

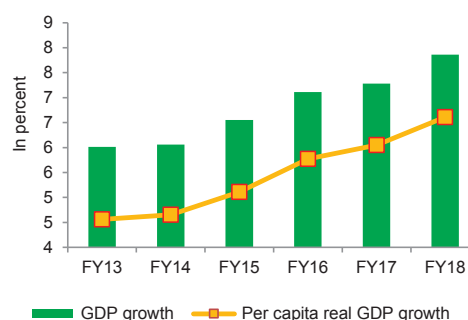
The Real Economy

2.1 The Bangladesh economy experienced an impressive growth in FY18, underpinned by strong domestic and external demand, as reflected in buoyant public and private investment and consumption, driven by higher exports, remittances and private credit growth. During the period, a good harvest of food production may offset some inflation risks from the pass-through effects of global oil and commodity prices. The sustained higher economic growth is necessary for graduation from LDC to lower middle income country. Recently, Bangladesh has graduated from the least developed country (LDC) status to lower middle income country and has successfully met all criteria for LDC graduation in the first review. It is expected that the country will be able to meet the criteria in the second review in 2021 and will finally graduate from the LDC status in 2024. To ensuring smooth graduation from the LDC status, the country needs to attract large volumes of private sector and foreign direct investment, improvement in physical and social infrastructures for the sustained growth.

2.2 Bangladesh has achieved a recorded GDP growth of 7.9 percent in FY18, up from 7.3 percent in FY17 (Chart 2.1). The robust growth mainly propelled by industry, agriculture and service sectors' activities. As the key sectors, industry, services and agriculture grew by 12.1, 6.4, and 4.2 percent respectively (Chart 2.2).

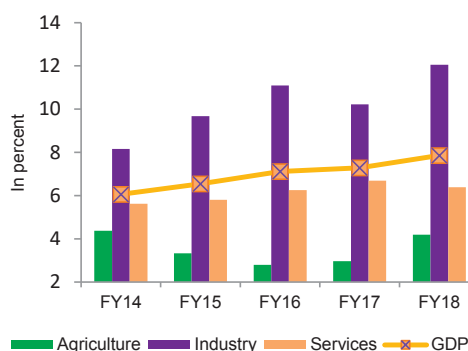
2.3 The data of Bangladesh Bureau of Statistics (BBS) showed that GDP at current market price was BDT 22504.8 billion for FY18 which was 13.9 percent higher than that of the preceding year. In FY18, per capita real GDP

Chart 2.1 Trends in Bangladesh Real GDP Growth



Source: Bangladesh Bureau of Statistics.

Chart 2.2 Trends in Sectoral GDP Growth



Source: Bangladesh Bureau of Statistics.

and GNI were estimated at BDT 62477 and BDT 65326 respectively. During the same period, per capita nominal GDP and GNI were estimated at BDT 137518 (USD 1675) and 143789 (USD 1751) respectively.

Sectoral Growth Rate of GDP

2.4 Growth decomposition shows that the industry sector appeared to attain the highest

growth followed by services and agriculture sector.

Agriculture Sector

2.5 The growth in agriculture sector increased to 4.2 percent in FY18 from 3.0 percent in FY17. This growth in agriculture sector mainly aided by favorable weather, higher crop prices, and timely supply of inputs and finance. Besides, almost all sub-sectors of agriculture have achieved higher growth in FY18, compared to the previous fiscal year. Moreover, the growth was supported by the strong growth in fishing (6.37 percent). Crop and horticulture activities, which account for more than half of the agricultural value added, attained a moderate growth (3.1 percent).

2.6 Fishing registered a growth of 6.4 percent in FY18 against 6.2 percent in FY17. Forest and related services sub-sector recorded a growth of 5.5 percent in FY18, which was 5.6 percent in FY17. Animal farming subsector achieved slightly higher growth of 3.4 percent in FY18 compared to 3.3 percent respectively in FY17.

Industry Sector

2.7 The industry sector, constituting around one-third of gross value-added (GVA) in the economy, grew by around 12.1 percent in FY18, up from 10.2 percent in FY17, led mainly by manufacturing and construction activities. The growth in all sub-sectors of industry sector has increased except mining and quarrying and small scale manufacturing sub-sector in FY18 compared to FY17. Mining and quarrying and small scale manufacturing sub-sectors have achieved 7.0 percent and 9.3 percent growth respectively in FY18.

2.8 The Growth in large and medium scale industry increased to 14.3 percent in FY18

Table 2.1 Sectoral Growth of Real GDP

(Base year: FY06)

	FY15	FY16	FY17	FY18
1. Agriculture	3.3	2.8	3.0	4.2
a) Agriculture and forestry	2.5	1.8	2.0	3.5
i) Crops and horticulture	1.8	0.9	1.0	3.1
ii) Animal farming	3.1	3.2	3.3	3.4
iii) Forest and related services	5.1	5.1	5.6	5.5
b) Fishing	6.4	6.1	6.2	6.4
2. Industry	9.7	11.1	10.2	12.1
a) Mining and quarrying	9.6	12.8	8.9	7.0
b) Manufacturing	10.3	11.7	11.0	13.4
i) Large and medium scale	10.7	12.3	11.2	14.3
ii) Small scale	8.5	9.1	9.8	9.3
c) Electricity, gas and water supply	6.2	13.3	8.5	9.2
d) Construction	8.6	8.6	8.8	9.9
3. Services	5.8	6.3	6.7	6.4
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	6.4	6.5	7.4	7.5
b) Hotel and restaurants	6.8	7.0	7.1	7.3
c) Transport, storage and communication	6.0	6.1	6.8	6.6
d) Financial intermediations	7.8	7.7	9.1	7.9
i) Monetary intermediation (banks)	8.5	8.9	10.0	8.5
ii) Insurance	4.0	0.5	2.1	1.6
iii) Other financial intermediation	4.7	4.5	9.1	9.1
e) Real estate, renting and business activities	4.4	4.5	4.8	5.0
f) Public administration and defence	9.8	11.4	9.2	8.5
g) Education	8.0	11.7	11.4	7.0
h) Health and social work	5.2	7.5	7.6	7.0
i) Community, social and personal services	3.3	3.3	3.6	3.7
Total GVA at constant basic price	6.5	7.2	7.2	7.9
GDP (at constant market price)	6.6	7.1	7.3	7.9

Source: Bangladesh Bureau of Statistics.

from 11.2 percent FY17, growth in electricity, gas and water supply increased to 9.2 percent in FY18 from 8.5 percent in FY17 and growth in construction increased to 9.9 percent in FY18 from 8.8 percent FY17. The construction sector received a boost from the government's mega projects implementation. Growth in manufacturing sub-sector increased to 13.4 percent from 11.0 percent over the same period.

2.9 Quantum Index of industrial production (QIIP) showed a growth of 15.8 percent in FY18 which was higher than the growth of 11.2 percent in the preceding year (Appendix-3, Table-VIII). Production of manufacture of leather and related products and manufacture of machinery and equipment n.e.c grew significantly (50.5 and 35.0 percent) in FY18. Production of manufacture of food products, manufacture of tobacco products, manufacture of wearing apparels, manufacture of rubber and plastic products, manufacture of basic metals, manufacture of other transport equipment and manufacture of furniture registered higher growth in FY18 compared to FY17. Moreover, major industry group's production also increased except manufacture of beverages, manufacture of textile, manufacture of wood and products of wood and cork, manufacture of paper and paper products, printing and reproduction of recorded media, manufacture of coke and refined petroleum products, manufacture of chemicals and chemical products, manufacture of pharmaceuticals and medicinal chemical, manufacture of other non-metallic mineral products, manufacture of fabricated metal products except machinery, manufacture of computer, electronic and optical products, manufacture of electrical equipment and manufacture of motor vehicles, trailers and semi trailers in FY18.

Services Sector

2.10 Despite some moderation, the service sector, comprising more than half of GVA, registered a modest growth of 6.4 percent in FY18. Within the sector, larger growth impulse primarily came from the wholesale and retail trade, transport, and financial intermediation. The sub-sectors viz. wholesale and retail trade, transport, and financial intermediation grew by 7.5, 6.6, and 7.9 percent in FY18 compared to 7.4, 6.8, and 9.1 percent in FY17, respectively.

Table 2.2 Sectoral Share of GDP

(Base year: FY06)

	FY15	FY16	FY17	FY18
1. Agriculture	16.0	15.4	14.7	14.2
a) Agriculture and forestry	12.3	11.7	11.1	10.7
i) Crop and horticulture	8.9	8.4	7.9	7.5
ii) Animal farming	1.7	1.7	1.6	1.5
iii) Forest and related services	1.7	1.7	1.7	1.6
b) Fishing	3.7	3.7	3.6	3.6
2. Industry	30.4	31.5	32.4	33.7
a) Mining and quarrying	1.7	1.8	1.8	1.8
b) Manufacturing	20.2	21.0	21.7	22.9
i) Large and medium scale	16.6	17.4	18.0	19.1
ii) Small scale	3.6	3.6	3.7	3.8
c) Electricity, gas and water supply	1.4	1.5	1.5	1.5
d) Construction	7.2	7.3	7.4	7.5
3. Services	53.6	53.1	52.9	52.1
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	14.1	14.0	14.0	14.0
b) Hotel and restaurants	0.8	0.8	0.8	0.8
c) Transport, storage and communication	11.4	11.3	11.3	11.1
d) Financial intermediations	3.4	3.4	3.5	3.5
i) Monetary intermediation (banks)	2.8	2.9	3.0	3.0
ii) Insurance	0.4	0.3	0.3	0.3
iii) Other financial intermediation	0.2	0.2	0.2	0.2
e) Real estate, renting and business activities	6.8	6.6	6.5	6.3
f) Public administration and defence	3.5	3.6	3.7	3.7
g) Education	2.3	2.4	2.5	2.5
h) Health and social work	1.8	1.8	1.9	1.8
i) Community, social and personal services	9.5	9.2	8.9	8.5
Total GVA at constant basic price	100	100	100	100

Source: Bangladesh Bureau of Statistics.

Among the sub-sectors, Real estate, renting and business activities sub-sector increased to 5.0 percent in FY18 from 4.8 percent in FY17. Community, social and personal services sub-sector grew by 3.7 in FY18 compared to 3.6 percent in FY17. Public administration and defense sub-sector grew by 8.5 percent in FY18 compared to 9.2 percent in FY17. Hotel and restaurants sub-sector slightly increased to 7.3 percent in FY18 from 7.1 percent in FY17. The growth in education sub-sectors rose to 7.0 percent in FY18 from 11.4 percent in FY17

which seems to be injurious to the society. Health and social work sub-sectors decreased to 7.0 percent in FY18 from 7.6 percent in FY17. Community, social and personal services sub-sectors increased to 3.7 percent in FY18 from 3.6 percent in FY17 (Table 2.1).

Sectoral Share of GDP

2.11 Sectoral share of GDP shows that the service sector appeared to be the largest share followed by industry and agriculture sector.

2.12 With the gradual upward trends of GDP, the sectoral composition of GDP has also been changing over the time. Contribution of agriculture sector has been declining and has shifted towards industry sector during the last several years which indicates that industrialization has increased in the country. However, the contribution of the industry sector in GDP increased to 33.7 percent in FY18 (Table 2.2). The increasing share was mainly supported by the manufacturing and large & medium scale industries sub-sector whose share in GDP increased by 5.1 percentage points to 22.9 percent and 5.9 percentage points to 19.1 percent respectively in FY18.

2.13 The services sectors' share in GDP declined slightly to 52.1 percent in FY18 as compared to 52.9 percent of the preceding fiscal year. However, the shares of transport, storage and communication; real estate, renting and business activities; health and social work; and community, social and personal services sub-sectors went down while those of wholesale and retail trade; hotel and restaurants; financial intermediations; public administration and defence; and education remained unchanged.

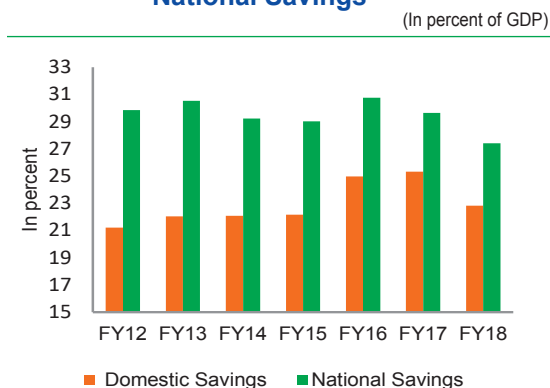
2.14 The share of agriculture slightly went down to 14.2 percent in FY18 from 14.7 percent

Table 2.3 GDP by Expenditure Groups (current market price)

(In billion BDT)				
Particulars	FY15	FY16	FY17	FY18
Domestic demand(1+2)	16177.9	18138.7	20781.9	24395.2
Consumption(1)	11799.2	13000.3	14753.6	17365.9
Private	10980.0	11979.2	13568.9	15935.3
Government	819.2	1021.1	1184.7	1430.6
Investment(2)	4378.6	5138.4	6028.3	7029.4
Private	3344.7	3983.5	4563.6	5235.2
Public	1033.9	1154.9	1464.7	1794.2
Resource balance(3-4)	-1123.6	-806.6	-1033.7	-1945.1
Exports(3)	2627.9	2885.2	2970.9	3330.9
Imports(4)	3751.5	3691.8	4004.6	5276.0
Gross domestic expenditure	15054.3	17332.1	19748.2	22450.1
Gross domestic product	15158.0	17328.6	19758.2	22504.8
Statistical discrepancy	103.8	-3.5	10.0	54.7

Source: Bangladesh Bureau of Statistics.

Chart 2.3 Trends in Domestic and National Savings



Source: Bangladesh Bureau of Statistics.

in FY17, mainly due to crop and horticulture, as the leading sub-sector comprising of 52.8 percent of agriculture, declined to 7.5 percent in FY18 from 7.9 percent in FY17 (Table 2.2).

GDP based on Expenditure

2.15 Expenditure-based GDP in FY18 soared by 13.7 percent to BDT 22450.1 billion as compared to BDT 19748.2 billion in FY17 (Table 2.3).

2.16 Gross Domestic Expenditure (GDE) reflected the aggregate demand originated by domestic economic activities, measured as the sum of consumption, investment and net export. Domestic demand was estimated at BDT 24395.2 billion at current market prices in FY18 which is 17.4 percent higher than that of FY17. Net export was estimated at at BDT (-) 1945.1 billion in FY18.

2.17 Total consumption expenditure and trade deficit accounted for 77.4 percent and 8.7 percent of GDE respectively in FY18. In nominal terms, investment increased by 16.6 percent lagging the growth in consumption (17.7 percent)

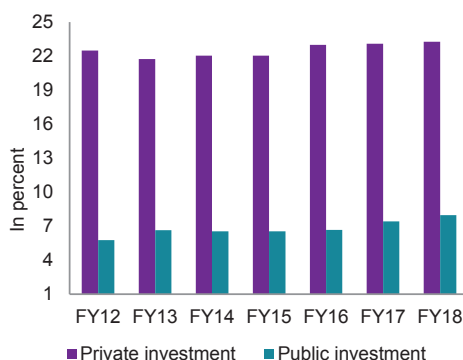
Savings and Investment

2.18 Gross Domestic Savings (GDSs) at current market price stood at 22.83 percent of GDP in FY18, lower than 25.3 percent of GDP in the previous fiscal year. Gross National Savings (GNSs) decelerated to 27.42 percent of GDP in FY18 from 29.6 percent in FY17 (Chart 2.3).

2.19 Investment as a percent of GDP accelerated to 31.23 percent in FY18 from 30.5 percent in FY17. Public investment to GDP ratio increased to 8.0 percent in FY18 from 7.4 in FY17. The ratio of private investment to GDP increased to 23.26 in FY18 from 23.1 in FY17 (Chart 2.4). It may be noted that private and public investment increased by 14.7 and 22.5 percent respectively in FY18 compared to in FY17.

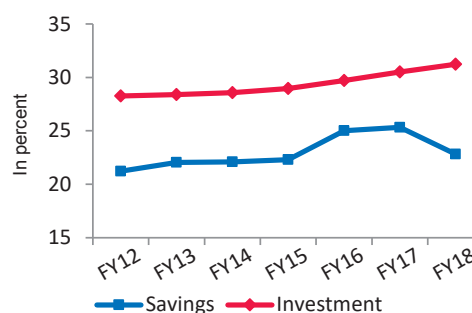
2.20 Gross Domestic Savings (GDSs) and Gross National Savings (GNS) at current market prices increased by 2.7 and 5.3 percent respectively in FY18. Domestic savings-investment gap as a percentage of GDP expanded from 5.2 in FY17 to 8.4 in FY18. The gap was addressed with the cushion of the net factor income and net current transfer (Chart 2.5).

Chart 2.4 Trends in Domestic Investments
(In percent of GDP)



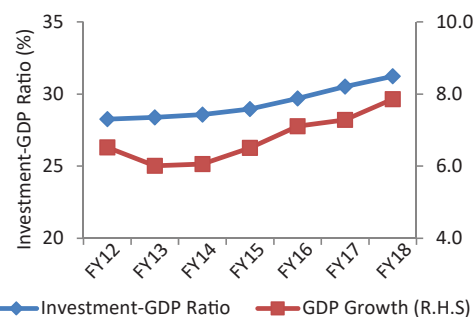
Source: Bangladesh Bureau of Statistics.

Chart 2.5 Trends in Domestic Savings and Investment
(In percent of GDP)



Source: Bangladesh Bureau of Statistics.

Chart 2.6 Movements in GDP Growth and Investment
(In percent)



Source: Bangladesh Bureau of Statistics.

2.21 It is pointed out that investment is highly correlated with GDP growth (Chart 2.6). It is observed from the chart that investment and GDP increased in the same direction in the recent years. In this regard, Bangladesh needs to increase private investment to 28 percent and total investment to 35-38 percent to achieve 8.0 percent economic growth by 2020.

Growth Outlook

2.22 BB's monetary policy initiatives have emphasised to achieve higher GDP growth. Looking ahead, growth outlook would likely remain relatively favorable in FY19. However,

downside risks to growth from global trade conflicts, monetary tightening in the advanced economies and any broad-based pick-up in emerging market vulnerabilities remain. On the other hand, output growth is expected to receive continued support from strong domestic demand. Moderation of inflationary pressures needs to be closely monitored to ensure inflation expectations remain well-anchored. Moreover, managing macro-financial stability in the face of a sizeable current account deficit, changing global and domestic liquidity conditions would require continued careful calibration.