

The Real Economy

Economic Growth

2.1 Bangladesh economy has sustained growth momentum in FY09 amid current global economic downturn and financial crisis. A good domestic crop harvest together with moderate export growth and sustained high level of remittance flow helped the economy to attain a near-six percent growth rate during the year. According to the provisional estimates of the Bangladesh Bureau of Statistics (BBS), real GDP grew by 5.9 percent in FY09, only 0.3 percentage point lower than the 6.2 percent growth recorded in FY08 (Table 2.1). Measured at current market prices, the GDP of Bangladesh in FY09 was estimated at Taka 6149 billion representing a nominal growth of 12.7 percent in FY09 compared with 15.5 percent recorded in FY08. In FY09, the country's per capita GDP increased by about 4.5 percent in real terms and about 11.2 percent in nominal terms (Chart 2.1).

2.2 The real GDP growth of 5.9 percent in FY09 was driven by a robust agricultural expansion and substantially increased output in industry and services sectors. The expansion was broad-based, registering positive growth by all sectors and sub-sectors of the economy (Table 2.1). GDP growth during the year was underpinned by 6.3 percent growth in the services sector, 5.9 percent in the industry sector and 4.6 percent in the agriculture sector.

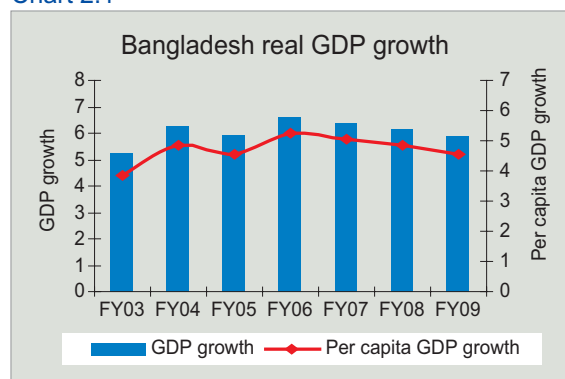
Table 2.1 Sectoral GDP growth

(at FY96 constant prices: percent)

	FY06	FY07	FY08	FY09 ^P
1. Agriculture	4.9	4.6	3.2	4.6
a) Agriculture and forestry	5.2	4.7	2.9	4.8
i) Crops and horticulture	5.0	4.4	2.7	5.0
ii) Animal farming	6.2	5.5	2.4	3.5
iii) Forest and related services	5.2	5.2	5.5	5.5
b) Fishing	3.9	4.1	4.2	4.0
2. Industry	9.7	8.4	6.8	5.9
a) Mining and quarrying	9.3	8.3	8.9	9.4
b) Manufacturing	10.8	9.7	7.2	5.9
i) Large and medium scale	11.4	9.7	7.3	5.7
ii) Small scale	9.2	9.7	7.1	6.6
c) Power, gas and water supply	7.7	2.1	6.8	4.5
d) Construction	8.3	7.0	5.7	5.7
3. Services	6.4	6.9	6.5	6.3
a) Wholesale and retail trade	6.8	8.0	6.8	6.4
b) Hotel and restaurants	7.5	7.5	7.6	7.6
c) Transport, storage and communication	8.0	8.0	8.6	7.6
d) Financial intermediations	8.5	9.2	8.9	8.0
i) Monetary intermediation (banks)	8.2	9.3	8.4	7.2
ii) Insurance	9.2	8.2	10.0	9.9
iii) Other financial intermediation	10.9	11.6	12.5	12.4
e) Real estate, renting and business activities	3.7	3.8	3.8	3.8
f) Public administration and defence	8.2	8.4	6.2	7.0
g) Education	9.1	9.0	7.8	8.0
h) Health and social work	7.8	7.6	7.0	7.6
i) Community, social and personal services	4.1	4.6	4.6	4.7
GDP (at FY96 constant market prices)	6.6	6.4	6.2	5.9

Source : National Accounts Statistics, May 2009, BBS.
P= Provisional.

Chart 2.1



In the overall GDP growth of FY09, services sector contribution was the highest at 3.0 percentage points, followed by industry sector at 1.7 percentage points and agriculture sector at 0.9 percentage point.

Agriculture Sector

2.3 Overcoming the adversities of the preceding year the agriculture sector exhibited a robust growth of 4.6 percent in FY09 which was much higher than 3.2 percent growth recorded in FY08. The acceleration of the growth in the sector was due to higher growth in crops and horticulture sub-sector and animal farming sub-sector. Crops and horticulture sub-sector posted an impressive growth of 5.0 percent in FY09 as against 2.7 percent growth recorded in FY08. Overall, output of foodgrains (Aus, Aman, Boro and Wheat) increased by 8.1 percent from 29.8 million metric tons (MMT) in FY08 to 32.2 MMT in FY09 reflecting higher production in all items of foodgrains. Favourable weather condition, higher disbursement of agricultural credit, better price incentive for the farmers, and Government's initiatives to ensure timely delivery of agricultural inputs and other supportive services contributed to higher foodgrain production in the year. Aus output, a relatively minor crop of the year, increased significantly by 26.7 percent from 1.5 MMT in FY08 to 1.9 MMT in FY09. Aman output, the second largest crop of the year, also increased significantly by 19.6 percent from 9.7 MMT in FY08 to 11.6 MMT in FY09. Boro output, the single largest crop of the year, grew slightly by 0.2 percent from 17.76 MMT in FY08 to 17.80 MMT in FY09. Wheat production increased from 0.80 MMT in FY08 to 0.85 MMT in FY09.

2.4 Animal farming sub-sector grew significantly by 3.5 percent in FY09 as against 2.4 percent recorded in FY08. The growth in forest and related services sub-sector remained

unchanged at 5.5 percent in FY09. Fishing sub-sector registered slightly lower growth of 4.0 percent in FY09 as compared to 4.2 percent recorded in FY08, the weakness resulting from decline in shrimp exports during the year due mainly to the voluntary ban imposed by Bangladeshi shrimp industry on the use of nitrofurans, a banned antibiotic.

Industry Sector

2.5 In the industry sector, which contributed 29.7 percent of GDP, growth rate slowed down from 6.8 percent of FY08 to 5.9 percent in FY09. The deceleration of growth of the sector was mainly due to slower growth in manufacturing sector caused in turn by export decline in most items other than apparels and textiles following global financial crisis. The growth in mining and quarrying sub-sector, a relatively minor activity, increased by 9.4 percent in FY09 compared to 8.9 percent in FY08. Manufacturing sub-sector registered a lower growth of 5.9 percent in FY09 compared to 7.2 percent growth in FY08. Growth was pronounced in both the large and medium, and the small scale-manufacturing sub-sectors, which grew by 5.7 percent and 6.6 percent in FY09 compared to 7.3 percent and 7.1 percent respectively in FY08. 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, embroidery, wooden furniture, paper and paper products, non-metallic mineral products etc. showed substantial growth in the first six months of FY09. Production of large and medium scale manufacturing industries, particularly cotton textile, pharmaceuticals, plastic products, wood products, iron and steel, ceramic, cement,

electronic goods, transport equipments etc. showed moderate growth in first half of FY09. Quantum Index of Industrial Production (QIP) which has been estimated for computing value added of large and medium scale industries showed a growth of 7.4 percent during FY09 over FY08 (Table 2.2). Quantum index of small scale manufacturing industry also increased by 7.9 percent during FY09 over FY08. Despite global economic recession, woven garments and knitwear, the country's key export industry, showed substantial growth in FY09. Exports of woven garments and knitwear achieved 14.5 and 16.2 percent growth respectively during FY09. Performance of other industries registered insignificant growth except frozen food, sugar, tanning and finishing leather, fertilizer, and petroleum products etc. which showed a downward growth. In the construction sub-sector, while activities of the private sector construction increased, activities of the public sector construction decreased following downsize of the annual development programme (ADP). Growth of the construction sub-sector remained unchanged at 5.7 percent during FY09. Growth in power, gas and water supply sub-sector slowed down to 4.5 percent in FY09 compared to 6.8 percent recorded in FY08. It may be noted that the large unmet demand for power (reflected in power outages) continued in FY09, affecting the growth potential of a number of activities in both urban and rural areas.

Services Sector

2.6 The services sector contributed 49.7 percent of total GDP in FY09. Within this, 14.4 percent was attributable to wholesale and retail trade followed by 10.6 percent in transport, storage and communication, 7.4 percent in real estate, renting and business activities and 6.9 percent in community, social and personal services. Overall activities in the services sector registered 6.3 percent growth in FY09,

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

Sub-sectors	Weight	FY06	FY07	FY08 ^R	FY09 ^P
Food, beverage & tobacco	22.1	269.5	281.6	285.8	288.0
Jute, cotton, woven apparel & leather	38.2	406.5	460.9	513.6	563.6
Wood products including furniture	0.2	241.7	258.1	287.8	299.8
Paper and paper products	4.7	399.1	440.3	475.0	495.1
Chemical, petroleum & rubber	24.0	286.5	305.9	313.4	327.3
Non-metallic products	2.8	423.8	441.6	459.2	514.9
Basic metal products	2.1	258.2	283.0	304.2	351.6
Fabricated metal products	5.9	143.5	158.4	168.6	178.9
Overall index of manufacturing	0.2	288.8			

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

marginally lower than 6.5 percent growth recorded in FY08. Despite some fluctuations, the growth appears to be broad-based across sub-sectors (Table 2.1). In FY09, the wholesale and retail trade, transport, storage and communication, and financial intermediations sub-sectors experienced somewhat lower growth; and public administration and defence, education, health and social work, and community, social and personal services sub-sectors recorded higher growth; while growth in hotel and restaurants, real estate, renting and business activities sub-sectors remained unchanged. Wholesale and retail trade, which accounted for about 29 percent of the sector, grew by 6.4 percent in FY09 against 6.8 percent in FY08. Transport, storage and communication sub-sector, the second highest contributor to the services sector recorded a growth of 7.6 percent in FY09 compared to 8.6 percent in FY08. Post and telecommunication services, particularly the mobile phone services, continued to drive the telecommunication industry because of strong consumer demand for mobile phone which led to moderate growth of the sub-sector. Growth in real estate, renting and business activities

remained unchanged at 3.8 percent in FY09. Community, social and personal services sub-sector posted slightly higher growth of 4.7 percent in FY09 against 4.6 percent recorded in FY08. Monetary intermediation (banks) achieved a moderate growth of 7.2 percent in FY09, albeit lower than the growth of 8.4 percent in FY08, 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 about 56 percent in the overall agriculture) remained unchanged at 11.6 percent in FY09 (Table 2.3). The share of forest and related services sub-sector, which is relatively small in size, also remained unchanged at previous year's level of 1.8 percent in FY09. The share of animal farming and fishing sub-sectors declined marginally from 2.8 and 4.7 percent in FY08 to 2.7 and 4.6 percent respectively in FY09. In the industry sector, while the share of mining and quarrying sub-sector increased, the share of manufacturing, construction, and power, gas and water supply sub-sectors remained unchanged. The low share of power, gas and water supply partly reflected the supply side bottlenecks constraining growth in the economy. In the services sector, the share of transport, storage and communication sub sector increased slightly, and the share of real estate, renting and business activities, and community, social and personal services declined marginally. The share of wholesale and retail trade remained unchanged at the previous year's level.

2.8 The long-term trend showing a shift of the sectoral composition of GDP away from agriculture towards industry and services

Table 2.3 Sectoral GDP shares (in percent)

(at FY96 constant producer prices)

	FY06	FY07	FY08	FY09 ^P
1. Agriculture	21.8	21.4	20.8	20.6
a) Agriculture and forestry	17.0	16.6	16.2	16.0
i) Crop and horticulture	12.3	12.0	11.6	11.6
ii) Animal farming	2.9	2.9	2.8	2.7
iii) Forest and related services	1.8	1.8	1.8	1.8
b) Fishing	4.8	4.7	4.7	4.6
2. Industry	29.0	29.4	29.7	29.7
a) Mining and quarrying	1.2	1.2	1.2	1.3
b) Manufacturing	17.1	17.6	17.8	17.8
i) Large and medium scale	12.1	12.5	12.6	12.6
ii) Small scale	4.9	5.1	5.1	5.2
c) Power, gas, and water supply	1.7	1.6	1.6	1.6
d) Construction	9.2	9.2	9.1	9.1
3. Services	49.2	49.2	49.5	49.7
a) Wholesale and retail trade	14.2	14.2	14.4	14.4
b) Hotel and restaurants	0.7	0.7	0.7	0.7
c) Transport, storage and communication	10.1	10.2	10.4	10.6
d) Financial intermediations	1.7	1.8	1.8	1.8
i) Monetary intermediation (banks)	1.3	1.3	1.3	1.4
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	7.9	7.6	7.5	7.4
f) Public administration and defence	2.7	2.8	2.8	2.8
g) Education	2.5	2.5	2.6	2.6
h) Health and social work	2.3	2.3	2.3	2.4
i) Community, social and personal services	7.3	7.1	7.0	6.9
GDP (at FY96 constant producer prices)	100.0	100.0	100.0	100.0

Source : National Accounts Statistics, May 2009, BBS.
P=Provisional.

Table 2.4 GDP by expenditure groups

(at current market prices: billion Taka)

	FY06	FY07	FY08	FY09 ^P
Domestic demand	4340.3	4919.1	5671.0	6411.8
Consumption	3315.5	3763.2	4349.7	4923.4
Private	3085.2	3502.1	4061.4	4604.4
Government	230.3	261.1	288.3	319.0
Investment	1024.8	1155.9	1321.3	1488.4
Private	775.5	898.6	1050.9	1203.5
Public	249.3	257.3	270.4	284.9
Resource balance	-260.7	-327.3	-459.1	-587.5
Exports	788.8	934.4	1110.2	1287.8
Imports	1049.5	1261.6	1569.3	1875.3
Gross domestic expenditure	4079.6	4591.9	5211.9	5824.3
Gross domestic product	4157.3	4724.8	5458.2	6155.5
Statistical discrepancy	77.7	132.9	246.3	331.2

Source : National Accounts Statistics, May 2009, BBS.
P=Provisional.

continued in FY09 (Table 2.3). During the year under review, while the share of the agriculture sector came down from 20.8 percent to 20.6 percent the share of services sector increased from 49.5 percent to 49.7 percent, the share of industry sector remained unchanged at 29.7 percent.

GDP by Expenditure

2.9 In FY09, expenditure based estimate for GDP was Taka 5824.3 billion, showing a nominal increase of 11.8 percent over FY08 (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 FY09, domestic demand was estimated at Taka 6411.8 billion at current market prices, reflecting an increase of 13.1 percent over FY08.

2.10 GDP data by expenditure groups is relatively weak. However, existing data of FY09 indicate that of the GDE, consumption expenditure constituted 84.5 percent while investment expenditure constituted 25.6 percent and resource balance was -10.1 percent. In FY09, investment expenditure increased by 12.6 percent in nominal terms, less than 13.2 percent increase in consumption expenditure.

Savings and Investment

2.11 Available data indicate that gross domestic savings (GDS) at current market prices grew by 11.1 percent in FY09. GDS as percentage of GDP declined from 20.3 in FY08 to 20.0 in FY09, the decline occurred both in private and public sector savings (Table 2.5, Chart 2.2). The private sector component of domestic savings as percentage of GDP decreased to 18.7 in FY09 from 19.0 in FY08 due to higher

Table 2.5 Savings and investment

(as percent of GDP)

	FY06	FY07	FY08	FY09 ^P
Public				
Investment	6.0	5.5	5.0	4.6
Domestic savings	1.4	1.4	1.4	1.3
Domestic savings-investment gap	-4.6	-4.1	-3.6	-3.3
Private				
Investment	18.7	19.0	19.3	19.6
Domestic savings	18.8	18.9	19.0	18.7
Domestic savings-investment gap	0.1	-0.1	-0.3	-0.9
Total				
Investment	24.7	24.5	24.2	24.2
Domestic savings	20.3	20.4	20.3	20.0
Domestic savings-investment gap	-4.4	-4.1	-3.9	-4.2
National savings	27.7	28.7	30.2	32.4

Source : National Accounts Statistics, May 2009, BBS.
P=Provisional.

Chart 2.2

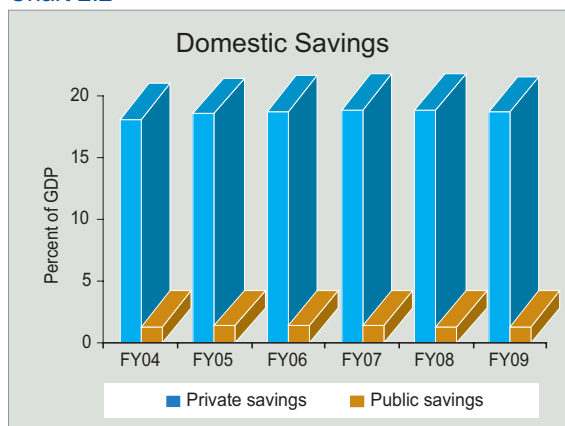
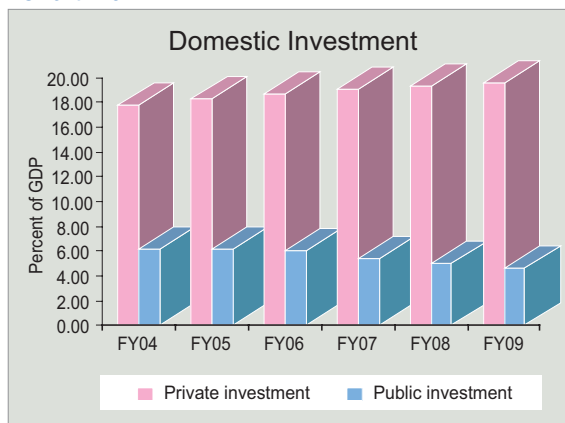


Chart 2.3



consumption expenses as the high inflation levels of FY08 continued in first quarter of FY09. The small public sector component of domestic savings as percentage of GDP decreased to 1.3 in FY09 from 1.4 in FY08 due partly to higher revenue expenditure over revenue earnings and lower surpluses generated by the state owned financial and non financial institutions. Despite slowdown of domestic savings, gross national savings (GNS) as percentage of GDP increased from 30.2 in FY08 to 32.4 in FY09, resulting from higher inflow of net factor income (NFI) and net current transfer (NCT). In FY09, NFI and NTC increased by 41.1 percent and 35.9 percent respectively over the previous year.

2.12 Investment as percentage of GDP remained unchanged at 24.2 in FY09. (Table 2.5,

Chart 2.3). While the private sector component of investment as percentage of GDP increased from 19.3 in FY08 to 19.6 in FY09, the public sector component of investment as percentage of GDP, however, decreased from 5.0 in FY08 to 4.6 in FY09. The declining share of public investment in GDP in FY 09 resulted apparently from slow implementation and eventually downsizing of ADP, necessitated by lower disbursement of overseas development assistance (ODA) provided by multilateral and bilateral development partners.

2.13 The domestic savings-investment gap as percentage of GDP increased from 3.9 in FY08 to 4.2 in FY09 (Table 2.5). The domestic savings-investment gap was met with net factor income from abroad.