

The Real Economy

Economic Growth

2.1 Bangladesh's economy grew on an average at above 6.0 percent in the last four years up to FY07. According to the provisional estimates of the Bangladesh Bureau of Statistics (BBS), real GDP recorded a strong growth of 6.5 percent in FY07, which is marginally lower than 6.6 percent recorded in FY06 (Table 2.1). This growth was commendable as it was achieved in a challenging environment marked by high and volatile oil prices, phasing out of the MFA quota, labour unrest in the garment industry and confrontational political situation of the country in the first half of FY07. Measured at current market prices, the GDP of Bangladesh in FY07 was estimated at Taka 4,675 billion representing a nominal growth of 12.5 percent in FY07 compared with 12.1 percent recorded in FY06. In FY07, the country's per capita GDP increased by about 5.1 percent in real terms and about 11.1 percent in nominal terms (Chart 2.1).

2.2 With reasonable support from agriculture sector, the 6.5 percent real GDP growth was underpinned mainly by industry sector and services sector. The expansion was broad-based, registering positive growth by all sectors and sub-sectors of the economy (Table 2.1). Spurred by a robust 9.5 percent growth in industry sector and 6.7 percent growth in services sector, GDP growth during the year was also aided by 3.2 percent growth in the agriculture sector. In the overall GDP growth of 6.5 percent in FY07, services sector contribution was the highest at 3.2 percentage

Table 2.1 Sectoral GDP growth				
(at FY96 constant prices: percent)				
	FY04	FY05	FY06	FY07 ^P
1. Agriculture	4.1	2.2	4.9	3.2
a) Agriculture and forestry	4.4	1.8	5.2	3.0
i) Crops and horticulture	4.3	0.2	5.0	1.9
ii) Animal farming	5.0	7.2	6.2	5.9
iii) Forest and related services	4.2	5.1	5.2	5.3
b) Fishing	3.1	3.7	3.9	4.0
2. Industry	7.6	8.3	9.7	9.5
a) Mining and quarrying	7.7	8.4	9.3	10.0
b) Manufacturing	7.1	8.2	10.8	11.2
i) Large and medium scale	7.0	8.3	11.4	11.6
ii) Small scale	7.5	7.9	9.2	10.3
c) Power, gas and water supply	9.1	8.9	7.7	5.4
d) Construction	8.3	8.3	8.3	7.1
3. Services	5.7	6.4	6.4	6.7
a) Wholesale and retail trade	6.6	7.1	6.8	7.4
b) Hotel and restaurants	7.1	7.1	7.5	8.2
c) Transport, storage and communication	6.2	7.9	8.0	8.2
d) Financial intermediations	7.0	8.9	8.5	7.5
i) Monetary intermediation (banks)	6.7	9.1	8.2	7.1
ii) Insurance	8.1	8.3	9.2	8.6
iii) Other financial intermediation	6.9	8.5	10.9	10.6
e) Real estate, renting and business activities	3.6	3.7	3.7	3.8
f) Public administration and defense	7.1	8.0	8.2	8.5
g) Education	7.7	7.9	9.1	9.0
h) Health and social work	6.2	7.4	7.8	7.6
i) Community, social and personal services	4.0	4.1	4.1	4.5
GDP (at FY96 constant market prices)	6.3	6.0	6.6	6.5

Source : National Accounts Statistics, June 2007, BBS.
P= Provisional.

points, followed by industry sector at 2.6 percentage points and agriculture sector at 0.7 percentage points.

Agriculture Sector

2.3 The agriculture sector achieved a moderate growth of 3.2 percent in FY07 following the post flood high growth of 4.9 percent in FY06. The deceleration in this sector was mainly due to lower growth in crops and horticulture sub-sector. Crops and horticulture sub-sector registered a growth of only 1.9 percent in FY07 compared to a growth of 5.0 percent in FY06. Overall, output of foodgrains increased by 2.6 percent from 27.3 million metric tons (MMT) in FY06 to 28.0 MMT in FY07, reflecting higher Boro production. Aus output, a relatively minor crop, decreased by about 11.8 percent to 1.5 MMT in FY07 compared to 1.7 MMT of FY06 due to insufficient rainfall and decline of area under cultivation as farmers have been switching to more profitable crops and vegetables production. Aman output, the second largest crop, was hampered by drought during entire transplantation period and disruption in the delivery of seeds, fertilizer, insecticides and inadequate supply of electricity for the operation of irrigation pumps. However, Aman production was estimated at the previous year's level of 10.8 MMT in FY07. Attracted by higher output prices farmers brought more area under Boro cultivation, used high-yielding variety (HYV) seeds and gave more efforts for successful Boro production. As a result, despite the sterility of paddy in some districts and disruption in the supply of key agricultural inputs, notably diesel fuel and fertilizer, the output of Boro rice, the single largest crop of the year, grew by 7.1 percent from 14.0 MMT in FY06 to 15.0 MMT in FY07. In spite of long dry spell, high cost of production and a decline of cultivation area, total wheat production stood at the previous year's level of 0.7 MMT in FY07. As farmers substituting commercially more viable maize for wheat in their crop rotation, maize production estimated at 0.8 MMT in FY07 was 60.0 percent higher than the actual production of FY06.

Chart 2.1

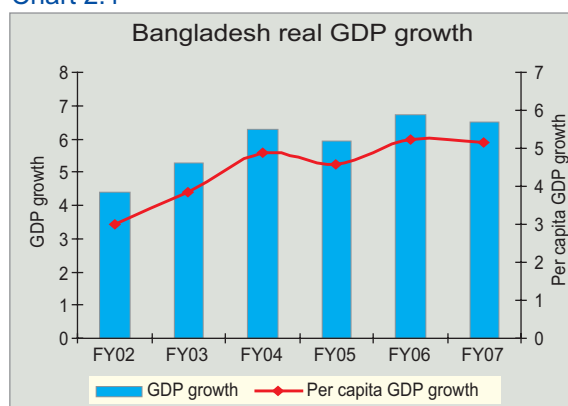


Table 2.2 Quantum index of medium and large scale manufacturing industries (base: 1988-89 = 100)

Sub-sectors	Weight	FY04	FY05	FY06	FY07
Food, beverage & tobacco	22.1	230.8	251.0	269.0	281.9
Jute, cotton, woven apparel & leather	38.2	321.2	347.8	405.5	460.1
Wood products including furniture	0.2	185.3	203.2	241.6	257.6
Paper and paper products	4.7	338.6	371.1	399.0	437.7
Chemical, petroleum & rubber	24.0	254.2	270.6	284.1	305.6
Non-metallic products	2.8	353.1	395.8	418.1	439.1
Basic metal products	2.1	211.9	236.5	256.5	282.4
Fabricated metal products	5.9	118.2	131.2	144.3	158.5
General index of manufacturing	100	272.1	294.7	327.1	359.8

Source : Bangladesh Bureau of Statistics.

2.4 The animal farming sub-sector grew by 5.9 percent in FY07 compared to 6.2 percent growth recorded in FY06. The output of this sub-sector declined mostly due to an outbreak of avian flu in the country. Forest and related services sub-sector recorded slightly higher growth of 5.3 percent in FY07 compared to a growth of 5.2 percent in FY06. The fishing sub-sector posted 4.0 percent growth in FY07 compared to 3.9 percent growth in FY06 due mainly to increase of both inland and marine fish production.

Industry Sector

2.5 In the industry sector, which contributed about 29.8 percent of GDP, growth rate slowed down from 9.7 percent of FY06 to 9.5 percent in FY07. The growth was led by export-oriented manufacturing sub-sector and supported by strong growth in mining and quarrying sub-sector. The growth in mining and quarrying sub-sector, a relatively minor activity, increased to 10.0 percent in FY07 from 9.3 percent in FY06. Manufacturing sub-sector registered a growth of 11.2 percent in FY07 compared to 10.8 percent growth in FY06. Growth was pronounced in both large and medium, and small scale manufacturing sub-sectors, which grew by 11.6 percent and 10.3 percent respectively in FY07 compared to 11.4 percent and 9.2 percent growth experienced in FY06. Small scale manufacturing sub-sector contributed about 29 percent for the total output of the manufacturing sector. The production of small scale manufacturing mostly depends on indigenous raw materials and is generally immune to external shocks. Within this sub-sector rice milling, dairy products, knitwear, leather products, footwear, wooden furniture, paper and paper products, non-metallic mineral products etc. showed substantial growth in FY07. Production of large and medium scale manufacturing industries, particularly knitwear, readymade garments, cotton textile, pharmaceuticals, wood products, iron and steel, ceramic, cement, plastic products etc. showed substantial growth in FY07. Quantum Index of Industrial Production (QIIP) which is used for estimating value added of large and medium scale industries showed a growth of 10.0 percent during FY07 over the previous year (Table 2.2). Quantum index of small scale manufacturing industry increased by 10.7 percent during FY07 over FY06. Earlier concerns about the possible adverse effects on exports of readymade garments because of the ending of MFA quotas have not been realized. A strong and sustained external demand led to

Table 2.3 Sectoral GDP shares (in percent)

(at FY96 constant producer prices)

	FY04	FY05	FY06	FY07 ^P
1. Agriculture	23.1	22.3	21.8	21.1
a) Agriculture and forestry	18.0	17.3	17.0	16.4
i) Crop and horticulture	13.3	12.5	12.3	11.7
ii) Animal farming	2.9	3.0	2.9	2.9
iii) Forest and related services	1.8	1.8	1.8	1.8
b) Fishing	5.1	5.0	4.8	4.7
2. Industry	27.7	28.3	29.0	29.8
a) Mining and quarrying	1.1	1.1	1.2	1.2
b) Manufacturing	16.2	16.5	17.1	17.8
i) Large and medium scale	11.4	11.7	12.1	12.7
ii) Small scale	4.8	4.9	4.9	5.1
c) Power, gas, and water supply	1.6	1.6	1.7	1.6
d) Construction	8.8	9.0	9.2	9.2
3. Services	49.2	49.4	49.2	49.1
a) Wholesale and retail trade	14.0	14.1	14.2	14.2
b) Hotel and restaurants	0.7	0.7	0.7	0.7
c) Transport, storage and communication	9.8	10.0	10.1	10.2
d) Financial intermediations	1.7	1.7	1.7	1.7
i) Monetary intermediation (banks)	1.2	1.3	1.3	1.3
ii) Insurance	0.4	0.4	0.4	0.4
iii) Other financial intermediation	0.1	0.1	0.1	0.1
e) Real estate, renting and business activities	8.3	8.1	7.9	7.7
f) Public administration and defense	2.6	2.7	2.7	2.8
g) Education	2.4	2.4	2.5	2.5
h) Health and social work	2.2	2.3	2.3	2.3
i) Community, social and personal services	7.6	7.5	7.3	7.1
GDP (at FY96 constant producer prices)	100.0	100.0	100.0	100.0

Source : National Accounts Statistics, June 2007, BBS.

P = Provisional.

buoyant export growth in FY07 for woven garments and knitwear, the two dominant components of manufacturing. Woven garments recorded a growth of 14.1 percent during FY07 over FY06. Knitwear industry achieved a strong growth of 19.3 percent during FY07 over FY06. The performance of other major industries registered significant growth except leather and leather products, paper and paper products and petroleum products. Activity in construction sub-

sector slowed down during FY07 mainly due to high price of construction materials as well as downsize of the Annual Development Programme. The construction sub-sector estimated to grow by 7.1 percent in FY07 compared to 8.3 percent recorded in FY06. Growth in power, gas and water supply sub-sector estimated lower at 5.4 percent in FY07 compared to 7.7 percent recorded in FY06, reflecting setback in electricity generation. It may be noted that the large unmet demand for power (reflected in power outages) continued in FY07, affecting the growth potential of a number of activities in both urban and rural areas.

Services Sector

2.6 The services sector contributed 49.1 percent of total GDP in FY07. Within this, 14.2 percent was attributable to wholesale and retail trade followed by 10.2 percent in transport, storage and communication, 7.7 percent in real estate, renting and business activities and 7.1 percent in community, social and personal services. Overall activities in the services sector, registered 6.7 percent growth in FY07 compared to 6.4 percent in FY06 based mainly on strong growth in industry sector and foreign trade. Despite some fluctuations, the growth appears to be broad-based across sub-sectors (Table 2.1). In FY07, somewhat higher growth was experienced compared to last year by wholesale and retail trade, hotel and restaurants, transport, storage and communication, real estate, renting and business activities, public administration and defence, and community, social and personal services. While financial intermediations, education, and health and social work sub-sectors were estimated to record a lower growth in FY07. Wholesale and retail trade, which accounted for 28.8 percent of the sector, grew by 7.4 percent in FY07, up from 6.8 percent in

FY06 due to increases in agricultural and industrial production and import of commodities. Transport, storage and communication sub-sector, the second highest contributor to the services sector, recorded a robust growth of 8.2 percent in FY07 compared to 8.0 percent in FY06. Post and telecommunication services stood at the front position with a growth of 23.5 percent in FY07. Communication services, particularly the mobile phone services continued to drive the telecommunication industry because of strong consumer demand for mobile phone which led to high growth of post and telecommunication sub-sector. Real estate, renting and business activities posted slightly higher growth of 3.8 percent in FY07 against 3.7 percent recorded in the previous year. Community, social and personal services also recorded higher growth of 4.5 percent in FY07 compared to 4.1 percent of FY06. Monetary intermediation (banks) was estimated to achieve a moderate growth of 7.1 percent in FY07, albeit lower than the growth of 8.2 percent in FY06, reflecting healthy profit margin in the private sector banks.

Sectoral Composition of GDP

2.7 Looking at the sectoral shares in GDP, it is observed that in the agriculture sector the share of crops and horticulture sub-sector (comprising of 55.5 percent in the overall agriculture) declined to 11.7 percent in FY07 from 12.3 percent in FY06 (Table 2.3). While the shares of animal farming, and forest and related services sub-sectors which are relatively small in size, remained unchanged in FY07, the share of fishing sub-sector declined marginally.

2.8 The long-term trend showing a shift of the sectoral composition of GDP away from agriculture towards industry continued in FY07 (Table 2.3). During the year under report,

while the share of industry sector increased to 29.8 percent from 29.0 percent, the share of agriculture sector in GDP came down to 21.1 percent from 21.8 percent; the share of the services sector in GDP also declined slightly to 49.1 percent from 49.2 percent. In the industry sector, while the share manufacturing sub-sector increased, the share of power, gas and water supply sub-sector declined. The low share of power, gas and water supply partly reflected the supply side bottlenecks constraining growth in the economy.

GDP by Expenditure

2.9 In FY07, expenditure based estimate for GDP was Taka 4,533.2 billion, showing a nominal increase of 11.1 percent over FY06 (Table 2.4). Gross Domestic Expenditure (GDE) measures the aggregate demand generated by domestic economic activity, which is the sum of consumption expenditure, investment expenditure of the private and public sector and the resource balance of the economy. In FY07, domestic demand was estimated at Taka 4,855.6 billion at current market prices, reflecting an increase of 11.9 percent over FY06.

2.10 GDP data by expenditure groups (composition) as well as private savings and investment are relatively weak. However, existing data indicate that of the GDE, consumption expenditure constituted 82.0 percent while investment expenditure constituted 25.1 percent and resource balance was -7.1 percent. In FY07, investment expenditure increased by 11.0 percent in nominal terms, less than 12.1 percent increase in consumption expenditure.

Savings and Investment

2.11 Available data indicate that gross domestic savings at current market prices grew by 13.7 percent in FY07 slightly raising its share

Table 2.4 : GDP by expenditure group

(at current market prices: billion Tk)				
	FY 04	FY05	FY06	FY07 ^P
Domestic demand	3479.2	3874.4	4340.3	4855.6
Consumption	2679.8	2951.1	3315.5	3718.3
Private	249.2	275.8	3085.2	3458.8
Government	184.1	205.3	230.3	259.5
Investment	799.4	923.3	1024.8	1137.3
Private	59.7	67.2	775.5	875.7
Public	206.2	230.1	249.3	261.7
Resource balance	178.1	236.6	260.7	322.4
Exports	514.9	614.7	788.8	1027.0
Imports	69.0	854.3	1048.5	1344.6
Gross domestic expenditure	3301.1	3634.7	4079.6	4533.2
Gross domestic product	3329.7	3707.1	4157.3	4675.0
Statistical discrepancy	28.6	72.4	77.7	141.8

Source : National Accounts Statistics, June 2007, B
P-Provisional.

Table 2.5 : Domestic savings and investment

(as percent of GDP)					
	FY04	FY05	FY06	FY07 ^P	
Public					
Investment		6.2	6.2	6.0	5.6
Savings		1.3	1.4	1.4	1.4
Savingsinvestment gap		4.9	4.8	4.6	4.2
Private					
Investment		17.8	18.3	18.7	18.7
Savings		18.2	18.6	18.8	19.0
Savingsinvestment gap		0.4	0.3	0.1	0.3
Total					
Investment		24.0	24.5	24.7	24.3
Savings		19.5	20.0	20.3	20.5
Savingsinvestment gap		4.5	4.5	4.4	3.8

Source : National Accounts Statistics, June 2007, B
P-Provisional.

as percentage of GDP from 20.3 in FY06 to 20.5 in FY07 (Table 2.5, Chart 2.2). Private sector component of domestic savings increased to 19.0 in FY07 from 18.8 in FY06. It appears that in recent years private savings was higher than private investment,

which indicates that some private savings was channeled to government sector induced by comparatively high rates of return on savings certificates. The small public sector component of domestic savings remained the same at the previous year's level of 1.4 percent in FY07. Investment as percentage of GDP decreased to 24.3 in FY07 from 24.7 in FY06 (Table 2.5, Chart 2.3). The private sector component of investment remained the same at the previous year's level of 18.7 percent in FY07. The public sector component of investment, however, decreased from 6.0 percent of GDP in FY06 to 5.6 in FY07.

2.12 The domestic savings-investment gap as percent of GDP decreased to 3.8 percent in FY07 from 4.4 percent in FY06 reflecting higher savings growth (Table 2.5). The domestic savings-investment gap was met with net factor income from abroad which increased by 37.0 percent in FY07.

Chart 2.2

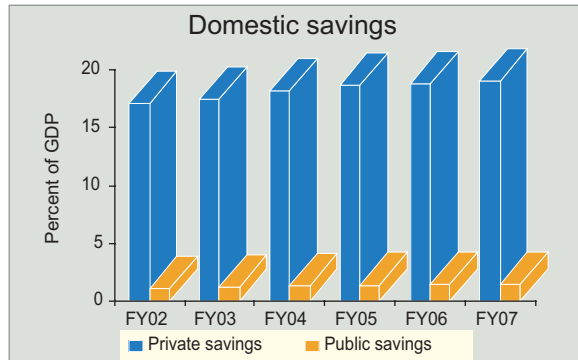


Chart 2.3

