

The Real Economy

Economic Growth

2.1 Bangladesh economy managed to maintain the growth momentum in FY14 notwithstanding the political unrest and moderate recovery of global economy. The real GDP growth increased by 0.1 percentage point; from 6.0 percent in FY13 to 6.1 percent in FY14 (Table 2.1). The nominal GDP of the country was Taka 13509.2 billion in FY14 which was about 12.7 percent higher than that of FY13. The per capita real GDP and GNI are estimated at Taka 49726.0 and Taka 53040.0 respectively in FY14. The per capita nominal GDP and GNI, however, in the same year are estimated at Taka 86731 and Taka 92510 respectively. Country's per capita real and nominal GDP increased by 4.7 and 11.2 percent respectively in FY14 compared to FY13 (Chart 2.1).

2.2 Aided by strong agricultural growth of 3.4 percent, GDP growth during the year was also supported by 5.8 percent modest growth in services sector and moderate growth of 8.4 percent in industry sector. The expansion of the economy during the year was broad based, reflected in positive growth by all sectors and sub-sectors of the economy. Out of the overall GDP growth of 6.1 percent in FY14, 3.1 percentage points was contributed by services sector, followed by industry sector (2.5 percentage points) and agriculture sector (0.5 percentage point).

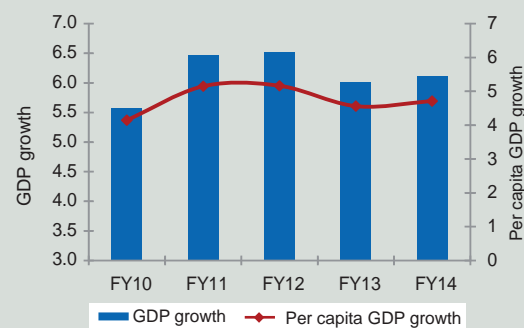
Table 2.1 Sectoral GDP growth

(at FY06 constant prices: percent)

	FY11	FY12	FY13	FY14 ^P
1. Agriculture	4.5	3.0	2.5	3.4
a) Agriculture and forestry	3.9	2.4	1.5	2.5
i) Crops and horticulture	3.9	1.8	0.6	1.9
ii) Animal farming	2.6	2.7	2.7	2.8
iii) Forest and related services	5.6	6.0	5.0	5.1
b) Fishing	6.7	5.3	6.2	6.5
2. Industry	9.0	9.4	9.6	8.4
a) Mining and quarrying	3.6	6.9	9.4	5.2
b) Manufacturing	10.0	10.0	10.3	8.7
i) Large and medium scale	11.1	10.8	10.7	9.2
ii) Small scale	5.7	6.6	8.8	6.6
c) Power, gas and water supply	13.4	10.6	9.0	7.4
d) Construction	7.0	8.4	8.0	8.6
3. Services	6.2	6.6	5.5	5.8
a) Wholesale and retail trade	6.7	6.7	6.2	6.6
b) Hotel and restaurants	6.2	6.4	6.5	6.7
c) Transport, storage and communication	8.4	9.2	6.3	6.5
d) Financial intermediations	10.4	14.8	9.1	9.1
i) Monetary intermediation (banks)	13.0	17.6	10.9	10.5
ii) Insurance	3.7	4.4	0.6	1.8
iii) Other financial intermediation	-2.5	2.3	3.1	3.5
e) Real estate, renting and business activities	3.9	3.9	4.0	4.2
f) Public administration and defence	8.8	7.5	6.5	7.1
g) Education	5.6	7.8	6.3	8.2
h) Health and social work	6.3	3.8	4.8	5.0
i) Community, social and personal services	3.2	3.3	3.3	3.3
Total GVA at constant basic price	6.6	6.7	6.1	6.2
GDP (at constant market price)	6.5	6.5	6.0	6.1

Source: Bangladesh Bureau of Statistics.
P= Provisional.

Chart 2.1 Bangladesh real GDP growth



Agriculture Sector

2.3 The growth of agriculture sector increased to 3.4 percent in FY14 from 2.5 percent in FY13. This increase is attributable mainly to the favourable weather, continued Government support and higher disbursement of agricultural credit. Despite the increase in growth of agriculture sector, its share in total GDP declined as other sectors grew at a relatively faster rate. The share of agriculture sector in total GDP in FY14 was 16.3 percent, which was 16.8 percent in FY13.

Within agriculture sector, most of the sub-sectors performed well during FY14. Crops and horticulture sub-sector recorded a growth of 1.9 percent in FY14 as against 0.6 percent in FY13. Animal farming and fishing sub-sectors registered slightly higher growth of 2.8 and 6.5 percent in FY14 compared to 2.7 and 6.2 percent respectively in FY13. Forest and related services sub-sectors grew at a rate of 5.1 percent in FY14 compared to 5.0 percent in FY13.

2.4 The production of food grains (*Aus*, *Aman*, *Boro* and *Wheat*) increased by 1.3 percent; increasing from 35.09 million metric tons (MMT) in FY13 to 35.55 MMT in FY14. *Aus*, a relatively minor crop of the year, increased by 7.9 percent from 2.16 MMT in FY13 to 2.33 MMT in FY14. The *Aman*, the second largest crop of the year, increased to 13.02 MMT in FY14 from 12.9 MMT in FY13. *Boro*, the single largest crop of the year, grew by 0.7 percent; from 18.78 MMT in FY13 to 18.92 MMT in FY14. *Wheat* production increased by 1.6 percent; from 1.26 MMT in FY13 to 1.28 MMT in FY14. Timely delivery of

Table 2.2 Quantum index of medium and large-scale manufacturing industries (base: FY06=100)

SL.	Major industry group	Weight	FY12	FY13	FY14
1	General index of manufacturing	100.00	174.92	195.19	213.22
2	Manufacture of food products	10.84	161.34	219.10	241.52
3	Manufacture of beverages	0.34	152.46	189.81	243.19
4	Manufacture of tobacco products	2.92	136.79	144.66	149.65
5	Manufacture of textile	14.07	139.44	142.41	139.68
6	Manufacture of wearing apparels	34.84	235.44	265.83	293.70
7	Manufacture of leather and related products	4.40	132.32	139.76	147.83
8	Manufacture of wood and products of wood and cork	0.33	235.99	238.81	243.39
9	Manufacture of paper and paper products	0.33	171.34	160.43	151.95
10	Printing and reproduction of recorded media	1.83	123.23	124.36	127.73
11	Manufacture of coke and refined petroleum products	1.25	90.85	101.54	92.76
12	Manufacture of chemicals and chemical products	3.67	80.77	84.62	80.41
13	Manufacture of pharmaceuticals and medicinal chemical	8.23	169.82	178.79	230.60
14	Manufacture of rubber and plastic products	1.56	217.59	244.87	263.84
15	Manufacture of other non-metallic mineral products	7.12	138.22	139.51	144.18
16	Manufacture of basic metals	3.15	114.26	136.41	150.20
17	Manufacture of fabricated metal products except machinery	2.32	138.81	149.03	164.33
18	Manufacture of computer, electronic and optical products	0.15	114.77	99.00	105.46
19	Manufacture of electrical equipment	0.73	125.22	128.53	132.06
20	Manufacture of machinery and equipment n.e.c	0.18	178.29	155.86	172.68
21	Manufacture of motor vehicles, trailers and semi trailers	0.13	201.46	186.62	205.84
22	Manufacture of other transport equipment	0.73	158.31	138.21	152.88
23	Manufacture of furniture	0.88	100.98	109.14	101.12

agricultural inputs and other essential services contributed to the higher food grain production in FY14.

Industry Sector

2.5 The growth in industry sector decreased to 8.4 percent in FY14 from 9.6 percent in FY13. The main reasons for this decrease include inadequate domestic demand and political unrests ahead of national election in the country, which took a toll on the industrial production. Among the

industry sub-sectors, growth of construction increased to 8.6 percent in FY14 from 8.0 percent in FY13. However, growth of all other sub-sectors declined over the same period.

The growth of mining and quarrying sub-sector registered the highest decline, from 9.4 percent in FY13 to 5.2 percent in FY14. Growth of manufacturing sub-sector decreased to 8.7 percent from 10.3 percent over the same period. The large and medium scale manufacturing which accounted for 81.9 percent of the manufacturing sub-sector registered a growth of 9.2 percent in FY14 compared to 10.7 percent in FY13. On the other hand, small scale manufacturing registered a growth of 6.6 percent in FY14 which was 8.8 percent in FY13. Quantum Index of Industrial Production (QIP) which has been estimated for computing value added of large and medium scale industries showed a growth of 9.2 percent in FY14 (Table 2.2). Production of pharmaceuticals and medicinal chemical grew significantly (29.0 percent) in FY14. Beverages, machinery and equipment n.e.c, other transport equipments, wearing apparel, motor vehicles, trailers and semi trailers, fabricated metal products except machinery, food products, basic metal, rubber and plastic products and computer, electronic and optical products registered positive growth during FY14. The ready-made garments and knitwear, country's two key export items, showed higher growth of 13.8 percent in FY14 compared to 12.7 percent in FY13. However, manufacturing of coke and refined petroleum products, furniture, paper and paper products, chemicals and chemical products and textile experienced a negative growth in FY14.

Table 2.3 Sectoral GDP shares (in percent)

(at FY06 constant prices: percent)				
	FY11	FY12	FY13	FY14 ^P
1. Agriculture	18.0	17.4	16.8	16.3
a) Agriculture and forestry	14.3	13.7	13.1	12.6
i) Crop and horticulture	10.5	10.0	9.5	9.1
ii) Animal farming	2.0	1.9	1.8	1.8
iii) Forest and related services	1.8	1.8	1.8	1.7
b) Fishing	3.7	3.7	3.7	3.7
2. Industry	27.4	28.1	29.0	29.6
a) Mining and quarrying	1.6	1.6	1.7	1.6
b) Manufacturing	17.8	18.3	19.0	19.5
i) Large and medium scale	14.3	14.9	15.5	15.9
ii) Small scale	3.4	3.4	3.5	3.5
c) Power, gas and water supply	1.4	1.4	1.5	1.5
d) Construction	6.7	6.8	6.9	7.1
3. Services	54.6	54.5	54.2	54.1
a) Wholesale and retail trade	14.0	14.0	14.0	14.1
b) Hotel and restaurants	0.8	0.7	0.8	0.8
c) Transport, storage and communication	11.2	11.5	11.5	11.5
d) Financial intermediations	3.0	3.2	3.3	3.4
i) Monetary intermediation (banks)	2.4	2.6	2.7	2.8
ii) Insurance	0.4	0.4	0.4	0.4
iii) Other financial intermediation	0.2	0.2	0.2	0.2
e) Real estate, renting and business activities	7.4	7.2	7.1	7.0
f) Public administration and defence	3.3	3.4	3.4	3.4
g) Education	2.2	2.2	2.2	2.3
h) Health and social work	2.0	1.9	1.9	1.9
i) Community, social and personal services	10.7	10.4	10.1	9.8
Total GVA at constant basic price	100.0	100.0	100.0	100.0

Source: Bangladesh Bureau of Statistics.
P= Provisional.

Growth of power, gas and water supply sub-sector decreased to 7.4 percent in FY14 from 9.0 percent in FY13.

Service Sector

2.6 The services sector grew at a rate of 5.8 percent in FY14, which was slightly higher than the preceding fiscal year. This growth was mainly driven by wholesale and retail trade, public administration and defence, education and health and social work sub-sectors. The wholesale and retail trade sub-sector grew at a rate of 6.6 percent in FY14 compared to 6.2 percent in FY13. The growth of public administration and defence sub-sector increased from 6.5 percent in FY13 to 7.1 percent in FY14. Health and social work

sub-sector registered a 5.0 percent growth in FY14, which was 4.8 percent in FY13. The growth of education sub-sector increased from 6.3 percent in FY13 to 8.2 percent in FY14, mainly as a result of significant increase of primary school teachers. Hotel and restaurants; transport, storage and communication; and real estate, renting and business activities sub-sectors grew by 6.7, 6.5 and 4.2 percent respectively in FY14. The growth rates of these subsectors in FY13 were 6.5, 6.3 and 4.0 percent respectively. The performances of financial intermediations and community, social and personal services sub-sectors remained unchanged in FY14.

Sectoral Composition of GDP

2.7 The relative contribution of the agricultural sector to GDP is gradually declining while the contribution of industry sector is increasing (Table 2.3). The percentage share of the agriculture sector in total GDP decreased from 16.8 in FY13 to 16.3 in FY14. Similarly, the share of service sector decreased from 54.2 in FY14 to 54.1 percent in FY13. Consequently, the share of industry increased from 29.0 percent in FY13 to 29.6 percent in FY14.

2.8 The main reason for reduction in the share of agriculture in GDP is the fall in the growth of the crops and horticulture sub-sector (which comprises of 55.8 percent of the agriculture sector). The growth of this sub-sector fell from 9.5 percent in FY13 to 9.1 percent in FY14 (Table 2.3). The increase of the share of industry sector to GDP in FY14 is attributable to the increased contribution from large and medium scale

Table 2.4 GDP by expenditure groups

(at current market prices: billion Taka)

Particulars	FY11	FY12	FY13	FY14 ^P
Domestic demand(1+2)	9781.0	11294.8	12751.0	14219.4
Consumption(1)	7269.6	8312.5	9347.3	10344.3
Private	6802.8	7780.8	8733.9	9642.2
Government	466.8	531.7	613.4	702.1
Investment(2)	2511.3	2982.2	3403.7	3875.1
Private	2029.8	2374.2	2607.5	2889.1
Public	481.5	608.0	796.2	986.0
Resource balance(3-4)	-693.9	-821.7	-865.7	-739.1
Exports(3)	1824.5	2127.5	2342.4	2669.2
Imports(4)	2518.4	2949.2	3208.1	3408.3
Gross domestic expenditure	9087.1	10473.0	11885.3	13480.3
Gross domestic product	9158.3	10552.0	11989.2	13509.2
Statistical discrepancy	71.2	79.1	104.0	28.9

Source: Bangladesh Bureau of Statistics.
P= Provisional.

Table 2.5 Domestic savings and investment

(as percent of GDP)

Particulars	FY11	FY12	FY13	FY14 ^P
Public				
Investment	5.3	5.8	6.6	7.3
Domestic Savings	1.4	1.4	1.4	1.6
Domestic Savings-Investment gap	-3.9	-4.4	-5.2	-5.7
Private				
Investment	22.2	22.5	21.8	21.4
Domestic Savings	19.3	19.9	20.6	21.8
Domestic Savings-Investment gap	-2.9	-2.6	-1.2	0.4
Total				
Investment	27.4	28.3	28.4	28.7
Domestic Savings	20.6	21.2	22.0	23.4
Total Savings-Investment gap	-6.8	-7.1	-6.4	-5.3
National Savings	28.9	29.9	30.5	30.5

Source: Bangladesh Bureau of Statistics.
P= Provisional.

manufacturing and construction subsectors. The share of power, gas and water supply sub-sectors remained unchanged between FY13 and FY14. The share of mining and quarrying decreased slightly from 1.7 percent in FY13 to 1.6 percent in FY14.

Box 2.1**Human Capital and Sustainable Economic Growth**

Human capital and sustainable economic growth are mutually reinforcing although, prima facie, they may appear independent and unrelated concepts. While human capital has fostered sustained economic growth around the world, the sustained economic growth, in turn, contributed to the formation of human capital. Hence, the intertwined nature of human capital and sustainable economic growth drew attention of policymakers, both in developed and developing countries. The cross-country experiences point to the following nexus between human capital and sustainable economic growth:

First, a significant amount of growth in many developed countries cannot be explained by growth of labor and capital implying the contribution of human capital. At the same time, many developing countries, particularly the East Asian countries once known as 'East Asian Miracles' grew fast notwithstanding their resource bases only due to rapid growth of human capital. Many countries in Africa, Asia and Latin America are still suffering from low growth mainly due to their low level of human capital. A number of theoretical and empirical studies identified human capital as the main driver of convergence in economic growth among countries.

Second, the rapidly changing technologies are also changing the economic structures. This, in turn, reduced the scope for the menial jobs making a certain level of human capital a precondition to participate in the labour market to ensure a decent living. The ongoing debate and policies across the developed world about the immigration of skilled workers underscores the global demand for human capital to sustain economic growth. Much of the sustained growth of the developed countries like USA, UK, Australia, and Canada was contributed by the skilled workers from developing countries allured to migrate through targeted and permanent residency initiatives of various types. However, the petroleum-rich countries of the Middle East are benefitted by encouraging temporary migration of skilled, semi-skilled and unskilled workers from developing countries.

Like many other countries, Bangladesh economy has gone through a radical transformation graduation from a predominantly agricultural economy to a service-sector dominated economy. The course of this transformation created many jobs for highly educated, skilled and semi-skilled labor force while relatively reducing the demand for unskilled labour. Likewise, Bangladesh's graduation from a low-income to a middle-income country will unleash many more opportunities for skilled worker.

The formation of human capital not only makes the economy globally competitive but also expands the opportunities for a greater majority of its population to lift themselves out of poverty trap. This in turn rids the economy of the scar of inequality making economic growth inclusive. Therefore, if Bangladesh is to march ahead and stay on a stable economic growth trajectory, the country cannot but prioritize human capital as a reliable source of sustainable economic growth.

Islam (2014) argues that the higher the level of economic development the greater is the demand for education and skill development that are compatible with a rapidly transforming and sustainably growing economy. Despite impressive success in primary school enrollment, Bangladesh is still trailing many developing countries in the enrollment in secondary and tertiary education, with shockingly low level of enrollment in vocational education and training (as a percentage of enrollments in secondary education). If Bangladesh aims to achieve enrollment levels that Malaysia had a few years back by 2030, and place its economy on a 7-8 percent annual growth trajectory, Islam (2014) suggests that Bangladesh has to adopt a strategy that substantially develops its human capital by investing more in secondary, tertiary, and vocational/technical education and raise enrollment targets in these sectors to 66 percent (from the current 51 percent), 36 percent (from the current 13 percent), and 10 percent (from the current 1 percent) respectively.

Needless to mention that a deliberate plan of action for promotion of human capital is necessary to set the Bangladesh economy on an inclusive and sustainable growth trajectory for making the transition to a middle-income status from the current low-income status fast and smooth.

In the services sector, while the share of wholesale & retail trade, financial intermediation, and education sub-sectors increased slightly, the share of real estate, renting and business activities, health & social work and community, social and personal services sub-sectors declined slightly in FY14. The share of rest of the sub-sectors remained unchanged during the same period (Table 2.3).

GDP by Expenditure

2.9 In FY14, expenditure based GDP was Taka 13,509.2 billion, showing a nominal increase of 12.7 percent over FY13 (Table 2.4). Gross Domestic Expenditure (GDE) is the total sum of consumption expenditure, investment expenditure of the private and public sector and the resource balance of the economy. In FY14, domestic demand (total sum of consumption, investment and government expenditure) was estimated at Taka 14,219.4 billion at current market prices

reflecting an increase of 11.5 percent over FY13.

2.10 Available BBS data of FY14 indicates that consumption expenditure accounted for 76.7 percent total GDE while the rest is accounted for investment (28.75 percent) and resource balance (5.5 percent). In FY14, investment expenditure increased by 13.9 percent in nominal terms while the consumption expenditure increased by 10.7 percent.

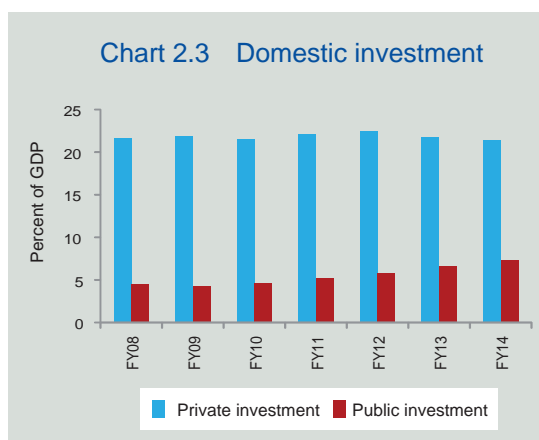
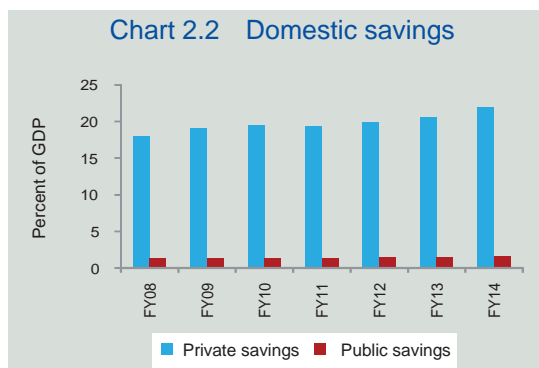
Savings and Investment

2.11 Domestic and national savings increased moderately as the current account deficit improved in FY14. Available data indicates that Gross Domestic Savings (GDS) at current market prices grew by 19.8 percent in FY14 from 18.0 percent in FY13. The GDS as percentage of GDP also increased to 23.4 in FY14 from 22.0 in FY13 (Table 2.5, Chart 2.2).

Private sector savings as percentage share of GDP increased to 21.8 in FY14 from 20.6 in FY13. Similarly, the public sector savings as percentage share of increased to 1.6 in FY14 from 1.4 in FY13. The ratio of Gross National Savings (GNS) to GDP remained same at 30.5 in FY14. While the net current transfer (NCT) registered a growth of 13.6 percent, the growth of Net Factor Income (NFI) from abroad was negative in FY14.

2.12 Investment as percentage of GDP increased to 28.7 in FY14 from 28.4 in FY13 (Table 2.5, Chart 2.3). While the private investment as a percentage share of GDP decreased from 21.8 in FY13 to 21.4 in FY14, the percentage share of public investment in GDP increased from 6.6 to 7.3 over the same period. The increase of public investment as a percentage share of GDP in FY14 is attributable to the higher implementation rate of ADP in FY14 compared to FY13.

2.13 The domestic savings-investment gap as percentage of GDP decreased from 6.4 in



FY13 to 5.3 in FY14 (Table 2.5). The domestic savings-investment gap met with net factor income from abroad.