

The Real Economy

Economic Growth

2.1 Bangladesh economy gained some momentum during FY11 as output and investment activities in the economy paced up substantially in FY11 after a couple of years in post-global crisis relative slowdown; the buoyancy in economic activity was predominantly aided by robust export growth and strong domestic demand. However, rising global food and fuel prices, deteriorating remittances, an increased reserve drawdown, huge stock market volatility and its potential impact on the banking sector were the short term risks for Bangladesh economy. According to the BBS's (Bangladesh Bureau of Statistics) provisional estimate real GDP grew by 6.7 percent which is 0.6 percentage point higher than 6.1 percent growth recorded in FY10 (Table 2.1). Measured at current market prices, the GDP of Bangladesh in FY11 recorded Taka 7875 billion representing a nominal growth of 13.4 percent which is higher than that of FY10. In FY11, the country's per capita GDP increased by 5.3 percent in real terms and about 12.0 percent in nominal terms (Chart 2.1).

2.2 The real GDP growth of 6.7 percent in FY11 was driven by a robust growth in industry and increased output in agriculture 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 8.2 percent growth in industry sector, 6.6 percent growth in services sector and 5.0 percent growth in the agriculture

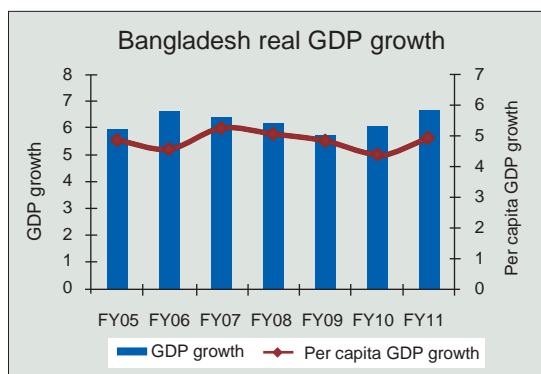
Table 2.1 Sectoral GDP growth

(at FY96 constant prices: percent)

	FY08	FY09	FY10 ^R	FY11 ^P
1. Agriculture	3.2	4.1	5.2	5.0
a) Agriculture and forestry	2.9	4.1	5.6	4.8
i) Crops and horticulture	2.7	4.0	6.1	5.0
ii) Animal farming	2.4	3.5	3.4	3.5
iii) Forest and related services	5.5	5.7	5.2	5.4
b) Fishing	4.2	4.2	4.2	5.4
2. Industry	6.8	6.5	6.5	8.2
a) Mining and quarrying	8.9	9.8	8.8	4.9
b) Manufacturing	7.2	6.7	6.5	9.5
i) Large and medium scale	7.3	6.6	6.0	10.4
ii) Small scale	7.1	6.9	7.8	7.3
c) Power, gas and water supply	6.8	5.9	7.3	6.0
d) Construction	5.7	5.7	6.0	6.4
3. Services	6.5	6.3	6.5	6.6
a) Wholesale and retail trade	6.8	6.2	5.9	6.1
b) Hotel and restaurants	7.6	7.6	7.6	7.6
c) Transport, storage and communication	8.6	8.0	7.7	7.9
d) Financial intermediations	8.9	9.0	11.6	9.4
i) Monetary intermediation (banks)	8.4	9.1	10.5	8.8
ii) Insurance	10.0	8.4	14.9	11.1
iii) Other financial intermediation	12.5	11.1	16.1	10.8
e) Real estate, renting and business activities	3.8	3.8	3.9	4.0
f) Public administration and defence	6.2	7.0	8.4	9.6
g) Education	7.8	8.1	9.2	9.5
h) Health and social work	7.0	7.2	8.1	8.3
i) Community, social and personal services	4.6	4.7	4.7	4.8
GDP (at FY96 constant market prices)	6.2	5.7	6.1	6.7

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

Chart 2.1



sector. In the overall GDP growth of 6.7 percent in FY11, services sector's contribution was the highest at 3.6 percentage points, followed by industry sector at 2.0 percentage points and agriculture sector at 1.1 percentage point .

Agriculture Sector

2.3 The agriculture sector contributed 19.9 percent of total GDP in FY11. The output growth of agriculture sector eased down from the FY10 high of 5.2 percent to lower but still strong and above trend of 5.0 percent growth in FY11. This 5.0 percent growth was aided by continued policy support from the Government, including subsidy in input prices, adequate supply and timely distribution of key inputs, higher procurement prices of outputs, adequate access to credit and better delivery of extension services.

The highest contribution of agriculture sector came from fishing sub-sector. Within the agriculture and forestry sub-sector forest and related services sub-sector posted higher growth of 5.4 percent in FY11 compared to 5.2 percent growth in the last year. Animal farming sub-sector grew by 3.5 percent in FY11 compared to 3.4 percent in FY10. Fishing sub-sector posted an impressive growth of 5.4 percent in FY11 against 4.2 percent growth recorded in FY10. Absence of any severe flood and cyclone aided by overall favourable weather condition contributed to attain this growth.

2.4 Overall output of food grains (*Aus*, *Aman*, *Boro* and *Wheat*) increased by 3.9 percent from 33.2 million metric tons (MMT) in FY10 to 34.5 MMT in FY11 reflecting higher *Aus*, *Aman* and *Boro* production. *Aus* output, a relatively minor crop of the year, increased significantly by 23.5 percent from 1.7 MMT in FY10 to 2.1 MMT in FY11. *Aman* output, the second largest crop of the year, also increased by 4.9 percent from 12.2 MMT in FY10 to 12.8 MMT in FY11. *Boro* output, the

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

Sub-sectors	Weight	FY08	FY09	FY10 ^R	FY11 ^P
Food, beverage & tobacco	22.1	287.5	288.0	313.1	381.7
Jute, cotton, woven apparel & leather	38.2	509.5	563.6	581.4	756.2
Wood products including furniture	0.2	287.8	309.2	310.2	319.5
Paper and paper products	4.7	482.4	495.1	502.9	499.2
Chemical, petroleum & rubber	24.0	316.9	327.3	400.3	377.9
Non-metallic products	2.8	463.6	514.9	527.3	543.5
Basic metal products	2.1	304.2	351.6	206.4	273.0
Fabricated metal products	5.9	168.6	178.9	194.2	197.8
General index of manufacturing	100	386.5	413.4	442.1	520.3

Source: Bangladesh Bureau of Statistics.
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single largest crop of the year, grew by 1.6 percent from 18.3 MMT in FY10 to 18.6 MMT in FY11. Wheat production remained unchanged at 0.97 MMT in FY11.

Industry Sector

2.5 The industry sector, which contributed 30.4 percent of GDP, exhibited a robust growth of 8.2 percent in FY11 against 6.5 percent recorded in FY10. This was led by strong growth in manufacturing and construction sub-sector which recorded an impressive growth of 9.5 percent and 6.4 percent respectively in FY11 against 6.5 percent and 6.0 percent in FY10. The acceleration of growth of the sector was mainly due to huge investment in large and medium scale industry. Directives from BB to promote adequate credit delivery and other mode of financing facilities to SMEs contributed to achieve satisfactory industrial growth. The growth in mining and quarrying sub-sector, a relatively minor activity, decreased to 4.9 percent in FY11 from 8.8 percent

in FY10. Manufacturing sub-sector registered a higher growth of 9.5 percent in FY11 compared to 6.5 percent in FY10. Growth was pronounced in the large and medium scale manufacturing sub-sector which grew by 10.4 percent in FY11 compared to 6.0 percent in FY10. However, small scale manufacturing sub-sector registered a lower growth of 7.3 percent in FY11 against 7.8 percent in FY10.

Small scale manufacturing sub-sector contributed about 29.0 percent for the total output of the manufacturing sector. Quantum index of small scale manufacturing industry increased by 12.6 percent during FY11 over FY10. Quantum Index of Industrial Production (QIP) which has been estimated for computing value added of large and medium scale industries showed a growth of 17.7 percent during FY11 over the previous year (Table 2.2). Production of both large and medium scale manufacturing industries, particularly jute, cotton, wearing apparel and leather, food, beverages and tobacco, basic metal product, wood product including furniture, non-metalic product, fabricated metal product recorded higher growth during FY11. However, growth of chemicals, petroleum & rubber production and paper & paper products declined during FY11.

Category-wise break down of exports shows that during FY11 exports of knitwear, woven garments, jute goods (excluding carpet), frozen foods, raw jute, leather, agriculture products, engineering & electronic goods and chemical products experienced some increases compared to FY10. On the other hand, exports of tea declined during FY11 compared to FY10.

Growth of the construction sub-sector increased by 6.4 percent during FY11 against 6.0 percent recorded in FY10. Growth in

Table 2.3 Sectoral GDP shares (in percent)

(at FY96 constant producer prices)

	FY08	FY09	FY10 ^R	FY11 ^P
I. Agriculture	20.7	20.5	20.3	19.9
a) Agriculture and forestry	16.2	15.9	15.8	15.5
i) Crop and horticulture	11.6	11.4	11.4	11.2
ii) Animal farming	2.8	2.7	2.7	2.6
iii) Forest and related services	1.8	1.8	1.7	1.7
b) Fishing	4.7	4.6	4.5	4.4
2. Industry	29.7	29.9	29.9	30.4
a) Mining and quarrying	1.2	1.3	1.3	1.3
b) Manufacturing	17.8	17.9	17.9	18.4
i) Large and medium scale	12.6	12.7	12.7	13.1
ii) Small scale	5.1	5.2	5.3	5.3
c) Power, gas and water supply	1.6	1.6	1.6	1.6
d) Construction	9.1	9.1	9.1	9.1
3. Services	49.5	49.7	49.8	49.7
a) Wholesale and retail trade	14.4	14.4	14.4	14.3
b) Hotel and restaurants	0.7	0.7	0.7	0.7
c) Transport, storage and communication	10.4	10.7	10.8	10.9
d) Financial intermediations	1.8	1.9	2.0	2.0
i) Monetary intermediation (Banks)	1.3	1.4	1.4	1.8
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	7.5	7.3	7.2	7.0
f) Public administration and defence	2.8	2.8	2.8	2.9
g) Education	2.6	2.6	2.7	2.8
h) Health and social work	2.3	2.3	2.4	2.4
i) Community, social and personal services	7.0	6.9	6.8	6.7
GDP (at FY96 constant producer prices)	100.0	100.0	100.0	100.0

Source: Bangladesh Bureau of Statistics.
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power, gas and water supply sub-sector decreased to 6.0 percent in FY11 compared to 7.3 percent recorded in FY10. It may be noted that the large unmet demand for power (reflected in power outages) continued in FY11, affecting the growth potential of a number of activities in both urban and rural areas.

Services Sector

2.6 The services sector contributed almost half of (49.7 percent) total GDP in FY11. Within this, 14.3 percent was attributable to wholesale and retail trade followed by 10.9 percent in transport, storage and communication, 7.0 percent in real estate, renting and business activities and 6.7 percent in community, social

Box 2.1**Infrastructure Development for Inclusive Growth**

A nation's infrastructure development plays a significant role in determining its inclusive economic growth. Inclusive growth adopts a long term perspective and is concerned with sustained growth. For growth to be sustainable in the long run, it should be broad-based across sectors. It should also be inclusive of the large part of the country's labour force, where inclusiveness refers to equality of opportunities in terms of access to markets, resources and an unbiased regulatory environment for businesses and individuals. Inclusive growth is not defined in terms of specific targets such as employment generation or income distribution. These are potential outcomes, not specific goals. It is typically fuelled by market-driven sources of growth with the government playing a facilitating role.

In the World Economic Forum's Global Competitiveness Report 2009-10, Bangladesh's infrastructure competitiveness was ranked 126th out of 133 countries, the lowest ranking among its South Asian neighbours, India (49th), Sri Lanka (79th) and Pakistan (101st). Bangladesh inherited underdeveloped and unevenly distributed infrastructure and transportation networks from the colonial era. There was dire need for housing, health facilities, education, roads, power, irrigation projects and drinking water facilities for millions of underprivileged people. Poor and inefficient infrastructure undermined the economic development in the country, and only recently the Government has been able to address the problem systematically and channel investment towards expanding its highways, railroads, seaports, and airports.

Efficient rural transport and supporting infrastructure are indispensable in reducing poverty and in achieving rapid economic development of Bangladesh. Investments in the rural infrastructure sector have been made by the Government with substantial assistance from external donors including the Asian Development Bank. Improving rural roads and associated infrastructure will provide rural populations with access to markets, trading centers and social and welfare services. These improvements will lay the foundation for better economic opportunities and assist in reducing poverty.

The public sector typically focuses on regular qualitative maintenance of existing roads instead of constructing new ones. The completion of the Bangabandhu Bridge, in 1998 made an important contribution to the development of the country's transportation network and significantly boosted the quality and speed of passenger and freight transport connecting the eastern and western parts of Bangladesh for the first time. The construction work of a 26 km long Elevated Expressway linking Hazrat Shahjalal (R) International Airport and Kutub Khali on the Dhaka-Chittagong highway is under construction. The Government is also rapidly implementing the projects of different flyovers around Dhaka to reduce traffic congestion.

The waterways are an important mode of transportation, linking remote areas of the country where no other mode of transportation is available during the monsoon season. Bangladesh has about 24000 km of rivers, streams and canals that cover about 7 percent of the country's surface. Bangladesh has 2 major seaports, at Chittagong and Mongla, and has 22 inland river ports; 12 new inland ports are under construction.

Currently, Bangladesh is giving considerable effort in developing its aviation industry to serve growing tourism and business needs. There are currently 16 airports with paved run-ways, including 2 international airports (Chittagong and Dhaka). Undergoing expansion and modernisation works of Hazrat Shahjalal International Airport are aimed at upgrading it to a category-1 airport through mechanical, infrastructural and system improvements.

The shortage of power and energy supply with respect to its growing demand was the prime cause of the investment-stagnancy, which impeded industrialisation and offered limited employment opportunities. In response to this demand, the present Government has undertaken extensive measures to develop and revamp the power and energy sector. In 2001, the capacity of electricity generation was 4005 MW which

Box 2.1

Infrastructure Development for Inclusive Growth

(Contd.)

increased to 5262 MW in 2008. Starting from a poor base, the present Government has undertaken a range of initiatives to generate 20000 MW by 2020 in line with the pledges made in the 'Vision 2021'. 29 power plants, with a capacity to produce around 2547 MW, are currently under construction in the public and private sector. At present Bangladesh is producing 2000 mncft of natural gas from 23 gas fields.

The current Government is committed to establishing a Digital Bangladesh. The Government has made considerable progress in terms of connecting Bangladesh with the second submarine cable. Through dial-up internet 475 out of 482 upazilas have internet connectivity. The agenda of developing WiMAX to help extend wireless broadband facilities to rural areas is also being forwarded. At the end of July 2011 the total number of mobile phone subscribers in Bangladesh was 78 million.

Although Bangladesh's economy has prospered/improved/thrived under the current democratic political environment for it to truly take off, infrastructural developments are needed (both soft and hard). This process can be accelerated by revising, revisiting and upgrading development plans with a long-term view. Reforms are pre-requisites for growth and reforming infrastructure sustains inclusive growth.

and personal services. Overall activities in the services sector registered 6.6 percent growth in FY11 compared to 6.5 percent in FY10. Despite some fluctuations, the growth appears to be broad-based across sub-sectors (Table 2.1). In FY11, financial intermediations sub-sector experienced somewhat lower growth; while wholesale and retail trade, transport, storage and communication, real estate, renting and business activities, public administration and defence, education and health and social work sub-sectors recorded higher growth; growth in hotel and restaurants (7.6 percent) and community, social and personal services (4.8 percent) sub-sectors remained unchanged. Wholesale and retail trade, which accounted about 29.0 percent of the sector, grew by 6.1 percent in FY11 against 5.9 percent in FY10. Transport, storage and communication sub-sector recorded a growth of 7.9 percent in FY11 compared to 7.7 percent in FY10. Post and telecommunication services particularly the mobile phone services continued to drive the telecommunication industry because of higher consumer demand for mobile phone which led to marginal growth of this sub-sector. Real estate, renting and business activities, public

Table 2.4: GDP by expenditure groups

(at current market prices: billion Taka)

Particulars	FY08	FY09	FY10 ^R	FY11 ^P
Domestic demand	5671.0	6411.3	7242.8	8280.0
Consumption	4349.7	4912.9	5547.7	6332.2
Private	4061.4	4589.4	5175.0	5901.0
Government	288.3	323.5	372.7	431.1
Investment	1321.3	1498.4	1695.1	1947.9
Private	1050.9	1209.4	1346.9	1532.1
Public	270.4	289.0	348.2	415.8
Resource balance	-459.1	-438.0	-459.0	-669.8
Exports	1110.2	1194.4	1278.0	1787.8
Imports	1569.3	1632.4	1736.9	2457.5
Gross domestic expenditure	5211.9	5973.3	6783.9	7610.3
Gross domestic product	5458.2	6148.0	6943.2	7875.0
Statistical discrepancy	246.3	174.7	159.4	264.7

Source: Bangladesh Bureau of Statistics.

P=Provisional.

R= Revised.

administration and defence, education and health and social work sub-sectors exhibited growth of 4.0 percent, 9.6 percent, 9.5 percent and 8.3 percent respectively in FY11 against 3.9 percent, 8.4 percent, 9.2 percent and 8.1 percent

respectively in FY10. Monetary intermediation (banks) achieved lower growth of 8.8 percent in FY11 compared to 10.5 percent in FY10.

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 56.0 percent in the overall agriculture) decreased from 11.4 percent in FY10 to 11.2 percent in FY11 (Table 2.3). The share of animal farming sub-sector declined at 2.6 percent in FY11 from 2.7 percent in FY10. However, the share of fishing sub-sector declined marginally from 4.5 percent in FY10 to 4.4 percent in FY11. In the industry sector, the share of manufacturing sub-sector increased during the year. However, the share of construction, mining and quarrying, 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 the growth in the economy. In the services sector, the share of transport, storage and communication, education and public administration and defence sub-sectors increased slightly and the share of hotel and restaurants, financial intermediations, health and social work remained unchanged during FY11. The share of rest of the sub-sectors declined slightly during the year (Table 2.3).

2.8 The long-term trend showing a shift of the sectoral composition of GDP away from agriculture towards industry and services continued in FY11 (Table 2.3). During the year under review, the share of the agriculture sector and services sector came down from 20.3 and 49.8 percent respectively in FY10 to 19.9 and 49.7 percent in FY11; the share of industry sector increased to 30.4 percent in FY11 from 29.9 percent in FY10.

GDP by Expenditure

2.9 In FY11, expenditure based estimate for GDP was Taka 7850.0 billion, showing a

Table 2.5 Savings and investment

(as percent of GDP)

Particulars	FY08	FY09	FY10 ^R	FY11 ^P
Public				
Investment	5.0	4.7	5.0	5.3
Domestic Savings	1.4	1.3	1.4	1.3
Domestic Savings-Investment gap	-3.6	-3.4	-3.6	-4.0
Private				
Investment	19.3	19.7	19.4	19.5
Domestic Savings	19.0	18.8	18.8	18.3
Domestic Savings-Investment gap	-0.3	-0.9	-0.6	-1.2
Total				
Investment	24.2	24.4	24.4	24.7
Domestic Savings	20.3	20.1	20.1	19.6
Domestic Savings-Investment gap	-3.9	-4.3	-4.3	-5.1
National Savings	30.2	29.6	30.0	28.4

Source: Bangladesh Bureau of Statistics.
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Chart 2.2

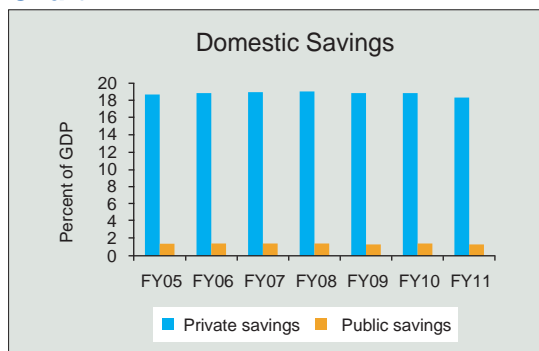
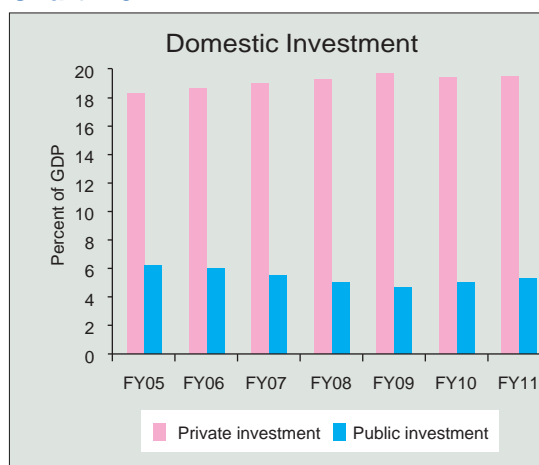


Chart 2.3



nominal increase of 13.4 percent over FY10 (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 FY11, domestic demand was estimated at Taka 8280.0 billion at current market prices, reflecting an increase of 14.3 percent over FY10.

2.10 Available BBS data of FY11 indicates that of the GDE, consumption expenditure constituted 83.2 percent while investment expenditure constituted 25.6 percent and resource balance was -8.8 percent. In FY11, investment expenditure increased by 14.9 percent in nominal terms, higher than 14.1 percent increase in consumption expenditure.

Savings and Investment

2.11 Available data indicates that Gross Domestic Savings (GDS) at current market prices grew by 10.5 percent in FY11. The GDS as percentage of GDP declined from 20.1 in FY10 to 19.6 in FY11 (Table 2.5, Chart 2.2). The private sector component of domestic savings decreased to 18.3 in FY11 from 18.8 in FY10 due to higher consumption expenses as the high inflation levels of FY10 continued to be even higher in FY11. The small public sector component of domestic savings declined to 1.3 in FY11 from 1.4 in FY10. Gross National Savings (GNS) as percentage of GDP decreased from 30.0 in FY10 to 28.4 in FY11, resulting from lower inflow of net factor income (NFI) and net current transfer (NCT). In FY11, NFI increased by 1.1 percent and NCT decreased by 4.8 percent over the previous year.

2.12 Investment as percentage of GDP increased to 24.7 in FY11 which was 24.4 in FY10. (Table 2.5, Chart 2.3). The private sector component of investment increased from 19.4 in FY10 to 19.5 in FY11 and the public sector component of investment increased from 5.0 in

FY10 to 5.3 in FY11. The increasing share of public investment in GDP in FY11 resulted apparently from higher implementation rate of ADP compared to that in the last year.

2.13 The domestic savings-investment gap as percentage of GDP increased from 4.3 in FY10 to 5.1 in FY11 (Table 2.5). The domestic savings-investment gap was met with net factor income from abroad.

Growth Prospect in FY12

2.14. The gross domestic product (GDP) growth is projected at 7.0 percent in FY12 based on prevailing robust investment and growth momentum in the real economy. Strong export growth due to competitiveness of Bangladeshi garment and knitwear products and shift of demand away from China towards Bangladesh, massive investments in power generation, acceleration of investment in infrastructural development, invigorating efforts for increased revenue mobilisation, pursuance of adequate monetary and credit policies are the stimulating factors to attain growth target during FY12.

However, there are some downside risks such as persistence of inflationary pressure emanated from higher oil and food prices, growing trade imbalances induced by higher import demand, considerable pressure on foreign exchange reserves and workers' remittance inflows. The pressure of enhanced credit flows to the unproductive sectors remained as a risk factor for the domestic economy.

In this backdrop, BB's monetary programme for FY12 was set to provide adequate monetary accommodation conducive to 7.0 percent GDP growth target to be achieved in FY12. The programme provides for 18.0 percent credit growth to the private sector, against a high base that grew by 25.8 percent in FY11, to support BB's growth oriented monetary policy as well as to contain inflation rate at the targeted fair level of 7.5 percent for FY12.