Macroeconomic Performance and Prospects

Global Economic Outlook

1.1 Global growth has slumped sharply during the second half of 2018 and the pace of growth remained slow in the first half of 2019. The slowdown in activity was broad based among the major advanced economies and smaller Asian advanced economies. The weakening in activities was even more evident across emerging market and developing economies. As a result, growth in global output plummeted to 3.6 percent in 2018 from 3.8 percent in 2017 and is projected to slow further to 3.0 percent in 2019, which is the lowest since 2008-09. Growth is, however, anticipated to pick up to 3.4 percent in 2020. In advanced economies growth is projected to slowdown from 2.3 percent in 2018 to 1.7 percent in 2019 and 2020. In emerging market and developing economies, growth is forecasted to decline to 3.9 percent in 2019 and then pick up to 4.6 percent in 2020, which was 4.5 percent in 2018 (World Economic Outlook (WEO), October 2019, IMF).

Table 1.1 World Economic Outlook Projections for 2019 and 2020

(annual percentage change)

	Actual		Projections	
	2017	2018	2019	2020
World Output	**3.8**	**3.6**	**3.0**	**3.4**
Advanced Economies	**2.5**	**2.3**	**1.7**	**1.7**
United States	2.4	2.9	2.4	2.1
Euro area	2.5	1.9	1.2	1.4
Germany	2.5	1.5	0.5	1.2
France	2.3	1.7	1.2	1.3
Italy	1.7	0.9	0.0	0.5
Spain	3.0	2.6	2.2	1.8
United Kingdom	1.8	1.4	1.2	1.4
Japan	1.9	0.8	0.9	0.5
Canada	3.0	1.9	1.5	1.8
Other Advanced Economies[1]	2.7	2.2	1.5	1.8
Emerging Market and Developing Economies	**4.8**	**4.5**	**3.9**	**4.6**
Emerging and Developing Asia	6.6	6.4	5.9	6.0
China	6.8	6.6	6.1	5.8
ASEAN -5[2]	5.3	5.2	4.8	4.9
South Asia				
Bangladesh	7.6	7.9	7.8	7.4
India	7.2	6.8	6.1	7.0
Pakistan	5.2	5.5	3.3	2.4
Sri Lanka	3.4	3.2	2.7	3.5
World Trade Volume (goods and services)	**5.7**	**3.6**	**1.1**	**3.2**
Imports				
Advanced Economies	4.7	3.0	1.2	2.7
Emerging Market and Developing Economies	7.5	5.1	0.7	4.3
Exports				
Advanced Economies	4.7	3.1	0.9	2.5
Emerging Market and Developing Economies	7.3	3.9	1.9	4.1
Commodity Prices (U.S. dollars)				
Oil	23.3	29.4	-9.6	-6.2
Nonfuel Primary Commodities	6.4	1.6	0.9	1.7
Consumer Prices				
Advanced Economies	1.7	2.0	1.5	1.8
Emerging Market and Developing Economies[3]	4.3	4.8	4.7	4.8
South Asia				
Bangladesh	5.6	5.6	5.5	5.5
India	3.6	3.4	3.4	4.1
Pakistan	4.1	3.9	7.3	13.0
Sri Lanka	6.6	4.3	4.1	4.5

Source: World Economic Outlook, October 2019, IMF.

[1] Excludes the United States, euro area countries, and Japan.

[2] Indonesia, Malaysia, Philippines, Thailand, Vietnam.

[3] Excludes Venezuela but includes Argentina.

1.2 In the United States, growth is projected to decline from 2.9 percent in 2018 to 2.4 percent in 2019 and soften further to 2.1 percent in 2020. In the euro area, growth decreased sharply from 2.5 percent in 2017 to 1.9 percent in 2018 and is projected to drop further to 1.2 percent in 2019 and 1.4 percent 2020. Growth in United Kingdom declined to 1.4 percent in 2018 from 1.8 percent in 2017 and is projected to further decline to 1.2 percent in 2019. Japan's economy is set to grow by 0.9 percent in 2019.

1.3 Inspite of government fiscal stimulus measures, economic growth of China has slowed down to 6.6 percent in 2018 from 6.8 percent in 2017. Moreover, China's growth was projected to slow down further to 6.1 percent in 2019 and 5.8 percent in 2020 due mainly to trade tension with USA. India's economic activity also decelerated from 7.2 percent in 2017 to 6.8 percent in 2018 and is projected to decrease further to 6.1 percent in 2019 and then pick up to 7.0 percent in 2020.

1.4 In advanced economies, inflation is expected to decline to 1.5 percent in 2019 from 2.0 percent in 2018 supported by the softer outlook for energy prices and the expected moderation in growth. Inflation in emerging market and developing economies excluding Venezuela is projected to remain at 4.7 percent in 2019 from 4.8 percent in 2018.

1.5 World trade volume growth is projected to decline considerably from 3.6 percent in 2018 to 1.1 percent in 2019 and then rise to 3.2 percent in 2020. The growth rate of imports for advanced economies is expected to decline from 3.0 percent in 2018 to 1.2 percent in 2019 and then increase to 2.7 percent in 2020. In emerging markets and developing economies, growth rate of imports is projected to decrease significantly from 5.1 percent in 2018 to 0.7 percent in 2019, and then increase again to 4.3 percent in 2020. Exports of advanced economies are expected to grow by 0.9 percent and 2.5 percent in 2019 and 2020 respectively, while those of emerging markets and developing economies are expected to grow by 1.9 percent and 4.1 percent respectively during the same period.

1.6 According to IMF's WEO of October 2019, demand could pick up more than expected due to accommodative monetary policy in many countries in recent period. But, still there remain downside risks to outlook. Further acceleration of trade tensions between the United States and China and associated increase in policy uncertainty could worsen the growth outlook from its baseline forecast. Moreover, deterioration of financial market sentiment would imply tighter financial conditions leading to worsening trade and geopolitical tensions and a no-deal Brexit withdrawal of the United Kingdom from the European Union could protract slowdown in global growth. In the medium term, augmented trade barriers and increased trade and geopolitical tensions could lead to disruption of supply chains and thus could reduce growth. Finally, in the vulnerable countries unmitigated climate change could reduce growth forecast.

1.7 According to Global Financial Stability Report (GFSR) of October 2019, financial conditions have tightened, but remain relatively accommodative. In the near term, risks to the global financial stability have increased, although they remain moderate relative to historical standards. In the medium term, risks to the global financial stability could go up resulting continuous build up of financial vulnerabilities including high leverage and liquidity, maturity and currency mismatches due to existing buoyant market sentiment. In many systemically important countries with significant share of global output, there already exist higher vulnerabilities in sovereign, corporate and nonbank financial sectors relative to historical standards.

Developments in the Bangladesh Economy

1.8 Robust growth momentum continues in the Bangladesh economy amid tepid global growth environment, with 8.15 percent real GDP growth published by Bangladesh Bureau of Statistics (BBS) for FY19 against growth projection averaging 3.9 percent for 2019 in emerging market and developing economies. The strong 8.15 percent FY19 real GDP growth was broad based across economic sectors, supported by both strong domestic and external demand reflected in 10.1 percent export growth. Both the key FY19 monetary program objectives, viz., bringing down annual average CPI inflation to 5.6 percent by end June 2019, from 5.8 percent of end June 2018, and supporting attainment of government's 7.8 percent real GDP growth target for FY19 stood over-fulfilled; with end June CPI inflation at 5.5 percent and 8.15 percent FY19 real GDP growth.

Growth Performance

1.9 According to the BBS, gross domestic product (GDP) of Bangladesh grew by 8.15 percent during FY19, compared to 7.9 percent in FY18. The sectoral GDP growth composition is presented in Table 1.2.

Table 1.2 Sectoral GDP Growth Rates

(at FY06 constant prices)

	FY10 -FY19 (Average)	FY18	FY19
1. Agriculture	**3.77**	**4.19**	**3.92**
a) Agriculture and forestry	3.10	3.47	3.15
i) Crops and horticulture	2.62	3.06	1.96
ii) Animal farming	2.99	3.40	3.54
iii) Forest and related services	5.66	5.51	8.34
b) Fishing	6.05	6.37	6.21
2. Industry	**9.90**	**12.06**	**12.67**
a) Mining and quarrying	7.69	7.00	5.88
b) Manufacturing	10.63	13.40	14.20
i) Large and medium scale	11.14	14.26	14.84
ii) Small scale	8.32	9.25	10.95
c) Electricity, gas and water supply	9.42	9.19	9.58
d) Construction	8.48	9.92	10.25
3. Services	**6.14**	**6.39**	**6.78**
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	6.80	7.45	8.14
b) Hotel and restaurants	6.76	7.28	7.57
c) Transport, storage and communication	7.00	6.58	7.19
d) Financial intermediations	8.77	7.90	7.38
e) Real estate, renting and other business activities	4.38	4.98	5.23
f) Public administration and defenc e	8.33	8.47	6.40
g) Education	7.79	7.01	7.66
h) Health and social works	6.60	7.02	11.79
i) Community, social and personal services	3.38	3.65	3.72
GDP (at FY06 constant market prices)	**6.76**	**7.86**	**8.15**

Source: Bangladesh Bureau of Statistics.

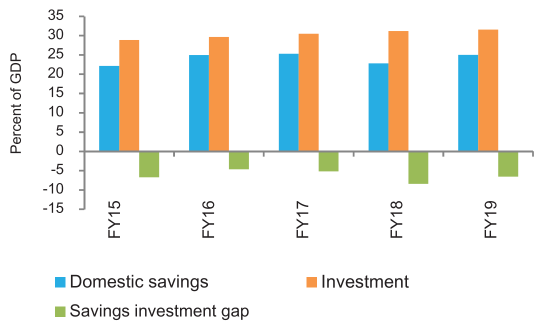
1.10 Agriculture sector contributed 13.6 percent of GDP in FY19 and growth of this sector moderated from a high base of 4.2 percent in FY18 to 3.9 percent in FY19. This growth was mainly supported by the growth of fishing, forest related services and animal farming sub-sector.

1.11 Industry sector contributed 35.0 percent of GDP, and grew by 12.7 percent in FY19, up from 12.1 percent in FY18. This growth was supported by strong growth of manufacturing and electricity, gas and water supply sub-sectors. As a result of pick up in exports, especially to the US and some newly penetrated markets, large and medium scale industrial sub-sector grew briskly by 14.8 percent. Small scale manufacturing sub sector also grew by 11.0 percent.

1.12 The services sector accounts for the largest share of GDP, although the share is gradually diminishing. In FY19, 51.4 percent of GDP came from this sector which was 52.1 percent in FY18. Service sector grew by 6.8 percent, slightly up from 6.4 percent growth in FY18. The growth of major components of services sector - like, health and social works, wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotel and restaurants, education and transport, storage and communication increased. On the other hand, growth of public administration, defence and financial intermediations decreased slightly in FY19.

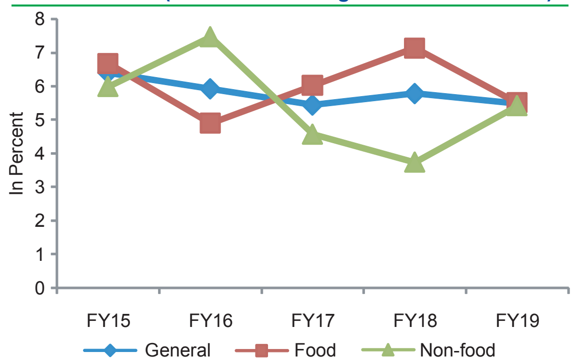
1.13 On the demand side, private consumption grew by 3.9 percent underpinned by a record inflow of remittances at USD 16.4 billion in FY19. Moreover, public consumption grew by 9.0 percent during the same period. As a result, total consumption growth stood at 4.3 percent and it contributed 3.0 percentage point to the growth of GDP. Total investment contributed 2.9 percentage point to the growth. Net exports contributed 2.1 percentage point to the growth as exports grew faster than imports in FY19.

Chart 1.1 : Trends in Domestic Savings and Investment



Source: Bangladesh Bureau of Statistics.

Chart 1.2 : Trends in National CPI Inflation (12 month average : base FY06=100)



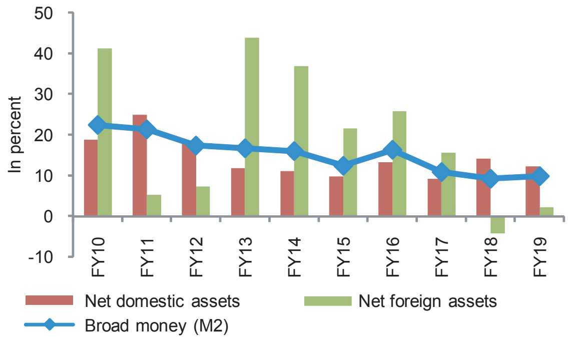
Source: Bangladesh Bureau of Statistics and Bangladesh Bank.

Savings and Investment

1.14 Although growth of investment reduced from a year earlier, total investment as percentage of GDP increased to 31.6 percent in FY19 from 31.2 percent in FY18. The ratio of public investment to GDP remained almost same at around 8.0 percent over the same period and the ratio of private investment to GDP slightly increased from 23.3 percent in FY18 to 23.5 percent in FY19 (Chart 1.1).

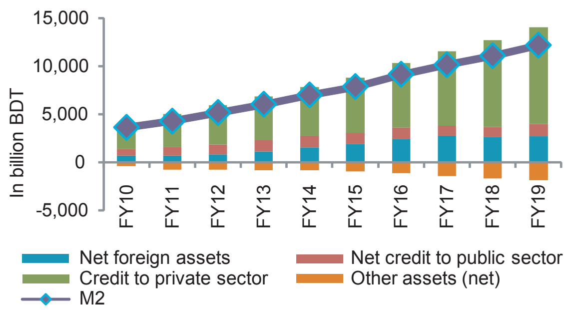
1.15 Gross national savings as percentage of GDP increased to 29.5 percent in FY19 from 27.4 percent in FY18. Similarly, domestic savings as percentage of GDP increased from 22.8 percent to 25.0 percent during the same period. Gross domestic savings at current market price grew much faster (23.8 percent) than the investment (14.2 percent). Therefore, the domestic savings-investment gap as percentage of GDP decreased significantly to 6.6 percent in FY19 from 8.4 percent in FY18 (Chart 1.1).

Chart 1.3 : Trends in Growth of Monetary Aggregates



Source: Monetary Policy Department, Bangladesh Bank.

Chart 1.4 : Trends in Sources of Broad Money



Source: Monetary Policy Department, Bangladesh Bank.

Price developments

1.16 The 12 month average general CPI inflation edged down to 5.5 percent in June 2019 with low volatility, well below the targeted ceiling of 5.6 percent mainly supported by a good crop harvest and lower global food prices (Chart 1.2). One interesting feature of the food and non-food components of CPI inflation is that they are moving to opposite direction. Food inflation decreased to 5.5 percent in June 2019 from 7.1 percent in June 2018, while non-food inflation increased to 5.4 percent from 3.7 percent during the same period. However, non-food and non-energy 'core' component of CPI inflation kept rising steadily and stood at 5.5 percent in June 2019 which was 3.8 in June 2018 indicating rising inflationary pressure.

Money and Credit Developments

1.17 In FY19, Bangladesh Bank's monetary and financial policies had prioritized the government's inclusive and sustainable growth agenda, by fostering price and financial stability. During the period, monetary programme aimed at ensuring adequate flow of quality credit to support the growth and inflation targets, while promoting domestic and external financial stability. Bangladesh Bank's repo and reverse repo rates remained unchanged at 6.0 percent and 4.75 percent respectively in FY19.

1.18 Broad money (M2) growth accelerated in FY19 to 9.9 percent from 9.2 percent in FY18 but ended up short of the FY19 monetary programme target growth of 12.0 percent. The growth in broad money was driven by growth in net domestic assets (NDA) stemming from huge growth of public sector credit. Net domestic asset (NDA) grew by 12.3 percent in FY19 against the target growth of 16.8 percent and 14.2 percent actual growth in FY18 (Chart 1.3). Net foreign assets increased by 2.2 percent in FY19 against the programmed growth of -3.4 percent, due to faster than projected narrowing of current account deficit of balance of payment.

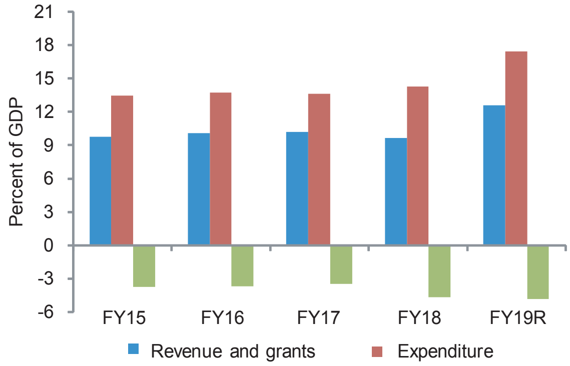
1.19 Domestic credit grew by 12.4 percent, lower than the targeted growth of 15.9 percent for FY19 and actual growth of 14.6 percent in FY18, mainly due to the increase of credit flow (21.7 percent) to the public sector from the banking system.

1.20 Private sector credit grew by 11.3 percent in FY19, much lower than the targeted growth of 16.5 percent for FY19 and actual growth of 16.9 percent in FY18. Higher growth of government borrowing from the banking system narrowed down the sources of credit to the private sector. Sources of broad money are shown in Chart 1.4.

1.21 Reserve Money (RM) grew by 5.3 percent, lower than the programmed growth of 7.0 percent for FY19 but higher than the actual growth of 4.0 percent in FY18. Reserve money growth slowed down against the programmed level due to slower than targeted growth of both net foreign assets (NFA) and net domestic assets (NDA).

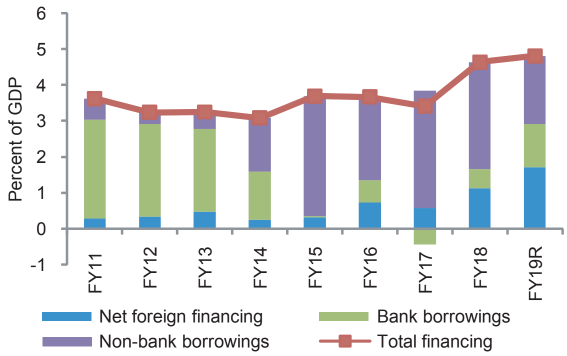
1.22 At the end of FY19, the weighted

Chart 1.5 : Trends in Revenue, Expenditure and Overall Budget Deficit



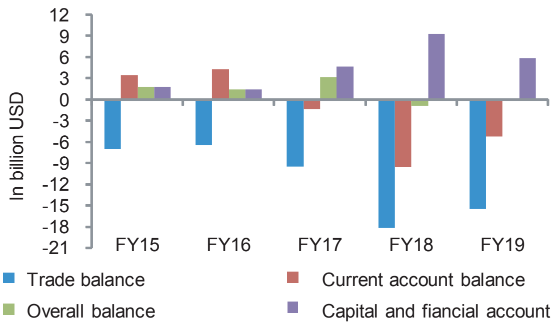
R=Revised Budget. Source: Ministry of Finance.

Chart 1.6 :Trends in Deficit Financing



R=Revised Budget. Source: Ministry of Finance.

Chart 1.7 :Trends in Balance of Payment



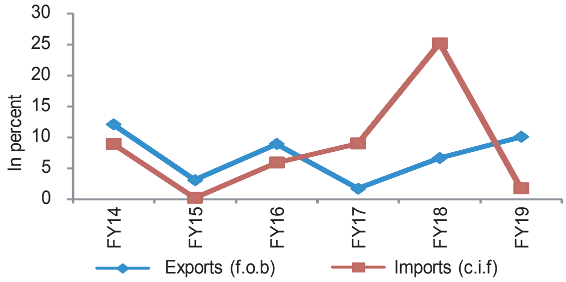
Source: Statistics Department, Bangladesh Bank.

average interest rate on both bank advances and deposits decreased slightly to 9.58 percent and 5.43 percent from 9.95 percent and 5.50 percent respectively at the end of FY18. The spread also narrowed down to 4.15 percent from 4.45 percent during the same period.

Public Finance

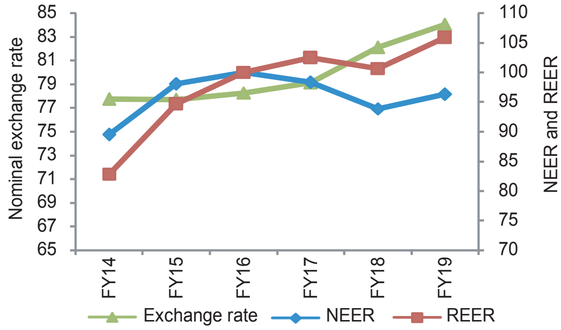
1.23 In FY19, government fiscal policy was formulated focusing on the appropriate reflection of SDGs in many areas including sustainable and inclusive growth, industrialization, productive and decent employment opportunity, education, health, women empowerment, environment management-climate change, and safe habitation. In general, the needs and necessities of the people in the context of ever-changing global and domestic realities have been considered. To this end in the national budget for FY19, government proposed an overall deficit (including grants) of 4.78 percent of GDP. However, this deficit was increased to 4.80 percent of GDP in the revised budget for FY19 which was 4.6 percent of GDP in FY18. The deficit was largely financed by domestic sources, contribution of which decreased slightly to 3.1 percent of GDP in FY19 from 3.5 percent of GDP in FY18. The Government's financing from banking system increased from 0.5 percent of GDP in FY18 to 1.2 percent of GDP in FY19, while financing from non-bank sources decreased from 3.0 percent to 1.9 percent of GDP over the same period (Chart 1.5 and 1.6).

Chart 1.8 :Trends in Export and Import Growth



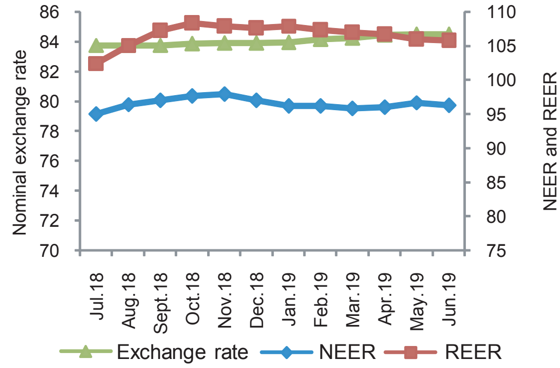
Source: Statistics Department, Bangladesh Bank.

Chart 1.9 : Trends in NEER, REER (base : FY16=100, 15 currency basket) and Exchange Rate



Source: Monetary Policy Department, Bangladesh Bank.

Chart 1.10 : Recent Movements in NEER, REER (base : FY16=100, 15 currency basket) and Exchange Rate



Source: Monetary Policy Department, Bangladesh Bank.

1.24 The growth of total revenue collection was revised downward to 46.2 percent from the budget in FY19 of 56.7

percent and which is greater than the actual revenue growth of 7.6 percent in FY18. Total revenue-GDP ratio decreased to 12.5 percent in the revised budget in FY19 which was 13.4 percent in the actual budget in FY19 but remained higher than 9.6 percent in FY18.

1.25 Public expenditure as percentage of GDP increased from 14.3 percent in FY18 to 17.4 percent in FY19 revised budget. It grew by 37.5 percent in FY19 revised budget compared to 19.4 percent in FY18 actual public expenditure. Recurrent expenditure in FY19 revised budget stood at 9.7 percent of GDP which was 7.9 percent of GDP in FY18 (Chart 1.5).

External Sector

1.26 In FY19, export grew faster than import. Export grew by 10.1 percent while growth of import was 1.8 percent. Exports (f.o.b) stood at USD 39945.0 million in FY19 which was USD 36285.0 million in FY18. During the same period the total import payments (c.i.f) increased to USD 59914.7 million from USD 58865.3 million in FY18. As export grew faster than import, trade deficit lessened to USD 15494.0 million during the period from USD 18178.0 million in FY18 (Chart 1.7). The services and income account along with primary and secondary income registered a surplus of USD 10240.0 million. Remittance inflows increased by 9.6 percent at the end of FY19 compared with the growth of 17.3 percent in FY18. Current account balance slightly improved to USD (-) 5254.0 million in FY19 from USD (-) 9567.0 million in FY18. The capital and financial account surplus reached to USD 5861.0 million in FY19 from USD 9342.0 million in FY18. The overall balance of payments surplus turned into USD 12.0 million, which was USD (-) 857.0 million in FY18 (Appendix-3 Table-XVI).

1.27 The growth of export (f.o.b) earnings increased to 10.1 percent in FY19 from 6.7 percent in FY18 (chart 1.8). Export as percentage of GDP slightly decreased to 12.9 percent from 13.2 percent over the same period. Among the major export items, petroleum bi-products, chemical products, agricultural products, specialised textiles, cotton and cotton products, plastic products, woven garments, knitwear, and footwear products experienced a higher growth in FY19, while raw jute, leather and leather products, jute goods, engineering products, home textile, and frozen food experienced a negative growth leading to slow down of the pace of export performance.

1.28 Imports (c.i.f) grew at a rate of 1.8 percent in FY19 compared with the 25.2 percent growth in FY18 (chart 1.8). Import payments as percentage of GDP decreased to 19.4 percent in FY19 from 21.5 in FY18. Import payments for oil seeds, clinker, fertilizer, POL, spices, crude petroleum, milk and cream, dyeing and tanning materials, plastic and rubber articles thereof, iron, steel and other base metals, pulses, textile and textile articles thereof, and staple fiber rose in FY19 compared to FY18 while those for food grains specially rice, sugar, edible oil, raw cotton and pharmaceutical products declined during the same period.

1.29 Gross international foreign exchange reserves stood at USD 32716.5 million at the end of June 2019 representing around 6.3 months of prospective import coverage supported by a remarkable surplus in financial account and significant amount of inflows of remittances.

1.30 In FY19, exchange rate depreciated by 2.3 percent compared to 3.6 percent depreciation in FY18. In order to maintain stability in the foreign exchange market BB intervenes in the foreign exchange market by selling foreign currency amounted to USD 2.34 billion in FY19. Exchange rate stood at BDT 84.0 per USD in FY19 compared to BDT 82.1 per USD in FY18 (period average). The nominal effective exchange rate (NEER) of BDT, calculated against a trade weighted 15 currency basket (base: FY16=100), appreciated by 2.6 percent in FY19. Similarly, the real effective exchange rate (REER) of BDT appreciated by 5.1 percent in FY19 (Chart 1.9 and 1.10).

1.31 Outstanding external debt stock of Bangladesh increased from USD 33511.8 million at the end of FY18 to USD 37835.9 million at the end of FY19. Moreover, the outstanding external debt to GDP ratio increased marginally from 12.2 percent to 12.5 percent during the same period.

Near and Medium Term Outlook for Bangladesh Economy

1.32 Economic growth outlook is expected to remain buoyant in line with the target of growth (8.2 percent) set in national budget for FY20. This outlook is based on the expected strong growth in exports underpinned by trade redirection resulted from tensions between the USA and China, robust growth in private consumption expenditure resulted from increased remittances, accommodative private sector credit policy, continued reform programmes to reduce the cost of doing business and accelerated government spending in the development infrastructural sector. Agriculture, industry and services sectors growth are expected to stay high supported by the government's policy to improve agricultural product prices, expected favourable weather, strong domestic demand powered by remittances as well as Bangladesh bank's policy support to help investment in productive pursuits, and of course increased external demand resulted from the USA and China trade war.

1.33 Inflation outlook for FY20 is also expected to remain contained within the target ceiling of 5.5 percent declared in the national budget. Although recent upward revisions of domestic gas prices, augmented prices of goods and services resulting from the implementation of new VAT law which expanded the VAT coverage and depreciating pressure on BDT resulting from increased demand for foreign exchange are potential sources of risk that can create upward pressure on the CPI inflation.

1.34 Bangladesh bank would continue to pursue an accommodative monetary policy stance in FY20 to support the government's target for growth but without compromising the target ceiling of 5.5 percent CPI inflation. Since there is no pressure on the foreign exchange interbank rate, banks no longer ask for day to day BB intervention, markets are in comfortable balance and economy is running at full steam at a sustained high growth rate, Bangladesh Bank made no changes to its main policy tools which include repo rate, reverse repo rate, Bangladesh Bank bills rate, cash reserve requirement (CRR), and statutory liquidity ratio (SLR) in the monetary policy statement (MPS) for FY20. To make monetary policy transmission more effective, BB is proceeding with preparatory work for adopting a monetary policy regime based on a policy interest rate instead of current monetary aggregate targeting framework.

1.35 Despite slow down of global economic activities, exports of Bangladesh is expected to grow strongly benefitted from the trade redirection caused by US and China trade tensions. Exports to newly penetrated markets are expected to augment further. Imports are also expected to grow faster as the implementation of large infrastructural projects picks up requiring huge imports of capital machineries and other raw materials. Inflow of workers' remittances growth is likely to slow down as the number of people seeking job abroad declined.