and August of the current year.

Figure 13: Remittance Inflow in Bangladesh



Source: Bangladesh Bank, Economic data, Monthly Publication 2012

In FY 2011-12, the actual receipt of remittance was USD 12.84 billion against the MTMF target of USD 12.90 billion. In FY 2012-13, the receipt of remittance may be USD 13.46 billion against the MTMF projection of USD 14.50 billion, indicating a gap of USD 1.04 billion

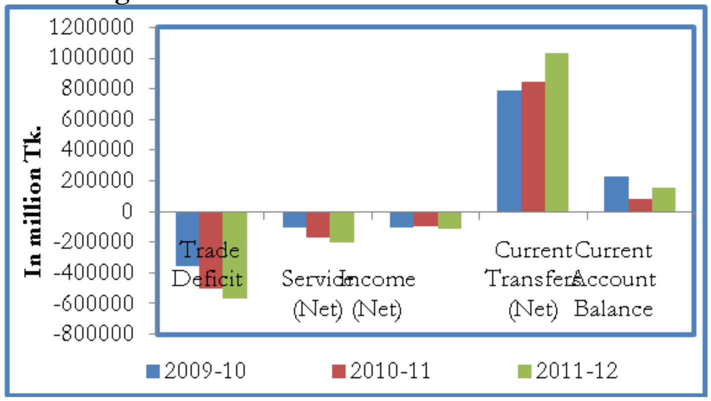
Labour migration has decreased due to the depressed demand caused by political instability in some of the Middle Eastern countries (the region that recruits most of temporary migrant workers), stoppage of visas by U.A.E. and the recent spat between recruiting agencies and the government regarding government-to-government recruiting for Malaysia. In the months of September and August of 2012, manpower export was respectively 33161 and 43773; this was respectively 24.24 and 30.20 percent less than that of July, 2012. The situation has been further exacerbated by the existing structural problems such as lesser proportion of skilled workers and professionals going abroad for employment and failure to add new export destination during the current decade. The gap between actual flow of remittance and MTMF projection might widen substantially. In FY 2011-12, the actual receipt of remittance was USD 12.84 billion against the MTMF target of USD 12.90 billion. In FY 2012-13, the receipt of remittance may be USD 13.46 billion against the MTMF projection of USD 14.50 billion, indicating a gap of USD 1.04 billion.

5.1.5 Current Account Balance and Remittance

Increase in remittance helped the current account balance to remain positive, despite the persistent increases in the trade deficit and deficit in services over the years. In FY 2011-12, current account balance showed a positive trend after declinig in the previous fiscal year. In FY 2011-12, current account balance was Tk.156563 million, Tk. 74794 million more and Tk. 72998 million less than those of FY 2010-11 and FY 2009-10.

During July-September of FY 2012-13, capital account was in surplus at USD 120 million; this was USD 121 million during the same period of FY 2011-12.

Figure 14 : State of current account balance



Source: Statistics Department, Bangladesh Bank, Economic data, 2012

During the July-September period of FY 2012-13, current account balance increased to USD 135 million. According to historical patterns, current account balance may be USD 1720 million in FY 2012-13.

5.2 Capital Account Balance

During July-September of FY 2012-13, capital account was in surplus at USD 120 million; this was USD 121 million during the same period of FY 2011-12. In FY 2011-12, total capital transfer was TK.38888 million; this was Tk. 34537 million in FY 2010-11. The highest amount of surplus in capital transfer was Tk. 39525 million in FY 2007-08. A surplus in the capital account signifies increased inflow of money into the country; a deficit capital account means that money is flowing out of the country.

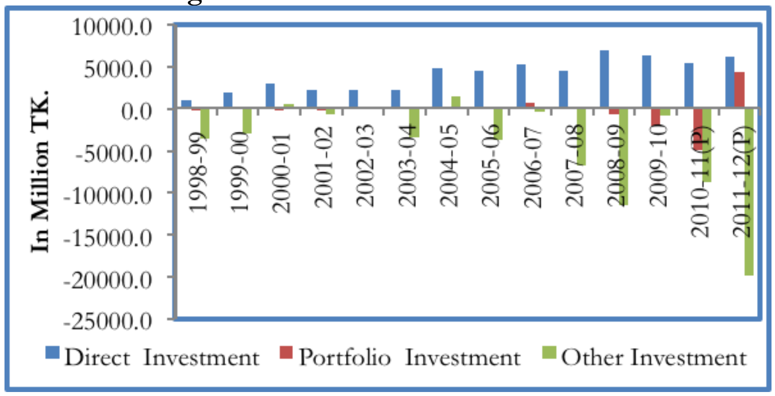
FDI (Foreign Direct Investment) as percent of Gross Domestic Product (GDP) has been decreasing over the years because of political turmoil, global economic crisis, increase in inflation, drying up of foreign aid

5.3 Financial Account Balance

FDI (Foreign Direct Investment) as percent of Gross Domestic Product (GDP) has been decreasing over the years because of political turmoil, global economic crisis, increase in inflation, drying up of foreign aid. In FY 2011-12, total inflow of FDI was Tk. 62239 million and FDI as percentage of GDP was 0.68; these were 0.90 percent in FY 2009-10 and 1.14 percent in FY 2008-09. FDI as percentage of total investment has also declined during this period.

In FY 2011-12, FDI as percentage of total investment was 2.67 percent; this was respectively 0.03, 1.05 and 1.98 percent less than those of FY 2010-11, FY 2009-10 and FY 2008-09.

Figure 15: Financial account balance



Source: Statistics Department, Bangladesh Bank and Export promotion Bureau, 2012

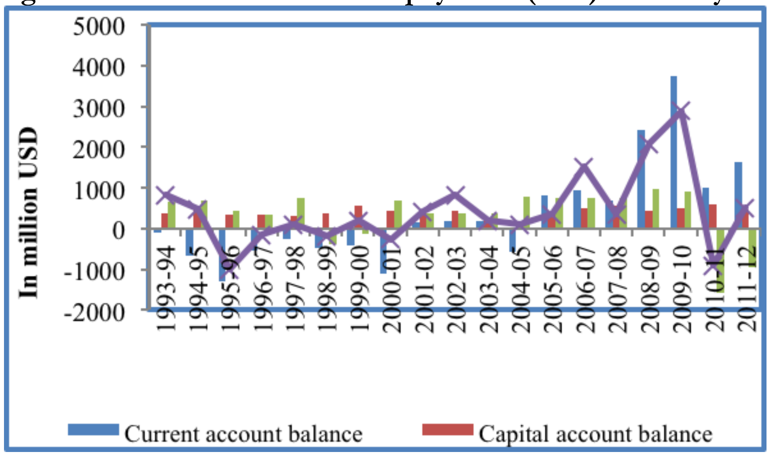
During July- September 2012, net inflow of FDI , portfolio investment and net other investment (including capital flows into bank accounts) was USD 450 million, USD 53 million and USD 402 million respectively; this was USD 306 million, USD 350 million and USD 42 million respectively during the same period of FY 2011-12.

During July- September 2012, net inflow of FDI , portfolio investment and net other investment (including capital flows into bank accounts) was USD 450 million, USD 53 million and USD 402 million respectively; this was USD 306 million, USD 350 million and USD 42 million respectively during the same period of FY 2011-12. A continuous negative trend of net other investments has been persisting from FY 2003-04 to FY 2010-11

5.4 Overall Balance Of Payments

The trade balance has registered a deficit of USD 1984 million in the first quarter of FY 2012-13 whereas the deficit was USD 1907 million during the same period of FY 2011-12. However, remittance inflows from expatriate workers during this period contributed to a current account surplus of USD 135 million. Due to a financial account surplus of USD 905 million and a current account surplus of USD 135 million, the surplus in overall balances during July-September 2012 was USD 1114 million against a deficit of USD 99 million during the same period last year. According to historical patterns, overall balance at the end of the current fiscal may be Tk. 478 million; Tk. 15.68 miliion less than that of the previous fiscal year due to the negative inflow of the finacial account balance.

Figure 16: The overall balance of payments(BoP) over the years



Source: Statistics Department, Bangladesh Bank and Export Promotion Bureau, 2012

5.6 Foreign Exchange Reserve

Despite monthly fluctuations, the foreign exchange reserve has been exhibiting an increasing trend over the years but in FY 2011-12. This trend was somewhat reversed due to the excessive import payments for petroleum and capital machineries for the quick rental power plants.

The foreign exchange reserve has been exhibiting an increasing trend over the years but in FY 2011-12. This trend was somewhat reversed due to the excessive import payments for petroleum and capital machineries for the quick rental power plants

On 18th December 2012, reserve peaked at USD 12405 million with the receipt of USD 70 million from the Asian Development Bank (ADB) and USD 40 million from UN Peacekeeping Mission. According to newspaper reports, Bangladesh Bank purchased USD 45 million from the local market to arrest the appreciation of dollar.[5]

In November 2012, foreign exchange reserve was USD 11754 million, 4.78 percent lower than that of the previous month due to the payment to the Asian Clearing Union (ACU) in the first week of November. Moreover, Bangladesh Bank purchases dollars regularly to encourage the positive flow of remittance and export earnings. Reserve in November was 26.48 percent higher than that of the same month of the previous fiscal year.

The reserve declined in November 2011 mainly due to the payments for imports of petroleum and capital machineries and increase in budget deficit and debt. Furthermore, during the first six months of the current fiscal year, foreign exchange reserve was at its highest level in October due to the surge in the inflow of remittance because of Eid-ul-Adha. It dropped later because of the import of capital machinery and petroleum products and

[5] http://bdnews24.com/details.php?id=238407&cid=4&aoth=1

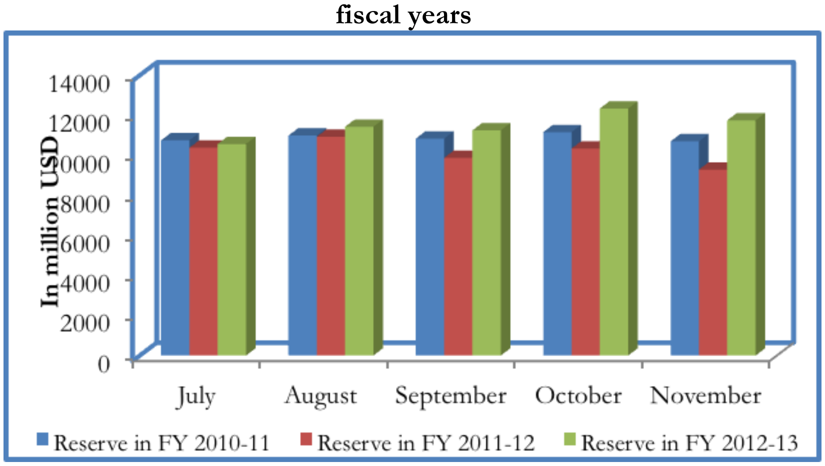
the adoption of certain regulatory measures by the Bangladesh Bank (including the tightening monetary policy).

During July-October 2012, negative growth was observed in Letter of Credit (LCs) opening and actual import payments for industrial raw materials and capital machinery. Import payments for petroleum, industrial raw materials and capital machinery registered negative growths of 22.43, 4.51 and 1.73 percent whereas LCs opening for petroleum registered a positive growth rate of 116.04 percent compared to the corresponding period of the previous fiscal year. During July-November of FY 2012-13, the rate of growth in remittance, export and net foreign aid increased by 24, 4.36 and 175 percent respectively compared to the corresponding period of the previous fiscal year. At the same time, import payments decreased by 6.75 percent which was 23.13 percent higher in FY 2011-12 contributing a positive growth in foreign exchange reserves.

During July-November of FY 2012-13, the rate of growth in remittance, export and net foreign aid increased by 24, 4.36 and 175 percent respectively compared to the corresponding period of the previous fiscal year

The average rate of growth in reserves was 12.25 percent during FY 2003/04 - FY 2005/06 whereas it was 13.4 percent during FY 2009/10 - FY 2011/12, despite the negative rate of growth in reserves in FY 2011-12.

Figure 17: Monthly comparison of reserves among the three fiscal years



Source: Finance Division, Ministry of Finance and Bangladesh Bank, 2012

A reserve of USD 9000 million is sufficient to meet the import needs of Bangladesh for three month. However, IMF requires a four-month reserve. According to the Bangladesh Bank, the current reserve can meet the import needs for five months.[6]

[6] http://bdnews24.com/bangla/details.php?cid=4&id=213847&hb=4

6. SOCIAL SECTOR

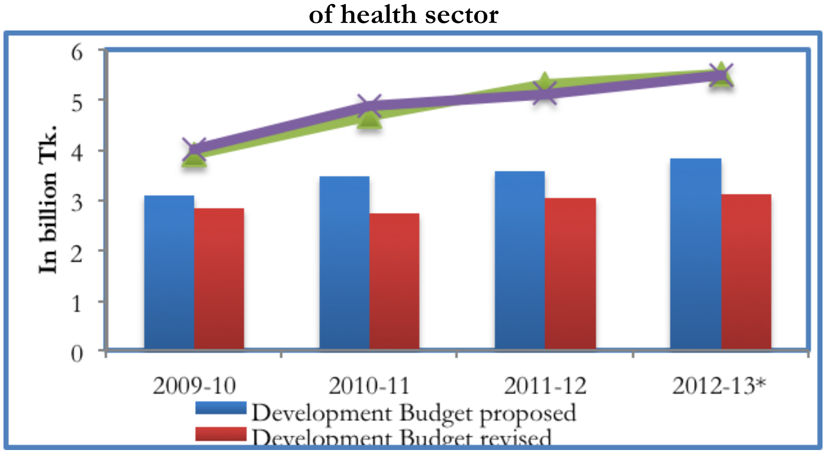
6.1. Health Sector

In FY 2012-13, the proposed budgetary allocation in the health sector is Tk. 93330 million (including development budget of Tk. 38252 million and non development budget of Tk. 55081 million); this is 5.23 and 14.52 percent higher than those of the proposed and revised budget respectively of FY 2011-12.

In spite of being an important component of social security, the budgetary allocation for the health sector has been continuously decreasing over the last few fiscal years due to the increasing rate of subsidy in energy and power sectors. In FY 2012-13, the proposed budgetary allocation in the health sector is Tk. 93330 million (including development budget of Tk. 38252 million and non development budget of Tk. 55081 million); this is 5.23 and 14.52 percent higher than those of the proposed and revised budget respectively of FY 2011-12. This allocation, however, is only 4.7 percent of the total budget whereas it was 5.4 percent of the total budget in FY 2011-12.

The proposed allocations in health, population and family welfare sector were revised downwards almost every year between FY 2001-02 and FY 2011-12, adversely affecting the marginalised people. Furthermore, it is a matter of concern that the rate of growth in revised allocation for health sector (development) is lower than that of non-development budget. Considering the revised development health budgets in the last three stand at Tk. 3112 million by the end of the current fiscal year; this is 18.80 percent lower than that of the allocated budget. On the other hand, the revised non-development budget might reach Tk. 5483 million, which is only 0.5 percent lower than that of the budget allocation for non-development sectors. Moreover, the revised development and non-development budgets were 14.06 and 3.77 percent lower respectively than that of the allocated budget on health.

Figure 18: Status of development and non-development budget of health sector



Source: Authors' calculation based on Finance Division, Ministry of Finance and Implementation Monitoring and Evaluation Division (IMED), 2012

The ADP allocation for health sector has been continuously declining since FY 2009-10. During July-October of FY 2012-13, total allocation of ADP for the health sector was Tk. 36984 million of which only Tk. 4836 million (or 13 percent) was utilized. Furthermore, the expenditure as percentage of total allocation was respectively 11, 15 and 17 percent in FY 2011-12, FY 2010-11 and FY 2009-10.

Table 10: Status of Ministry of Health and Family Welfare (in million Taka)

Ministry of Health and Family Welfare	Total Allocation of ADP		ADP Expenditure July-October		Percentage change of total Allocation	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
	10032	36984	1093	4835	11	13

Source: Implementation Monitoring and Evaluation Division (IMED) and Ministry of finance, 2012

The annual per capita allocation in the health sector is Tk. 612, which translates to Tk. 93334 million for a population of 151.6 million, a negligible amount in view of present requirements. This allocation (effectively Tk. 1.67 per person per day) is not enough to attain the targets of the MDG (Millennium Development Goals) and FY 2015-16 of the present government..

The government target of limiting infant mortality is 35 deaths per thousand live births by FY 2015-16 whereas MDG target is 31 deaths per thousand live births. The rate of infant mortality was 48 deaths per thousand live births in FY 2011-12.

Table 11: Comparison between Medium Term Budgetary Framework (MTBF) and Millennium Development Goals (MDG) by 2015-16

Major Indicators	Actual situation in FY 2011-12	MTBF in FY 2015-16	MDGs Targets in FY 2015-16
		Targets	Targets
Rate of Infant Mortality	48 deaths per thousand live births	35 deaths per thousand live births	31 deaths per thousand live births
Rate of Maternal Mortality	1.81 per 1000 live births	1.40 per 1000 live births	1.43 per 1000 live births
Birth Attended by Skilled Health Personnel	30 percent	45 percent	50 percent
Child Malnutrition (under five)	38 per hundred	34 per hundred	33 per hundred

Source: Ministry of finance and Millennium Development Goals (MDG) 2012

The government target of limiting infant mortality is 35 deaths per thousand live births by FY 2015-16 whereas MDG target is 31 deaths per thousand live births. The rate of infant mortality was 48 deaths per thousand live births in FY 2011-12. The rates of maternal mortality, delivery by Trained Birth Attendants and child malnutrition (under five) were 1.81 per 1000 live births, 30 percent and 38 percent respectively in the revised targets of FY 2011-12. Moreover, reduction in the rate of child mortality by FY 2015-16 has been targeted at 34 and 33 percent by MTBF and MDG respectively

According to the historical patterns, expenditure as percentage of total allocation in the health sector in the current fiscal may be 71.5 (or Tk. 27355 million). Tk. 26615 million (88 percent of the total allocation) was spent in FY 2011-12

According to the historical patterns, expenditure as percentage of total allocation in the health sector in the current fiscal may be 71.5 (or Tk. 27355 million). Tk. 26615 million (88 percent of the total allocation) was spent in FY 2011-12.

6.2. Education Sector

The government of Bangladesh has set some targets

Table 12: Targets and status for education

	Targets
MDG	100 percent net enrollment by 2015
NPA II	95 percent net enrollment by 2015 5 percent drop-out by 2015 90 percent adult literacy by 2015
NEP 2010	100 percent 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 percent adult literacy by 2014

Source: National Education Policy and Millennium Development Goal - 2010.

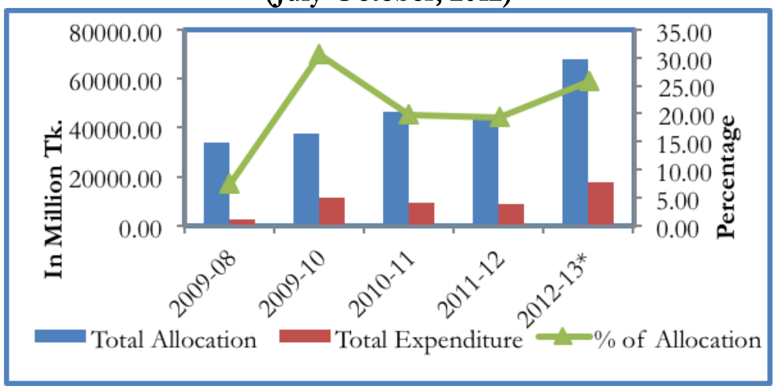
An allocation of Tk. 214080 million has been proposed in the budget for FY 2012-2013 for the development and non-development sectors of which Tk.115830 million is for the Ministry of Education and Tk.98250 Million is for the Ministry of Primary and Mass Education

To achieve these targets, an allocation of Tk. 214080 million has been proposed in the budget for FY 2012-2013 for the development and non-development sectors of which Tk.115830 million is for the Ministry of Education and Tk.98250 Million is for the Ministry of Primary and Mass Education. This allocation is 11.17 percent of the total budget and respectively 8.09 and 16.6 percent higher than the allocations in the proposed and revised budgets of FY 2011-12. In the current budget, allocation for the Ministry of Primary and Mass Education and the Ministry of Education is Tk. 214080 million whereas the Mean Time Budgetary Framework (MTBF) projection is Tk. 218965.8 million, indicating a gap of Tk. 4885.8 million. It is a fact that the overall allocation in the education sector in FY 2011-12 could not succeed in achieving the targets due to poor implementation.

In FY 2012-13, education sector allocation was Tk. 16020 million more than the allocation in the previous fiscal year. In FY 2011-12, Tk. 198370 million was allocated for the education sector. In FY 2012-13, the total budget is Tk. 1917380 million of which allocation on education is Tk. 21408 million. Thus, the education budget as a percentage of national the budget is 11.17 percent. Education budget was 12.11 percent of the national budget in FY 2011-12. Although the government has categorized education as a priority sector, education budget as a percentage of the national budget has decreased by 6 percent this fiscal from the last fiscal year.

In FY 2012-13, education sector allocation was Tk. 16020 million more than the allocation in the previous fiscal year. In FY 2011-12, Tk. 198370 million was allocated for the education sector.

Figure 19: ADP expenditure in education sector over the years (July-October, 2012)



Source: Implementation Monitoring and Evaluation Division, Ministry of Planning, 2012

ADP allocation for this sector in FY 2012-2013 is Tk. 68187.40 million; this is 50.10 percent more than the allocation in FY 2011-12. Total expenditure on education during July-October 2012 was Tk. 17566.50 million, 25.75 percent of the total allocation. Implementation of ADP allocation for education during the same period of FY 2011-12 and FY 2010-2011 was 19.36 percent and 19.08 percent respectively, indicating moderate ADP implementation in the education sector.

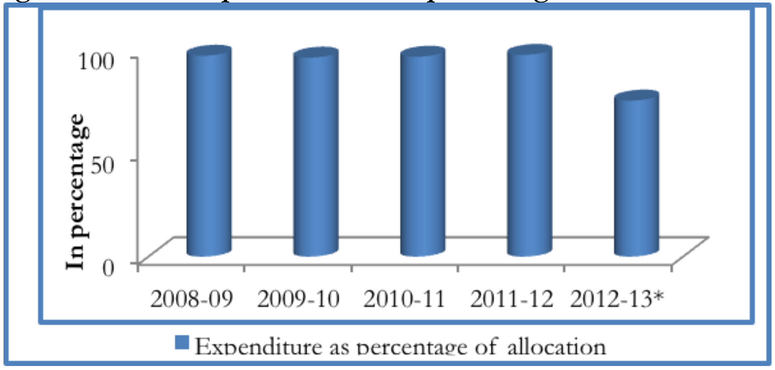
During July-October of FY 2012-13, MoPME has implemented 27 percent of the total allocation whereas MoE has implemented only 24 percent.

ADP allocation in the current fiscal for the Ministry of Primary and Mass Education (MoPME) under 14 projects totals Tk. 43330.80 million whereas the allocation for the Ministry of Education (MoE) is only Tk. 24856.60 million under 75 projects. During July-October of FY 2012-13, MoPME has implemented 27 percent of the total allocation whereas MoE has implemented only 24 percent.

If the current trend of ADP implementation in education prevails, total implementation during the current fiscal might reach Tk. 51385.50 million which is only 75.36 percent of the total allocation for this sector. It is, however, observed that the lion's share of the allocation was spent in the last three or four months of each fiscal year.

In FY 2011-12, 39.26 percent of ADP was spent in the last four months and if this trend continues in FY 2012-13, a total of Tk. 16899.50 million (32.89 percent of total allocation) may be spent in the remaining months of the current fiscal year.

Figure 20: ADP implementation as percentage of total allocation



Source: Author's calculation based on Implementation Monitoring and Evaluation Division, Ministry of Planning, 2012.

In FY 2011-12, 39.26 percent of ADP was spent in the last four months and if this trend continues in FY 2012-13, a total of Tk. 16899.50 million (32.89 percent of total allocation) may be spent in the remaining months of the current fiscal year.

Bangladesh is one of the poorest countries of the world and poverty alleviation is one of the major challenges faced by the government. However, significant inroads have been made in meeting this challenge since the early 1990s but still there is no room for complacency

6.3 Poverty in Bangladesh

Bangladesh is one of the poorest countries of the world and poverty alleviation is one of the major challenges faced by the government. However, significant inroads have been made in meeting this challenge since the early 1990s but still there is no room for complacency. Poverty reduction in Bangladesh is the product of multiple factors:

- Increased inflow of remittance has resulted in increased consumption. Remittance has increased from BDT 49700.4 million to BDT 830046.2 million between FY 1995-96 and FY 2010-11, an annual rate of increase of 104.67percent.

- Export has also increased and Bangladesh is now the second largest exporter of ready-made garments in the world. Since the ready-made garments industry is highly labor-intensive, this has had a favorable impact on the overall employment situation. This is especially significant because the garments sector mostly employs women who comprise almost half of the total population. Export has increased from USD 3882.2

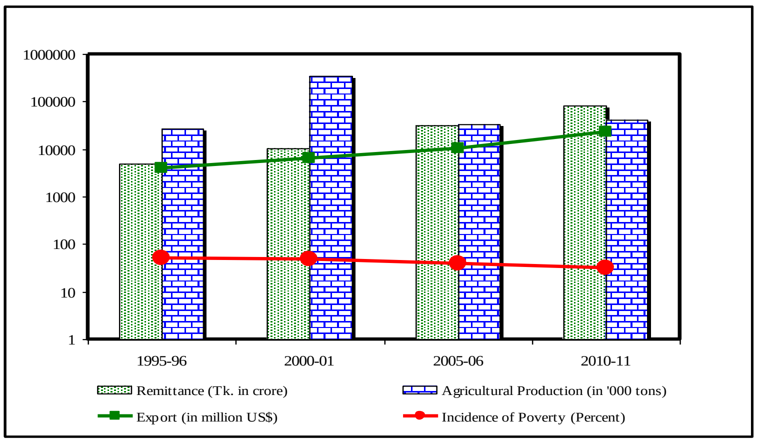
million in FY 1995-96 to USD 22928.2 million in FY 2010-11, an annual rate of increase of 32.71 percent.

- Substantial advances have been made in agriculture in recent years such as seed-water-fertilizer technology and multiple cropping. Aagricultural production has increased at an annual rate of 3.30 percent between 1995-96 and 2010-11. These positive trends have contributed substantially towards poverty alleviation.

The incidence of poverty has reduced from 50.1 percent in 1995-96 to 31.5 percent in 2010-11 with an annual rate of decrease of 2.48 percent. Moreover, the service sector, particularly, the construction sector has also expanded, creating job opportunities. All these factors have had positive impacts in reducing poverty.

The incidence of poverty has reduced from 50.1 percent in 1995-96 to 31.5 percent in 2010-11 with an annual rate of decrease of 2.48 percent.

Figure 21: Incidence of poverty, remittance, export and agricultural production



Source: Bangladesh Bureau of Statistics (BBS), 2012

Poverty reduction in Bangladesh has registered progress since its independence in 1971 but the rate of reduction has slowed in recent years and this trend may continue if radical measures are not taken in coming years. Poverty has reduced by 8.9 percentage points during 2000-2005 but during the next five years (2005-2010), the total decline was 8.5 percentage points. The magnitude of poverty or poverty gap (a measure of the average gap in income of the poor in relation to a particular threshold), and severity of poverty or squared gap in poverty (a measure reflecting the income distribution among the poor) have also experienced a slower rate of reduction in the last few years.

Table 13: Depth and severity of poverty in Bangladesh

Year	Poverty Gap (Percent)	Rate of Decrease (Percent)	Squared Poverty Gap (Percent)	Rate of Decrease (Percent)
	National			
1995-96	14.4	-	5.9	-
2000	12.8	2.78	4.6	5.51
2005	9.0	5.94	2.9	7.39
2010	6.5	5.56	2.0	6.21
Rural				
1995-96	15.4	-	5.7	-
2000	13.7	2.76	4.9	3.51
2005	9.8	5.69	3.1	7.35
2010	7.4	4.90	2.2	5.81
Urban				
1995-96	9.2	-	3.4	-
2000	9.1	0.27	3.3	0.74
2005	6.5	5.71	2.1	7.27
2010	4.3	6.77	1.3	7.62

Source: Household Income & Expenditure Survey (1995-96, 2000, 2005 and 2010), Bangladesh Bureau of Statistics

The rate of reduction in the squared poverty gap during 2005-2010 (5.81 percent) was lower than the rate during 2000 -2005 (7.35 percent).However, a different scenario is observed in the urban areas

The poverty gap was 14.4 percent in 1995-96; this decreased to 12.8 percent, 9.0 percent 6.5 percent in 2000, 2005 and 2010 respectively. The percentage rate of decrease of the poverty gap during 2005-2010 was lower than that during 2000-2005. This rate was 5.94 percent between 2000 and 2005 whereas it was 5.56 percent between 2005 and 2010. Similar results are observed for squared poverty gap: this was 5.9, 4.6, 2.9 and 2.0 percent in 1995-96, 2000, 2005 and 2010 respectively. The rate of reduction in the percentage of squared poverty gap between 2000 and 2005 was 7.39 percent, which is higher than the rate of reduction (6.26 percent) between 2005 and 2010. Similar results are also observed in rural areas, where the rate of reduction in poverty gap (4.9 percent) during 2005-2010 was lower than the rate (5.7 percent) during 2000-2005.Moreover, the rate of reduction in the squared poverty gap during 2005-2010 (5.81 percent) was lower than the rate during 2000 -2005 (7.35 percent).However, a different scenario is observed in the urban areas (Table13) where the rate of reduction in the percentages of both poverty gap and squared poverty gap have increased in the corresponding periods.

It is true that even steady economic growth cannot guarantee a better standard of living for the entire population of the country. To achieve equitable distribution of income, the government should take up radical programmes. Accelerating the rate of decline of poverty can only be accomplished by reducing poverty at source.

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Appendix

A. *Real growth in GDP (Historical patterns)*

Constant	Coefficient	R Square	Adjusted R Square	F Value
6.109***	0.038	0.47	0.37	1.98

Note: *, ** and *** denote rejection of the hypothesis of unit root test at 10 percent, 5 percent and 1 percent respectively.

B. Real GDP growth projected by UO

Constant	Coefficient	R Square	Adjusted R Square	F Value
459472.000**	80454.800**	0.995	0.993	440.752**

Note: *, ** and *** denote rejection of the hypothesis of unit root test at 10 percent, 5 percent and 1percent respectively.

C. Saving- Investment Projection

i. National Savings

Constant	Coefficient	R Square	Adjusted R Square	F Value
18.147***	0.668***	0.94	0.93	265.295***

Note: *, ** and *** denote rejection of the hypothesis of unit root test at 10 percent, 5percent and 1percent respectively.

ii. Total Investment

Constant	Coefficient	R Square	Adjusted R Square	F Value
19.522***	0.342***	0.86	0.85	107.912***

Note: *, ** and *** denote rejection of the hypothesis of unit root test at 10 percent, 5 percent and 1 percent respectively

D. Growth- Investment Relationship

Dependent Variable: Rate of Growth
Independent Variable: Investment

Constant	Coefficient	R Square	Adjusted R Square	F Value
4.540***	0.001***	0.55	0.52	24.496***

Note: *, ** and *** denote rejection of the hypothesis of unit root test at 10 percent, 5 percent and 1 percent respectively

E. The Policy Results of IMF

Bangladesh employs a strategy of accelerating economic growth at any cost; scant attention is paid to whether such growth is equitable and pro-poor and contributes to employment generation. A growth policy that does not incorporate these vital objectives is not sustainable. The policy suggested by IMF, in fact, impedes equitable growth and lessens economic productivity. The general people, especially the marginalized sections of society, do not derive any direct or sustained benefit from the budget policies; any benefit (e.g. employment and food security) is likely to be derived only through the trickle-down effect.

i. *Fiscal Management*

Tightening of fiscal policy and revamping the tax system figure at the top of the list of IMF recommendations. GDP growth in Bangladesh is consumption based; hence, increasing tax without modernizing the tax system will hamper consumption and consequently growth.

According to IMF, taxes should be increased to accelerate growth in remittance and consumption led economies. As some of these economies are recovering from economic shocks and still fragile, such a policy does not seem to be appropriate. IMF recommendations regarding fiscal policy are focused on short-term considerations. Another important aspect of the IMF fiscal prescription for developing countries is the use external funding. This advice has been given even to countries where domestic funding is available and cheap. This attitude reflects a clear lack of appreciation of the importance of sustainability in funding and exchange rate related risks. As a result, there is a greater likelihood that the domestic currency will depreciate and thus create additional pressure on BOP. Also, reducing subsidy in various sectors, as prescribed by the IMF, will amplify the cost-push inflationary tendencies that are already evident in this economy.

ii. Monetary Policy

To control inflation, IMF prescribed a contractionary monetary policy without identifying the nature of the present inflation: whether it is demand-pull or cost-push. Changes in the policy rate by banks may curb demand inflation but supply-side inflation will not respond to the contractionary monetary policy. Raising the interest rate will reduce investment and, consequently, GDP growth will decline and unemployment will increase. Another major cause of inflation is the spike in the international prices of commodities and petroleum products. In the past three years, food prices have skyrocketed. They are likely to increase further in the remaining period of the current fiscal year because of budgetary impacts on the prices of fuel and fertilizer.

iii. Foreign Exchange Market

Regarding international trade, IMF's standard suggestion is to make the exchange rate flexible. A common problem with fully flexible exchange rates in developing economies is that erosion in value of the local currency immediately translates to higher domestic prices in these import dependent economies. Higher external (foreign currency) payments put pressure on the BOP and result in depreciation of the taka. The resultant inflation will put additional pressure on the BOP. In view of the above, it may be reasonably concluded that the policies of the IMF are adversely affecting the economy of Bangladesh.

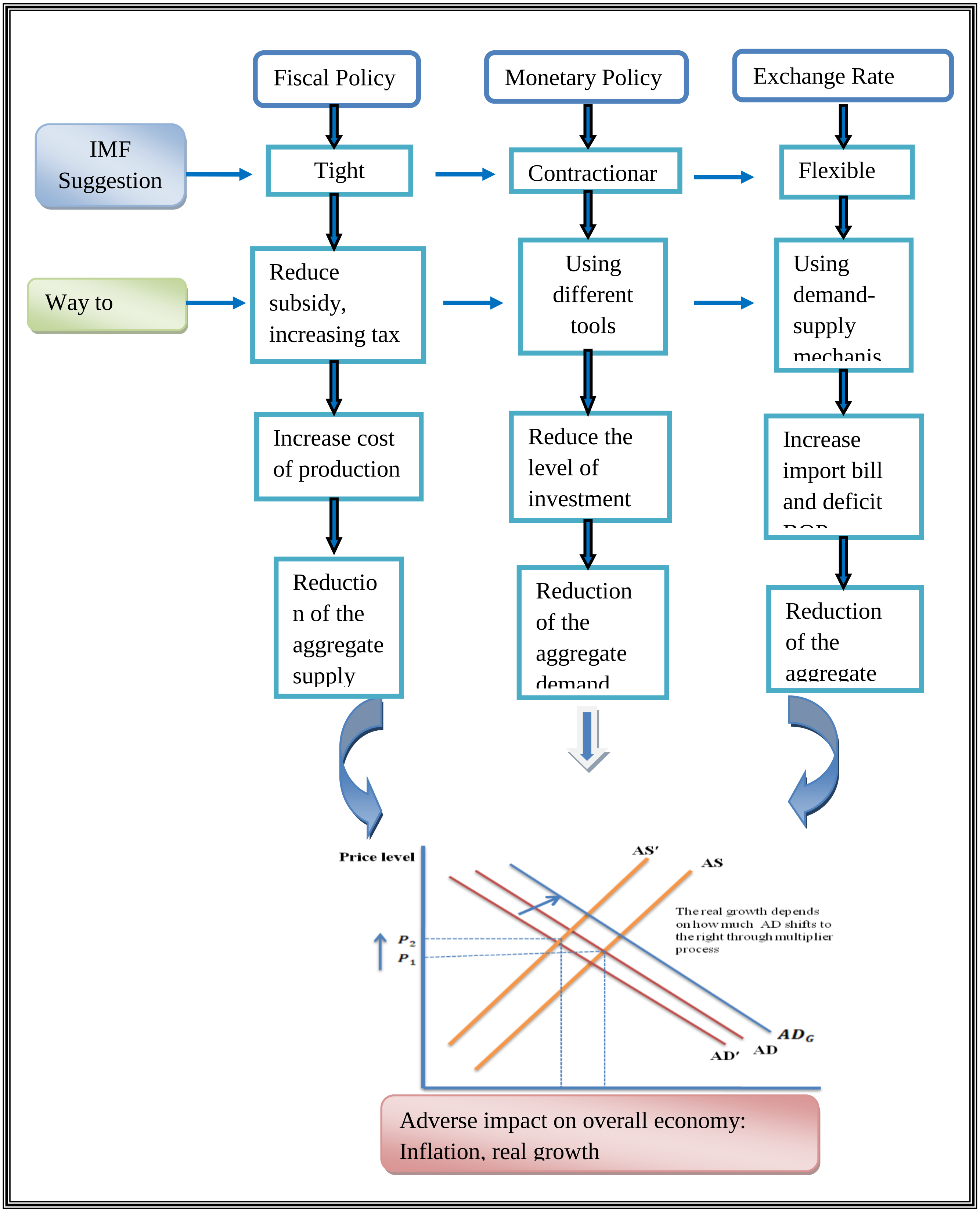
Table: Future scenario of real rate of growth and inflation

	2012	2013	2017
Real rate of Growth	6.05	6.10	7.25
CPI Inflation	10.4	7.9	4.8
Current Account Balance as percentage of GDP	-0.1	-0.6	0.0

Source: International Monetary Fund (IMF)

This projection is not based on ground realities. It is just a data fallacy and completely unrealistic.

Figure: Adverse impact on overall economy: Inflation, real growth stagnation



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