

The Real Economy

Economic Growth

2.1 Despite high oil price and phasing out of the MFA quota, economic activity was brisk in FY06. Provisional estimates of the Bangladesh Bureau of Statistics (BBS) indicate that real GDP recorded a growth of 6.7 percent in FY06, moderately higher than 6.0 percent recorded in FY05 (Table 2.1). Measured at current market prices, the GDP of Bangladesh in FY06 was estimated at Taka 4,162 billion representing a nominal growth of 12.3 percent in FY06 compared with 11.3 percent recorded in FY05. In FY06, the country's per capita GDP increased by about 5.3 percent in real terms and about 10.8 percent in nominal terms (Chart 2.1).

2.2 Aided by strong agricultural recovery, the 6.7 percent real GDP growth propelled mainly by the industry and services sectors, reflected increased economic activity in all sectors and sub-sectors (Table 2.1). Spurred by a robust 9.6 percent growth in industry sector, GDP growth during the year was also supported by 6.5 percent growth in the services sector and 4.5 percent growth in the agriculture sector. The contribution of the services sector to the overall GDP growth of 6.7 percent in FY06 was the highest at 3.1 percentage points, followed by the industry sector at 2.6 percentage points and the agriculture sector at 1.0 percentage points.

Agriculture Sector

2.3 The agriculture sector recovered well from the last year's flood losses due to strong performance of crops and horticulture, and fishing. Crops and horticulture sub-sector registered a strong growth of 4.2 percent in FY06 compared with a growth of only 0.2 percent in FY05. Overall, output of foodgrains

Table 2.1 Sectoral GDP growth

(at FY96 constant prices: percent)

	FY03	FY04	FY05	FY06P
I. Agriculture	3.1	4.1	2.2	4.5
a) Agriculture and forestry	3.3	4.4	1.8	4.7
i) Crops and horticulture	2.9	4.3	0.2	4.2
ii) Animal farming	4.5	5.0	7.2	6.3
iii) Forest and related services	4.4	4.2	5.1	5.2
b) Fishing	2.3	3.1	3.7	3.9
2. Industry	7.3	7.6	8.3	9.6
a) Mining and quarrying	7.2	7.7	8.4	8.7
b) Manufacturing	6.8	7.1	8.2	10.5
i) Large and medium scale	6.6	7.0	8.3	11.0
ii) Small scale	7.2	7.5	7.9	9.0
c) Power, gas and water supply	8.0	9.1	8.9	7.7
d) Construction	8.1	8.3	8.3	8.4
3. Services	5.4	5.7	6.4	6.5
a) Wholesale and retail trade	6.1	6.6	7.1	7.3
b) Hotel and restaurants	7.0	7.1	7.1	7.5
c) Transport, storage and communication	6.9	6.2	7.9	8.3
d) Financial intermediations	6.7	7.0	8.9	7.1
i) Banks	5.9	6.7	9.1	6.9
ii) Insurance	10.3	8.1	8.3	7.5
iii) Other	2.3	6.9	8.5	10.6
e) Real estate, renting and business activities	3.5	3.6	3.7	3.7
f) Public administration and defense	5.2	7.1	8.0	8.2
g) Education	7.6	7.7	7.9	8.0
h) Health and social work	5.6	6.2	7.4	7.1
i) Community, social and personal services	3.3	4.0	4.1	4.1
GDP (at FY96 constant market prices)	5.3	6.3	6.0	6.7

Source : National Accounts Statistics, May 2006, BBS.

P= Provisional.

increased by 4.6 percent to 27.3 million metric tons (MMT) in FY06, reflecting substantial production increase of Aus, Aman and Boro crops. Aus output, a relatively minor crop,

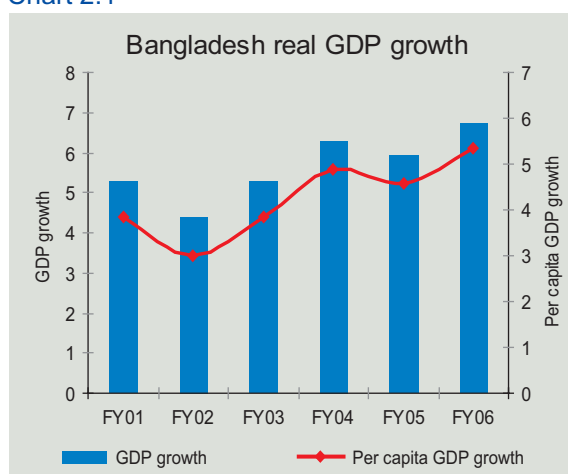
increased by about 20.0 percent to 1.8 MMT in FY06 compared to the level of FY05. Aman output, the second largest crop, increased by 10.2 percent to 10.8 MMT due to favourable weather conditions and adequate supply of High Yielding Varieties (HYV) seeds and other agro inputs. Following robust Aman harvest, farmers encouraged by higher output prices gave relentless efforts for successful Boro production. Despite some disruption in the delivery of diesel fuel and fertilizer, the output of Boro rice, the single largest crop constituting more than 50 percent of the total cereal production, grew by 1.4 percent to around 14.0 MMT in FY06 from the actual production of FY05. The higher Boro production was supported by good weather conditions, higher disbursement of crops loan and use of huge quantity of certified seeds. Total wheat production is estimated at 0.7 million metric ton in FY06, 30.0 percent lower than actual production of FY05, reflecting shortened winter and a decline of cultivation area as farmers gradually shifted away from wheat to maize production. Maize production exhibited robust performance in FY06 as farmers brought more area under maize cultivation, attracted by lower production cost, encouraging selling prices and increasing domestic demand particularly for the growing poultry-feed industry. The area of maize cultivation increased to 0.14 million hectare in FY06 from 0.09 million hectare in FY05.

2.4 The animal farming sub-sector grew by 6.3 percent in FY06 compared to 7.2 percent growth recorded in FY05 mostly due to expansion of number as well as output of poultry farms. Forest and related services sub-sector recorded slightly higher growth of 5.2 percent in FY06 compared to a growth of 5.1 percent in FY05. The fishing sub-sector posted 3.9 percent growth in FY06 compared to 3.7 percent growth in FY05 due mainly to increase of marine and inland fish production.

Industry Sector

2.5 In the industry sector, which contributes about 29.0 percent of GDP, growth rate picked up from 8.3 percent of FY05 to 9.6 percent in FY06. The growth was led by export-oriented

Chart 2.1



manufacturing and supported by strong growth in construction, and mining and quarrying sub-sectors. The growth in mining and quarrying sub-sector, a relatively minor activity, increased to 8.7 percent in FY06 from 8.4 percent in FY05. Manufacturing sub-sectors registered a growth of 10.5 percent in FY06 compared with 8.2 percent growth in FY05. Growth was pronounced in both the large and medium, and small scale-manufacturing sub-sectors, which grew by 11.0 percent and 9.0 percent respectively in FY06 compared to 8.3 percent and 7.9 percent growth experienced in FY05. Small scale manufacturing sub-sector contributes about 40-45 percent for the total output of the manufacturing sector and mostly depends on indigenous raw materials and is less affected by external shocks. Within this sub-sector rice milling, dairy products, knitwear, leather products, footwear, wooden furniture, paper and paper products, non-metallic mineral products etc. experienced higher growth in FY06. Production of large and medium scale manufacturing industries, particularly food manufacturing, knitwear, readymade garments, cotton textile, pharmaceuticals, tobacco, leather footwear, ceramic, cement, plastic products etc. showed substantial growth in FY06. Quantum Index of Industrial Production (QIIP) which is used for estimating value added of large and medium scale industries showed a growth of 12.5 percent during FY06 over FY05. Earlier concerns about the possible adverse effects on exports of readymade garments because of the

ending of MFA quotas have not been realized. A strong and sustained external demand led to higher growth in FY06 for readymade garments and knitwear, the two dominant components of manufacturing. The performance of other major industries also registered significant growth in FY06. Activity in construction sub-sector picked up during FY06, reflecting higher domestic production of cement along with higher import of construction materials like iron, steel and other base metal, and clinker etc. This sector also boost up due to higher allocation of ADP to public construction along with faster growth of private construction sub-sector. As a result, the construction sub-sector estimated to grow by 8.4 percent in FY06 compared to 8.3 percent growth recorded in FY05. However, growth rate in power, gas and water supply sub sector in FY06 has been estimated lower at 7.7 percent compared to 8.9 percent recorded in FY05. It may be noted that the large unmet demand for power (reflected in power outages) continued in FY06, affecting the growth potential of a number of activities in both urban and rural areas.

Services Sector

2.6 The services sector contributes about 49 percent of total GDP in Bangladesh. Within this, about 14 percent is attributable to wholesale and retail trade followed by 10 percent in transport, storage and communication and 8 percent in real estate, renting and business activities. Overall activities in the services sector, registered 6.5 percent growth in FY06 compared to 6.4 percent in FY05 based mainly on strong growth in industry sector and foreign trade. Despite some fluctuations, the growth appears to be broad-based across sub-sectors (Table 2.1). Somewhat higher than average growth was experienced by wholesale and retail trade, hotel and restaurants, transport, storage and communication, public administration and Defense, and education. Wholesale and retail trade, which accounts for about 28.8 percent of the sector, grew by 7.3 percent in FY06, up from 7.1 percent in FY05 due to increase in agricultural and industrial production and import of commodities. Transport, storage and communication sub-sector, the second highest

Table 2.2 Sectoral GDP shares (in percent)

(at FY96 constant producer prices)

	FY03	FY04	FY05	FY06P
I. Agriculture	23.5	23.1	22.3	21.8
a) Agriculture and forestry	18.2	18.0	17.3	16.9
i) Crop and horticulture	13.4	13.3	12.5	12.2
ii) Animal farming	2.9	2.9	3.0	2.9
iii) Forest and related services	1.9	1.8	1.8	1.8
b) Fishing	5.3	5.1	5.0	4.9
2. Industry	27.2	27.7	28.3	29.0
a) Mining and quarrying	1.1	1.1	1.1	1.2
b) Manufacturing	16.0	16.2	16.5	17.1
i) Large and medium scale	11.3	11.4	11.7	12.1
ii) Small scale	4.7	4.8	4.9	4.9
c) Power, gas, water supply	1.5	1.6	1.6	1.7
d) Construction	8.6	8.8	9.0	9.2
3. Services	49.3	49.2	49.4	49.2
a) Wholesale and retail trade	13.9	14.0	14.1	14.2
b) Hotel and restaurants	0.7	0.7	0.7	0.7
c) Transport, storage and communication	9.8	9.8	10.0	10.1
d) Financial intermediations	1.6	1.7	1.7	1.7
i) Banks	1.2	1.2	1.3	1.3
ii) Insurance	0.3	0.4	0.4	0.4
iii) Other	0.1	0.1	0.1	0.1
e) Real estate, renting and business activities	8.5	8.3	8.1	7.9
f) Public administration and Defense	2.6	2.6	2.7	2.7
g) Education	2.4	2.4	2.4	2.5
h) Health and social work	2.2	2.2	2.3	2.3
i) Community, social and personal services	7.7	7.6	7.5	7.3
GDP (at FY96 constant producer prices)	100.0	100.0	100.0	100.0

Source : National Accounts Statistics, May 2006, BBS.

P = Provisional.

contributor to the services sector, recorded a robust growth of 8.3 percent in FY06, reflecting huge investment in mobile phone in both private and public sector and new private TV channel network. While growth in real estate, renting and business activities, and community, social and personal services remained unchanged in FY06, financial intermediations and, health and social work sub-sectors are estimated to record a lower growth in FY06. Banking services are estimated to achieve a moderate growth of 6.9 percent in

FY06, albeit lower than the growth of 9.1 percent of FY05, reflecting healthy profit margin in the private sector banks.

Sectoral Composition of GDP

2.7 Looking at the sectoral shares in GDP, it is observed that the share of crops and horticulture sub-sector (comprising of 56.0 percent in the overall agriculture) declined to 12.2 percent in FY06 from 12.5 percent in FY05 (Table 2.2). While the share of forest and related services remained the same, share of other sub-sectors, viz. animal farming and fishing, which are relatively small in size, also declined marginally as their growth rates were somewhat lower than the overall GDP growth rate. In recent years, faster than average growth rates of these sub-sectors induced by growing domestic demand indicate that supporting measures may help accelerate growth and rise in the share of these sub-sectors.

2.8 The long-term trend showing a shift of the sectoral composition of GDP away from agriculture towards industry continued in FY06 (Table 2.2). During the year under review, while the share of industry sector increased to 29.0 percent from 28.3 percent, the share of agriculture sector in GDP came down to 21.8 percent from 22.3 percent; the share of the services sector in GDP also declined slightly to 49.2 percent from 49.4 percent. However, in the industry sector, the low share of power, gas and water supply partly reflects the supply side bottlenecks constraining growth in the economy.

GDP by Expenditure

2.9 In FY06, expenditure based estimate for GDP was Taka 4,081.5 billion, showing a nominal increase of 12.3 percent over FY05 (Table 2.3). Gross Domestic Expenditure 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 FY06, domestic demand was estimated at Taka 4,357.3 billion at current market prices, reflecting an increase of 12.5 percent over FY05.

Table 2.3 GDP by expenditure groups

(at current market prices: billion Taka)

	FY 03	FY04	FY05	FY06 P
Domestic demand	3,149.2	3,479.2	3,874.4	4,357.3
Consumption	2,445.7	2,679.3	2,965.1	3,318.2
Private	2,285.0	2,495.2	2,759.8	3,087.0
Government	160.7	184.1	205.3	231.2
Investment	703.5	799.9	909.2	1,039.1
Private	517.2	593.7	679.2	776.9
Public	186.3	206.2	230.1	262.1
Resource balance	-175.0	-178.1	-239.6	-275.9
Exports	427.2	514.9	614.7	739.0
Imports	602.2	693.0	854.3	1,014.9
Gross domestic expenditure	2,974.2	3,301.1	3,634.7	4,081.5
Gross domestic product	3,005.8	3,329.7	3,707.1	4,161.5
Statistical discrepancy	31.6	28.6	72.4	80.0

Source : National Accounts Statistics, May 2006, BBS.

P=Provisional.

Table 2.4 Domestic savings and investment

(as percent of GDP)

	FY03	FY04	FY05	FY06P
Government				
Investment	6.2	6.2	6.2	6.3
Savings	1.2	1.3	1.4	1.4
Savings-Investment gap	-5.0	-4.9	-4.8	-4.9
Private				
Investment	17.2	17.8	18.3	18.7
Savings	17.4	18.2	18.6	18.9
Savings-Investment Gap	0.2	0.4	0.3	0.2
Total				
Investment	23.4	24.0	24.5	25.0
Savings	18.6	19.5	20.0	20.3
Savings-investment gap	-4.8	-4.5	-4.5	-4.7

Source : National Accounts Statistics, May 2006, BBS.

P = Provisional.

2.10 GDP data by expenditure groups (composition) as well as private savings and investment are relatively weak. However, existing data indicate that of the Gross Domestic Expenditure (GDE), consumption expenditure constituted 81.3 percent while investment expenditure constituted 25.5 percent and resource balance is -6.8 percent. In FY06, investment expenditure increased by 14.3 percent in nominal terms, exceeding the 11.9 percent increase in consumption expenditure.

Chart 2.2

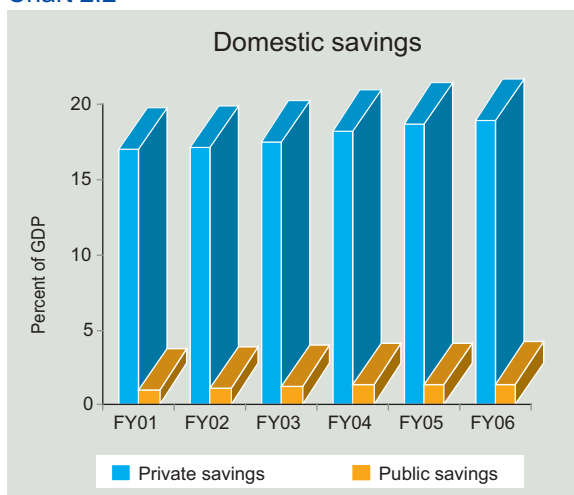
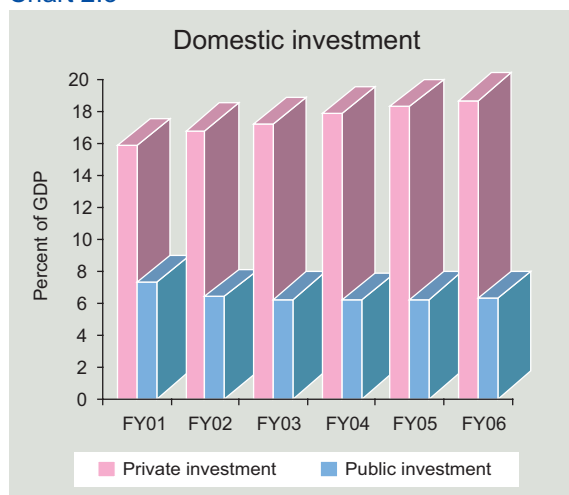


Chart 2.3



Savings and Investment

2.11 Available data indicate that gross domestic savings at current market prices grew by 13.6 percent in FY06 raising its share as percentage of GDP slightly from 20.0 in FY05 to 20.3 in FY06 (Table 2.4, Chart 2.2). Private sector component of domestic savings increased to 18.9 in FY06 from 18.6 in FY05. It appears that in recent years private savings was higher than private investment, which indicates that some private savings is channeled to government sector induced by comparatively high rates of savings certificates. The small public sector component of domestic savings remained the same at the previous year's level of 1.4 percent in FY06. Investment as percentage of GDP increased marginally to 25.0 in FY06 from 24.5 in FY05 (Table 2.4, Chart 2.3).

The private sector component of investment increased from 18.3 percent of GDP in FY05 to 18.7 percent of GDP in FY06, reflecting higher private sector credit growth. The public sector component of investment also increased marginally from 6.2 percent of GDP in FY05 to 6.3 in FY06, reflecting higher utilization of ADP compared to the previous year.

2.12 The domestic savings-investment gap as percent of GDP increased marginally to 4.7 percent in FY06 from 4.5 percent in FY05 reflecting higher investment growth. However, the domestic savings-investment gap was met mainly with net factor income from abroad (Table 2.4). The net factor income from abroad increased by 23.4 percent in FY06 compared with 7.8 percent in FY05.