

The Real Economy

Economic Growth

2.1 In spite of the global economic meltdown during the last two years, the economy of Bangladesh continues to demonstrate considerable resilience during FY10. Amidst the risks of export earnings and the remittances inflows, the economic growth demonstrated satisfactory performance buoyed by domestic demand. According to the revised estimates of Bangladesh Bureau of Statistics (BBS) real GDP grew by 5.8 percent in FY10, 0.1 percentage point higher than 5.7 percent growth recorded in FY09 (Table 2.1). Measured at current market prices, the GDP of Bangladesh in FY10 stood at Taka 6923.8 billion representing a nominal growth of 12.6 percent in FY10 which is same as the growth rate recorded in FY09. In FY10, 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 5.8 percent in FY10 was driven by a robust agricultural activities expansion and increased output in industry and services sectors. Economic growth rebounded due to positive growth by all sectors and sub-sectors of the economy (Table 2.1). GDP growth during the year was underpinned by 6.4 percent growth in services sector and 6.0 percent growth in industry sector and 4.7 percent growth in the agriculture sector. In the overall GDP growth of FY10, services sector's contribution was the highest at 3.1 percentage points, followed by industry sector at 1.7 percentage points and agriculture sector at 1.0 percentage point in FY10.

Table 2.1 Sectoral GDP growth

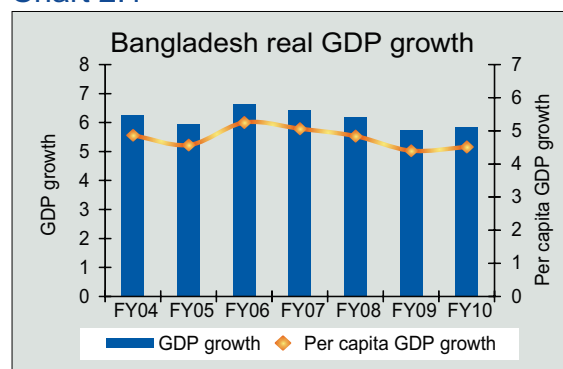
(at FY96 constant prices: percent)

	FY07	FY08	FY09	FY10 ^r
1. Agriculture	4.6	3.2	4.1	4.7
a) Agriculture and forestry	4.7	2.9	4.1	4.9
i) Crops and horticulture	4.4	2.7	4.0	5.1
ii) Animal farming	5.5	2.4	3.5	3.3
iii) Forest and related services	5.2	5.5	5.7	5.6
b) Fishing	4.1	4.2	4.2	4.0
2. Industry	8.4	6.8	6.5	6.0
a) Mining and quarrying	8.3	8.9	9.8	10.1
b) Manufacturing	9.7	7.2	6.7	5.7
i) Large and medium scale	9.7	7.3	6.6	5.5
ii) Small scale	9.7	7.1	6.9	6.3
c) Power, gas and water supply	2.1	6.8	5.9	6.9
d) Construction	7.0	5.7	5.7	5.9
3. Services	6.9	6.5	6.3	6.4
a) Wholesale and retail trade	8.0	6.8	6.2	6.1
b) Hotel and restaurants	7.5	7.6	7.6	7.6
c) Transport, storage and communication	8.0	8.6	8.0	7.2
d) Financial intermediations	9.2	8.9	9.0	8.4
i) Monetary intermediation (Banks)	9.3	8.4	9.1	7.7
ii) Insurance	8.2	10.0	8.4	9.9
iii) Other financial intermediation	11.6	12.5	11.1	12.0
e) Real estate, renting and business activities	3.8	3.8	3.8	3.8
f) Public administration and defence	8.4	6.2	7.0	9.6
g) Education	9.0	7.8	8.1	9.3
h) Health and social work	7.6	7.0	7.2	8.1
i) Community, social and personal services	4.6	4.6	4.7	4.8
GDP (at FY96 constant market prices)	6.4	6.2	5.7	5.8

Source : Bangladesh Bureau of Statistics (BBS).

r=revised.

Chart 2.1



Agriculture Sector

2.3 The agriculture sector exhibited a robust growth of 4.7 percent in FY10 as against 4.1 percent growth recorded in FY09. The higher growth was aided by continued policy support from the government, including subsidy on input prices, supply and distribution of key inputs, higher procurement prices of outputs, access to credit, and better delivery of extension services. The growth in this sector was expedited by the higher growth in crops and horticulture sub-sector. Fishing sector posted an impressive growth of 4.0 percent in FY10 as against 4.2 percent growth recorded in FY09. Overall, output of food grains (Aus, Aman, Boro and Wheat) increased by 3.1 percent from 32.2 million metric tons (MMT) in FY09 to 33.2 MMT in FY10 reflecting higher Aman and Boro production. Favourable weather condition, higher disbursement of agricultural credit, better price incentive for the farmers, and Government's initiatives to ensure timely delivery of inputs and other supportive services contributed to higher food grain production in the year. Aus output, a relatively minor crop of the year, decreased by 10.0 percent from 1.9 MMT in FY09 to 1.7 MMT in FY10. Aman output, the second largest crop of the year, increased significantly by 5.2 percent from 11.6 MMT in FY09 to 12.2 MMT in FY10. Boro output, the single largest crop of the year, grew by 3.0 percent from 17.8 MMT in FY09 to 18.3 MMT in FY10. Wheat production increased from 0.85 MMT in FY09 to 0.97 MMT in FY10.

2.4 Animal farming sub-sector grew by 3.3 percent in FY10 compared to 3.5 percent growth recorded in FY09. The growth in Forest and related services decreased 5.6 percent in FY10 compared to 5.7 percent in FY09. Fishing sub-sector registered a growth of 4.0 percent in FY10 as compared to 4.2 percent in FY09.

Industry Sector

2.5 In the industry sector, which contributed 29.9 percent of GDP, growth rate slowed down from 6.5 percent of FY09 to 6.0 percent in FY10. The growth was led by strong growth in mining and quarrying and power, gas and water supply and construction sub-sector. The deceleration of growth of the sector was mainly due to global financial crisis that adversely affected export-oriented industries. Production in domestic market-oriented industries expanded to offset the lower value-added in export industries. Directives from BB to promote credit financing facilities to SMEs contributed to the maintenance of satisfactory industrial growth. The growth in mining and quarrying sub-sector, a relatively minor activity, increased by 10.1 percent in FY10 compared to 9.8 percent in FY09. Manufacturing sub-sector registered a lower growth of 5.7 percent in FY10 compared to 6.7 percent growth in FY09. Growth was pronounced in both the large and medium, and small scale-manufacturing sub-sectors, which grew by 5.5 percent and 6.3 percent respectively in FY10 compared to 6.6 percent and 6.9 percent growth respectively in FY09. Small scale manufacturing sub-sector contributed about 29.0 percent for the total output of the manufacturing sector. The production of small scale manufacturing industry mostly depends on indigenous raw materials and is generally immune to external shocks. Within this sub-sector food, beverages, tobacco, leather and apparel metal products, machinery, chemicals, rubber, plastic, basic metal industries nonmetallic products, paper, printing, and publishing etc. showed substantial growth in FY10. Production of both large and medium scale manufacturing industries, particularly jute, cotton, wearing apparel, leather, chemicals, petroleum, rubber production, food, beverages, tobacco,

fabricated metal products, nonmetallic products, paper and paper products, wood products etc. showed moderate growth up to third quarter (Q3) of FY10. Quantum Index of Industrial Production (QIIP) which has been estimated for computing value added of large and medium scale industries showed a growth of 6.5^{1/} percent during FY10 over the previous year (Table 2.2). Quantum index of small scale manufacturing industry increased by 9.5^{2/} percent during FY10 over FY09. In spite of the global economic meltdown, ready-made garments (RMG) exports increased by 1.20 percent and the non-RMG exports registered 15.2 percent growth during FY10. Non-RMG exported items that experienced decline in growth were tea, frozen food, and chemicals. Products experiencing positive growth during this year included raw jute, jute goods, leather and engineering products. Growth of the construction sub-sector increased at 5.9 percent during FY10. Growth in power, gas and water supply sub-sector increased to 6.9 percent in FY10 compared to 5.9 percent recorded in FY09. It may be noted that the large unmet demand for power (reflected in power outages) continued in FY10, affecting the growth potential of a number of activities in both urban and rural areas.

Services Sector

2.6 The services sector contributed 49.9 percent of total GDP in FY10. Within this, 14.4 percent was attributable to wholesale and retail trade followed by 10.8 percent in transport, storage and communication, 7.2 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 6.4 percent growth in FY10 compared to 6.3 percent in FY09. Despite

^{1/} July-March, 2009-10 over July-March, 2008-09.

^{2/} FY10 over FY 09.

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

Sub-sectors	Weight	FY07	FY08	FY09	FY10
1. Food, beverage & tobacco	22.1	281.6	287.5	288.0	339.5
2. Jute, cotton, woven apparel & leather	38.2	460.9	509.5	563.6	690.40
3. Wood products including furniture	0.2	258.1	287.8	309.2	322.1
4. Paper and paper products	4.7	440.3	482.4	495.1	506.0
5. Chemical, petroleum & rubber	24.0	305.9	316.9	327.3	356.7
6. Non-metallic products	2.8	441.6	463.6	514.9	544.7
7. Basic metal products	2.1	283.0	304.2	351.6	255.7
8. Fabricated metal products	5.9	158.4	168.6	178.9	229.6
General index of manufacturing	100.0	360.3	386.5	413.4	482.7

Source : Bangladesh Bureau of Statistics (BBS).

some fluctuations, the growth appears to be broad-based across sub-sectors (Table 2.1). In FY10, while wholesale and retail trade, transport, storage and communication, and financial intermediations sub-sectors experienced somewhat lower growth; public administration and defence, education, health and social work, and community, social and personal services sub-sectors recorded higher growth; growth in hotel and restaurants, real estate, renting and business activities sub-sectors remained unchanged. Wholesale and retail trade, which accounted for about 29.0 percent of the sector, grew by 6.4 percent in FY10 against 6.3 percent in FY09.. Transport, storage and communication sub-sector, the second highest contributor to the services sector recorded a growth of 7.2 percent in FY10 compared to 8.0 percent in FY09. 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 this sub-sector. Growth in real estate, renting and business activities, hotel and restaurants remained unchanged at 3.8 percent and 7.6 percent in FY10. Community, social and

personal services posted slightly higher growth of 4.8 percent in FY10 against 4.7 percent recorded in FY09. Monetary intermediation (banks) achieved lower growth of 8.4 percent in FY10, albeit lower than the growth of 9.0 percent in FY09.

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 56 percent in the overall agriculture) decreased from 11.4 percent in FY09 to 11.3 percent in FY10 (Table 2.3). The share of forest and related services sub-sector which is relatively small in size, also decreased from previous year's level of 1.8 percent in FY09 to 1.7 percent in FY10. The shares of animal farming sub-sector remain unchanged at 2.7 percent in FY10. Fishing sub-sector declined marginally from 4.6 in FY09 to 4.5 percent in FY10. In the industry sector, the share of construction sub-sector, the share of mining and quarrying, manufacturing, and power, gas and water supply sub-sectors remained unchanged. The low share of power, gas and water supply (1.6 percent) partly reflected the supply side bottlenecks constraining growth in the economy. In the services sector the share of transport, storage and communication, education, public administration and defence and health & social work sub sector increased slightly, the share of real estate, renting and business activities and community, social and personal services declined marginally.

2.8 The long-term trend showing a shift of the sectoral composition of GDP away from agriculture towards industry and services continued in FY10 (Table 2.3). During the year under review, while the share of the agriculture sector came down from 20.5 percent to 20.2 percent and the share of services sector

Table 2.3 Sectoral GDP shares (in percent)

(at FY96 constant producer prices)

	FY07	FY08	FY09	FY10 ^r
I. Agriculture	21.4	20.8	20.5	20.2
a) Agriculture and forestry	16.6	16.2	15.9	15.8
i) Crop and horticulture	12.0	11.6	11.4	11.3
ii) Animal farming	2.9	2.8	2.7	2.7
iii) Forest and related services	1.8	1.8	1.8	1.7
b) Fishing	4.7	4.7	4.6	4.5
2. Industry	29.4	29.7	29.9	29.9
a) Mining and quarrying	1.2	1.2	1.3	1.3
b) Manufacturing	17.6	17.8	17.9	17.9
i) Large and medium scale	12.5	12.6	12.7	12.7
ii) Small scale	5.1	5.1	5.2	5.2
c) Power, gas, and water supply	1.6	1.6	1.6	1.6
d) Construction	9.2	9.1	9.1	9.1
3. Services	49.2	49.5	49.7	49.9
a) Wholesale and retail trade	14.2	14.4	14.4	14.4
b) Hotel and restaurants	0.7	0.7	0.7	0.7
c) Transport, storage and communication	10.2	10.4	10.7	10.8
d) Financial intermediations	1.8	1.8	1.9	1.9
i) Monetary intermediation (Banks)	1.3	1.3	1.4	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	7.6	7.5	7.3	7.2
f) Public administration and defence	2.8	2.8	2.8	2.9
g) Education	2.5	2.6	2.6	2.7
h) Health and social work	2.3	2.3	2.3	2.4
i) Community, social and personal services	7.1	7.0	6.9	6.9
GDP (at FY96 constant producer prices)	100.0	100.0	100.0	100.0

Source: BBS.
r=revised.

Table 2.4 GDP by expenditure groups

(at current market prices: billion Taka)

	FY07	FY08	FY09	FY10 ^r
Domestic demand	4,919.1	5671.0	6411.3	7337.0
Consumption	3763.2	4349.7	4912.9	5608.8
Private	3502.1	4061.4	4589.4	5234.2
Government	261.1	288.3	323.5	374.6
Investment	1,155.9	1321.3	1498.4	1728.3
Private	898.6	1050.9	1209.4	1398.2
Public	257.3	270.4	289.0	330.1
Resource balance	-327.3	-459.1	-438.0	-442.6
Exports	934.4	1110.2	1194.4	1283.1
Imports	1,261.6	1569.3	1632.4	1725.8
Gross domestic expenditure	4,591.9	5211.9	5973.2	6894.4
Gross domestic product	4,724.8	5458.2	6148.0	6923.8
Statistical discrepancy	132.9	246.3	174.7	29.4

Source: BBS.
r=revised.

increased from 49.7 percent to 49.9 percent respectively, the share of industry sector remained unchanged at 29.9 percent.

GDP by Expenditure

2.9 In FY10, expenditure based GDP estimated at Taka 6894.4 billion, showing a nominal increase of 15.4 percent over FY09 (Table 2.4). This expansion was evident in both private and Government consumption as reflected in higher remittance inflows and an increase in Government spending on wage and salaries. Indicators of investment demand during FY10 suggested a strong increase in private investment expenditure. For FY10, public capital expenditure rebounded due to increase of public sector projects implementation. 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 FY10, domestic demand was estimated at Taka 7337.0 billion at current market prices, reflecting an increase of 14.4 percent over FY09.

2.10 GDP data by expenditure groups is relatively weak. However, existing data of FY10 indicate that of the GDE, consumption expenditure constituted 81.3 percent while investment expenditure constituted 25.1 percent and resource balance was -6.3 percent. In FY10, investment expenditure increased by 15.3 percent in nominal terms, higher than 14.2 percent increase in consumption expenditure.

Savings and Investment

2.11 Available data indicate that gross domestic savings (GDS) at current market prices grew by 6.5 percent in FY10. The GDS

Table 2.5 : Savings and investment

(as percent of GDP)

	FY07	FY08	FY09	FY10 ^r
Public				
Investment	5.5	5.0	4.7	4.8
Domestic Savings	1.4	1.4	1.3	1.3
Domestic Savings-Investment gap	-4.1	-3.6	-3.3	-3.5
Private				
Investment	19.0	19.3	19.7	20.2
Domestic Savings	18.9	19.0	18.8	17.7
Domestic Savings-Investment gap	-0.1	-0.3	-0.9	-2.5
Total (public+private)				
Investment	24.5	24.2	24.4	25.0
Domestic Savings	20.4	20.3	20.1	19.0
Domestic Savings-Investment gap	-4.1	-3.9	-4.3	-6.0
National Savings	27.7	28.7	29.6	28.8

Source: BBS.
r=revised

Chart 2.2

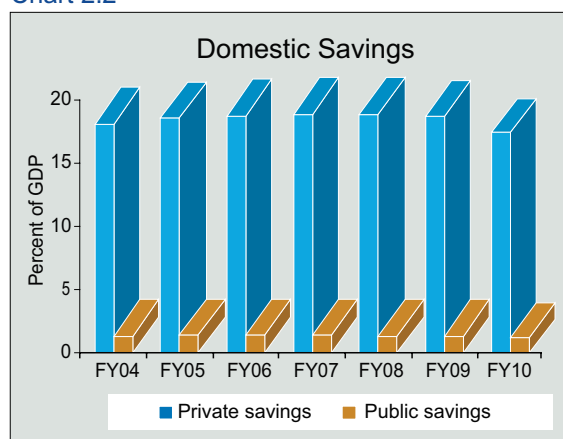
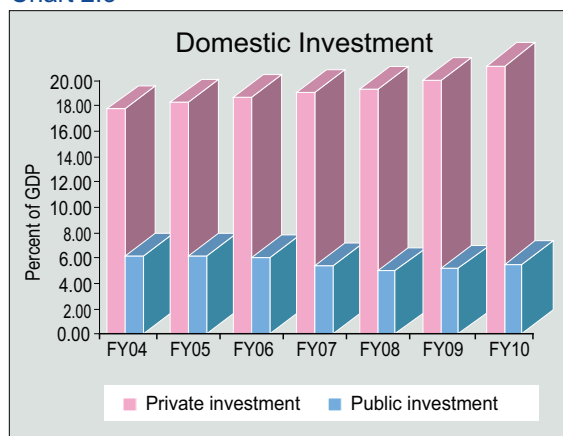


Chart 2.3



as percentage of GDP declined from 20.1 in FY09 to 19.0 in FY10 (Table 2.5, Chart 2.2). The private sector component of domestic savings decreased to 17.7 in FY10 from 18.8 in FY09 due to higher consumption expenses as the inflation level continued to be high in FY10 over FY09. The small public sector component of domestic savings remain unchanged at 1.3 in FY10. Gross National Savings (GNS) as percentage of GDP decreased from 29.6 in FY09 to 28.8 in FY10, resulting from lower inflow of net factor income (NFI) and net current transfer (NCT). In FY10, NFI and NCT increased by 15.9 percent and 16.0 percent respectively over the previous year.

2.12 Investment as percentage of GDP increased at 25.0 percent in FY10 which was 24.4 percent in FY09. (Table 2.5, Chart 2.3). While the private sector component of investment increased from 19.7 in FY09 to 20.2 in FY10, the public sector component of investment, however, increased from 4.7 in FY09 to 4.8 in FY10. The increasing share of public investment in GDP in FY10 resulted apparently from higher implementation rate of ADP than that of the last year.

2.13 The domestic savings-investment gap as percentage of GDP increased from 4.3 in FY09 to 6.0 in FY10 (Table 2.5). The domestic savings-investment gap was met with net factor income from abroad.

Growth Prospect in FY11

2.14 The gross domestic product (GDP) growth is projected to be 6.7 percent in FY11. This higher growth estimate is largely based on proposed higher public investment especially in the power and energy infrastructure and continued momentum in private sector investment. However, there are several downside risks such as uncertainty in the full implementation of ADP, tardy implementation in the projects of power sectors, delayed institutionalisation of public private partnership (PPP), unmet expected improvement of efficiency of ports, upward inflationary pressure emanated from oil and food prices in the international and domestic markets, and sluggishness and the downward trends of manpower export and remittances inflows. The presence of enhanced credit flows to the unproductive sectors including speculative investment in the share market added risk for the domestic economy. In this backdrop, BB's monetary programme for FY11 was set to provide adequate monetary accommodation conducive to 6.7 percent GDP growth target to be achieved in FY11. The programme provides for 16.0 percent credit growth to the private sector, against a high base that grew by 24.2 percent in FY10, to support BB's growth friendly monetary policy as well as to contain inflation at the targeted fair level of 6.5 rate for FY11.