

On Emerging Challenges for Bangladesh Economy

In Second Half of FY2010-11

*Dialogue on
Growth, Inflation and Monetary Policy
Challenges for Bangladesh in FY2010-11*

CIRDAP Auditorium

13 February 2011



CENTRE FOR POLICY DIALOGUE (CPD)

B A N G L A D E S H

a c i v i l s o c i e t y t h i n k - t a n k

The presentation has been prepared under the leadership of *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD with research assistance from *Mr Towfiqul Islam Khan*, Senior Research Associate and *Mr Md Zafar Sadique*, Research Associate, CPD.

The paper also draws on earlier CPD-IRBD works.





CONTENT

- I. INTRODUCTION***
- II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK***
- III. A DECONSTRUCTION OF THE MONETARY POLICY STATEMENT***
- IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11***
- V. PROSPECTS FOR ECONOMIC GROWTH IN THE NEAR TERM***



I. INTRODUCTION

- The overall economic scenario is currently experiencing significant changes.
- A number of developments - related to both domestic and international economy - are creating perceptible tensions in the macro-economic balances.
 - ✓ Revenue mobilisation
 - ✓ Implementation of public investment programmes
 - ✓ Management of fiscal deficit
 - ✓ Inflationary trends
 - ✓ Conduct of the capital market
 - ✓ Import growth
 - ✓ Remittance flow
 - ✓ Foreign aid off take
 - ✓ Foreign direct investment
 - ✓ Balance of payment status
- Continued crisis in gas and electricity supply are further aggravating investment climate



I. INTRODUCTION

- The recently announced MPS lays out some of the anticipated changes in the policy framework
- The commitments to be made by the government for accessing the IMF credit will as well redefine these policy contours
- The abovementioned trends have the potential to not only undercut the macroeconomic stability, but also weaken the growth prospect
- Thus it is reckoned that a serious revisit of the policy framework is necessary for ensuring macroeconomic management to confront the visible and emerging realities
- This has become particularly important as the government positions itself for the preparation of the upcoming budget and the soon-to-be finalised SFYP



I. INTRODUCTION

- Taking note of the altered economic backdrop and using the recently announced MPS as a policy reference point, this presentation –
 - ✓ *Firstly, seeks to highlight the nature of the macroeconomic challenges that the economy is going to experience in the near future*
 - ✓ *Secondly, reviews the recent MPS to explore to what extent the policy stance is adequate in terms of addressing the emergent challenges*
 - ✓ *Finally, reflects on the growth outlook in view of the fast moving national and global contexts*

II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Fiscal Balance

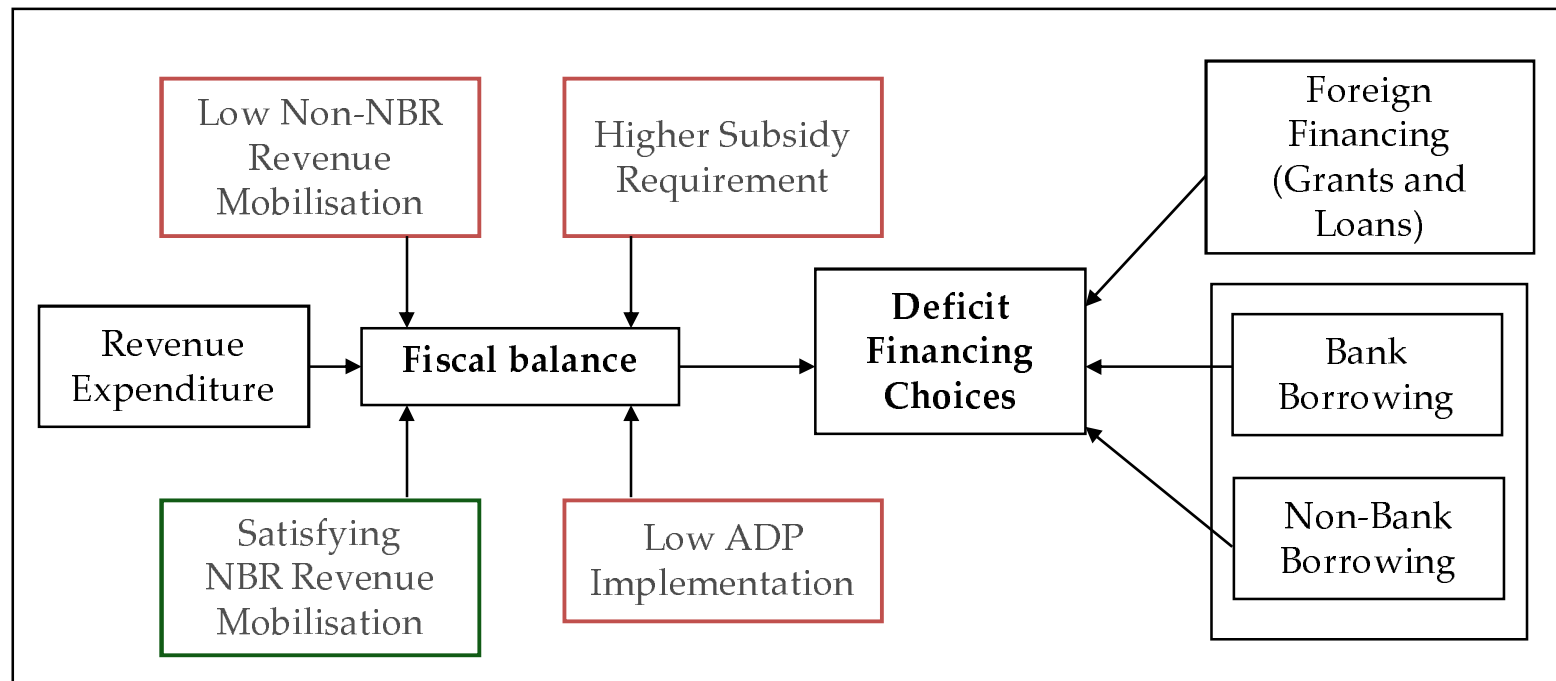
- ➔ FY2010-11 is being marked by a rise in government revenue expenditures in the backdrop of rising commodity prices and higher than projected subsidy requirements (food, petroleum, fertiliser)
- National Board of Revenue (NBR) is expected to surpass its target , but total revenue intake may fall short of target due to lagging non-NBR sources
- ADP implementation continues to remain weak, rather revealing a slowdown in comparison to last fiscal as major ministries fail to utilise respective allocation, same is the case for project aid.
- Although the size of budget deficit (higher than last year, lower than the target) will not be a matter of concern for the current fiscal year, composition of deficit financing will require judicious choices to be made

II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Fiscal Balance

- The current trend in fiscal expansion and increasing demands on domestic resources suggest that the monetary policy may need to play an active role over the remaining part of FY2010-11 to service public expenditures and contingent liabilities as well as the private investment demands

Fiscal Management in FY2010-11



II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Financial Institutions

- Financial sector in Bangladesh is growing with the economy
- The year 2010 also has been a year of hefty profit for PCBs thanks to growing trade activities and gains from capital market
- The financial sector in recent times came under scrutiny due to a number of reasons –
 - Higher flow of loans to unproductive and inflation-fuelling sectors
 - ✓ As of September 2010, overall growth in bank advances stood at 25.0% where as growth figure for construction (that includes real estate activities) and flat purchase were 30.4% and 63.7% respectively
 - ✓ Credit for import financing of food and petroleum products also increased by about 70% during the reported period
 - Risky exposure to capital market
 - ✓ According to Bank Company Act 26(2), a commercial bank is not allowed to invest more than 10% of their deposits in the stock market
 - ✓ A total of 12 commercial banks were identified by the Bangladesh Bank which have violated this rule.

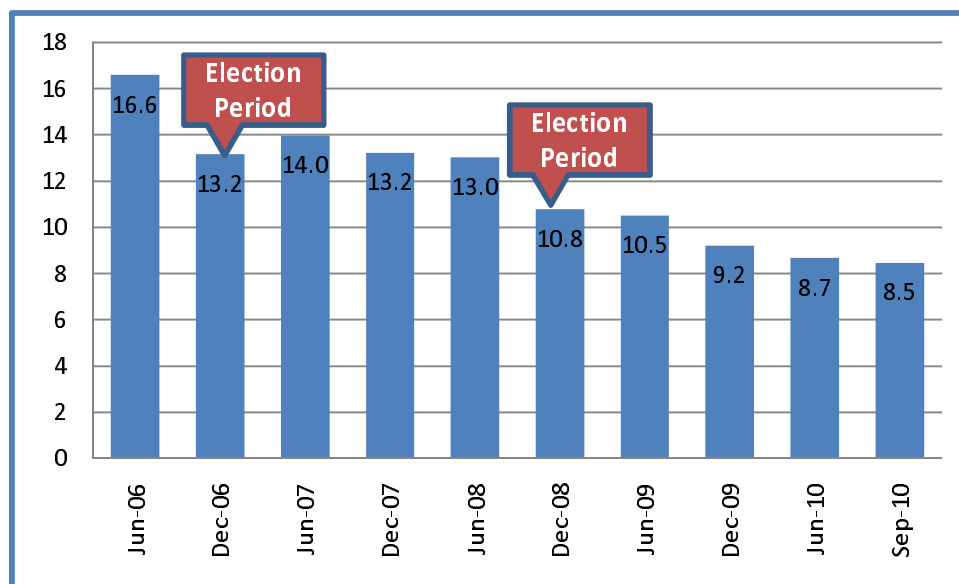


II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Financial Institution

- Credit in the form of term loan, working capital and over-draft against workers' salary had been diverted to the capital market
- Failure to address the issue of non-performing loans!
 - ✓ Overall default loans recovery remained poor by the state-owned banks
 - ✓ SCBs could achieve only 12% of the Tk 388 crore bad debt recovery target from top 20 defaulters in 2010
 - ✓ Two SCBs bought 25 bad loans (!) from PCBs
- It was found that only during the election period the recovery of non-performing loan had been successful
- How important was write-off or repeat rescheduling in the recent past?

Percentage Share of Classified Loan to Total Outstanding





II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Inflation and Price Trend

- Bangladesh literature on determinants of inflation remains divided
- Taslim (1982) found that neither the monetarist theory nor the structuralist theory alone can adequately explain the inflationary process in Bangladesh
- A number of studies indicate that monetary aggregates have significant positive relationship with inflation (Mortaza 2006; and Majumdar 2006)
- Osmani (2007) argued that exchange rate can influence the inflation rate
- Inward remittance, government debt, inflation inertia and food and oil prices are also major determining factors of inflation in Bangladesh (Ahmed undated)
- CPD (2010) found evidence of positive relationship between inflation and a number of variables such as foreign exchange reserves and domestic petroleum price. The study also found that inflation is negatively related to domestic rice production
 - ✓ The relationship between money supply and inflation was found to be positive but insignificant

II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Inflation and Price Trend

- The nature of current inflation is very similar to the one experienced by Bangladesh during 2007 and 2008, when inflationary trend was led by the food inflation.
- Rahman *et al.* (2008) explained that the inflation in 2007-2008 was driven by the upsurge in international commodity prices in addition to supply-side constraints and distortions in the domestic supply chain
- World Economic Outlook 2010 (Oct) forecasted that inflation in advanced countries will remain at a high level during 2011. However, inflation in developing countries may ease to some extent from 6.2% in 2010 to 5.2% in 2011
- Current global and national trends indicates no respite from inflationary pressure in the short run in Bangladesh

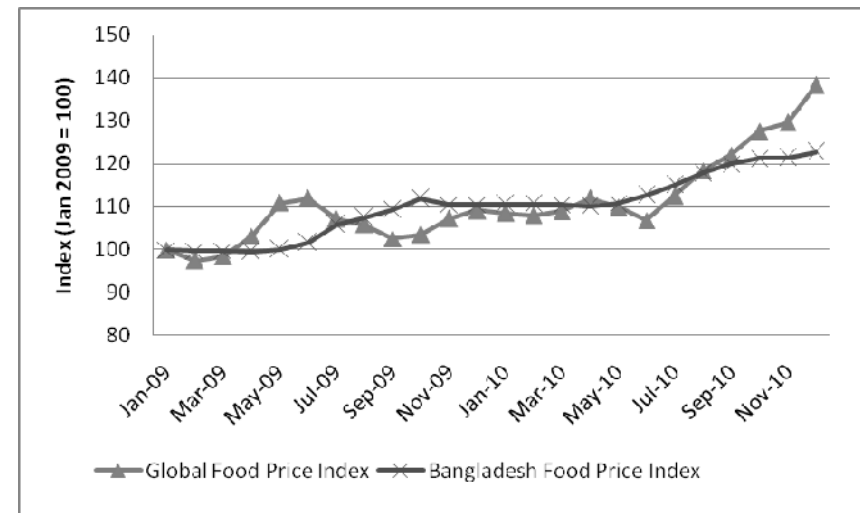


II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Inflation and Price Trend

- *It is food inflation rather than overall inflation:*
 - ✓ In December 2010, a 11.0% food inflation fuelled an overall 8.3% inflation
 - ✓ Non-food inflation (only 3.3%) was the lowest in last nine years!
- ✓ The food price index in Bangladesh tends to follow the global price trend
- ✓ FAO Food Price Index (FFPI) rose for the seventh consecutive month
- ✓ WB (pink sheet) January'11 data shows international price of rice, wheat and soybean oil heading towards the historical peaks after mid-2008

Global vs Bangladesh Food Price Index





II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Inflation and Price Trend

- *International price hike has caught up with most of the countries in the world including Bangladesh:*
 - ✓ International price of oil increased by 22.3% in January 2011 compared to January 2010
 - ✓ Year-on-year growth in IMF's commodity price index and commodity food price index in December 2010 stood at 23.4 % and 26.8% respectively
- There is no respite from the food price driven inflation in near future
- Given the nature of the inflation, demand-side management can hardly work
- Bangladesh economy is better off applying supply-side management in order to boost purchasing power of the people to ensure food security in the country



II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Balance of Payment

- Current account surplus came down at USD 578 million during Jul-Dec FY11 (USD 1,562 million during Jul-Dec FY10)
- Overall balance turned negative: (-) USD 584 million during Jul-Nov FY11 (USD 2,156 million during Jul-Nov FY10)
- A further expanding balance of payment deficit may become evident by the end of the fiscal year if the current trends continue.
 - ✓ Decelerated remittance receipts (0.4% in Jul-Jan FY11 against 20.9% in in Jul-Jan FY10)
 - ✓ Swelling import payments (36.4% in Jul-Dec FY11 against (-) 5.7% in in Jul-Dec FY10)
 - ✓ Stagnating net FDI (USD 320 million in Jul-Nov FY11 against USD 285 million in Jul-Nov FY10)
 - ✓ Low inflow of foreign aid (USD 818.5 million in Jul-Dec FY11 against USD 1481.0 million in Jul-Dec FY10)
 - ✓ However, relatively broad-based export growth (39.8% in Jul-Jan FY11 against (-) 4.6% in in Jul-Jan FY10)



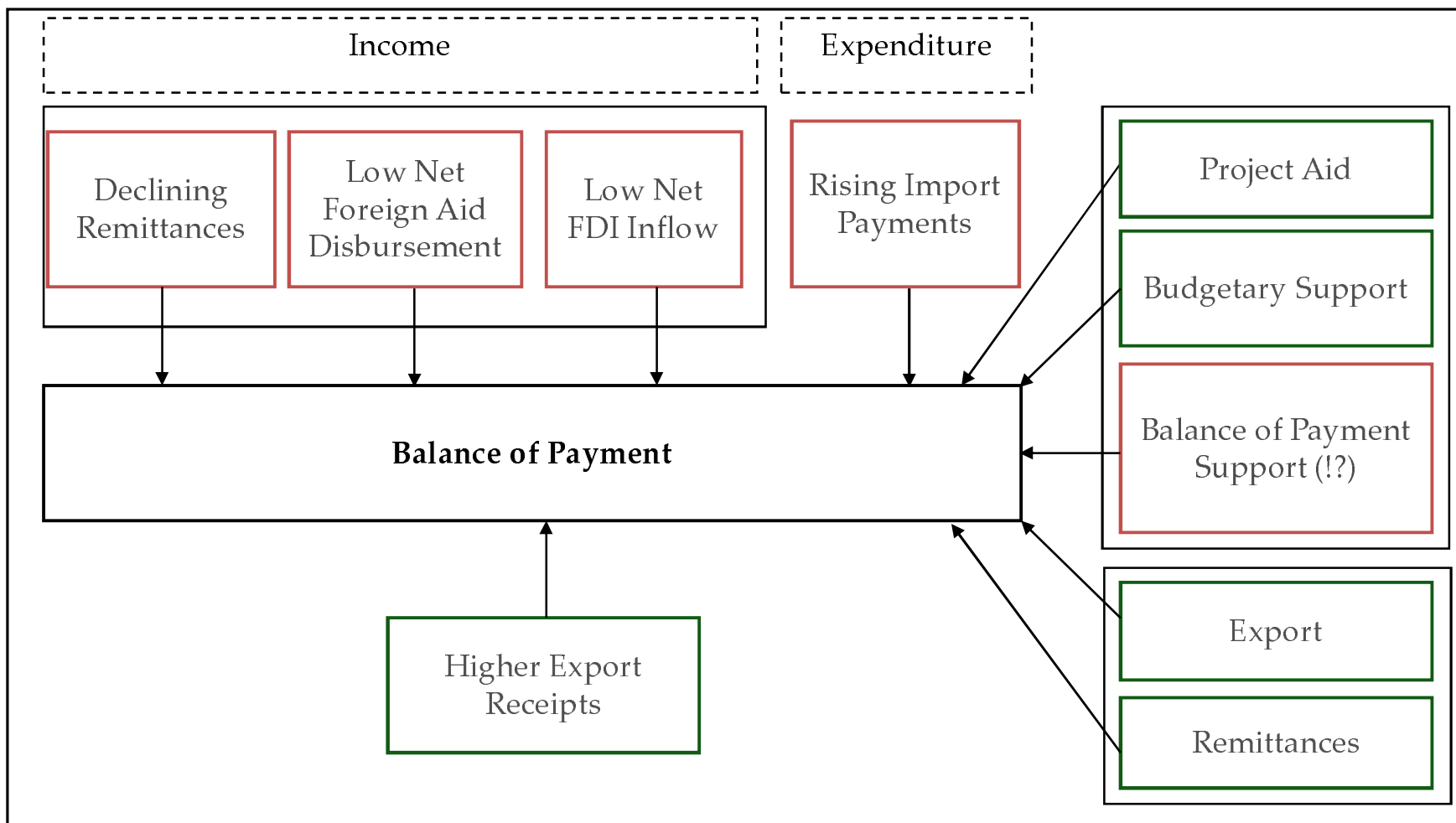
II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Balance of Payment

- The forex reserves leave some room to maintain stability of the exchange rate and to cope with larger BoP deficit
 - ✓ Foreign exchange reserves stood at USD 10.4 billion at the end of January 2011 – equivalent to 4 months of import
 - ✓ The reserve is slowly coming down (USD 10.7 billion at the end of FY10)
- In view of ongoing global developments, there is a need to remain constantly vigilant regarding the exchange rates movement
 - ✓ BDT has shown some tendency to depreciate in recent times!
 - ✓ Between June 2010 and January 2011, BDT depreciated against USD and Euro by 2.2% and 11.8% respectively
 - ✓ CNY and INR appreciated against USD by 3.3% and 1.6% respectively
 - ✓ This would also put some pressure on prices of imported consumer goods as well as intermediate and capital goods although may add to export competitiveness
- Is the current BoP situation an adequate rationale to opt for IMF BoP support?!

II. EMERGING ISSUES IN MACROECONOMIC FRAMEWORK

Balance of Payment Management in FY2010-11





III. A DECONSTRUCTION OF MONETARY POLICY STATEMENT

Trends in Monetary Aggregates: Targets and Achievements

- Bangladesh Bank's targets for monetary aggregates have systematically failed to match with the actual outcomes.
- The targets set for FY2010-11 are also unlikely to be close to reality.
- Bhattacharya and Khan (2009) argued that the central bank's practice is to target the aggregate money supply while its components are distributed accordingly.
- In contrast, Ramey and Ramey (1995) prescribed that it would be more efficient to target the components to achieve objectives and let the aggregate adjust automatically
- Rebound of export-oriented industrial production coupled with higher demand for import oriented trade credit is expected to hold high level of private sector credit demand
- A surge in the government sector credit is also anticipated (subsidy, ADP expenditure acceleration, import bill)

III. A DECONSTRUCTION OF MONETARY POLICY STATEMENT

Trends in Monetary Aggregates: Targets and Achievements

Targets and Achievements of Monetary Indicators

Particulars	FY09			FY10			FY11		
	Target	Actual	Deviation	Target	Actual	Deviation	Target	Dec'10 over Dec'09	Required Adjustment
1. Net Foreign Assets	14.3	27.2	12.9	27.9	41.3	13.4	4.2	NA	NA
2. Net Domestic Assets	18.1	17.8	-0.3	13.1	18.8	5.7	17.6	NA	NA
Domestic credit	20.4	15.9	-4.6	15.6	17.9	2.3	17.9	24.4	- 6.5
Credit to the pub. sec.	27.3	20.3	-7.0	11.9	-1.7	-13.6	25.3	12.0	13.3
Credit to the Private Sector	18.5	14.6	-3.9	16.7	24.2	7.5	16.0	27.6	- 11.6
3. Broad money	17.5	19.2	1.7	15.5	22.4	6.9	15.2	21.7	- 6.5

- Other than credit to government sector, all other monetary aggregates are likely to surpass the target set for the end of the current fiscal year
- A revision of the monetary targets was thus expected from the recent MPS
- It was surprising to observe that the central bank did not to rationalise the growth target for private sector credit flow in view of the growth till Dec '10

On Emerging Challenges for Bangladesh Economy In H2 of FY11



III. A DECONSTRUCTION OF MONETARY POLICY STATEMENT

Policy Stance for Second Half of FY2010-11

- Bangladesh Bank has programmed the monetary aggregates to accommodate 6.7% GDP growth with 7.0% inflation
- Reviewing the MPS, one may highlight the following policy stances:
 - ✓ Support growth and preserve price stability simultaneously
 - ✓ Monetary policy has little immediate impact on the ongoing global and domestic food price inflation
 - ✓ Apprehension about possible impact of monetary expansion led to the policy stance of emphasis on keeping the non-food CPI inflation low and stable. It was however surprising to see that the central bank did not take cognisance that non-food inflation is already at its lowest
 - ✓ There are instances of industrial and SME loans being diverted to the overheated asset markets. At the same time, the policy stance expressed its belief that it can bring back discipline in financial sector by enforcing a “a firmer grip on monetary expansion”
 - ✓ The MPS also states that:
 - “Supervisory vigil on lending and loan administration discipline in banks will remain stricter, lapses and laxities in lending banks will be dealt with sternly, eschewing forbearance.”*

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Servicing the Credit Demand

- It is expected that there will be a surge in government credit demand
- The MPS has stated its intention to have a firm grip on private sector credit
- It is evident that private sector for industrial loan and SME loan has been diverted to the non-productive sectors (capital market and asset market)
 - ✓ It will be difficult to stop this ill-practice by constraining the credit flow
- The central bank repeatedly indicated to restrict credit to consumer loans and direct credit towards growth friendly productive sectors
- An active supervision will be required to achieve this goal.
- The central bank ought to be flexible to service the productive private sector as well as the government.

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Limited Role of Monetary Authority in response to Inflation

- The MPS has conceded that monetary policy actions will have limited leverage on rising food prices in this situation
- At the same time, the central bank aims to control monetary expansion to control inflation
- It is also pertinent to mention here that monetary expansion tends to be largely related to non-food inflation rather than food inflation owing to the inelastic nature of food items
 - ✓ Non-food inflation is already at its historical low
- Monetary contradiction may adversely affect supply-side response and aggravate inflationary pressure.
- This may also have adverse implications for growth and employment

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Interest Rate is set to Rise

- Following the IMF conditionality the central bank also gave indications of phasing out the cap on interest in near future
- One will recall that this provision was introduced at a time when there was a high level of excess liquidity.
- The money market situation has changed in recent times - the level of excess liquidity is coming down due to higher demand for credit and subsequent upward revision of policy rates; commercial banks have been forced to increase interest rate to attract deposits
- Banks are also expecting to increase their interest rates on lending
- However, the issue, regrettably, did not get mentioned in the most recent MPS



IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Exchange Rate Management will be under scrutiny

- In view of growing pressure on BoP, after two years of stability BDT started to depreciate against USD along with other major currencies.
- The MPS mentioned that net selling of USD by Bangladesh Bank stood at about USD 84 million (in net terms) during the first half of FY11 to arrest further depreciation
 - ✓ In FY09 and FY10, the central bank bought USD 1.38 billion and USD 1.70 billion (in net terms) respectively
- In the current context, a prudent exchange rate management will be required to ensure competitiveness of the export-oriented sectors without undermining consumer's welfare security
- Bangladesh Bank has to play a more proactive role in managing foreign exchange reserves and decide as to how far it can use the foreign exchange reserves to keep the balance between the conflicting interests

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Role of financial institutions in Capital Market

- The capital market in Bangladesh has been the centre of attention for some time now given the recent volatility and consequent developments around it
- The volatility in capital market is under scrutiny by the recently formed probe committee
- The Finance Minister has also asked to reduce the commercial banks' involvement in capital market
- It appears that the role of central bank may also be revisited at the time of the capital market scrutiny. In the latest MPS, the central bank has tried to defend itself by expressing that the recent volatility is not a result of monetary contraction pursued by the central bank.
- However, the role of the central bank as a supervisory body of all financial institution needs to be revisited in this context.

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Addressing Non-performing Assets

- Large amount of non-performing assets have been afflicting the financial sector of Bangladesh for a long time
- Various institutional measures, including legal ones, have yielded little progress
- Given the debate with regard to high cost of borrowing, it was expected that the MPS would provide some policy guidelines about dealing with the existing bad debt overhang
- This issue is also important for financial sector from the Basel II implementation perspective

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Integrating Microfinance

- While not being a part of mainstream monetary sector, microfinance has been a major supplier of credit to private sector, particularly in the rural economy
- At the end of FY2009-10, total outstanding microcredit from top five micro-finance institutions was about 5.0% of total credit to private sector (private sector plus microfinance) and 2.2% of GDP
- Even though the microfinance institutions are regulated by a separate authority, it is time that microfinance variables are integrated in monetary aggregates
- In fact this would also help policy makers who have already expressed views favouring mainstreaming and regulating microfinance
- Regrettably, the MPS, which demonstrated high level of sensitivity to financing for the rural poor, opted not to integrate the issues relating to microfinance within its policy framework

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Impact of IMF's ECF

- The BoP pressure is now a reality in the macroeconomic domain .
- However, this does not fully explain the justification of IMF's Extended Credit Facility (ECF) programme
- Could Bangladesh live with the worsening BoP situation in the short-term?
 - ✓ Bangladesh has enjoyed current account surplus for the last five fiscal years.
- Could IMF's Standby Credit Facility (SCF) be an alternative under the present economic situation?
- The credit deal equivalent to around USD 1 billion for next three years between Bangladesh Bank and IMF is being finalised at the moment.

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Impact of IMF's ECF

- One may recall the melancholic experience of the IMF-supported structural adjustment programmes (including those under PRGF) and the lessons drawn from the recent global financial and economic crises
- Bangladesh Bank at different times rejected at least four IMF recommendations over a four year period including the adoption of Policy Support Instrument (PSI), introduction of a tighter monetary policy, raising Cash Reserve Requirement (CRR) for the scheduled banks, and opening of the capital account
- The IMF arrangement comes with a set of conditionalities aimed at liberalising economic policies. In order for the loan under the ECF to Bangladesh to be disbursed, 11 steps will have to be taken by the country as per agreed conditionalities

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Impact of IMF's ECF

- Some of these are in line with reform agendas necessary in the Bangladesh context:
 - ✓ Raising CNG and furnace oil prices (to cut back on energy subsidy)
 - ✓ Establishing a framework to monitor losses of SOEs like the BPC, BCIC and PDB (but not complete phase out of subsidy for petroleum and electricity price)
 - ✓ Plan to streamline the ADP project approval and implementation process
 - ✓ Develop a new auction mechanism for government papers
 - ✓ Complete audits of SCBs' accounts for the year 2010 using reputable internationally affiliated auditor

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Impact of IMF's ECF

- Some should be subject to more scrutiny before implementation:
 - ✓ Phasing-out of bank lending rate ceilings
 - ✓ Putting in place the new VAT and income tax laws that will draw on IMF technical assistance
- Some could be uncomfortable and inappropriate:
 - ✓ Introducing a debt management strategy to reduce budget deficit
 - ✓ Further liberalisation of tariff level
 - ✓ Pursuing demand-side management in the form of contractionary monetary policy to check inflationary pressure

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Impact of IMF's ECF

- In fact, the likely consequences of IMF's conditionalities contradicts the recommendations placed by *United Nation's World Economic Situation and Prospects 2011* report :
 - ✓ Additional fiscal stimulus is required in the short run to boost the global recovery
 - ✓ Fiscal policy is required to be redesigned to strengthen its impact on employment and support of the transition towards promoting structural changes for more sustainable economic growth
 - ✓ Social protection policies are mentioned as another crucial element in cushioning the impact of economic shocks, boosting aggregate demand and contributing to the sustainability of economic growth
 - ✓ Maintaining an accommodative monetary policy could be supportive of additional fiscal stimuli in the short run

IV. CHALLENGES FOR MONETARY POLICY IN FY2010-11

Impact of IMF's ECF

- The consequence of the IMF loan may:
 - ✓ Raise cost of doing business
 - ✓ Limit government's fiscal flexibilities
 - ✓ May limit scope for strategic support to domestic industries
 - ✓ Push towards a contractionary monetary policy
- Thus on one hand, this may constrain the policy space of the government in undertaking supply-side measures for sustained high growth, and on the other hand could further aggravate the inflationary and balance of payment pressure
- Overall, economic policies may be directed towards a low-level equilibrium rather than moving into a higher growth trajectory

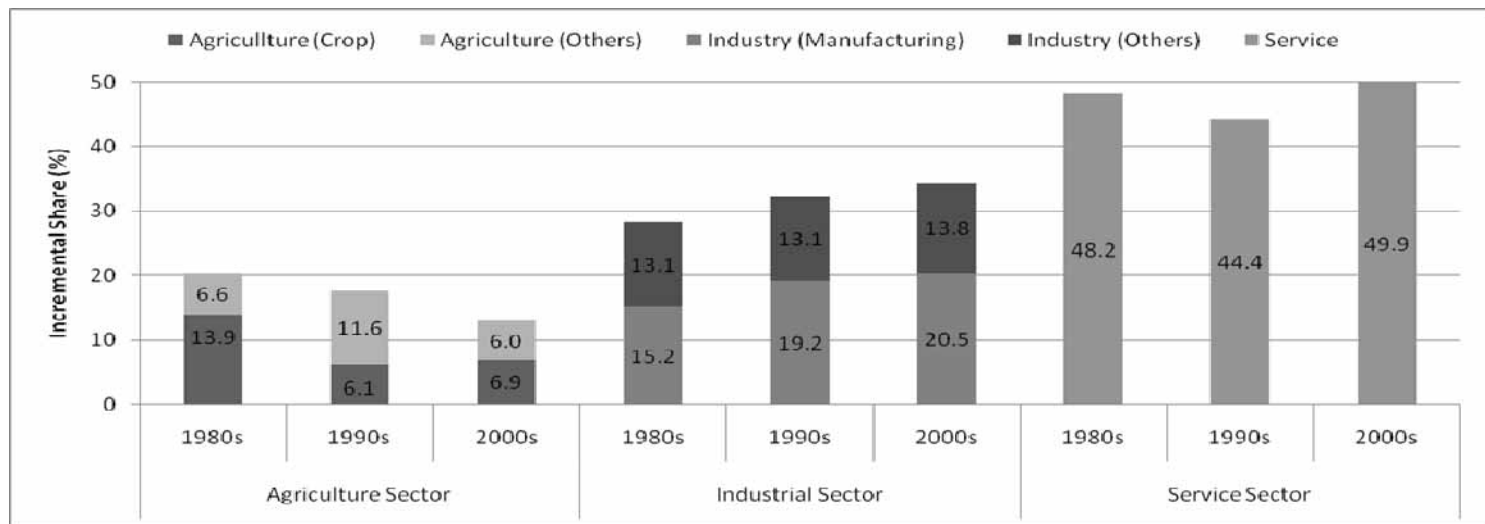


V. PROSPECTS FOR ECONOMIC GROWTH IN THE NEAR TERM

Growth for Structural Change

- For a sustainable inclusive development, Bangladesh economy needs to experience a structural change-based on promotion of productive sectors
- Growth experience of Bangladesh in the past three decades reveals two broad phases.
 - ✓ GDP growth during 1980s and 1990s had originated from rapid growth of the manufacturing industries
 - ✓ In 2000s, service sector provided a substantial base to augment additional national income, while manufacturing and crop sector held their positions

Incremental Share of GDP by Broad Sectors (%)



Source: Estimated from MoF (2010)

On Emerging Challenges for Bangladesh Economy In H2 of FY11



V. PROSPECTS FOR ECONOMIC GROWTH IN THE NEAR TERM

Growth for Structural Change

- *Outline Perspective Plan of Bangladesh 2010-2021: Making 2021 A Reality* has rightly emphasised on higher contribution of manufacturing sector in GDP
- Admittedly, attaining these challenging targets will require considerable acceleration of manufacturing production

Sectoral Share of GDP (%)

Sectors	FY10	FY15 (Target)	FY21 (Target)
Agriculture	19.5	16.0	15.0
Industry	28.9	35.0	40.0
Manufacturing	17.3	26.0	30.0
Service (including Import Duty)	51.6	49.0	45.0



V. PROSPECTS FOR ECONOMIC GROWTH IN THE NEAR TERM

Required sectoral contributions for attaining growth target

- In view of current structure of GDP, economic growth beyond 5% is mostly determined by manufacturing sector's level of output.
- The last time a 'more than six and half per cent' growth was achieved in FY06 - manufacturing sector posted 10.8% of the growth
 - ✓ An analogous performance will need to be registered from the manufacturing sector in FY2010-11
- The contribution from agriculture sector has to be as good as in FY10
- Around 6.8 % growth needs to be registered by the service sector in FY11.

GDP Growth Rate by Broad Sectors (%)

Sector	Contribution to Growth (%)					
	FY06	FY07	FY08	FY09	FY10	Required in FY11 (CPD Projection)
<i>Agriculture Sector</i>	4.9	4.6	3.2	4.1	4.7	4.6
Crops	5.0	4.4	2.7	4.0	5.1	5.0
<i>Industry</i>	9.7	8.4	6.8	6.5	6.0	8.5
Manufacturing	10.8	9.7	7.2	6.7	5.7	10.0
<i>Service Sector</i>	6.4	6.9	6.5	6.3	6.4	6.8
Total	6.6	6.4	6.2	5.7	5.8	6.7



V. PROSPECTS FOR ECONOMIC GROWTH IN THE NEAR TERM

Growth Outlook for FY2010-11

- The economy has gained some momentum –
 - ✓ Pick in external demand - enhanced export receipts
 - ✓ Greater investment demand - strong industrial credit flow and growing imports demand for capital machinery and other production inputs
- The outcome of crop sector is also expected to match the recent past performance
 - ✓ Productions of *aus* and *aman* have been satisfactory
 - ✓ Optimistic outcome is being forecasted for the *boro* yield
- The performance of service sector should be consistent with the energetic performance of the real sectors
- In the final analysis, broad-based manufacturing growth will define the final growth outcome in FY2010-11

V. PROSPECTS FOR ECONOMIC GROWTH IN THE NEAR TERM

Growth Outlook for FY2010-11

- However there are a couple of disquieting factors:
 - ✓ Dismal performance of small manufacturing industries
 - ✓ Sluggish implementation of public investment programme
 - ✓ Emerging power supply situation may not be adequate to accommodate the potential expansion of agriculture and manufacturing sectors
 - ✓ Unhealthy trends in domestic capital market is also diverting funds and attention from the development of the real sectors
- It will be challenging to attain the GDP growth target of 6.7% at the end of the fiscal year if the manufacturing sector does not experience a broad-based boost, promoting structural change

THANK YOU