

The Real Economy

Economic Growth

2.1 The performance of the Bangladesh economy in the face of a number of unfavourable factors in FY08 was remarkable indicating the resilience of the economy and its strong growth potential. Despite two consecutive floods and devastating cyclone Sidr, outbreak of avian flu, political uncertainty, shaken business confidence, labour unrest in the RMG sector and soaring commodity prices in the international market, the real GDP grew by an estimated 6.2 percent in FY08, only slightly lower than 6.4 percent growth in FY07. (Table 2.1). Measured at current market prices, the GDP of Bangladesh in FY08 was estimated at Taka 5,419 billion representing a nominal growth of 14.7 percent in FY08 compared with 13.7 percent recorded in FY07. In FY08, the country's per capita GDP increased by about 4.9 percent in real terms and about 13.2 percent in nominal terms (Chart 2.1).

2.2 With reasonable support from agriculture sector, the 6.2 percent real GDP growth was propelled mainly by industry sector and services sector. The expansion was broad-based, registering positive growth in all sectors and sub-sectors of the economy (Table 2.1). Spurred by a 6.9 percent growth in industry sector and 6.7 percent growth in services sector, GDP growth during the year was also aided by 3.6 percent growth in the agriculture sector. The services sector made the highest contribution of 54.1 percent to the overall GDP growth, followed by industry sector of 33.2 percent and agriculture sector of 12.7 percent.

Table 2.1 Sectoral GDP growth

(at FY96 constant prices: percent)

	FY05	FY06	FY07	FY08P
1. Agriculture	2.2	4.9	4.6	3.6
a) Agriculture and forestry	1.8	5.2	4.7	3.5
i) Crops and horticulture	0.2	5.0	4.4	3.4
ii) Animal farming	7.2	6.2	5.5	2.4
iii) Forest and related services	5.1	5.2	5.2	5.4
b) Fishing	3.7	3.9	4.1	4.1
2. Industry	8.3	9.7	8.4	6.9
a) Mining and quarrying	8.4	9.3	8.3	8.6
b) Manufacturing	8.2	10.8	9.7	7.4
i) Large and medium scale	8.3	11.4	9.7	7.2
ii) Small scale	7.9	9.2	9.7	7.9
c) Power, gas and water supply	8.9	7.7	2.1	4.9
d) Construction	8.3	8.3	7.0	5.9
3. Services	6.4	6.4	6.9	6.7
a) Wholesale and retail trade	7.1	6.8	8.0	7.2
b) Hotel and restaurants	7.1	7.5	7.5	7.6
c) Transport, storage and communication	7.9	8.0	8.0	8.7
d) Financial intermediations	8.9	8.5	9.2	9.0
i) Monetary intermediation (Banks)	9.1	8.2	9.3	9.0
ii) Insurance	8.3	9.2	8.2	8.3
iii) Other financial intermediation	8.5	10.9	11.6	11.5
e) Real estate, renting and business activities	3.7	3.7	3.8	3.6
f) Public administration and defense	8.0	8.2	8.4	7.2
g) Education	7.9	9.1	9.0	7.9
h) Health and social work	7.4	7.8	7.6	7.5
i) Community, social and personal services	4.1	4.1	4.6	4.6
GDP (at FY96 constant market prices)	6.0	6.6	6.4	6.2

Source : National Accounts Statistics, June 2008, BBS.
P= Provisional.

Agriculture Sector

2.3 The agriculture sector achieved a moderate growth of 3.6 percent in FY08 against

Box-2.1

Damages and Losses of "Sidr" and its Impact on the Economy

On 15 November, 2007, a super cyclone named Sidr wrought havoc to the south-western coastal areas and central plains of Bangladesh. The winds of the cyclone, around 240 kilometers per hour, caused unprecedented destruction to men and material of those areas of Bangladesh. In meteorological terminology Sidr is a category 4 storm as defined on the Saffir-Simpson hurricane scale. The storm was accompanied by tidal waves up to five meters high that surged about six meters in some areas breaching coastal and river embankments, flooding low-lying areas and causing extensive physical destruction. High winds and floods also caused damages to housing, roads, bridges, and other infrastructures. Electricity and communication were knocked out, and roads and waterways became impassable. Drinking water was contaminated by debris, corpses and carcasses and many sources were inundated with saline water from tidal surges, and sanitation infrastructures were destroyed.

Sidr was the second natural disaster to strike Bangladesh in 2007. During the year, monsoon floods had twice previously caused extensive agricultural production losses and destruction of physical assets, totaling nearly US\$1.1 billion. Successive occurrence of such natural calamities, therefore, bear proof of Bangladesh being extremely vulnerable to the frequent hydro-meteorological hazards that stand to be further exacerbated due to global warming and climate change

Total losses and damages caused by Sidr had been estimated to be Taka 115.6 billion (US\$ 1.7 billion) and as such effects of it are calculated to be equivalent to 2.8% of Bangladesh's GDP. Damages and losses were concentrated on the housing sector (Taka 57.9 billion, or 50 % of the total), productive sectors (Taka 33.8 billion or 30% of the total) and on public sector infrastructure (Taka 15.7 billion or 14% of the total). Most affected sectors, in descending order, had been: housing, agriculture, transport, water control structures, education and industry. More than two-thirds of the disaster effects were physical damages and one-third were economic losses, and most damages and losses were incurred in the private sector rather than in the public sector.

The impact of Sidr remained concentrated mostly in the districts of Bagherhat, Borguna, Patuakhali and Pirojpur. These four districts were the worst affected areas from Sidr. However, there were eight other districts which were classified as moderately affected. These were: Khulna Madaripur, Shariatpur Barisal, Bhola, Satkhira, Jhalokathi and Gopalganj. In these parts of the country, according to a 2005 survey of household data, poverty levels range between 35 to more than 50 percent of the population. In other words, the brunt of the calamity will be borne by some of the poorest population groups of the country which, in turn, will significantly degrade their quality of living. Of the 2.3 million households affected, to some degree or other by the cyclone, about one million were seriously affected. The number of deaths caused by Sidr is estimated at 3406 with 1001 still missing and over 55000 people sustaining physical injuries. It is estimated that about 2 million people have lost income and employment in the more affected districts.

Preliminary estimates indicate that overall economic growth in the country was affected by around 0.5 percent during FY08. Significantly higher decline is likely to occur in the economy of the most affected districts for which no detailed estimates of GDP are available. An increase of around US\$ 203 million in the external sector balance has been estimated due to the need to import foodstuff, mainly rice, and some construction materials essential to mitigate the disaster impacts. In the FY08 budget, pressure was mounted on the fiscal sector deficits in view of required outlays to meet emergency and rehabilitation needs considered to be the direct fallout of Sidr.

Following Sidr the needs for the affected area fall into three broad categories: relief, recovery and reconstruction. The relief works were undertaken by the Government of Bangladesh agencies, non-governmental organizations (NGOs) (both national and international), and the development partners. This phase of the work has more or less been completed. Now, there is a need to design recovery and reconstruction programmes and expedite their implementations. During implementation, it is important to focus on and give priority to the worst affected unions, upazilas and districts as well as the worst affected poor households within these jurisdictions.

Keeping in view the facts stated above, the World Bank coordinated an effort to produce a Joint Damage Loss and Needs Assessment (JDLNA). The JDLNA team consists of people from the Government of Bangladesh, World Bank and eleven Development Partners¹. The JDLNA worked with the Disaster Management Bureau (DMB) of the Ministry of Food and Disaster Management and other Ministries and Agencies to carry out this assessment.

Based on an assessment of current gaps and long-term needs, the JDLNA team has identified a long-term programme to enhance the resilience of communities to future disaster risks. The programme is based on the accepted World Bank Disaster Management Framework and consists of activities in five key strategic pillars : (a) risk identification and assessment, (b) strengthening and enhancing emergency preparedness, (c) national and community institutional capacity building, (d) risk mitigation investments for reducing exposure to natural hazards, and (e) disaster risk financing.

The programme is proposed to be implemented over a period of 15 years (2008-2022) in three five-year phases keeping in view the priority needs and implementation capacity of the Government of Bangladesh. The preliminary cost estimates of such a programme are US\$4 billion, about US\$1.5 billion, US\$1.4 billion and US\$1.1 billion in each five year period. The investments required in the first five years for reconstruction and recovery from Sidr and for long term disaster risk management add up to about US\$ 2.6 billion.

¹ IFRC, ILO, UN, USAID, EC, IDB, JICA, JBIC, DFID, ADB, and FAO.

4.6 percent growth recorded in FY07. The deceleration in this sector was mainly due to lower growth in crops and horticulture sub-sector and animal farming sub sector. Crops and horticulture sub-sector registered a growth of only 3.4 percent in FY08 compared to a growth of 4.4 percent in FY07. Overall, output of foodgrains increased by 6.4 percent from 28.0 million metric tons (MMT) in FY07 to 29.8 MMT in FY08 due mainly to higher Boro production helped by good weather condition and timely Government support to farmers. Aus output, a relatively minor crop of the year, remained at the previous year's level of 1.5 MMT in FY08. Aman output, the second largest crop of the year, decreased by about 10.2 percent from 10.8 MMT in FY07 to 9.7 MMT in FY08 due to severe damage caused by two rounds of flood and a devastating cyclone (Sidr) in the country. However, favourable price incentive resulting from higher prices of food grains and various incentive measures undertaken by Government including speedy disbursement of higher agricultural credit, timely supply of key agricultural inputs such as quality seeds, diesel fuel, fertilizer, electricity etc. encouraged farmers to go for higher Boro production. As a result, Boro output, the single largest crop of the year, grew by 18.7 percent from 15.0 MMT in FY07 to 17.8 MMT in FY08. Wheat production increased significantly from 0.7 MMT in FY07 to 0.8 MMT in FY08. As farmers substituting commercially more viable maize for wheat in their crop rotation maize production was also significantly higher than the last year's level, rising from 0.8 MMT in FY07 to 1.3 MMT in FY08.

2.4 Animal farming sub-sector grew by 2.4 percent in FY08 compared to 5.5 percent growth recorded in FY07. The output of this sub-sector declined mostly due to an outbreak of avian flu in the country. Forest and related services sub-sector recorded slightly higher growth of 5.4 percent in FY08 compared to 5.2

Chart 2.1

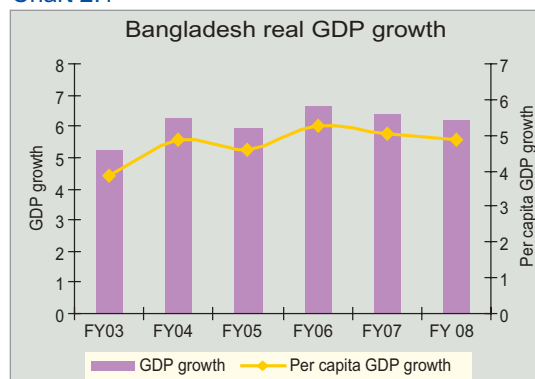


Table 2.2 Quantum index of medium and large scale manufacturing industries (base: 1988-89 = 100)

Sub-sectors	Weight	FY05	FY06	FY07	FY08 ^P
Food, beverage & tobacco	22.1	251.0	269.5	281.6	285.8
Jute, cotton, woven apparel & leather	38.2	347.8	406.5	460.9	509.5
Wood products including furniture	0.2	203.2	241.7	258.1	287.8
Paper and paper products	4.7	371.1	399.1	440.3	475.0
Chemical, petroleum & rubber	24.0	270.6	286.5	305.9	313.4
Non-metallic products	2.8	395.8	423.8	441.6	459.2
Basic metal products	2.1	236.5	258.2	283.0	304.2
Fabricated metal products	5.9	131.2	143.5	158.4	168.6
General index of manufacturing	100	294.7	328.4	360.3	384.8

Source : Bangladesh Bureau of Statistics.
P= Provisional

percent in FY07. The growth in fishing sub-sector remained unchanged at 4.1 percent growth in FY08 reflecting increased inland and marine fish production.

Industry Sector

2.5 In the industry sector, which contributed about 29.7 percent of GDP, growth rate slowed down from 8.4 percent of FY07 to 6.9 percent in FY08. The growth was led by export-oriented manufacturing and supported by strong growth in mining and quarrying sub-sector. The

deceleration of growth was mainly due to the loss of business confidence and labour unrest in the RMG sector. The growth in mining and quarrying sub-sector, a relatively minor activity, increased by 8.6 percent in FY08 compared to 8.3 percent in FY07. Manufacturing sub-sector registered a growth of 7.4 percent in FY08 compared to 9.7 percent growth in FY07. Growth was pronounced in both the large and medium, and small scale-manufacturing sub-sectors, which grew by 7.2 percent and 7.9 percent respectively in FY08 compared to 9.7 percent growth in both categories in FY07. Small scale manufacturing sub-sector contributed about 29.1 percent for the total output of the manufacturing sector. The productions of small scale manufacturing mostly depend on indigenous raw materials and are generally immune to external shocks. Within this sub-sector rice milling, dairy products, knitwear, leather products, footwear, embroidery, wooden furniture, paper and paper products, non-metallic mineral products etc. showed substantial growth in FY08. Production of both large and medium scale manufacturing industries, particularly cotton textile, pharmaceuticals, soft drinks, leather footwear, plastic products, wood products, iron and steel, ceramic, cement, electronic goods etc. showed moderate growth in FY08. Quantum Index of Industrial Production (QIP) which have been estimated for computing value added of large and medium scale industries showed a growth of 6.8 percent during FY08 over the previous year (Table 2.2). Quantum index of small scale manufacturing industry increased by 5.8 percent during FY08 over FY07. A strong and sustained external demand led to higher export growth in FY08 for woven garments and knitwear, the two dominant components of manufacturing. Woven garments recorded a growth of 10.9 percent during FY08 over FY07. Knitwear industry achieved a strong growth of 21.5 percent during FY08 over FY07. Performance of other industries registered insignificant growth except frozen food, sugar, tanning and finishing, fertilizer, paper and paper products and petroleum products etc which showed a downward growth. Activity in construction sub-

Table 2.3 Sectoral GDP shares (in percent)

(at FY96 constant producer prices)

	FY05	FY06	FY07	FY08P
1. Agriculture	22.3	21.8	21.4	20.9
a) Agriculture and forestry	17.3	17.0	16.6	16.2
i) Crop and horticulture	12.5	12.3	12.0	11.7
ii) Animal farming	3.0	2.9	2.9	2.8
iii) Forest and related services	1.8	1.8	1.8	1.8
b) Fishing	5.0	4.8	4.7	4.6
2. Industry	28.3	29.0	29.4	29.7
a) Mining and quarrying	1.1	1.2	1.2	1.2
b) Manufacturing	16.5	17.1	17.6	17.8
i) Large and medium scale	11.7	12.1	12.5	12.6
ii) Small scale	4.9	4.9	5.1	5.2
c) Power, gas, and water supply	1.6	1.7	1.6	1.6
d) Construction	9.0	9.2	9.2	9.1
3. Services	49.4	49.2	49.2	49.4
a) Wholesale and retail trade	14.1	14.2	14.2	14.4
b) Hotel and restaurants	0.7	0.7	0.7	0.7
c) Transport, storage and communication	10.0	10.1	10.2	10.4
d) Financial intermediations	1.7	1.7	1.8	1.8
i) Monetary intermediation (Banks)	1.3	1.3	1.3	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	8.1	7.9	7.6	7.5
f) Public administration and defense	2.7	2.7	2.8	2.8
g) Education	2.4	2.5	2.5	2.6
h) Health and social work	2.3	2.3	2.3	2.3
i) Community, social and personal services	7.5	7.3	7.1	7.0
GDP (at FY96 constant producer prices)	100.0	100.0	100.0	100.0

Source : National Accounts Statistics, June 2008, BBS.

P = Provisional.

sector slowed down during FY08 mainly due to high price of construction materials as well as downsize of the Annual Development Programme. The construction sub-sector grew by 5.9 percent in FY08 compared to 7.0 percent in FY07. Growth in power, gas and water supply sub-sector increased to 4.9 percent in FY08 compared to 2.1 percent recorded in FY07. It may be noted that the large unmet demand for power (reflected in power outages) continued in

FY08, affecting the growth potential of a number of activities in both urban and rural areas.

Services Sector

2.6 The services sector contributed 49.4 percent of total GDP in FY08. Within this, 14.4 percent was attributable to wholesale and retail trade followed by 10.4 percent in transport, storage and communication, 7.5 percent in real estate, renting and business activities and 7.0 percent in community, social and personal services. Overall activities in the services sector, registered 6.7 percent growth in FY08 compared to 6.9 percent in FY07. Despite some fluctuations, the growth appears to be broad-based across sub-sectors (Table 2.1). In FY08, while hotel and restaurants, and transport, storage and communication sub-sectors experienced somewhat higher growth; wholesale and retail trade, financial intermediations, real estate, renting and business activities, public administration and defence, education, and health and social work sub-sectors recorded a lower growth; growth in community, social and personal services remained unchanged. Wholesale and retail trade, which accounted for 29.1 percent of the sector, grew by 7.2 percent in FY08 against 8.0 percent in FY07 due to increase in agricultural and industrial production and import of commodities. Transport, storage and communication sub-sector, the second highest contributor to the services sector recorded a robust growth of 8.7 percent in FY08 compared to 8.0 percent in FY07. 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 strong growth of this sub-sector. Real estate, renting and business activities posted slightly lower growth of 3.6 percent in FY08 against 3.8 percent recorded in FY07. Community, social and personal services also recorded a growth of 4.6 percent in FY08, same as was achieved in FY07. Monetary intermediation (banks) achieved a moderate growth of 9.0 percent in FY08, albeit somewhat lower than the growth of

Table 2.4 : GDP by expenditure groups

(at current market prices: billion Taka)

	FY 05	FY06	FY07	FY08 ^P
Domestic demand	3,874.4	4,340.3	4,919.1	5,640.3
Consumption	2,965.1	3,315.5	3763.2	4,330.8
Private	2,759.8	3,085.2	3502.1	4,037.3
Government	205.3	230.3	261.1	293.5
Investment	909.2	1,024.8	1,155.9	1,309.5
Private	679.2	775.5	898.6	1,037.8
Public	230.1	249.3	257.3	271.7
Resource balance	-239.6	-260.7	-327.3	-443.2
Exports	614.7	788.8	934.4	1,051.7
Imports	854.3	1,049.5	1,261.6	1,494.9
Gross domestic expenditure	3,634.7	4,079.6	4,591.9	5,197.1
Gross domestic product	3,707.1	4,157.3	4,724.8	5419.2
Statistical discrepancy	72.4	77.7	132.9	222.1

Source : National Accounts Statistics, June 2008, BBS.
P=Provisional.

9.3 percent in FY07, 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 in the agriculture sector the share of crops and horticulture sub-sector (comprising of 56 percent in the overall agriculture) declined to 11.7 percent in FY08 from 12.0 percent in FY07 (Table 2.3). While the share of forest and related services sub-sector which is relatively small in size, remained the same, the share of animal farming sub-sector declined marginally. The share of fishing sub-sector declined marginally from 4.7 in FY07 to 4.6 percent in FY08. In the industry sector, while the share of manufacturing sub-sector increased, the share of construction sub-sector declined, the share of mining and quarrying, and power, gas and water supply sub-sectors which are relatively small in size remained unchanged. The low share of power, gas and water supply partly reflected the supply side bottlenecks constraining growth in the economy. In the services sector, the share of wholesale and

retail trade, and transport, storage and communication sub-sectors 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 services and industry continued in FY08 (Table 2.3). During the year under review, while the share of services sector and industry sector increased from 49.2 percent and 29.4 percent respectively to 49.4 percent and 29.7 percent respectively, the share of agriculture sector in GDP came down from 21.4 percent to 20.9 percent.

GDP by Expenditure

2.9 In FY08, expenditure based estimate for GDP was Taka 5,197.1 billion, showing a nominal increase of 13.2 percent over FY07 (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 FY08, domestic demand was estimated at Taka 5,640.3 billion at current market prices, reflecting an increase of 14.7 percent over FY07.

2.10 GDP data by expenditure groups (composition as well as private savings and investment) are relatively weak. However, existing data of FY08 indicate that of the GDE, consumption expenditure constituted 83.3 percent while investment expenditure constituted 25.2 percent and resource balance is -8.5 percent. In FY08, investment expenditure increased by 13.3 percent in nominal terms, less than 15.1 percent increase in consumption expenditure.

Savings and Investment

2.11 Available data indicate that gross domestic savings at current market prices grew by 13.2 percent in FY08 slightly reducing its share as percentage of GDP from 20.4 in FY07 to 20.1 in FY08 (Table 2.5, Chart 2.2). Private

Table 2.5 : Domestic savings and investment

(as percent of GDP)

	FY05	FY06	FY07	FY08 ^P
Public				
Investment	6.2	6.0	5.5	5.0
Savings	1.4	1.4	1.4	1.4
Savings-Investment gap	-4.8	-4.6	-4.1	-3.6
Private				
Investment	18.3	18.7	19.0	19.2
Savings	18.6	18.8	18.9	18.7
Savings-Investment gap	0.3	0.1	-0.1	-0.5
Total				
Investment	24.5	24.7	24.5	24.2
Savings	20.0	20.3	20.4	20.1
Savings-investment gap	-4.5	-4.4	-4.1	-4.1

Source : National Accounts Statistics, June 2008, BBS.
P = Provisional.

Chart 2.2

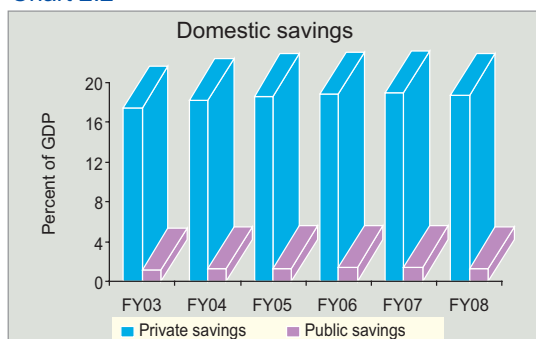
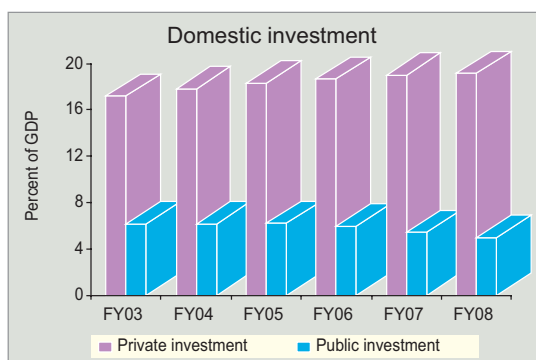


Chart 2.3



sector component of domestic savings decreased to 18.7 in FY08 from 18.9 in FY07, the small public sector component of domestic

savings remained unchanged at 1.4 in FY08. Investment as percentage of GDP slightly decreased to 24.2 in FY08 from 24.5 in FY07 (Table 2.5, Chart 2.3). While the private sector component of investment increased from 19.0 in FY07 to 19.2 in FY08, the public sector component of investment, however, decreased from 5.5 in FY07 to 5.0 in FY08.

2.12 The domestic savings-investment gap as percentage of GDP remained at 4.1 in FY08, same as was in FY07 (Table 2.5). The domestic savings-investment gap was met with net factor income from abroad which increased by 23.0 percent in FY08 over the previous year.